

## ERM "Standards" of Practice vs. "Best" Practices

Friday, April 20, 2012: 9:45 a.m.  
Thurgood Marshall Ballroom West (Washington Marriott Wardman Park)

**Moderator:**

- Bob Wolf, Staff Partner, SOA/CAS/CIA Joint Risk Management Section

**Panelists:**

- Robert Mark, Managing Partner & CEO, Black Diamond Inc.
- Dave Ingram, Executive Vice President, Willis Re Inc

---

---

---

---

---

---

---

---

### ERM "Standards" of Practice vs. "Best" Practices

- Enterprise Risk Management has been implemented in many sectors of the economy and continues to evolve. The International Actuarial Association is spurring a global conversation leading to the establishment of Standards of Practice for actuarial risk assessment; the Actuarial Standards Board is drafting potential ERM SOPs. Risk professionals in the asset management community have been engaged in similar conversations for over a decade. Other professions are clarifying, and in some cases codifying, what ERM means to them. Seemingly contradictory definitions of and approaches to ERM are competing for attention and resources.

---

---

---

---

---

---

---

---

### ERM Standards of Practice vs. Best Practices

- This session shall discuss some broad but important themes:
  - Are there ERM principles that apply in all economic sectors?
  - Are professional Standards of Practice necessary or desirable? If so, what should they look like?
  - Should or can these Standards be similar across professions and economic sectors?
  - Are "individual" standards of practice desirable and even doable?
  - If so, how do they compare/contrast with corporate standards?

---

---

---

---

---

---

---

---

**Audience participation in any ensuing debates is both encouraged and expected.**

---

---

---

---

---

---

---

---

Proposed Actuarial Standard of Practice  
Risk Evaluation in Enterprise Risk Management

David Ingram, Chair ASB ERM Task Force

---

---

---

---

---

---

---

---

**Outline**

- A) Introduction to Actuarial Standards
- B) ASB ERM Task Force
- C) Proposed Standards for Risk Evaluation
- D) International Standard of Actuarial Practice

6

---

---

---

---

---

---

---

---

### Actuarial Standards of Practice

- ❖ Standards are a true sign of a profession
- ❖ Defines what can be considered true actuarial professional work
- ❖ Standards address work of the individual actuary
- ❖ Provide Guidance to Actuaries and Employers of actuaries
- ❖ Basis for Disciplinary Process
- ❖ Basis for Professional Opinions
  - Tied to regulatory requirements in some situations
  - Provides a way for actuaries to communicate when they are being asked to deviate from normal practices

7

---

---

---

---

---

---

---

---

### Actuarial Standards Board

- ❖ US organization that creates the Actuarial Standards
- ❖ Has existed since 1988
- ❖ Focus is How to Implement the What's of Basic Principles or Practice
- ❖ Currently there are over 40 active standards
- ❖ Process is very lively
  - Several standards are revised and updated every year
  - Several standards have been delisted
  - New standards are added
  - Very active comment process

8

---

---

---

---

---

---

---

---

### ASB Appoints ERM Task Force

- ❖ 2005 – decided field was not yet ready
- ❖ 2010 – reported back with recommendation to create ERM SOP
- ❖ 2011 – Exposed Discussion Drafts on Risk Evaluation and Risk Treatment
  - Spent the last half of 2011 revising and reacting to comments
- ❖ 2012 – Presented proposed SOP on Risk Evaluation and Risk Treatment to ASB
  - April Released Risk Evaluation
  - Summer – will take up Risk Treatment

9

---

---

---

---

---

---

---

---

### Important ERM Topics that were not included

- ❖ Culture
- ❖ Organization
- ❖ Governance

10

---

---

---

---

---

---

---

---

### Contents of Draft ERM Standards

- ❖ Scope
  - Discussion of tasks performed
  - Tells when to apply standard
- ❖ Considerations (Shoulds)
- ❖ Communication
- ❖ Disclosures (Musts)

11

---

---

---

---

---

---

---

---

### Risk Evaluation

- Section 3. Analysis of Issues and Recommended Practices 3
  - 3.1 Risk Evaluation 3
  - 3.2 Considerations Related to Risk Evaluation Models 4
  - 3.3 Economic Capital
    - 3.3.1 Considerations Relating to an Economic Capital Model
    - 3.3.2 Reliance on Accounting Framework
    - 3.3.3 Methods
    - 3.3.4 Assumptions
    - 3.3.5 Validation of Economic Capital

---

---

---

---

---

---

---

---

## Risk Evaluation

- 3.4 Stress and Scenario Testing
  - 3.4.1 Considerations Relating to Stress and Scenario Tests
  - 3.4.2 Methods
  - 3.4.3 Assumptions for Stress Tests
  - 3.4.4 Constructing Scenarios
- 3.5 Emerging Risks
- 3.6 Other Risk Evaluations
- 3.7 Specific Circumstances
- 3.8 Reliance on Data or Other Information Supplied by Others

---

---

---

---

---

---

---

---

## Conclusion

- Thanks to the ERM Task Force for their work over the past 2 years
  - David Ingram, Chairperson, Mary Ellen Coggins, Gene Connell, Wayne Fisher, Kevin Madigan, Clause Metzner, David Rogers, Max Rudolph, Dave Sandberg, John Stark
- Please Read the proposed standards
  - Available at ASB website
- Consider the questions raised
- Consider making comments to the board

14

---

---

---

---

---

---

---

---

## Postscript

- There is a new movement in the International Actuarial Association to produce a set of International Actuarial Standards of Practice
  - Demand from smaller associations who would rather rely upon international standards than try to create their own
- The IAA has formed a committee to start to create a small set of standards
  - An ERM Task Force has been formed to create an ERM standard
  - A Statement of Intent has been proposed to the Executive Committee and is under consideration

15

---

---

---

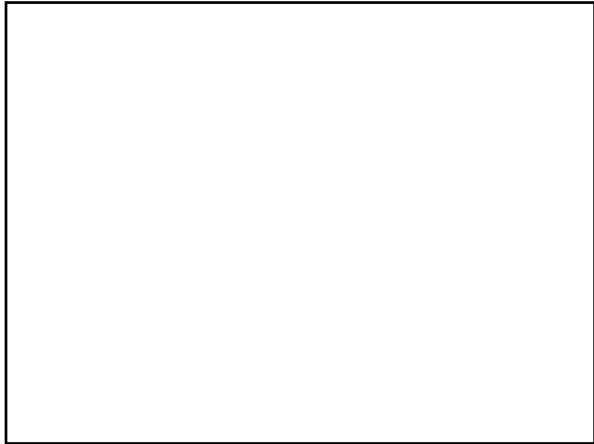
---

---

---

---

---



---

---

---

---

---

---

---

---