

Casualty Actuarial Society

Risk Appetite Statement

Proposed Overarching RAS

As the CAS pursues its envisioned future and executes its strategic plan, it ensures potential risks to current CAS members are appropriately weighed against the corresponding expected benefits to other stakeholders and, except where otherwise guided by applicable law, regulation or public policy, the best interest of current members prevails.

Background

The CAS Board recognizes that pursuit of its strategic objectives involves a degree of risk to the CAS and its various stakeholders and has adopted this Risk Appetite Statement (“RAS”) to provide guidance to current and future CAS leadership in executing the CAS strategy within acceptable risk boundaries.

Risk Categories

The RAS addresses risks with the following categories:

1. Strategic
2. Member
3. Financial
4. Operational
5. Legal, Regulatory & Compliance
6. Reputational

RAS Adherence Monitoring

The CAS Risk Management Committee (“RMC”) will be primarily responsible for monitoring adherence to the RAS, supported by CAS staff. CAS staff will collect information on those Key Risk Indicators (“KRIs”) as defined herein corresponding to their operational responsibilities and provide an update to the RMC as KRIs are updated (quarterly, semi-annually, annually). KRIs not maintained by CAS staff will be updated by the RMC annually.

On a quarterly basis (more/less frequently as directed by the Board) the RMC will review available KRIs and report to the Board on any risks for which KRIs are trending adversely or exceed stated tolerance levels, as well as the current status of risks previously determined to be above tolerance (including the status of associated mitigation actions). On an annual, basis the Risk Management Committee will undertake an assessment of adherence to the Risk Appetite Statement in its entirety and report its findings to the CAS Board.

Category 1: Strategic Risk

Strategic risks are those that threaten fundamental elements of or assumptions underlying the CAS strategy, and potentially impact the ability of CAS leadership to effectively steer the organization into the future for the benefit of current and prospective members. Strategic risks may also include conditions or factors not explicitly considered in the development of the CAS strategy which might

require the CAS to amend one or more aspects of its strategy. Sources of strategic risks include the external environment, competition from within and outside the actuarial profession and the interests and demands of non-member stakeholders.

By their nature strategic risks do not readily lend themselves to quantification using pre-defined KRIs, though any number of factors and metrics may be of use in evaluating strategic risks and associated decisions. As such, the RMC recommends maintaining elements of the current RAS which defines a number of “on-strategy” and “off-strategy” risk actions to guide Board deliberations. In view of the current strategic plan and envisioned future, the RMC recommends the following:

“On-strategy” Risk Actions

- Pursuing innovation in non-traditional products and services
- Pursuing value-enhancing opportunities that challenge the status quo
- Maintaining high standards for member qualification and discipline in a competitive market
- Supporting the issuance of public policy statements and analyses through the American Academy of Actuaries, or as an independent body when necessary
- Adapting the CAS organizational model to best serve the interests of current and future members

“Off-strategy” Risk Actions

- Abandoning our core focus on applying analytics to solve insurance and risk management problems
- Ignoring or condoning ethical breaches or professional practices damaging to the actuarial profession or CAS
- Allowing known material risks to continue without appropriate mitigation
- Implementing changes in membership requirements that fall below IAA minimum requirements or otherwise diminish the perceived value of current credentials (FCAS, ACAS, CERA)
- Acting against the best interests of current members

Actions not clearly identified as either acceptable or unacceptable should be evaluated such that the risk(s) to CAS members associated with the action(s) in question are weighed against the corresponding benefit(s) to other stakeholders, with the interests of current CAS members taking precedence (except where otherwise guided by applicable law, regulation or public policy).

Category 2: Member Risk

Member Risk is the risk of a degradation in the relationship between the CAS, as an organization, and its members. The CAS exists to further the interests of its members and the Property Casualty Actuarial Profession; the relationship between the CAS and its members is a high priority. As such the CAS should ensure that its actions do not diminish this relationship and should always strive to maintain and/or improve it. The CAS manages the following aspects of Member Risk:

2A: Engagement

Our members are our key stakeholders. Historically our membership engagement has been high relative to similar professional organizations. This is something that the CAS and its members take pride in and consider to be one of the Society’s successes over its more than 100-year history. As we adopt a new operating model and increase the responsibilities and accountabilities of CAS staff, we

must not allow for a degradation in our member engagement. Steps should be taken to ensure that member volunteer efforts are redirected and utilized in other areas as CAS staff take on roles that have historically been filled by member volunteers.

2B: Value Proposition

The value proposition to our membership has been historically high. The credentialing process and continuing professional education requirements and services have allowed the P&C actuarial profession to maintain a rigorous and relevant base of skills and knowledge that have resulted in a high demand for members' services at a relatively high rate of compensation. The volunteer model and variety and quality of in-person professional educational offerings have led to the creation of a very collegial culture within the profession, which is also highly valued by CAS members. Care must be taken to ensure that in executing the Strategic Plan the CAS maintains or enhances the value proposition.

