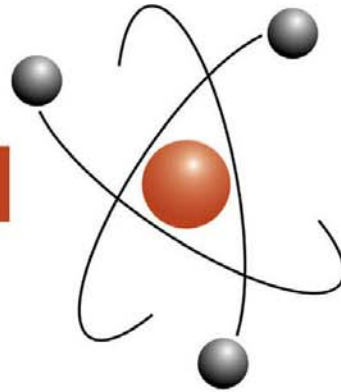


S U S T A I N



A B I L I T Y

ACTUARIES AND THE FUTURE

Enterprise Risk Management

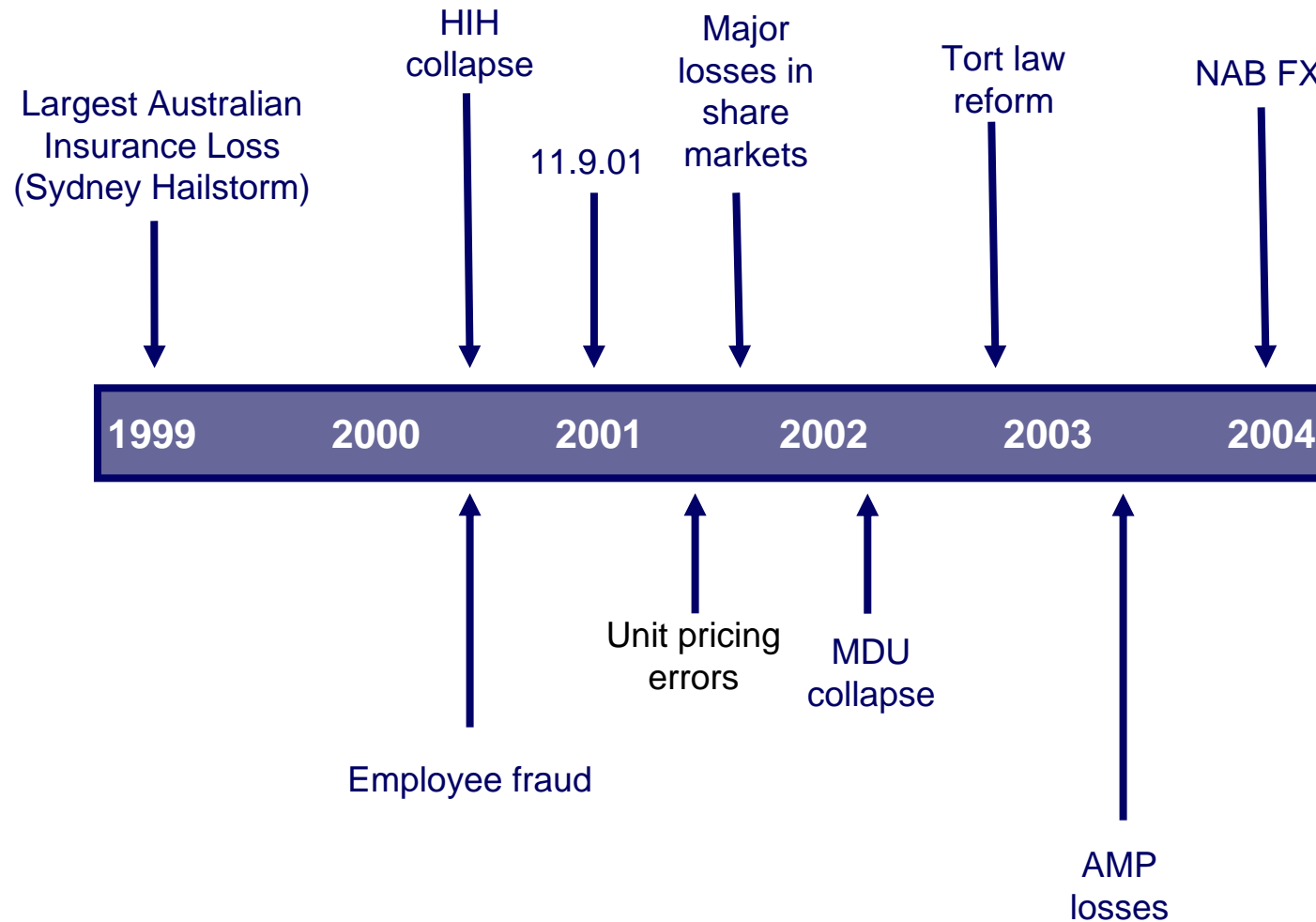
Institute Risk Management Group



Institute of Actuaries of Australia



Examples of risks – last 5 years





What is ERM?

- Philosophy of managing risks holistically to achieve the desired balance between achieving stakeholder value and managing risk exposure
- Encompass all risks from sources across the enterprise
- Embedded within organisation at all levels, reinforced through actions of the Board and senior management



Components of ERM?

