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**Required skills to be a good risk manager  
Position Paper by Actuarial Association of Europe (AAE)  
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The focus of this piece of work is to provide remarks on the requirements needed to be effective and efficient as a risk manager. There are many different sorts of risk managers requiring different sets of skills, depending on the business sector they are acting in and their position within their company (and many other criteria). But regardless of the type of risk manager there are some general criteria that these professionals need to exhibit if they are to be effective and efficient in doing their jobs. To be effective means that something is functioning in the way it was designed to function and the intended goal is achieved. To be efficient means that the resources available are well used to achieve the intended goal. There are several sources available (see APPENDIX) setting out long lists of technical and business skills that a risk manager should ideally know about, but there is no source talking about which skills make the difference between effective and non-effective risk managers. It is important to realize that a good risk-manager is not (only) educated by school or university but by life and by doing.

Financial regulation nowadays is risk oriented. Basel III, Solvency II, IORPS II, MiFID etc. all include concepts of risk management functions for the regulated companies. Beyond regulation, financial services firms use risk management more consciously than ten years ago.

Regulation requires risk management to be effective; on top of this, industry desires risk management to be efficient which means that the value from improved risk-return positions should outweigh the cost of implementing and maintaining risk management activities<sup>1</sup>. Thus, it is important to ensure that the risk management function holder (“the risk manager”<sup>2</sup>) can fulfill his or her role effectively and in a most efficient way, consistent with the fit & proper requirements of financial regulation.

While the risks are somewhat different in different sectors, the necessary skills for an effective risk manager seem to be very similar, because effectiveness is driven more by general skills and capabilities (e.g. communication skills, conceptual thinking, experience, personality and education) than by knowledge skills in various areas of risk.

Actuaries are active in different financial sectors in various roles. What they have in common are their ethical behaviour, technical and professional skills and, for fully qualified actuaries, experience.

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<sup>1</sup> This also applies to non-regulated companies in non-financial business sectors.

<sup>2</sup> For our purposes it is not essential whether the term “risk manager” is used for first-line risk managers or second-line risk managers. In principle the effectiveness and efficiency definitions apply to both, of course taking into account the nature, size and complexity of the risk profile of the company.

As the activities undertaken by risk managers are often similar to those of actuaries, the ideal professional characteristics of risk managers should also be close to those present within the actuarial profession. The AAE has a lot of experience in identifying appropriate professional characteristics for risk managers as actuaries very often act in the function of a risk manager in the insurance and pension sectors (and to a lesser extent also in the banking and investment sectors).

The cornerstones of a professional skill set are education<sup>3</sup>, continuing professional development (CPD), adherence to ethical and professional standards and experience. Personality is also important as is membership of a professional body. Individual experts who belong to a professional body have a duty to comply with the above principles and can regularly exchange views and information and improve, extend and develop their skills in an optimal way. Networking is a pleasant side effect, necessary to remain up-to-date on market developments and at the same time improving communication skills.

Below is a list of skills we deem to be critical for fulfilling the role of a risk manager within a financial institution (for industries outside the financial sector the list would be very similar):

- assessment skills
  - ability to analyze and synthesize
  - ability to examine all related aspects of a problem
  - good feeling for numbers and quantitative elements, ability to carry out quick but perhaps very rough quantification/estimation
  - ability to see/draw the big picture, see interconnectivities and dependencies
  - keen eye for detail
  - knows where to seek advice
- extended technical understanding
  - ability to apply theories in practice
  - good understanding of how valuation / risk / performance models work and what their limitations are
- strong communication skills in both directions
  - ability to make one's point expressively, use relevant examples, tell stories, draw pictures and to visualize
  - ability to explain technical issues to a non-technical audience
  - ability to listen to others and understand what they are (not) saying
- business and management skills
  - ability to think through a strategy
  - ability to make decisions using all relevant available background information
  - understand the underlying business models and the relevant markets
  - strong knowledge of finance and accounting, some knowledge of law and tax
  - strong skills in project management and leadership
  - ability to prioritize
  - ability to work under stressed conditions
  - experienced

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<sup>3</sup> it is important to mention here the comprehensive risk management education program for Actuaries, called CERA (Chartered Enterprise Risk Actuary), see <http://www.ceraglobal.org/>

- personal skills
  - knows own limitations
  - curious and “hungry”, very interested, continuous self-development
  - oriented to solutions rather than to problems
  - strong personality, strong skills in negotiation, able to convince
  - forward looking, innovative
  - objective, critical
  - honest and adhering to strong ethical principles
- well informed about
  - what stakeholders (senior management, boards, shareholders, regulators, rating agencies, as well as clients) expect
  - what is happening in the world outside (current trends, emerging risks)
  - what is happening inside the profession (new approaches or technologies)

Note that these skills do not address education requirements, which are essential, as we said before. Instead they identify how to extend a highly educated individual into an effective and efficient risk manager.

Below we sketch a table that highlights the elements deemed necessary to fulfill the role of a risk manager in an effective manner and how they can be achieved:

	Education	CPD	Experience	Personality
Technical skills	x	x		
Assessment skills			x	x
Communication skills		x	x	x
Business skills	x		x	
Extended technical understanding		x	x	
Personal skills				x
Well informed		x		x

It is important to note that to make risk management effective it is not sufficient to have “the” perfect risk manager. It is also necessary for the risk manager to be embedded in the organizational structure, and in relevant processes, such as addressing development and amendment of strategy, planning and budgeting. Also, even if risk managers are capable and well placed in an organization, they can only be fully effective if the whole organization is effective.

## APPENDIX

Some links to institutions which define skills a risk manager ideally should have:

- CERA, <http://www.ceraglobal.org/>
- Risk Talent, [http://www.risktalent.com/cm/risk\\_insights/exceptionalriskmanager](http://www.risktalent.com/cm/risk_insights/exceptionalriskmanager)
- GARP, [http://www.garp.org/media/880337/ebs\\_021512.pdf](http://www.garp.org/media/880337/ebs_021512.pdf)
- Risk and Insurance Management Society, <https://www.rims.org/education/Documents/RMCCM.pdf>

Some additional interesting references:

- Ryan, *"Financial Condition Assessment"*, Institute of Actuaries, 2001
- Steven Covey: *"The Seven Habits of Highly Effective People"*
- Protiviti: *"Ten common Risk Management Failures and how to avoid them"*