

The Actuarial Profession
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The Strategic Management of Risks

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Strategic approach to risk management

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Need for strategic approach

- Current focus mainly tactical - fixated on risk registers and process
- Risks regarded as static events
- Decisions too often based on acts of faith
- Belief that risks can be avoided or wholly transferred
- Major risks hardly on Board agenda
- Yet huge potential return



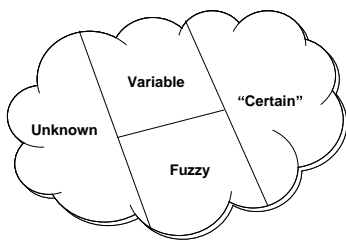
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What do we mean by “strategic management of risks?”

- Crucial importance
- Threats and opportunities
- Proactive planning and response
- Holistic – all categories and levels of risk
- Dynamic – not just about events
- Systematic

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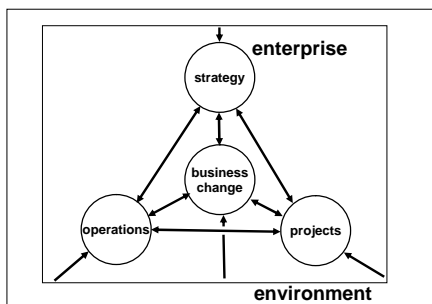
Big challenge is uncertainty



Incomplete knowledge of the future

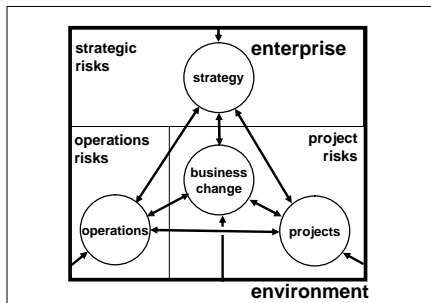
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Sources of risks



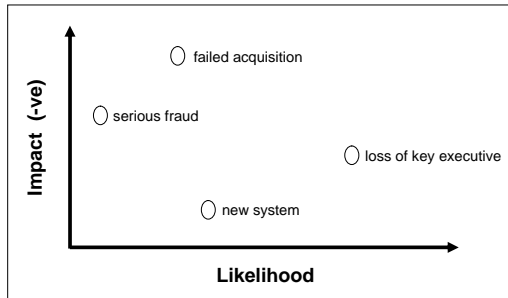
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Framework of risk management



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Likelihood and impact



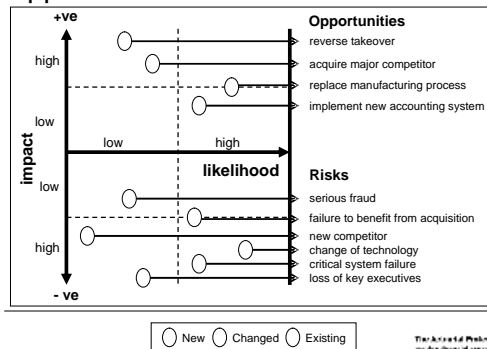
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Opportunities as well as risks



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Opportunities as well as risks

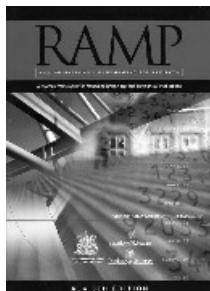


Three approaches

- RAMP
- STRATrisk
- OPrisk

The Arsenal Riskbook
making the most of the future

Previous initiative - RAMP



- Risk Analysis and Management for Projects
- First published 1998, 3rd edition shortly
- Also jointly sponsored by ICE and actuaries
- Recommended in Treasury's Green Book

The Arsenal Riskbook
making the most of the future

STRATrisk

- Management of strategic risks and opportunities
- Sponsored by ICE and actuaries
- Partly funded by DTI, supported by 50 organisations
- Research undertaken by universities of Bristol and Bath
- 50 in-depth interviews
- Summary report and CD

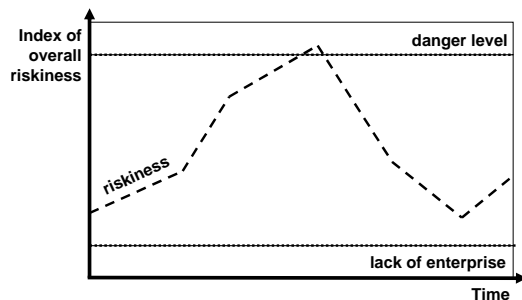
The Journal of Probabilities
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OPrisk

- Management of operational risks
- Same key players
- Filling a crucial gap
- Early phase of development

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Index of overall 'riskiness'



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Some “golden rules” of risk management

- Don't just do it once – apply it continually
- Don't just identify risks – make sure responses are implemented effectively
- There always are residual or secondary risks
- People have different risk tolerances
- Trade-off increasing expected cost (or reducing value) against reducing uncertainty
- Different types of risk need to be treated differently but within a strategic management framework

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Key questions

- Is there a weakness in strategic management of risks, and if so why?
- How can Boards of Directors be persuaded to put strategic risks high on their agenda?
- Who should drive strategic management of risks, and how?
- What are the main benefits likely to accrue from a more strategic approach?

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Questions and discussion

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