




Enterprise Risk Management

Midwestern Actuarial Forum


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Actuaries in ERM

New skills?



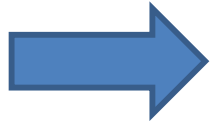
Susan's Favorite Risk Management Quotes

A little risk management saves a lot of fan cleaning.

Unknown



Potential New Skills



Understanding the nature of risk – especially those not part of traditional insurance actuarial work


- Some financial risks – credit, market, liquidity
- Operational risks – cyber security, business disruption, vendor

Learn the Lingo

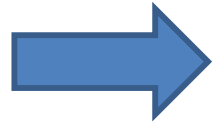


Susan's Favorite Risk Management Quotes

Computers have enabled people to make more mistakes faster than almost any invention in history, with the possible exception of tequila and hand guns. *Mitch Ratcliffe*



Potential New Skills



Understanding the legal and regulatory requirements related to risk management

- Evidence of sufficient oversight over business/risk taking activities
- “Tone from the Top”
- Developed risk framework to identify, measure, manage, monitor, and report risk



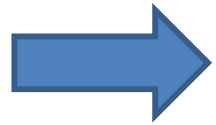
Susan's Favorite Risk Management Quotes

We demand rigidly defined areas
of doubt and uncertainty!

Douglas Adams



Potential New Skills



Understanding ERM Frameworks

Own Risk and Solvency Assessment (ORSA)

An effective Enterprise Risk Management (ERM) Framework should, at a minimum, incorporate the following key principles:

- **Risk Culture and Governance**
- **Risk Identification and Prioritization**
- **Risk Appetite, Tolerances and Limits**
- **Risk Management and Controls**
- **Risk Reporting and Communication**

Susan's Favorite Risk Management Quotes

You got to know when to hold 'em,
know when to fold 'em. Know when to
walk away and know when to run.

The Gambler Kenny Rogers



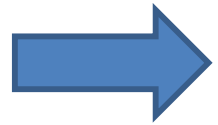
Standard & Poor's



A.M. Best Key Questions

- Do you have a CRO or ERM committee?
- Define and quantify largest risk to financial strength
- How are risk tolerances defined, and how is overall risk appetite monitored?
- Do you use capital models?
- Do you have inflation sensitivity testing?

Potential New Skills

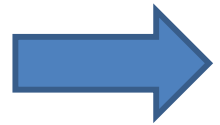


Learn how to identify risks

- By function, product, by type of risk
- Interpretation of business areas issues
- Aggregation
- Emerging Risks



Potential New Skills



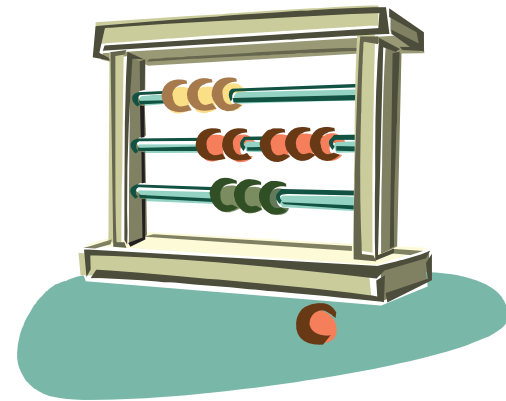
Interaction of Strategy and Risk

- Building control/mitigation solutions
- Monitoring performance metrics
- Change Management

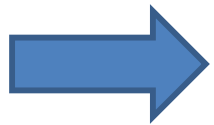


Susan's Favorite Risk Management Quotes

Everything that can be counted does not necessarily count; everything that counts cannot necessarily be counted. *Albert Einstein*



Potential New Skills



Communication!!

- Board of Directors
(Risk Committee)
- Senior Leadership
- Regulators
- Facilitation



