

Actuaries and Enterprise Risk Management

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This article is based on a talk given on 17 November 2010 to a VIP dinner in Edinburgh, hosted by the UK Actuarial Profession and focusing on Enterprise Risk Management. Guests included the current Scottish Minister for Enterprise, Energy and Tourism.

Actuaries are well known (within their field) for blending mathematical expertise with financial and business common sense. The UK actuarial profession, although relatively small in numbers, is influential and well-respected, particularly in pensions and insurance.

At the heart of the actuarial profession's credentials is the claim to be able to help public and private enterprise manage the financial implications of the future more effectively. Risk management is thus core to what actuaries do. Indeed this always has been the case. Originally actuaries were particularly associated with the insurance industry and this industry by its nature involves pooling and managing risks (e.g. deciding whether to retain the risks or to pass them on to someone else).

Increasingly these days, the emphasis is on managing and assessing risk in a *holistic* manner. Managing individual risks in isolation, with a silo-based mentality, is seen as sub-optimal. This holistic 'enterprise-wide' emphasis is one of the two key themes encapsulated by the word 'enterprise' in *Enterprise Risk Management* ('ERM').

The other key theme encapsulated by the word 'enterprise' is the wider link with business activity and profitability. Effective risk management is ultimately crucial to *any* business, or indeed *any* public endeavour, because of the intrinsic link between risk and entrepreneurship. This point was made very effectively many years ago by the famous Chicago economist, Frank Knight, in his seminal work, *Risk, Uncertainty and Profit*. He stressed how, ultimately, the reward for entrepreneurship comes from the taking on of inherently difficult to quantify risks, and from managing these risks effectively. If we want a society in which entrepreneurship and enterprise flourish and our economy reaches its full potential then we need to be willing to take risk. But we need to do so in a disciplined and effectively managed manner, so that upsides outweigh downsides.

The actuarial profession is very mindful of these trends and is determined to put (and to be seen to put) Risk Management, including Enterprise Risk Management, at the core of its forward-looking vision. This includes:

- (a) Promoting the internationally recognised Chartered Enterprise Risk Actuary (CERA) qualification. We are hoping that this will become the 'gold standard' for individuals wanting to pursue a career in risk management. It focuses on the blending of quantitative with qualitative disciplines, which, as I mentioned earlier, is at the heart of the actuarial 'brand'.
- (b) Continuing to focus on maintaining and enhancing the professional ethos and standards that apply to individual actuaries by virtue of their membership of the actuarial profession. This differentiates actuaries from most other risk professionals. There are many people employed throughout industry and finance involved in risk management in some shape or form, but most of them only belong to relatively loose trade organisations or networking bodies rather than professions as such.

Of course, the actuarial profession is also committed to supporting its members and excelling at the softer aspects of career development that may perhaps be the prime raison d'être for some of these other more loosely structured and more narrowly focused organisations. For example:

- (a) Two or three years back the UK actuarial profession formally established an ERM Practice Area alongside its other core practice disciplines, such as pensions, life insurance, non-life insurance, investment and health, to bring added coherence to its ERM focus. The UK actuarial profession is also actively promoting and supporting equivalent bodies internationally, to help ensure that the worldwide actuarial profession has a similar focus.
- (b) The UK Actuarial Profession is running an increasing number of conferences and networking events for its members specifically targeted at ERM. For example, in mid November 2010, Philip Scott, a long standing actuary, ex Aviva CFO and now a non-executive director at RBS (where he is chair of the Board's Risk Committee) and Diageo, gave a talk on ERM to actuaries in London. It covered the spectrum of organisations to which ERM principles can be applied, including non-financials, insurers and banks. It also covered the spectrum of risks such organisations face, including strategic, operational and financial risks.
- (c) The ERM Practice Area has recently set up a UK Actuarial Chief Risk Officers Forum, so that actuaries in such roles can discuss matters of common interest, and do so within a framework supported by their common actuarial background.
- (d) The ERM Risk Classification Working Party has recently produced a paper classifying and codifying the sorts of risks that organisations commonly advised by actuaries face and setting out the challenges that arise when trying to formulate a risk classification. I expect it to prove a helpful reference document for actuaries working in ERM.

How can you help?

We want you to take away and spread the message, if you are not already doing so, that the actuarial profession is committed to the risk management space. We think actuaries are well positioned to contribute to this key element of business life.

However, we also appreciate the challenges involved. We want to hear your personal insights and experiences regarding enterprise risk management. We want to tap your brains regarding actuaries' strengths and weaknesses and the opportunities and threats that developments in the ERM space open up. What would *you* do if you had been asked to develop actuarial involvement further in the risk management space?

We would also encourage you to become involved in the ERM Practice Area, if you have not already done so, to help shape the future direction of the UK Actuarial Profession in this important business area. This could involve many activities, including contributing to or moderating online discussion boards, volunteering to help contribute to research activities, or just networking and sharing your thoughts with other like-minded actuaries.

On a more personal note I would like to extend my warmest thanks and the thanks of fellow members of the ERM Practice Executive Committee to the volunteers who already contribute time and effort to support the ERM Practice Area. Your efforts and support are much appreciated!

Every one of our members who is or who might be involved in the ERM space is a VIP as far as the ERM Practice Executive Committee is concerned. If you have thoughts you are happy to share with us

on these developments or if you would like to find out how you could become more involved with the ERM Practice Area then please contact Mark Symons, Secretary to the ERM Practice Executive Committee, at marksymons@actuaries.org.uk, or Malcolm Kemp, Chair of the ERM Practice Executive Committee, at malcolm.kemp@nematrian.com.