Actuaries in ERM
Is ERM the future for actuaries?

2nd December 2011

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
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

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<th>The Board</th>
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<td>First line of defence</td>
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<td>• Control and reporting of risk exposures</td>
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<td>• Monitoring against the risk appetite</td>
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<td>• Monitors the overall risk profile</td>
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<td>• Capital Management</td>
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<td>Second line of defence</td>
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<td>• Risk appetite</td>
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<td>• Risk and capital management strategies</td>
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<td>• Policies and limit structures.</td>
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<td>• Risk framework</td>
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<td>• Objectively challenge of execution</td>
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<td>Third line of defence</td>
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<td>• Independent assurance of the design and effectiveness</td>
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<td>• Review the application of Internal control</td>
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Is ERM the future for actuaries?
Effective ERM is an ongoing process
A possible ERM framework

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
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,

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

How can this be achieved in practice?
The coordination of validation approach
Other Laws that Might Apply

- Quantum Entanglement (Schrödinger’s paradox)

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”
Ideal Skills to work in a risk function

Business savvy 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

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 savvy’? – Helps to develop this
Why should you consider CERA
Could be good for a career in risk

What CERA-qualified actuaries say

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

http://youtu.be/-KoOtjLXs

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
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.