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MEETING REPORT: RISK MANAGEMENT ROUND TABLE 30 JUNE 2016

Present

Malcolm Kemp	UK
Henning Wergen	Germany
John Oost	The Netherlands
Danielle O'Sullivan	Ireland
Tristan Palerm	France
Florin Ginghina	Romania
Magne Nilsen	Norway
Gábor Pasztor	Hungary
Roberto Muscoguivi	Italy
Anna Maria Martins Pereira	Portugal
Ron Hersmis	CERA Board
Réjean Besner	IAA
Esko Kivisaari	Finland
Christoph Krischanitz	Austria
Gábor Hanák	AAE TF Roles of the Actuary
Karel Goossens	Belgium / AAE TF Roles of the Actuary
Ad Kok	AAE Chief Executive

Apologies

Andrew Hitchcox	UK

Purpose

During the spring meetings in Nicosia, it was decided that a meeting should be organized with the aim of coordinating the initiatives of the AAE in the field of ERM.
To find out what can be done on a European level, we invited the leaders of the local initiatives during a full day meeting in Brussels (in the new Actuarial House) to discuss:

- Presentation of the initiatives per country
- Ideas to share and bring to other actuarial associations
- How to coordinate new initiatives?
- AAE standard setting in ERM
- Relationship with stakeholders

Status Quo in Member Associations

Member Associations (MAs) have been asked to prepare the status of ERM in their context. The five MAs (France (F), Germany (D), Ireland (IRL), The Netherlands (NL) and United Kingdom (UK)) have showed interest in the Round Table and have produced local reports based on the following questions.

If your organization has an explicit strategy (vision/mission /strategic objectives) then is ERM part of it? If so how is it handled in the strategy?

In F, NL and UK ERM is part of the strategy of the association. D and IRL did not specify.

Is there a designated ERM body in your organisation? If so how does it work, what's the governance around it?

All 5 MAs have a designated ERM body:

- D ERM is a committee at the same level as Insurance, Pensions, …
- F The "Club ERM" is covering the corresponding activity, the "Institut du Risk Management" is in charge of the related education programs. The Board of the Club ERM includes 4 persons.
- IRL There is a well established committee with a board of 12 members, that reports to the council of SAI.
- NL ERM is a committee next to Insurance, Pensions, …
- UK the ERM Practice Board is a component of the Practice Board since 2008 reporting into the Management Board of IFoA and from there into the Council.

What kind of ERM related topics are dealt with within your organisation?

Multiple topics and objectives have been mentioned:

- D Link AFIR/ERM
  Relationship between Actuarial Function Holder and Risk Management Function Holder
- F ORSA, Risk Management Function (RMF), Operational Risk, Link to traditional Coms and Working Groups
  Subject topics today are : Low Interest Rates, Pensions, EIOPA Stress Tests, Cyber Risks, Brexit
- IRL Annual Risk Perspective Conference
  ERM Forum
  Consultations
  Dedicated ERM Linked'in page
  ERM Data Base
  Risk coming from actuarial activity
- NL Adopt IAA/AAE standards of actuarial practice
  Membership extension
- UK Link AFIR/ERM
  Operational Risk
  Annual Conference
  Wider Risk Management

How do you see the relationship between ERM in the various fields like insurance, pensions, banking and other; or like underwriting risk, financial risk, operational risk ?

All 5 MAs provide coordination of ERM activity in the various fields. F refers to a different approach that is required in function of the application domain and based on the vision that a general understanding of ERM is required for all qualified members.

What proportion of the membership deals with various aspects of ERM?

The number of members involved varies a lot depending on the approach (1% of UK members is working in RM and not in Insurance or Pensions, D counts 600 members in RM and refers to the high demand, 150 are CERA certified in F, 10 – 30% are involved in RM in NL, no reference in IRL.

Are there professional ERM standards adopted or in the pipeline?

IRL, NL, UK adopt or are considering to adopt ISAP's and ESAP's in the field of ERM.
F has elaborated own standards on advanced models and ORSA.

What's the relationship, if any, between the ERM activity of the organization and the regulators?

F and NL mention that there is no specific relationship with regulators in the field of ERM.
D mentions to be in the driving seat when RM is discussed by regulator.
IRL and UK do not report on the issue.

Is there any expectation or desire already prevailing towards the AAE in helping them or organising certain activities on a European level in relation to ERM?
Is there a need that ERM should be more emphatic in the AAE's strategy (vision/mission /strategic objectives)?

Knowledge sharing, global insight, best practice exchange, guidance on European topics are seen as possible topics to be considered on a European level.

It is stressed that AAE ERM initiatives have to be complementary to similar IAA activities.

NL has a strong preference for including ERM in the strategic vision.

The other MAs present at the Round Table give additional information on the status of ERM in their environment. None of them mentioned that an ERM structure is already in place.

All MAs mentioned that there was ERM activity in their local association in various ways such as conferences, specific topics such as ORSA, significant part of members involved in ERM (10 to 30%).

