

The Actuarial Profession
making financial sense of the future

Momentum Conference *Keith Bevan*

Actuaries in ERM Is ERM the future for actuaries?

2nd December 2011

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Agenda for this session

- An introduction and explanation of ERM
- The main components of ERM
- Impact of Solvency II
- What does it take to work in Risk
- CERA
- Opportunities for Actuaries



Actuaries in ERM

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What is Enterprise Risk Management?

Three core themes

strike a balance between too much risk and not enough risk

risk-taking ..is aligned with its objectives

incorporating risk information into strategic planning, management decision making, product design and more.

UK Actuarial Profession

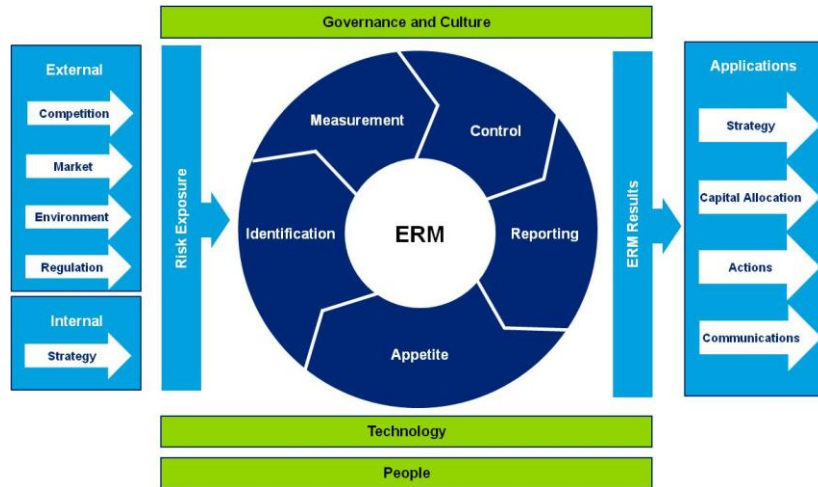
The Three lines of defence

A common model to separate activities

The Board		
First line of defence	Second line of defence	Third line of defence
<ul style="list-style-type: none"> Control and reporting of risk exposures Monitoring against the risk appetite Monitors the overall risk profile Capital Management 	<ul style="list-style-type: none"> Risk appetite Risk and capital management strategies Policies and limit structures. Risk framework Objectively challenge of execution 	<ul style="list-style-type: none"> Independent assurance of the design and effectiveness Review the application of Internal control

Effective ERM is an ongoing process

A possible ERM framework



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Solvency II and Risk Management

Good Risk Management is important for Solvency II compliance

- The heart of the regulations.
- Capital that reflects the risk profile.
- A 'required function'.
- Improvements required in:
 - Risk frameworks;
 - Risk Appetite;
 - Demonstration of risk controls;
 - Risk reporting; and
 - Documentation of risk policies

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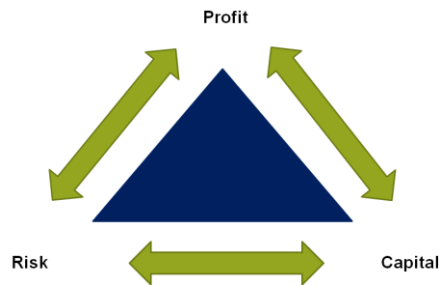
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Own Risk and Solvency Assessment

The ORSA will become a key part the Risk Framework

- The ORSA process requires integration of:
 - Strategic planning,
 - Risk appetite,
 - Risk identification, and
 - Risk monitoring,



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Own Risk and Solvency Assessment

The ORSA will become a key part the Risk Framework

- And...an understanding of:
 - Short term and long term risks,
 - Emerging risks,
 - Interactions between risks,
 - Risk mitigation, and
 - Management actions



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Risk Management and the Internal Model

Risk will have a key role in the Internal Model

- Risk Management's Internal Model roles:
 - Design and implementation
 - Testing and validation
 - Documentation
 - Performance analysis
 - Suggesting improvements
- Independence?
- Actuarial function?

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How can this be achieved in practice?

The coordination of validation approach



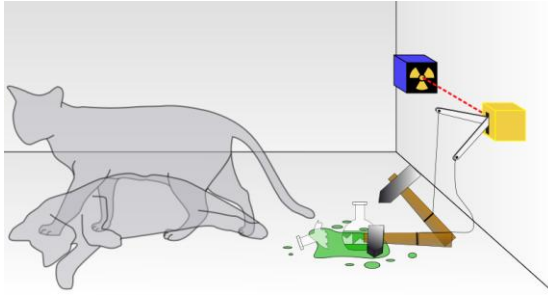
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Other Laws that Might Apply

- Quantum Entanglement (Schrödinger's paradox)



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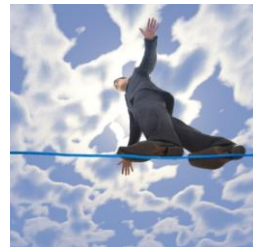
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What is required to be a CRO today?

There are a number of skills required

UK Actuarial profession - key characteristics of an effective CRO were:

“Managerial thinking, including leadership, the ability to see the bigger picture, thinking outside the box and pragmatic judgement”



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Ideal Skills to work in a risk function

Business savy is required...

- Effective politician
- Big picture thinking
- Thorough understanding (including technical detail)
- Knowledge of the business and industry
- Determination / Unswerving doggedness
- Gravitas and credibility
- Forward looking
- Imagination
- Commerciality



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What is CERA?

A new qualification for actuaries as a route to CRO?

- Chartered Enterprise Risk Actuary
 - Internationally qualification
 - skills for risk management
 - Covers areas
 - Risk Modelling
 - Risk management tools and techniques
 - Economic Capital models
- Coverage...
 - technical skills - Yes
 - 'business savy'? – Helps to develop this



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Why should you consider CERA

Could be good for a career in risk

What CERA-qualified actuaries say

<http://www.actuaries.org.uk/becoming-actuary/pages/cera-chartered-enterprise-risk-actuary-qualification>

<http://www.actuaries.org.uk/content/cera-chartered-enterprise-risk-actuary-qualification-may-2011>

<http://youtu.be/-KoOtjLXs>

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Enterprise Risk Management

Why should actuaries be interested

- Risk management is changing
- Quantitative and business skills
- Financial Risk capability
- Importance of CROs is increasing
- Role in Internal Model
- Challenge to current operating models



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Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

