



SOCIETY OF ACTUARIES

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A Global ERM Credential

By Mike McLaughlin

INTEREST IN ENTERPRISE RISK MANAGEMENT (ERM) is not just a North American phenomenon.¹ The financial crisis, epidemics, natural disasters, and terrorism unfortunately exist all over the world. New risks are emerging and they can spread rapidly. They affect not only insurers but individuals and organizations of all kinds. Actuaries around the world are affected, whether we like it or not. But, risk is opportunity! Our profession has the opportunity with ERM—perhaps the duty—to apply our skills much more broadly than before, to help our clients, employers, and the public. As actuaries we should consider a wider range of risks, acting in combination rather than in isolation, and we should be looking outside our traditional areas of pensions and insurance, and across geographic boundaries.

In response, the Society of Actuaries introduced the Chartered Enterprise Risk Analyst (CERA) in June 2007.² The CERA is the first actuarial ERM credential in the world. The SOA modified its exam structure, created a grandfathering provision, and embarked on a marketing campaign to promote the benefits of ERM by actuaries. This was done in record time. There are over 300 CERAs as of the end of 2008, and there is a target of over 600 CERAs by

the end of 2009. The SOA wants to increase the supply of credentialed experts, so as to extend the benefits of our actuarial approach, while of course allowing no compromise in the quality and rigor of the credential.

The CERA credential identifies the set of skills that will be needed by employers and clients in executing the discipline of ERM. It is intentionally much less life insurance-specific than other SOA credentials.³ Already, based on



anecdotal evidence and a formal employer survey, there is good evidence that the credential is badly needed and will gain broad acceptance. Of course, a credential is a starting point for a professional. Based on the initial survey responses, employers place high value on experience in the chosen industry. A second, more detailed phase of the employer survey is already underway.

GLOBAL INITIATIVE

Recognizing the value of the CERA in North America, an international group of actuaries led by Harry Panjer and Fred Rowley is working toward a global ERM credential. While this is not officially under the auspices of the International Actuarial Association, the IAA supports the concept. The concept was initially discussed at an IAA meeting in Banff. Then in Dublin in 2007, a group of eight organizations signed their intent to develop the concept.⁴ At that meeting, the SOA and CAS both indicated general support, subject to approval of their respective Boards. Since then, approximately 15 more IAA member organizations have expressed interest in this effort.



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FOOTNOTES:

- ¹ Enterprise Risk Management is the discipline by which an organization in any industry assesses, controls, exploits, finances, and monitors risks from all sources for the purpose of increasing the organization's short- and long-term value to its stakeholders. Definition, courtesy of the Casualty Actuarial Society.
- ² CERA is pronounced C-E-R-A, not "seerah" or "sarah."
- ³ Life insurance content was removed from the ASA syllabus, and ERM related content was added, to produce an alternative path ASA-level credential, the CERA. Over time the content of the CERA (and indeed all credentials) may evolve.
- ⁴ Actuarial Society of South Africa, Association of Mexican Actuaries, Canadian Institute of Actuaries, Faculty of Actuaries, Institute of Actuaries, Institute of Actuaries of Australia, plus SOA and CAS as mentioned specifically.

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The Global ERM Credential qualification is supported by two working groups. The first, led by Dr. Panjer, is developing the syllabus. An extensive set of overall objectives and learning objectives have been defined. The SOA has supported the efforts of the syllabus working group, through the knowledge and hard work of Kathy Wong, Bob Wolf and others. In fact, the learning objectives as defined are heavily based on the CERA. There is some debate around the level of the credential, with one school of thought more advanced (namely, a fellowship credential or post-fellowship specialty certificate), the other less advanced. At this time the credential appears to be similar to an ASA-level credential, although there isn't complete unanimity among the organizations. Perhaps various IAA member organizations will select their own level.

