



Developing Winning Strategies for the Profession in Enterprise Risk Management

Joint Regional Seminar
Kuala Lumpur, July 2013
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Agenda

1. Recent Developments
2. ERM Survey
3. Defining Objectives
4. Situation Analysis
5. Strategies
6. Conclusions

Recent Development (Malaysia) - 1

- Risk Governance (BNM/RH/GL 013-5)
 - Issued on 1 March 2013
 - Para 49: “For insurance companies, the risk management function must be appropriately supported by actuarial expertise to assess the insurer’s **actuarial and financial risks**. Consistent with paragraph 45 (independent of business and operational decisions), actuarial expertise supporting the risk management function **must not also be directly responsible for**, or have a major role in directing business decisions, including product development and design, investment strategies and pricing policies.”

Recent Development (Malaysia) - 2

- Guidelines on Internal Capital Adequacy Assessment Process (ICAAP) for Insurers (BNM/RH/GL 003-29)
 - Effective: 1 September 2012
 - Para 1.1: “... that insurers must put in place for active management of capital adequacy:”
 - Para 1.1 (i): “An individual target capital level (ITCL) that reflects its own risk profile and risk management practices ...”
 - Para 1.1 (iii): “Processes that monitor and ensure the maintenance at all times of an appropriate level of capital which is commensurate with its risk profile.”

Recent Development - Singapore

- Enterprise Risk Management for Insurers – Consultation Paper (P002-2013)
 - Proposed commencement date: 1 January 2014
 - Risk identification and measurement
 - Key risks: insurance, market, credit, operational and liquidity
 - Risk tolerance statement
 - Risk management policy
 - Risk responsiveness and feedback loop
 - Own risk and solvency assessment
 - Continuity analysis: scenario-testing, stress tests, reverse stress tests

Enterprise Risk Management - MAS

- Traditional risk management considers each risk on its own without taking into account the **interdependencies** of the various relevant and material risks.
- In addition, it places little or no emphasis on risks arising from an insurer's **association with other entities within the same group**.
- ERM involved the process of **identifying, assessing, measuring, monitoring, controlling** and **mitigating** risks in respect of the insurance enterprise as a whole.
- It involves the **self-assessment** of all reasonably foreseeable and materials risks that an insurer faces, and their inter-relationships, providing a **link** between ongoing operational management of risk and longer-term **business goals, strategies** and **capital needs**.

Enterprise Risk Management

SUPERVISION

BOARD AND SENIOR MANAGEMENT



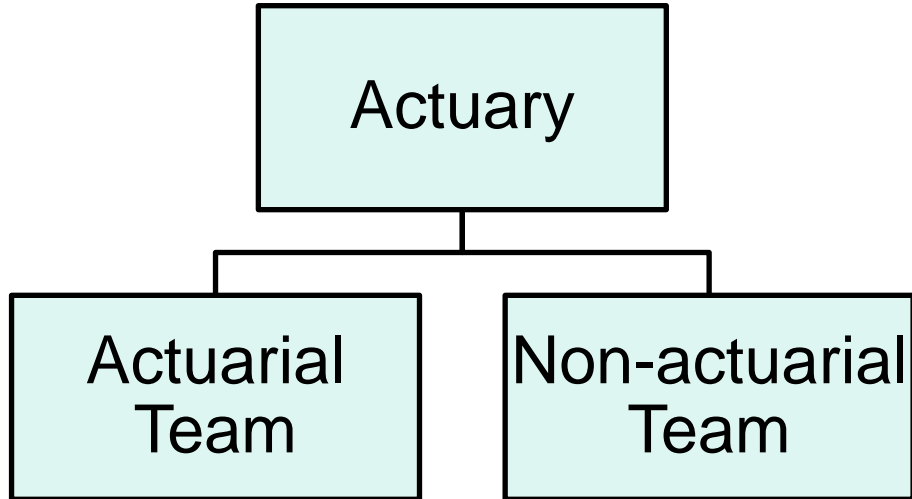
Diagram 1 : Key features of ERM framework

