

Enterprise Risks Management (ERM) and the Casualty Actuary

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ERM Vision/Dream (JK)

- To quantify the unquantifiable risk
- Risk aggregation
- Risk integration
- Correlations/diversification/hedging
- Insurance industry and beyond
- Holistic treatment of risks
- Opportunities too!
- Better corporate governance
- Against the Gods: The Remarkable Story of Risk

Why is ERM Compelling to Me?

- Corporately – risk analytics
- Professionally – growth opportunity for actuaries
- Personally – new, exciting, grand unified theory of risk

Other ERM Influences

- Legislative
 - Gramm, Leach, Bliley Act (GLB) - 1999
 - Formal link between banks & insurers
 - Privacy issues
 - Sarbanes Oxley Act (SOX) – 2003
 - Improved corporate governance
- Regulatory
 - Basel II Capital Accord (1999-2004)
 - International Association of Insurance Supervisors (IAIS) – IAA capital study
 - Federal Reserve Bank
 - NAIC – risk based solvency

Other ERM Influences

- Rating Agencies
 - Standard & Poors
 - Moody's
 - A.M.Best
- Professional & Academic Groups
 - COSO
 - GARP
 - PRMIA
 - CFA Institute
 - RIMS

Are You a Risk
Manager?

Why Should You Get Involved?

- Pricing
- Reserving
- Catastrophe Modeling
- Underwriting (Predictive Models)
- Reinsurance
- Planning
- Risk & Capital Management
- Consulting
- Reinsurer
- Broker
- Regulator

CAS Centennial Goal

Casualty Actuaries be recognized as leading experts in the evaluation and integration of hazard risk with strategic, financial and operation risk.

CAS Members' Unique Skill Set

- Understanding of risk/uncertainty/volatility
- Business knowledge of P&C lines
- Model building
- Mathematical
- Financial
- Loss distributions
- Imagination?

But ERM Requires Much More

- Investment risk
- Operational risk
- Strategic risk
- “Soft” quantification
- Risk integration/aggregation
- Correlations/diversification
- Comprehensive models
- Communication skills – all technical levels

ERM

Evolution

Not

Revolution

CAS Activities

- Centennial Goal
- Co-sponsor Risk Management Section
- Vice President – Risk Integration & ERM
- Presidential Goal – CAS ERM Vision
- Founding member of the ERM Institute International (ERMII)
 - Sponsor research: ERM for a P&C insurer
- Continuing Professional Education
- Research
- Communications Plan

Risk Management Section (RMS)

- Why joint sponsorship?
 - Common skill set
 - Complementary knowledge & experience
 - Broader solutions
 - Pooled resources (\$, staff)
 - Need more risk management practitioners to serve beyond the insurance industry
 - Evolution of insurance and financial services

Risk Management Section (RMS)

- Mission
 - Advance actuarial profession in risk management
 - educational
 - research
 - networking, etc.
- Focus
 - Develop solutions to unsolved problems
 - Communicate value of actuaries in providing solutions
 - Educate actuaries to meet market demands

Risk Management Section (RMS)

- Jointly sponsored by CAS and SOA
 - Approved by both Boards
 - SOA changed section by-laws
 - All RMS CAS members vote
- CAS members: over 300
- Risk Management Section Council
 - Directs RMS activities
 - Election of Kevin Dickson
 - CAS liaison (Don Mango)
 - Invitee (John Kollar)

Risk Management Section (RMS)

- Joint ongoing initiatives
 - Risk tolerances
 - Risk metrics
 - Operational risk
 - ERM terms
 - ERM Specialty Guide
 - ERM Symposium (in 4th year)

Risk Management Section (RMS)

- Teams
 - Membership Value
 - Communication and Publication
 - Newsletter
 - Continuing Education
 - Basic Education
 - Research
 - Marketplace Relevance
 - Professional Community Advancement
- Possible restructuring

Risk Management Section (RMS)

- New Research
 - Risk adjusted performance measurement and attribution
 - On-line ERM guide (ERMII website)
 - Correlations/diversification
 - Operational risk survey or research
 - ERM monograph on measuring risks
 - Infrastructure to link risk, capital, and financial management
 - How time horizons affect risk
 - Credit research
 - Policyholder behavior research

ERM Institute International (ERMII)

- Develop and promote university-based educational standards
- Educate and encourage in the use of ERM principles and techniques
- Promote multi-disciplinary research and education
 - ERM Analysis of P&C Insurers
- Work with risk professional organizations to develop professional standards

We want you!



ERM and the Casualty Actuary

- Increase your knowledge
- Research unsolved problems
- Join and participate in the Risk Management Section (RMS)
- Participate on related CAS committees
- Participate on related AAA committees
- Expand your career opportunities