



SOCIETY OF ACTUARIES

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Becoming the Pre-eminent Risk Management Profession

by Frank Sabatini

The Risk Management Section's newsletter has been a resounding success. This is our fifth issue and the quality of the content seems to improve with each issue. However, this issue is special, from my perspective, because it includes four interviews with chief risk officers. *These interviews are a must read!* They provide valuable insight into the profession's future as risk managers and what we need to do to establish actuaries as the pre-eminent profession in the field of Enterprise Risk Management (ERM).

This goal is a natural extension of our experience and training. We've been managing risk as a profession for a long time. But the definition

of risk has changed (if nothing else it's more topical). Today ERM is more than mortality risk or even interest rate risk. The ERM framework expands managing risk to include all risks an enterprise may face. For insurance organizations, it includes financial risk of all forms including: interest rate, equity market, credit, policyholder behavior, to name a few, and nonfinancial exposures such as market conduct and litigation risk. Actuaries are natural candidates for the risk management position in insurance companies because we understand the business and the risks.

Financial service companies (banks) have a risk profile similar to insurance companies (admittedly mortality risk is less of an issue). If you accept my premise of a comparable risk profile, actuaries should be ideal candi-

dates for managing risk in all financial service companies. However, managing risk in any company requires knowledge of the business, and our training and experience needs to expand to capture that knowledge. Actuaries need to begin joining these organizations early in their careers to gain the business foundation and combine it with the professional training they receive. The profession's examination process needs to be broader so that we learn about the other industries we may serve.

My message is fairly simple. We have the inside track on risk management positions in the insurance industry and we have a basis for competing for similar positions in the broader financial services industry.

So how do we know that we have succeeded? The Society of Actuaries' ERM Strategy states:

When actuaries are recognized as the pre-eminent professionals in ERM, they will serve in large numbers throughout traditional areas of practice and also will serve in responsible positions in the broader financial services arena. There is strong evidence of a rapidly increasing demand for ERM professionals. For the SOA's strategy to succeed, it will be critical to increase the number of actuaries trained in this field. The task force considers the recommendations in this report as the minimum actions necessary; continued monitoring and other efforts will be needed.



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Although we have the inside track on insurance companies, we don't always get the position. Some insurance companies have hired nonactuaries in senior risk management roles. These individuals, typically, were selected because of their risk management credentials in banking. They do not have the business knowledge and experience of actuaries, yet their skills and experiences make them qualified candidates. I'm certain that their lack of insurance company experience was a negative, and yet they were hired. So what do they have that we don't, and vice versa? Why aren't we securing similar positions in the financial services industry? The answer is, in my opinion, that our training and experience does not provide us with all of the prerequisites. We have additional skills to acquire!

The good news is that, by my count, actuaries hold the majority of senior risk management positions in the insurance industry. These individuals have or are acquiring those other skills.

Credit risk, operational risk, risk governance, the ability to manage one's way through complex organizations and communicate with diverse audiences, including senior management and the Board of Directors, are some of those skills. We need

to learn on the job if we have not already acquired these skills or seek these skills through more formal training.

To further the cause, the Risk Management Section is now jointly sponsored by the Society of Actuaries and Casualty Actuarial Society. This is a significant event because it brings the two organizations together to present a more unified front in the ERM space. More importantly, it provides an opportunity for us to work as full partners as the leaders of ERM research and education initiatives within the actuarial profession.

When you read the chief risk officer interviews in this issue you'll see the themes reverberate consistently. The Risk Management Section has, as one of its goals, to help its members develop all the skills needed to succeed as risk management professionals. The Section Council has acknowledged that acquiring and improving our skills in nontraditional areas is a critical part of the equation. Together, we can succeed. ♦

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