- Identifying the risk in the organisation
 - The scope is the whole of the enterprise
 - Considers financial, strategic, operational and other risks
 - Continual reassessment
- Organising how the risks will be managed
 - Structure
 - Implementation
 - Coordinated across enterprise, considers interdependencies
 - Communication of philosophy set by Board (both internally and externally)
- Monitoring
 - For process and quality of implementation
 - Prospective and retrospective
 - For new risks that emerge
- Taking Action
 - Pre-emptive and reactionary
 - Involves people at all levels

So what does this mean in practice... ...Some examples





Oversight Framework

- Important that ERM has Board and CFO commitment: The ‘tone at the top’ must be integrated with the organisation’s objectives and promote a culture of risk management.
- Example of possible oversight framework:



Objective is common across all industries... ... Optimise risks

High level risks		Life Insurance	Retail Banking (mortgage)	General Insurance
Expenses too high	Competitive pressure on prices		Competitive margin squeeze	Hardening / softening of rates (insurance cycle)
	Inefficient expense management	Expense over-runs		
	Lower business volumes than anticipated	New business risk Lapses	New business volumes Prepayment risk Churn risk	New business volumes Poor renewal rates
	Operational risks (and one-off expenses)	Unit pricing risks Data integrity risks	Operational risk	Data integrity risks
Claims or default costs higher than anticipated	Poor quality / high risk customers	Underwriting risk	Credit risk	Underwriting risk
	Inadequate claims handling	Claims management	Default recovery risk	Claims management
	Profit released too early	Reserving risk	Provisioning risk	Reserving risk
	Deterioration of underlying risks	Experience investigations	Increasing defaults	Adverse trend in claim costs
Investment earnings (or debt servicing costs) worse than anticipated	Adverse market movements	Asset / liability mismatching Investment return risk (on surplus assets)	Interest rate risk (market risk) Cost of funding	Investment risk
	Asset defaults	Credit risk		Credit risk
Other strategic risks	Revenue risks			
	Reputation risks...			

Ultimate objective is a continually evolving risk-aware culture

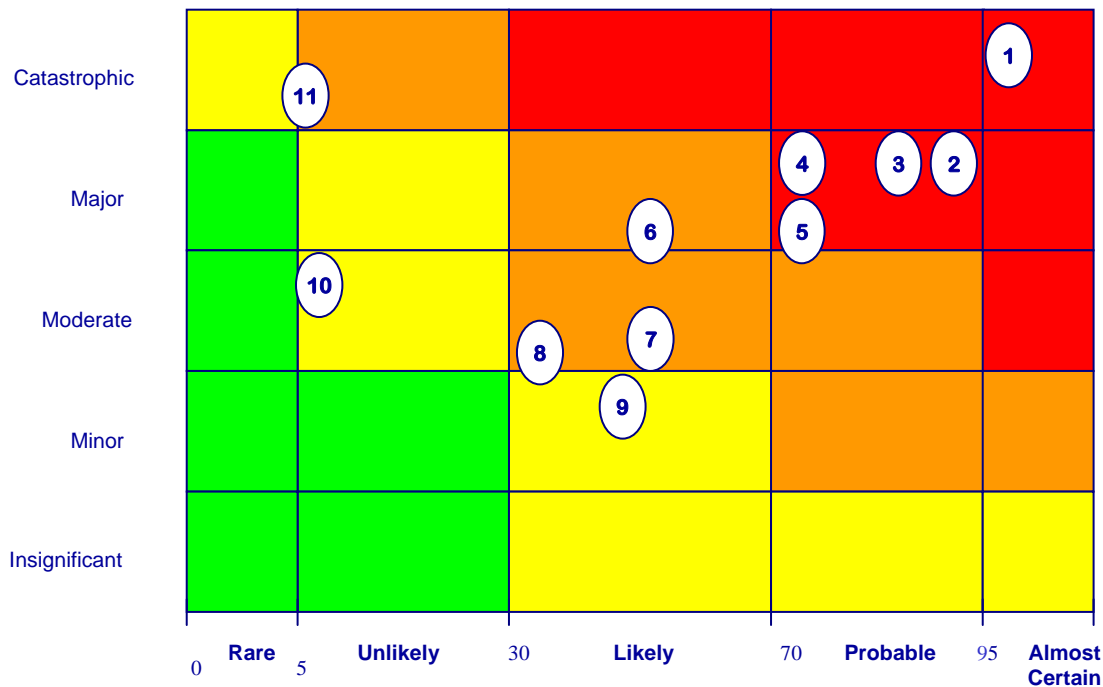
Make risk management behaviours ‘part of the way we do things’

- Develop BU specific activities to understand risks
- Encourage ownership of risks within BUs
- Hold Executives and Senior Managers accountable for improvements
- Understand BU cultural survey results; monitoring and feedback
- Assess in all external / internal audits and health checks



Management Assurance Framework

- Line of sight
- Understand what's important and what's not
- Structure is not enough



What skills and experience are required?