Communication

**Information
with Potential Action =
Value**



**Information
without Potential Action =
Distraction**

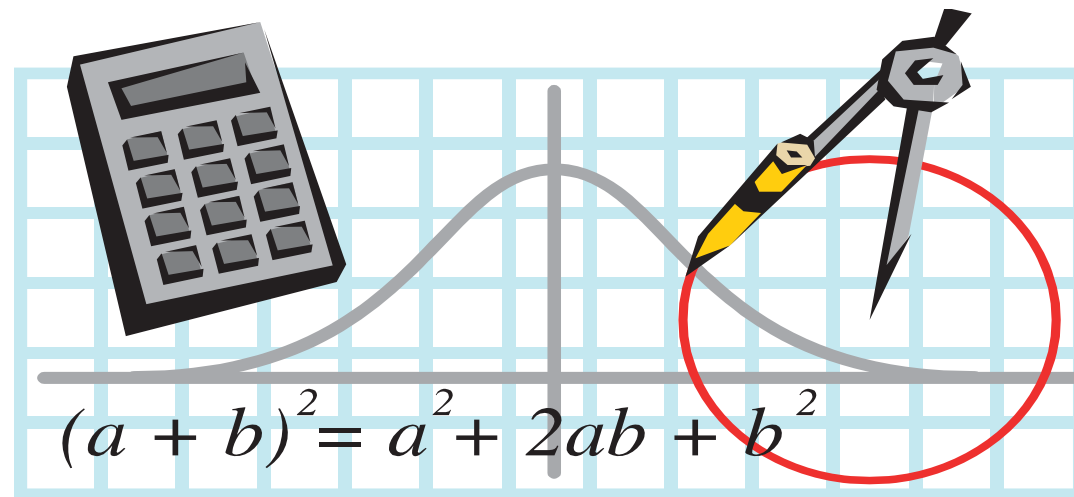


What will ERM ask of Actuaries?



Susan's Favorite Risk Management Quotes

Better to have a simple model backed by excellent people than the other way around. *Paul Carrett*



Think about how stupid the average person is. And by definition, half the people are stupider than that. *George Carlin*

Model Risk Management

Federal Reserve Letter SR 11-7

Model - a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates.

Model risk - the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. Model risk can lead to financial loss, poor business and strategic decision making, or damage to a bank's reputation.

Model Risk Management

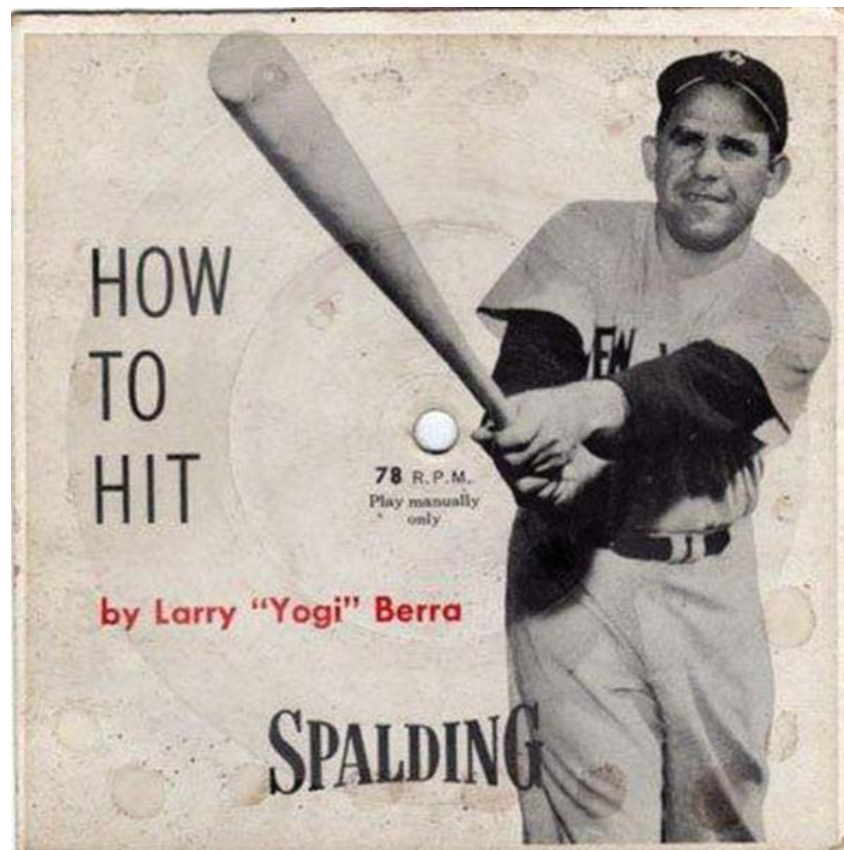
Federal Reserve Letter SR 11-7

Model Risk Management Policies

- Inventory
- How to assess and prioritize model risk and validation
- Practices for model development, implementation, and use
- Vendor models and validation
- Documentation
- Validation
- Governance/controls
- Escalation

Susan's Favorite Risk Management Quotes

In theory there is no difference between theory and practice. In practice there is. *Yogi Berra*



Join the Joint Risk Management Section (JRMS)!

The Section's primary objectives for the current year are:

- Increase level of communication and interaction with Section members.
- Expand ERM educational opportunities for Section members and sponsoring organizations.
- Continue to foster risk management research.
- Support promoting the Actuarial profession as risk managers.



Susan's Favorite Risk Management Quotes

Good Risk Management fosters vigilance in times of calm and instills discipline in times of crisis. *Dr. Michael Ong*





Questions?