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MEETING REPORT RISK MANAGEMENT

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1. Purpose of the reflection

   Referring to the memo presented during the last officers call, this reflection is initiated to :
   - Start the positioning of the AAE in the field of Risk Management
   - Take into account that :
     - The role of the Risk Management Function in SII is in a leading position compared to the Actuarial Function
     - 50% or more of CRO's in insurance are colleagues actuaries
     - The professional bodies on RM such as GARP are starting to focus on risk management for financial institutions
     - The actuarial associations already offer the possibility to become a Certified Enterprise Risk Analyst
     - The future of the actuarial profession is linked to the development of RM

2. Scope

   Risk Management is a wide domain. It is therefore important to agree on the scope of the subject under discussion and of the approach of AAE.

   RM is applied in different domains and in function of different angles :

Domains/Angle	Insurance	Pensions	Banks	Other
Supervisory angle	x	x		
Economic angle	x	x		

   Actuaries today are predominantly present in RM of insurance and of pensions. Some of our colleagues and depending on the market are already working in RM of banking and less in an industrial RM environment.
   Especially in insurance and pensions both angles, the supervisory context and the economical context are valid.

   It is agreed that AAE has to play a role in positioning the actuaries in the field of risk management. It is agreed that the focus will in the first place go the domains in which actuaries are actually more present. It is the intention that in a second stage the AAE can than also promote the role of the actuary in the other sectors with specific attention to banks.

3. Actuaries, Actuarial Function, Risk Management Function

Qualified Actuaries, referred to in the mutual recognition agreement of the AEE, obviously are well placed to hold the Actuarial Function. The AAE has been promoting this role intensively in the context of the Solvency II Directive for Insurance and when responding to consultations on the Solvency for Pensions draft documents. Allthough it is not required to have an actuarial qualification to be able to be in charge of the actuarial function, it is generally accepted that qualified members of the professional actuarial organisations in Europe are fit and proper and are a logic choice. Actuaries are de facto exclusively holding the Actuarial Function position.

Actuaries do happen to be Chief Risk Officer (depending on the size and the complexity of the companies) and are therefore also holding the Risk Management Function position.

The intention is that the actuarial profession moves to a position where we can say that actuaries are risk managers and therefore are the preferred choice for CRO's and RMF holders.

4. Impact on the profession

Since a few years, the actuarial professional organisations have promoted the Certified Entreprise Risk Analyst program. Several member organisations do offer this education program to their members, referring to an existing provider or under own direction. This initiative shows that risk management is part of the possible curriculum.

The further specialisation of the qualified actuaries in the field of risk management also underlines the need to consider the structure of the professional organisations. The AAE sylabus today is defining the core competences and education subjects that are required to be able to be considered qualified actuary and thus full member of the AAE.
The evolution of the profession and what is required of the actuaries, inspires the member organisations to examine how to introduce the combination of a required level of specialisation and of the underlying fundamental required knowledge of the actuarial profession.
The core sylabus therefore should recognise the interaction between common ground and specialisation.

The AAE has to anticipate and give guidance, in the field of the common basic required level and specialisation areas such as risk management, to the members to assure a consistent evolution of the profession in Europe.

Risk management is not an exclusive subject for actuaries. Especially the activity of the quantitaive risk management experts is close to the activity of the actuaries. As the professional activity is similar, it can be considered to open the professional actuarial organisations to experts exercicing the same activities.
Already today some member associations are including non-actuaries be it as associated member or differently.
Professionals with proven expertise level in the subjects included in the core sylabus are in principle meeting the requirement to become a full member.

Respecting the core sylabus (adapted to new needs) is a clear condition and is therefore sufficient but also necessary. It is up to each member association (and the assessment process of the AAE) to assure that this condition is fullfilled.

5. Internal and external streamlining of the actuarial position in risk management

It is observed that 50% (best estimate) of risk managers of insurance companies are actuaries. It would therefore be crucial to find out what the expectations are of these colleagues and what they expect from an actuarial professional organisation. To facilitate this reflection, it is necessary to create a group of actuaries CRO's that also has a close connection with the profession (cfr Marco Vet – he has immediately

agreed to participate when asked-, other CRO – Forum members, Heidi Delobelle (AG Insurance), Mark Chaplin, Thomas Béhar (?), and others).

As a first action point it is the intention to identify the actuaries – risk managers and to liaise with them to find out what their needs and vision could be.

The actuarial profession is not considered to be the logic preferred choice when the risk management area is discussed. The AAE can contribute to create more profile by publishing position papers on specific risk management subjects.

As a second action point it is the intention to compose smaller task forces with members of the 3 technical committees to prepare opinion papers allowing to raise the profile of the profession and the AAE in the field.

The risk management professional organisations are preparing their position in the context of the risk management of financial institutions.

The AAE considers to contact these organisations as soon as the approach of the subject is agreed upon within the actuarial community.

6. Long term vision

Risk management is taking a predominant place in the regulatory and economical environment. Today we are investigating how the actuarial profession can make sure that it is a full particpant in this evolution.

In the longer term the actuarial profession what can be the exact place of risk management in its context.
Actuaries and their competences required over the full business cycle and over all lines of business. Risk management can be one of the area of specialisation but it can also be required to integrate basic risk management skills in the basic common requirements.

At the end it has to be considered if there is room for a combined actuarial and risk management profession.