- Communication skills
- Technical skills – understand complex products / financial operations
- Strategic skills – understand the big picture and the linkages
- Process skills – ability to implement
- Investigative skills – ability to find the truth in difficult situations
- Organisational experience
- Industry and product experience



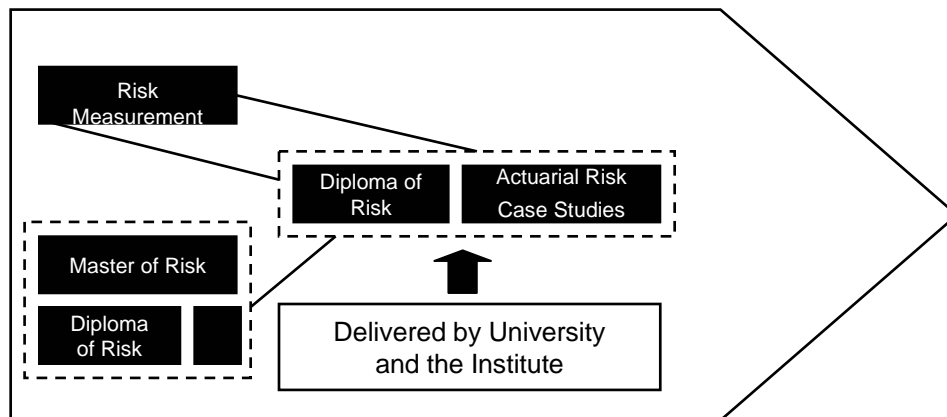
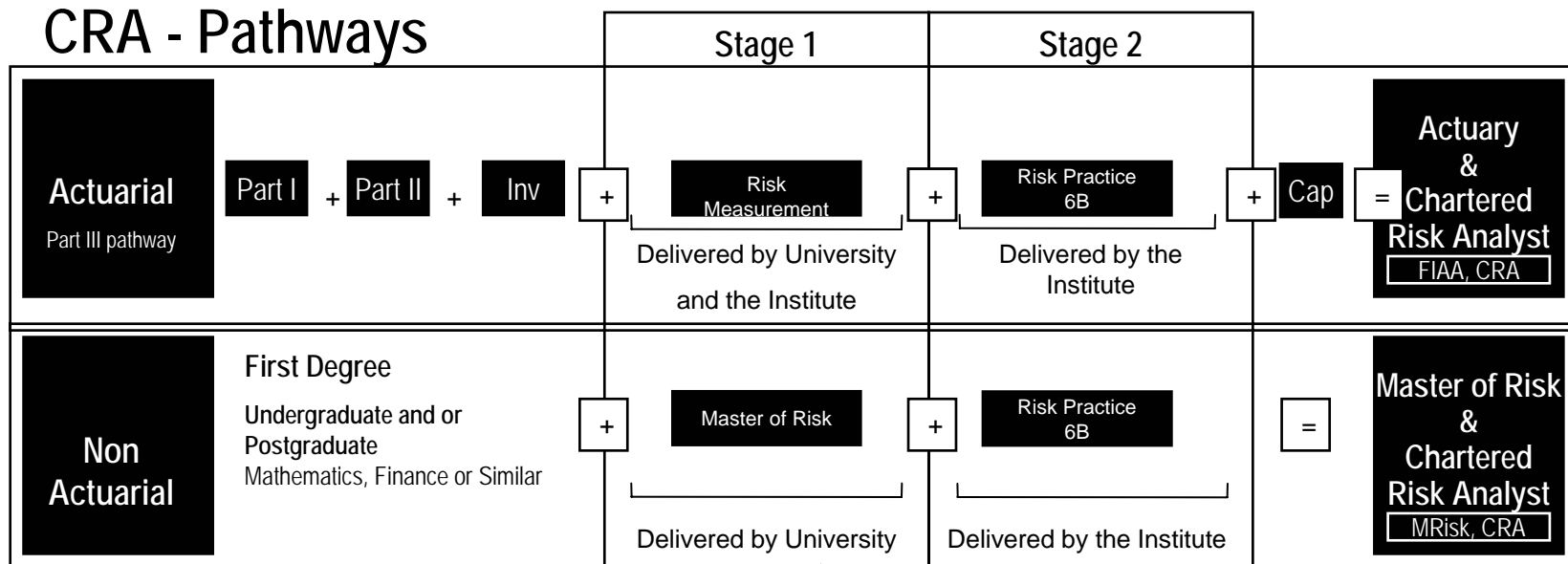
'So what' for actuaries?



Objectives of Institute Risk Management Group

1. To increase the profile of risk management within the actuarial profession in Australia.
2. To help educate the wider business community, beginning with financial services, to ensure they understand how actuaries can add value in the risk management space.
3. To help elevate the importance of risk management within the wider business community.

How do we propose to address the education need?



Stage 1
Is the staging ground to link actuarial and non actuarial knowledge sets to facilitate a transition to stage 2

Proposed ERM Education – Institute Advantage

Harnessing the Institute’s Branding Position to Capitalize on ERM



Platform for World's Best Practice Professionally Focused Enterprise Risk Management Education

- Attracts a wider more diverse membership base to the IAA
- Builds on the value of the IAA brand in the new area of Enterprise Risk Management
- Enhances the IAA name as an innovator in financial and risk management



How do actuaries skills and experiences stack up?

1. How well placed do you think actuaries are to operate in the ERM field?
2. Would you want to operate in the ERM field now or in the future?
3. How are actuaries perceived in risk management?
4. What do you think are the definition and key components of ERM?
5. What do you think our group should do going forward?



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