



Institute  
and Faculty  
of Actuaries

# Risk is Good

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# Risk is Good

(for lack of a better word)

ertise  
ponsorship  
Thought leadership  
Progress  
Community  
Sessional Meetings  
Education  
Working parties  
Volunteering  
Research  
Shaping the future  
Networking  
Professional support  
Enterprise and risk  
Learned society  
Opportunity  
International profile  
Journals  
Support

15 May 2015

# About me

**Current employer: Aviva**

**Previous jobs: life insurance, investment banking, actuarial consultancy <http://lnkd.in/djMEUum>**

**Qualified in 2005**

**Council and Education Committee of IFoA**

**President of Chinese Actuarial Network UK (CANUK)**



# About this talk

**My presentation title is borrowed from a famous character from a famous Hollywood movie**



**“the point is, ladies and gentleman, that greed -- for lack of a better word -- is good.**

**Greed is right.**

**Greed works.**

**Greed clarifies, cuts through, and captures the essence of the evolutionary spirit.**

**Greed, in all of its forms -- greed for life, for money, for love, knowledge -- has marked the upward surge of mankind.”**

# Financial Innovation - Insurance

Year	Innovation
2500BC	Babylonian goods transport insurance
14-15 <sup>th</sup> century	Early marine reinsurance
1688	Edward Lloyd's insurance brokerage
1744	Dr Robert Wallace's Scottish minister's insurance fund based on actuarial science
1992	Insurance-linked securities
1994	RiskMetrics VaR
1996	Weather derivatives
2004	Pay-as-you-drive car insurance
2004	Longevity bonds and swaps

**From “Rethinking Financial Innovation” – a World Economic Forum report with Oliver Wyman**

# You are familiar with the following risk categories

- **Underwriting Risks (mortality, catastrophe, lapse, expense, etc.)**
- **Market Risks (interest rate, equities, etc.)**
- **Credit Risks**
- **Operational Risks**
- **Liquidity Risks**
- **Strategy Risks**

# But looking at a different angle

## Underwriting Business

- Underwriting risk

## Matching Liabilities

- Liquidity risk

## Reinsuring Tails

- Credit risk

## Creating Alpha-overlay

- Market risk

## Building Wealth Management Platform

- Operational risk

# You are familiar with the following graph

## A classic CAPM view of the risk-return



# But looking at a different angle

## Key criteria when accepting/declining risk-taking activities

### 1. Compliance driven criteria

- Are the risks (comparatively) more predictable
- Are the risks manageable/transferable
- Are the risks downside-limited

### 2. Value driven criteria

- Do we have a competitive advantage in this risk area
- Do we believe there is an opportunity to make higher returns
- Do we have other risks within our business that can diversify, while being in line with our core strategy
- Do we have a downside risk that is somebody else's upside risk; and vice versa

# Challenges for emerging markets

## 1. Changing environment

- Globalization
- Digitalization

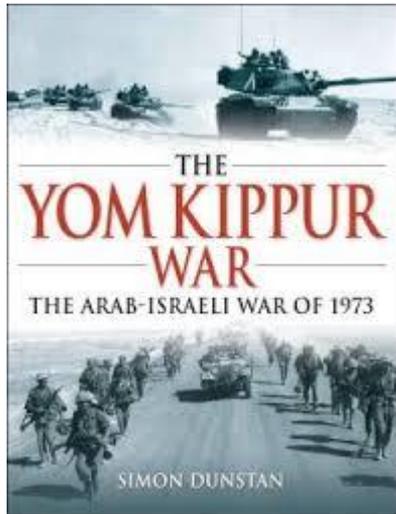
## 2. Balance between limiting negative outcomes and creating positive returns

## 3. Lack of credible data and models

## 4. Lack of risk expertise

# Challenges for risk profession

How do Risk Management add value



**The Tenth Man Principle:**

**When nine people on a committee agree on something, it's the tenth man's responsibility to disagree no matter how improbable the idea**

# There are better lines for Risk

by Janet Rand

To laugh is to risk appearing the fool.

To weep is to risk appearing sentimental.

To reach out for another is to risk involvement.

To expose feelings is to risk exposing your true self.

To place ideas and dreams before a crowd is to risk being called naive.

To love is to risk not being loved in return.

To live is to risk dying.

To hope is to risk despair.

To try is to risk failure.

But risk must be taken, because the greatest hazard in life is to risk nothing.

The person who risks nothing, does nothing, has nothing, is nothing, and becomes nothing.

They may avoid suffering and sorrow, but they cannot learn, feel, change, grow, love, live.

Chained by their certitude, they are slaves; they have forfeited their freedom.

Only a person who risks is truly free.



**Questions?**



**Comments?**