Some focus areas in different MAs have been mentioned:

- Hungary sees two different possible developments that will influence the strategic choices of the association: actuaries are experts who support RM or the actuarial profession includes the RM profession. There is a strong opinion that not all actuaries are risk managers but that RM is in the DNA of the actuary. Actuaries are capable to perform the quantitative RM aspects but need additional education for the qualitative aspects. That implies that attention has to be paid to quality control and sufficient requirements in education (specialisation) and professionalism.
- Italy points out that RM was the central theme of the annual conference in June. It is also mentioned that actuaries have a role to play in the wider RM approach going beyond the financial industry. The ERM process combines quantitative and qualitative aspects so that strategic and economic objectives are realised. The Italian actuarial organisations have contacts with other professional and external stakeholders. The AAE could help in developing the dialogue and the relationship with other European organizations involved in M such as FERMA.
- Portugal is looking at different ways to offer e-learning solutions for ERM.
- There is a lot of ERM activity ongoing in Norway, but no structured format has yet been adopted.
- The Romanian association of actuaries is a stakeholder in the market and is discussing also RM topics. The scope of RM is not fully clear.
- The Belgian association has not established a structure for ERM. Fragmented activities are organised with reference to SII, ORSA, risk modelling, …. A reference framework at an international/European level could be a catalyst for the next step.

Status in other environments

Status of ERM in IAA

- A separate working group has been created in IAA.
- It focuses on the exchange of information and has the intention to set up a knowledge data base.
- The IAA is welcoming the European initiative aiming to raise the profile of the actuarial profession in the field of RM with the European institutions.

Status CERA

- The CERA membership is growing. Next to the already 7 existing European accredited CERA members, new countries (Norway, Italy, Belgium) are now acceding members.
- The number of certified ERM actuaries is increasing rapidly.
- 21 actuarial associations are members, 3,223 actuaries have CERA qualification worldwide of which about 700 in Europe.
- The objective is that 10% of actuaries will become CERA holders.

Status of RM in AAE

- More than 4,000 qualified actuaries are working in ERM in Europe, about 2/3 of the CROs are actuaries
- The officers' reflection started in March 2014 and the intention to develop RM in the context of the AAE has been confirmed
- The Roles of the Actuaries under SII survey illustrates the place of the actuary in RM
- AAE is planning specific Standards of Practice related to RM
- The IFR committee has discussed the broader RM issue.
- The RM Round Table is a logic next step to find out how efforts can best be coordinated

Discussion

1° General agreement

It is agreed that ERM is an important topic and that a European platform is needed.
MAs are in various development stages. The 5 initial MAs have a well established structure be it with different accents. There is ERM activity in most of the other MAs waiting for an appropriate streamlining.
The platform should focus in the first place on knowledge sharing (ERM Data Base), information exchange on activities, support of MA activity, mutual recognition.

2° Strategic vision

ERM should be part of the strategic vision to become successful. For some MAs the future of the actuary lies within RM, so not creating a corresponding framework is not an option.
RM is a transversal subject with links to all activities in the profession (technical subjects such as insurance, pensions, finance and professional subjects such education, standard setting).

3° Definition of scope

It is important to have a precise definition of the scope of RM. The scheme included in the AAE reflection document can be used as reference.

Role of Actuaries in different ERM area:

RM Areas	Insurance	Pensions	Banking	Other
Regulatory	IC/TF/SFPC	PC/TF/SFPC	IFRC	-
Economic	TF(?)/IFRC(?)	TF(?)/IFRC(?)	IFRC	IFRC

RM issues to be handled:

RM Issues	IC	PC	IFRC	EC	SFPC	TF	Off
Education				x			
Standards					x	x	
Professional					x	x	x
Technical	x	x	x				

Specific attention should go to the interaction between the role of the Actuarial Function Holder and the Risk Management Function Holder in insurance. RM in pensions is considered to be a huge opportunity. RM goes beyond ERM and actuaries can play a role.
The fundamental question (Actuary in support versus Actuarial Profession including RM profession) has to be solved asap.

4° Need for education
Not all actuaries are risk managers. Specialised education is required and CERA offers a good solution. CPD requirements have to be defined to assure permanent ability. All actuaries need basic RM skills: syllabus. RM is in the DNA of the actuary. The involvement of the academic world is key.

5° Adapted professional framework
Code of Conduct allows actuaries to be proper. An additional framework is needed for actuaries to be fit:

- Certification
- Standards of Actuarial Practice
- CPD

6° Impact on the organisation
An AAE platform is required. This can be an existing structure such as the IFR Committee. Overlap with IAA initiative has to be avoided, the AAE can therefore focus on European aspects and more specifically on the positioning of the actuarial profession with the European institutions. Some MAs have already extended the membership to other professionals in RM. The impact on the mutual recognition and the division into several membership groups changes the nature of the organisation.

Recommendation of the Round Table to the Officers

The MAs present at the Risk Management Round Table have unanimously formulated the following recommendations:

- It is recommended to create a platform at AAE level
- It is agreed that there should be a separate ERM committee, it is not excluded that this can be a transformation of the existing IFR committee
- It is recommended to encourage local associations to create an ERM body/committee locally
- The Risk Management Round Table Group could define the necessary framework
- It is recommended to convey the message to stakeholders that actuaries with RM responsibility need specialized education
- It is recommended that all actuaries need basic RM skills
- It is recommended to build on the experience of MAs that already have set up a structure