2C: Continuing Ed

The CAS historically provides high quality continuing professional education to its members and has derived substantial revenue from these services. All three pillars of the Strategic Plan intersect with the Continuing Education mission of the CAS, so care must be taken to ensure that the modality, methods, and content are effective and relevant. As we grow globally, increase the diversity of our membership, and build skills for the future we will need to offer continuing education for emerging aspects of actuarial work, in parts of the globe where we are not currently active, and serving membership cohorts that may have been overlooked or nonexistent in the past. As we work to deliver relevant effective continuing educational services to our members, we must also be mindful of the financial implications and require appropriate cost benefit analyses and budgeting for all such offerings.

Category 3: Financial Risk

Financial Risk is the risk that the CAS will not have sufficient cash flow to meet financial obligations in support of operations and strategic objectives. The CAS manages the following aspects of Financial Risk:

3A: Revenue Sources

The majority of our revenue is derived from members and candidates (dues, exam fees, continuing education fees, etc.), and is therefore dependent on continued member demand and growth. In establishing our financial plans/budgets, we will evaluate the risk that member dues, demand, or growth may be less than forecasted.

3B: Investment Portfolio

The CAS investment objective is to maximize the total return within the constraints of preserving capital and maintaining sufficient liquidity to meet the CAS expenses. For the purposes of managing investment risk and to optimize investment returns within acceptable risk parameters, CAS

investable assets will be divided into two separate funds, each with a clearly defined investment strategy:

Operating Fund – The purpose of this fund is to provide sufficient liquidity to meet the normal short-term financial obligations of the CAS.

Investment Fund – The purposes of this fund are to meet the CAS expenses occurring as the result of unanticipated activities, to protect the principal of funds held for expenditure over the next two to ten years and to maximize returns for an acceptable level of investment risk.

3C: Contractual Obligations

The CAS enters into long-term contracts to provide meeting and examination services, which are subject to uncertain member/candidate demand. The CAS will limit the risk to any individual contract, and will require certain contract provisions (i.e. force majeure).

3D: Surplus Requirements

The CAS holds surplus to protect against unexpected financial losses. Current CAS policy requires surplus to be maintained at 50-100% of annual operating expenses.

3E: Program Investments

The CAS may need to commit financial resources to build new capabilities and offerings. In establishing these commitments, management will consider a range of potential financial outcomes and commit surplus to protect against likely downside risk of the program. Such commitments of surplus may be considered part of total surplus in determining whether Surplus Requirements are met.

Category 4: Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events. The CAS manages the following aspects of Operational Risk:

4A: Exam Administration

The CAS is committed to providing a consistent and predictable exam experience for its candidates, with fully accurate grading and reporting.

4B: Continuing Education

The CAS is committed to providing high quality continuing education to its members. Poor quality offerings create risk.

4C: Information Security/Data Privacy

The CAS protects personal identifiable information of its members and candidates, and examination results, according to established policies

4D: Technology/Automation

The CAS will test new technology solutions to ensure a high degree of accuracy and usability prior to operational use.

4E: Delays in publications and other time-based requirements

Excessive delays due to internal processes can decrease relevance and value of CAS products.

Category 5: Legal/Regulatory/Compliance Risk

Legal/Regulatory/Compliance risks involve the ability of the CAS as an organization to adhere to the many laws and regulations addressing the conduct of the organization and its members. These include:

5A: Tax laws and regulations applicable to the CAS as a non-profit organization

5B: Bylaws/constitution of the CAS and the risk of non-adherence.

5C: Regulatory provisions impacting the qualifications of CAS members to provide actuarial services.

5D: Member discipline under the ABCD, and the ability to credibly self-police (including actions by non-CAS actuaries and potential impact on reputation of actuaries in general)

Category 6: Reputational Risk

Reputational Risk is the risk of diminished stature of the Property Casualty Actuarial Profession, negatively impacting the professional opportunities of our members and the sustainability of the CAS as an organization. The CAS manages the following aspects of Reputational Risk.

6A: Public Perception

CAS members have historically enjoyed a positive reputation in the P&C insurance industry and amongst its regulators and other stakeholders. There is general acknowledgment that we have rigorous standards for membership and continuing use of our credentials – a high bar for entry into the profession. Any changes to the operating model of the CAS and / or new strategic initiatives

must be mindful of maintaining or enhancing this reputation. Regular engagement with and surveys of employers, regulators, rating agencies, governmental bodies focused on P&C insurance, the investment community, high school and college students who the Society may wish to attract to the profession, and other direct and indirect users of actuarial work product should be performed to ensure that CAS member reputation is maintained.

6B: Professionalism

The CAS should also work closely with the ASB and the ABCD to ensure that ASOPs relevant to the P&C actuarial profession are appropriate and contribute to the profession's reputation, and that the ABCD provides appropriate counseling to CAS members and takes appropriate action when a member acts in a way to damage the reputation of the P&C actuarial profession.