Implications for Malaysia

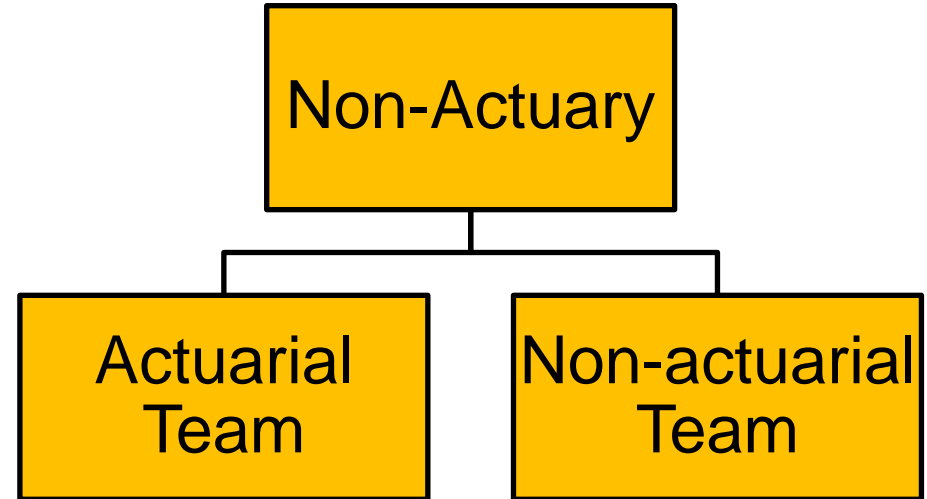
- Formal role in risk management
- Separate team
- Increase in demand for actuaries

Insurers' Options

Option 1



Option 2



Option 3: Ask for more time

Questions

- Are there enough supply of actuaries?
 - 14 conventional life and composite insurers
 - 11 takaful operators
 - 20 general insurers
 - 2 conventional reinsurers
 - 4 retakaful operators
- Is the actuarial profession ready?
- What should we do as a profession?

Background of the Survey - Purpose

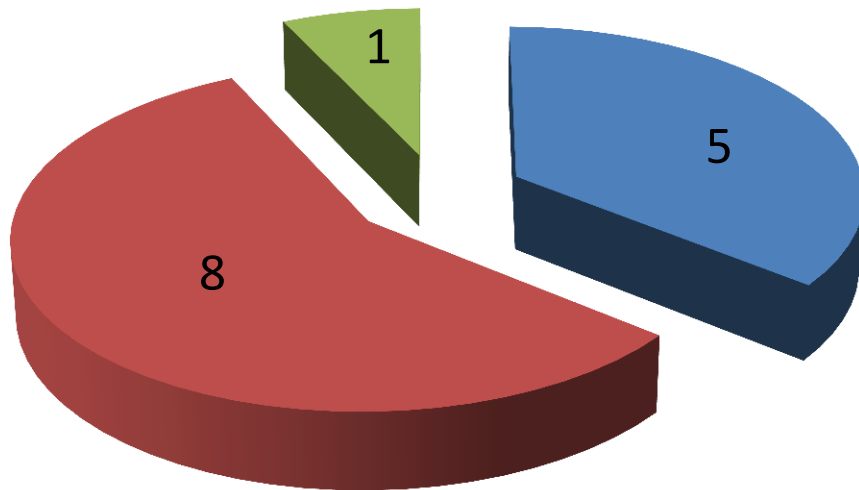
- Involvement of the profession in ERM
- Who are the players in the market
- Any easy obstacles to remove
- Are we the right people

