



SOCIETY OF ACTUARIES

Article from:

Risk Management

July 2006 – Issue 8

Risk Is Our Business, Say U.K. Actuaries

by Paul Stanworth

This year, the U.K. actuarial profession made significant steps to establish a more focused role in risk management by actuaries. Several factors have highlighted the need for these skills and in the United Kingdom, actuaries are demanding greater support from the profession in this area.

The driving factors have been brought about by the changes in the management of risk introduced by the U.K. regulatory regimes, the FSA in life and general insurance and the pensions regulator.

These changes pre-empt the risk based capital regimes to be introduced across Europe under Solvency 2 (which will make extensive use of cutting-edge risk modeling and market-consistent valuation techniques). The interpretation in the U.K. continues to be a principles-based regime, which imposes requirements upon actuaries to use techniques more commonly applied to banking risk management, but evolved to incorporate both a longer time horizon than used in banks and the measurement and judgment required of many risks not established in the banking sector, *e.g.* mortality risk.

In response, life and general insurers are spending heavily to upgrade risk management capability to meet investor and regulator expectations. Management of pension plan risk is at or near the top of the agenda for boards throughout U.K. industry. It is estimated that each large bank will spend an average of £115 million on Basel 2 implementation—providing a benchmark for the possible costs of implementing Solvency 2. The area of risk management is a field to which U.K. actuaries bring competitive quantitative skills, allied with a

history and standards of professionalism, which we believe should make us important players on the risk management team all across the U.K. financial sector.

A number of years ago, changes were introduced to the education syllabus to bring U.K. actuaries up to date with banking techniques with the establishment of a finance and investment paper and a much greater emphasis on financial economics in the examination syllabus. However the profession, in common with its counterparts in North America, Australia, and elsewhere, wishes to extend further into the risk management community.

In terms of actions, the actuarial profession has several representative boards, which provide the impetus for different areas of interest for the profession. These include life, general insurance and pensions. In addition, there is a Finance & Investment Board, which took the initiative to become the Finance, Investment & Risk Management Board to establish a driving force for creating the support for U.K. actuaries. Within this board, a task force was set up, chaired by myself and closely supported by Seamus Creedon. The task force agreed to set about raising awareness that the initiative is up and running by establishing a manifesto and emailing all members. This communication outlined our views on which direction we believed actuaries should move towards to be recognised in the area of risk management. It stated:

- *All actuaries are risk managers now* – the world understands risk and management of it, which is what actuaries have been doing all along.
- *Risk management is much more than risk measurement* – value is created by taking some risks and avoiding others – it is active.



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- *Follow the money: focus on firms* – banks, insurers, other financial firms and other sectors spend vast sums on managing risk – we actuaries should clearly understand how and why.
- *Choose our niche, but not our tomb* – we find ourselves working alongside professionals from a wide range of backgrounds – we all have distinct skills to offer.

We asked actuaries about risk management and the actuarial profession's role within it. We also planned a number of initiatives including networking evenings, regular news and knowledge portals (to be communicated via the internet) and linkage to other actuarial professions and relevant professions —of which this article is an example.

Over 200 actuaries from 22 countries responded with interest to the e-mail and agreed to be associated with this initiative, a significant number offering to support the initiative across communications, education and other initiatives. Furthermore, many also attended the inaugural networking evening, which was addressed by actuary and chief risk officer at ING, John Hele, in February 2006. In this talk, John highlighted the challenges facing the European insurance companies in managing their risk and the scale of input required as European companies prepare for Solvency 2. This was a particularly appropriate talk to kick off the series of networking evenings, since John chairs the European Chief Risk Officers Forum, which is providing the guidance for the development of the risk based capital regime schedules to be introduced across Europe.

We also interviewed leading risk management figures (both actuarial and non-actuarial) across the largest U.K. financial institutions and the U.K. regulator, and the message is becoming clear:

- Risk managers must have very strong and clear communications skills to bridge the gap between very technically demanding analysis and commercial decision makers.

- Actuaries' strong quantitative background is a clear advantage; however, techniques must be up to date.
- A background of practical experience can make all the difference between a strong technician and a leading risk manager.

As a consequence of all this feedback, further events and developments are planned throughout 2006, all with a view to encouraging actuaries and users of our work to see it in the context of risk management. A regular risk management column "Risk is our Business" appears in the U.K. profession's magazine *The Actuary* and, given the international interest, we are working to establish a risk management Web site as a resource for members.

Furthermore, as well as serving as an active interface for actuaries within the international risk management community, the Finance, Investment & Risk Management Board is working with others to bring the risk management perspective to education and continuing professional development. Employers have told us that communication of risk issues to general management is a particular challenge for actuaries and that for many actuaries a wider exposure to the business might help.

There is clearly both a great opportunity and a significant challenge for actuaries in the United Kingdom to be recognised as a leading profession in the area of risk management. However, it is a challenge which many wish to rise to and we hope to be reporting a speedy development over the coming months and years. ♦

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