actuarial association of europe

AAE Risk Management Committee

Update for AAE Board

14 April 2021

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Format of presentation

- The next few slides set out the RMC's terms of reference, with comments on progress to date and future plans.
- Please note:
  - Tangible outputs are heavily dependent on willingness of volunteers to engage with the topic
    - **A big thank you to everyone who has engaged with RMC activities**
  - RMC does not have formal sub-committees or task forces. Instead, it has workstreams that progress topics when willing volunteers are available
  - RMC membership has historically included a wider range of backgrounds than some other AAE committees (not always mainstream actuarial roles)
  - Risk management typically seen by non-actuaries as not primarily an actuarial domain

Terms of Reference (1)

(1) Present through the Actuarial Association of Europe (AAE) the views of the actuarial profession in the European Union (EU) on matters of concern to the Risk Management Function and other formal roles as defined by European legislation and regulation at least in the insurance and pensions areas

Comments

- Most formal roles relate to Solvency II. Input from RMC provided mainly via Solvency II Working Group, including for RM orientated consultations
- RMC papers such as on Risk Margin and Operational Risk
- Currently undertaking a survey on Reputational and Conduct Risk, hoping to offer insights in this area

Terms of Reference (2)

(2) Present through the AAE the views of the actuarial profession in the EU on matters of concern to the profession in any fields of risk management to the EU Institutions, particularly the European Commission and the European Parliament and, where appropriate, to other organizations

Comments

- Supported Engagement with European Stability Mechanism (ESM)
- Engaging with other AAE groups on topics such as shared resilience
- RMC already considering climate change and other ESG topics (e.g. via regular slots in agendas) and willing to engage further, perhaps jointly with IC, but dependent on suitable volunteer engagement

Terms of Reference (3)

(3) Where appropriate, collaborate with other Committees of the AAE in considering issues of joint concern, to ensure a coordinated approach in particular when making submissions to the Commission and other external organizations

Comments

- Cross-attendance with other committees. Collaboration with IC strong via Solvency II Working Group
- Willingness to engage with PC in risk management and valuation topics in pensions, but better links needed for closer cooperation (most RMC members have an insurance bias and relevant regulatory requirements are often more member state led)
  - Current workplan includes workstream targeting material on ORA and other pension RM, but still seeking volunteers from PC / RMC

Terms of Reference (4)

(4) Develop position papers on risk management issues for submission to the European Commission and other interested organizations, including and in particular the European Insurance and Occupational Pensions Authority (EIOPA), European Securities and Markets Authority (ESMA), and the European Banking Authority (EBA)

Comments

- Prepared AAE Papers on Risk Margin, Operational Risk. Initiated a debate on Safe Assets. Exploring preparing ORSA support material
- Difficult for AAE to engage with ESMA and EBA because such bodies do not naturally turn to actuaries. But have engaged ESM
- MK has personal involvement with ESRB and hence other parts of European System of Financial Supervision (ESFS)

Terms of Reference (5)

(5) Promote and encourage the development of actuarial skills in risk management within the actuarial profession in Europe, having regard to the AAE's Core Syllabus for Actuarial Training in Europe, and make recommendations, wherever appropriate, to the AAE's Education Committee on subjects related to risk management

Comments

- RMC members have links with CERA and develop thought leadership material
- Little specific syllabus support sought to date by Education Committee

Terms of Reference (6)

(6) Provide a meeting and discussion platform for actuaries working in the indicated areas

Comments

- RMC meetings provide such a forum
- Annual webinar with broad attendance and good discussion
- A CRO Round Table previously established but has now lost momentum. Discussing how to revitalize at next RMC

Terms of Reference (7)

(7) Liaise with the appropriate Committee(s) of the International Actuarial Association (especially the Enterprise and Financial Risk Management Committee) and develop and maintain contact with AFIR/ERM (the Financial Risk/Enterprise Risk Management Section of the International Actuarial Association)

Comments

- Several RMC members actively involved with IAA EFRC (and now corresponding Forum), or with related activities such as IAA ORSA sub-committee or Insurance Regulation Committee
- MK a board member of AFIR/ERM Section. Europeans well represented amongst Section membership

Terms of Reference (8)

(8) Liaise with other appropriate professional and technical organisations on risk management

Comments

- Little substantive progress (mirroring position in some AAE member associations)
- Contrasting position within corporates, where risk management is typically interdisciplinary. Perhaps highlighting difficulty of persuading non-actuaries in Europe that actuaries are not insurance / pensions specialists

Terms of Reference (9)

(9) Proactively identify new opportunities and relevant areas of interest

Comments

- At next meeting aiming to explore appetite to engage further in modelling and digitization, e.g.:
  - Model risk
  - Digitalisation trends, including FinTech in insurance
  - Cyber risk
  - Techniques such as quantum computing and algorithmic modelling
- Some topics deprioritized due to lack of volunteer availability:
  - Including: liquidity risk, remuneration policy, modelling of low/negative interest rate risks (now with IC), rewarded versus unrewarded risk, duration management, world beyond finance and insurance risks

Summary

- Significant progress since RMC formally established in 2017
- Tangible outputs are heavily dependent on willingness of volunteers to engage with the topic
  - **A big thank you to everyone who has engaged with RMC activities**
- Competing pressures (not unique to AAE):
  - Easier to enthuse volunteers when directly impacts their day-to-day roles (e.g. responding to relevant consultation papers)
    - But these more naturally gravitate to the more specific business-focused practice area (e.g. IC, PC)
  - Activities targeting wider fields needed if wanting to broaden actuarial penetration
    - But these activities are more diffuse and harder to badge / promote as 'actuarial'