Background of the Survey - Statistics

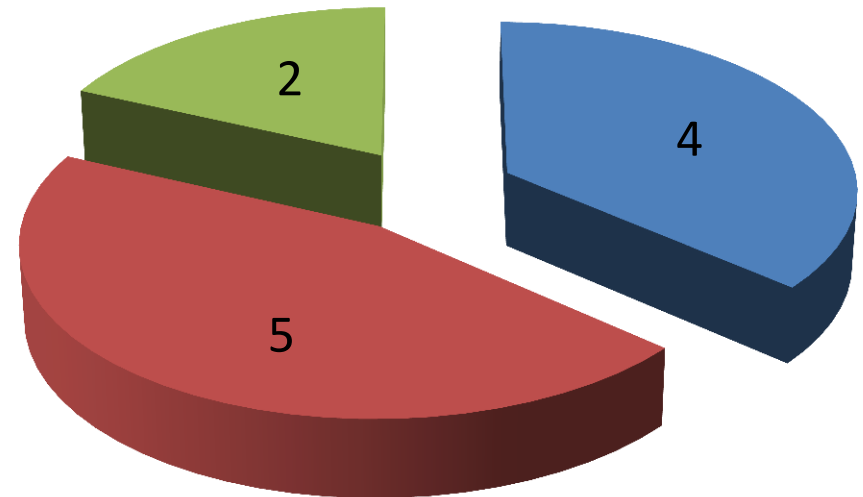
- Survey sent:
 - 5 questions sent to appointed actuaries / head of actuarial
 - 13 conventional (direct life and composite), out of 14
 - 9 takaful (direct family and composite), out of 11
- Response rates:
 - Q1: 12/13, 9/9
 - Q2: 12/13, 9/9
 - Q3: 11/13, 9/9
 - Q4: 11/13, 9/9
 - Q5: 11/13, 9/9

Q1: Is the CRO an Actuary?

Conventional



Takaful



■ Yes ■ No ■ Unknown

Q2: If not, what background?

- Conventional

- Audit
- Accounting
- Risk management
- Legal
- Actuarial

- Takaful

- Compliance
- Finance
- Risk management
- Actuarial

Q3: Actuarial resources in Risk Management Department

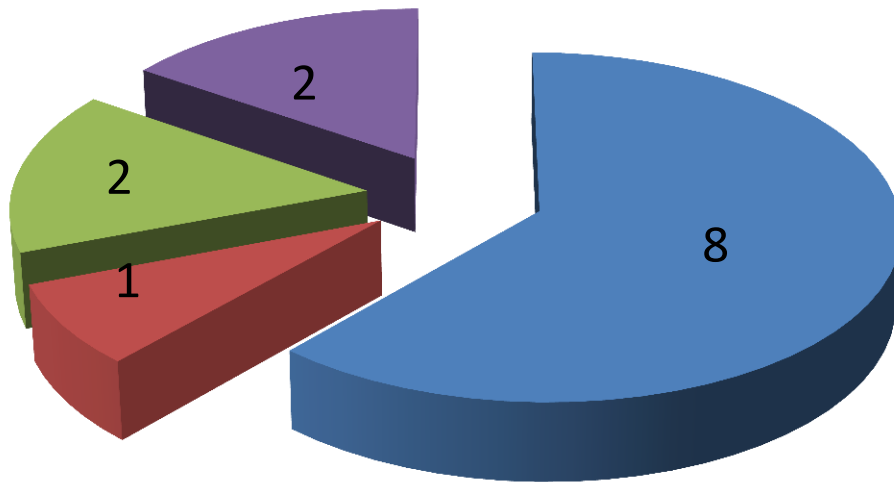
- Conventional
 - 5 Fellows
 - 3 Associates
 - 13 Students

