Solvency II: Befriend a risk manager today!
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Agenda

- Basel II: lessons and comparison
- What can risk managers learn from actuaries?
- What can actuaries learn from risk managers?
- Benefits of an integrated team
The Basel II experience

1988
Basel Accord

2004
Basel II

2006
CRD

2007
Transition year
- BNP Paribas 'unable to value assets'
- Run on Northern Rock
- Major losses emerge at Merrill Lynch & UBS
- Co-ordinated action by five central banks
- 'Credit crunch' first used
- Concern for bond insurers
- Northern Rock nationalised
- Bear Sterns acquired by J.P. Morgan Chase
- Fannie Mae & Freddie Mac bailed out
- Lehman Bros files for chapter 11
- AIG bailed out, Washington Mutual, Fortis, B&B
- RBS nationalised

2008
Fully live

2009
Enhancements to Basel II framework

The Actuarial Profession
making financial sense of the future

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Some statistics
- 98
- $10.8tn
- £1.5tn
- 94.4%

Lessons from Basel II

- Start early
  - resource competition, last minute expense
- Dedicated project management resource
  - under estimation of change management required
- Involve the Board fully
  - regulatory concerns about governance
- Large expenditure on data capturing (IT systems)
  - data quality issues
Lessons from Basel II

- Keynes' test (roughly right not precisely wrong)
  - over-reliance on model output
- Work on documentation (show me, not tell me)
  - third party unable to reproduce results
- Regulatory preparedness
  - absence of structured approval process

Regulatory response

- Start early ← communication
- Project management ← communication resource
- Board involvement ← communication
- Data capturing ← internal model approval
- Keynes' test ← internal model approval
- Documentation ← internal model approval
- Regulatory preparedness ← dry run process
Stereotypes & perceptions…

Google - Actuarial…
Actuary by (stereo) type

- highly numerate
- introvert
- over 45
- communicates with tables and charts
- looks at own shoes when speaking to you

- process orientated
- under age 45
- communicates with diagrams and words
- looks at your shoes when speaking to you

Google - Actuary…

Of all the actuaries at the firm, none could match the zeal of Ernest T. Cronwell.
What can risk managers learn from actuaries?

- Quantification of risk
  - risk registers should not be just qualitative

- Understanding the financial dynamics of the business
  - key drivers of risk/return

What can risk managers learn from actuaries?

- Good processes and controls are necessary but not sufficient for good risk management
  - good quality risk MI essential

- Applying a degree of rigour and mathematical analysis to risk problems
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Google - Risk manager…

"We've considered every potential risk, except the risks of avoiding all risks."
What can actuaries learn from risk managers?

- Quantification of risk is not everything
  - processes and controls are important

- Communication is key
  - help the Board to understand the risks using a language they know

- Keynes' test
  - avoid over attachment to the models

Benefits of an integrated team

- Utilise the strengths of each discipline

- Create effective communication combining both process and risk quantification