The second working group, led by Fred Rowley, is addressing recognition of the credential around the world. A Treaty of Recognition and Accreditation has been drafted to coordinate the various signatory organizations. Provisions of the Treaty include a common global syllabus, full mutual recognition by all signatory organizations, a code of ethics, requirements that each organization promote the credential, and education standards. Education will be provided—depending on the country—by examinations, universities, other parties, or a combination. Due diligence on each country's organization will be provided initially and at periodic intervals thereafter, to maintain consistency of education. The SOA has supported this working group also, through the efforts of Sim Segal and others.

Creating a global credential is an ambitious project. The working groups are dealing with many of the same issues that the SOA addressed in creating the CERA, but with many more participating constituencies. As just one example, what should the new credential be named? It's not a trivial problem. The name has to be available in many countries, and it has to work not just in English but other languages as well. The global credential is code-named “XRX” as a placeholder. But all the “good” three letter credentials with R for risk in the middle,

are gone. So for example, PRM is Professional Risk Manager, but PRMIA uses that. FRM is Financial Risk Manager, but GARP has that.

Perhaps the biggest obstacle to the XRX is consistency across borders. A global credential that varies by country is not a global credential. For example, will different organizations set the credential at different learning levels? Will they substitute some syllabus content, and if so how comparable is the content to that of other countries? Will university-only education be equivalent to self-study and examinations? Would an XRX from France be an automatic member of the professional organization in Germany? There seem to be no other global credentials formed by consensus among multiple organizations. The working groups are really blazing a trail.

SOA POSITION⁵

The SOA participated in the global ERM credential discussions at IAA meetings throughout 2007 and 2008, first in Dublin and again in Cyprus. As mentioned previously, the SOA also has supported the efforts of the working groups through diligent volunteer and staff efforts. The SOA supports the idea of a global credential and is willing to work with other organizations to achieve that goal. However there are some concerns. If the SOA became a signatory, we would need to recognize and promote the XRX as issued by all other signatory organizations. There is some concern about consistency of the XRX from different organizations, and concern that promoting the XRX in North America would confuse the marketing message around the CERA.

These issues were discussed at length at the SOA Board meeting in October 2008. In summary, blanket full recognition of another credential would be a major shift from the current very careful, case-by-case approach toward mutual recognition that is now taken. Equally important, the CERA is already a global ERM credential. While most CERAs currently are North American-based

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FOOTNOTES:

⁵ This article represents the author's opinion and is not necessarily the official position of the SOA Board of Directors.

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professionals, the credential is available to candidates throughout the world, as are the ASA and FSA. The SOA doesn't actively recruit members where another IAA member organization already offers credentials by examination, but is a global-reaching organization, with over 15 percent of SOA membership based outside of North America. The SOA Board has approved CERA grandfathering to members of other organizations including the Casualty Actuarial Society, the Actuarial Profession in the United Kingdom (namely, the Institute and Faculty), and the Institute of Actuaries of Australia. Perhaps SOA efforts should be focused on continuing to develop the CERA globally.

The SOA has had preliminary discussions with a few organizations, on a case-by-case basis, to explore the pos-

sibility of their using the CERA, under certain constraints, as their own ERM credential. Although it would not automatically extend to all IAA member organizations, this would expand the CERA as a global credential. The marketing and development already done for the CERA would immediately benefit other organizations.

Despite the concerns about another credential, the SOA supports actuaries in ERM globally and is not opposed to the XRX initiative. Actuaries should play a major role in assessing, controlling, exploiting, financing, and monitoring risks from all sources for organizations in any industry, in any country. ♦

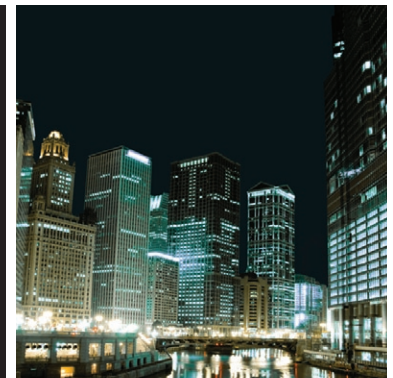


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