- Takaful
 - 4 Fellows
 - 3 Associates
 - 11 Students

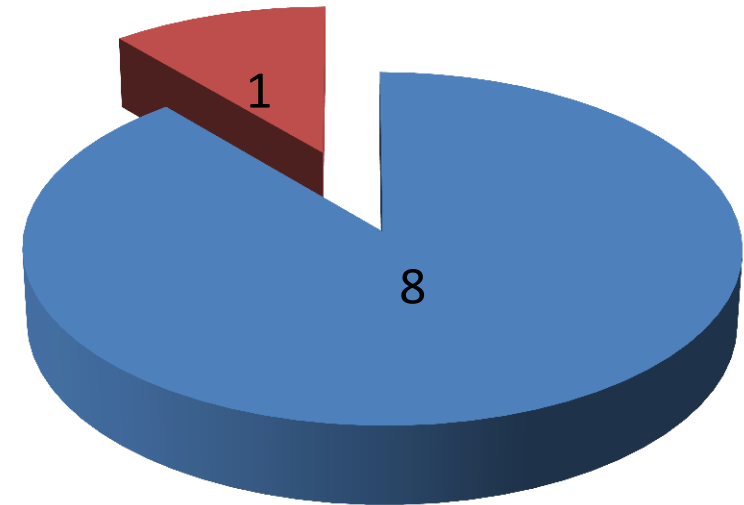
Some double counting

Q4: Actuarial student benefits applicable?

Conventional



Takaful



■ Yes ■ No ■ N/A ■ Refused

Q5: Actuaries make good CRO? Why?

- Yes

- Control cycle
- Complicated risks
- Insurance knowledge
 - IT, distribution, operations
- Analytical, modelling
- Financial risks
- Challenge AA
- Risk based capital
- Professional standards

- No

- Non-financial risks
- Operations
- Limited exposure to other business areas

Defining Winning

- More actuaries and actuarial staff are employed in risk management
- Actuaries seen as first-choice candidates for CRO positions
 - Insurance industry
 - Other financial industries
 - All industries
- Actuaries are adding value

Simple SWOT Analysis

• Strengths

- Numerical / analytical
- Statutory requirements
- Business knowledge
- Training, skills, standards

• Weaknesses

- Operations
- Soft skills
- Communication
- Not cheap

• Opportunities

- New area
- Great demand
- Beyond insurance industry

• Threats

- Competition from other profession
- Not enough supply of experienced actuarial staff

Situation Analysis – Summary

- Regulations in our favour
- We have the right skills for the major component of ERM
- Certain areas of ERM are new to us
- We have reasonable market share but can be further improved
- Employers are in general supportive – actuarial student programme
- The demand for experienced actuaries exceeds the supply
- While at entry level, the reverse applies
- At mid levels, there is also a shortage

What are the obstacles / risks?

- Fellows
 - Status
 - Pay
 - Relearning new skills
 - No successors
- Students
 - Less technical elements
 - Less relevant to exams
 - Doubtful on the career path
 - Herd instinct
 - Reporting to non-actuaries

Balanced Scorecard – the 4 Perspectives

- Financial
 - How do we look to shareholders?
- Customer
 - How do customers see us?
- Internal business processes
 - What must we excel at?
- Learning and growth
 - How can we continue to improve, create value and innovate?

How do customers see us?

- Demonstrate how we add value
 - Linking risks and capital
 - Profit centre and not cost centre
- Change perspective on ERM
 - Not a box-ticking exercise
 - Beyond compliance
- Turning risk strategy into business strategy

What must we excel at?

- Numerical, analytical
- Business knowledge
- Operations
- Influencing skills – risk awareness, risk culture
- Communication

How can we continue to improve, create value and innovate?

- Research
- Peer groups
- Proactive
 - Engage the regulators
 - Engage the customers

What can professional body do?

- Resource planning
- Mobilise the membership
- Equip with skills
- Build the brand

What can the individuals do?

- Step out of the comfort zone
- Widen your horizon
- Be more adventurous
 - “Venture into uncertainty, capture opportunities!”
- First mover advantage

Conclusions

- Risk Management – an increasingly important area
- We have competitive advantage over other professions
- We have resource problems
- There are skillset gaps for us to close
- If we do nothing, we will lose out in the competition
- There are risks associated with moving out of our comfort zone
- With the proactive participation of the profession, we can come up with winning strategies

Thank you!

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