

Seeing Beyond Risk

Canadian  
Institute of  
Actuaries



Institut  
canadien  
des actuaires

Voir au-delà du risque

# Enterprise Risk Management

Caribbean Actuarial Association  
December 6, 2007

# 20 Questions Corporate Directors Should Ask About ERM



Enterprise Risk Management seems to have emerged quickly, seemingly out of nowhere. Why has it become so attractive to organizations?

- ERM improves:
  - risk awareness and collaboration across an organization,
  - regulatory compliance,
  - operations, and
  - decision-making.
- Why wouldn't a process which does all these things effectively be attractive to organizations?



Can you give me a definition of ERM?

*“...the discipline by which an organization in any industry assesses, controls, exploits, finances and monitors risk from all sources for the purposes of increasing the organization’s short- and long-term value to its stakeholders.”*



## Why is ERM so important to a Board member?

- ERM provides a framework for the Board and management to come to terms with uncertainty - its risk and opportunity - in order to build the organization's value
- The Board needs to establish the organization's risk appetite
- The Board needs to decide how to respond to strategic risks...avoid them, reduce them, share them or accept them.



I have heard that Enterprise Risk Management is used in insurance companies, but can it be rolled out in other industries or even government?

- In a word...YES.
- The Geneva-based World Economic Forum says: “mechanisms in place to manage and mitigate risk at the level of businesses, governments and global governance are inadequate. The global economy has been expanding faster than at any time in history – but it remains vulnerable.”



## How long does it take to implement?

- Some firms already have many of the components in place, others have a silo structure with little in place
- Different enterprises in different countries with different products and staff capabilities will take different lengths of time to put in place.
- But, with more and more regulatory scrutiny of the risk management function, organizations can ill afford to postpone moving to ERM.



## How do we put a simple ERM Framework in place?

- Determine the risk appetite of the organization from the Board and leadership.
- Cast a net across the organization to determine all potential risks that it confronts.
- Assess and prioritize the risks.
- Plan how the risks are to be handled, i.e., insurance, safety programs, process improvement, acceptance.
- Control and monitor what happens with the risks.
- Regularly report on the risks to all appropriate stakeholders.
- Adjust or refine the risk appetite and strategic responses.



## Can you explain the concept of 'Economic Capital'?

- Economic Capital has emerged as the common lexicon and metric for managing risk across an enterprise and down to business units.
- Once all the risks have been determined and assessed, it's how much capital is required to ensure that the organization remains financially viable by covering potential losses, over a specified time period, at specified risk tolerance levels



Rating firms are starting to measure the effectiveness of a firm's implementation of ERM.

Why are they doing this?

- Rating firms use their assessment of a firm's ERM practices to bring a meaningful and objective input into the evaluation of an organization's risk tolerances.
- Along with a firm's financial flexibility, management strategy, earnings, liquidity, market position, credit risk and capital adequacy, ERM has become one of the key evaluation areas.



## What do rating firms look at?

- Risk management culture
- Risk controls - credit, interest, equity, insurance, new product, operations
- Extreme events & emerging risk management
- Risk models
- Strategic risk management, and
- Outlook



## Where is the impetus for ERM coming from?

“*A Study of Corporate ERM in the U.S.*” from Tillinghast in 2006:

- corporate governance issues (55%)
- natural disasters/pandemics (55%)
- increased liability risk (48%)
- physical infrastructure risk (37%)
- government regulation (37%)
- competitive pressures (37%)
- customer requirements (26%)
- accounting rule changes (25%)
- foreign trade/investment (25%).



## Is there an actuarial designation in Enterprise Risk Management?

- Chartered Enterprise Risk Analyst (CERA) is offered by the Society of Actuaries in the United States
- Fellow of the Casualty Actuarial Society
- Proposed international designation



## Some other questions -

- I understand global standards are being established and the related regulatory environment is changing. Do you anticipate a time when there will be consolidated standards of practice in the ERM field?
- It seems that the financial services industry has lead the way in ERM. Are there some industries which ERM simply doesn't fit? For example, the pension field?
- What is your vision of where the ERM field might be in 10 or 20 years?
- Do you have a few examples of large, recognizable firms which have implemented ERM?



## Some other questions -

- If I walked around an organization before implementing ERM and again five years later, what differences would I see in the daily work processes of the employees? Will it look and feel different?
- Do you think that the composition of boards will change due to the implementation of ERM in an organization? Will the skill sets that directors bring to the table have to change?
- Are there any studies available relating to shareholders' opinions about the effectiveness of ERM in driving the value of their investments higher?



## Where can I get more information?

- Joint Risk Management Section
- Annual Risk Management Symposium
- Training tracks at actuarial meetings
- Webcasts



What about your questions?



Seeing Beyond Risk

Canadian  
Institute of  
Actuaries



Institut  
canadien  
des actuaires

Voir au-delà du risque

Thank you for the invitation and  
your interest  
in this emerging field!

Caribbean Actuarial Association  
December 6, 2007