



SOCIETY OF ACTUARIES

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Letter from the Editors

By Ross Bowen and Pierre Tournier

IN THIS EDITION OF RISK MANAGEMENT we're covering a wide variety of topics. To me, this shows as risk managers all the things we need to keep in mind on a daily basis! We are also proud to present the winners of the most recent call for papers, "Risk Metrics for Decision Making and ORSA." All essays are available online and will be distributed to members in print as well.

The winners are:

First Place: "Understand ORSA Before Implementing It" by Anthony Shapella and Owen Stein.

Second Place: "Effective Resilience and Interdisciplinary Approaches to Risk" by Rick Gorvett

Third Place: "Focusing on Own Risk of the ORSA Process" by Max J. Rudolph

Here's a quick preview of what you can find in this issue.

RISK IDENTIFICATION

In "Business-Focused Risk Maps: An Approach to Improve the Effectiveness of Risk Identification," Karen DeToro and Jeremy Smith outline a process for building a risk map. In this process, risk maps are built in collaboration with the business side before moving on to risk quantification and management. This groundwork can improve collaboration with the lines of business, strengthen the ERM program, and drive a deeper understanding of the business for all participants.

"Focusing on Own Risk of the ORSA Process" by Max Rudolph reviews the strengths and weaknesses of ORSA and the models that support it. The author stresses that understanding inputs and models is important in getting value out of the risk management process.

RISK QUANTIFICATION

"From Liquidity Crisis to Correlation Crisis, and the Need for 'Quanls' in ERM" by Stéphane Loisel looks at the correlation crisis that followed the liquidity crisis in 2008. This paper argues for a focus on dynamic correlations to better understand and model the impacts crises have on correlations. The author discusses the

difficulties in successfully incorporating correlation crises and some key steps to take to move toward a better framework.

"Investment Management in a Risk Management Context" by Robert Berendsen and Steven Chen discusses portfolio performance measurement as it relates to liability benchmarks. The authors show that a liability driven benchmark helps measure the value of investment decisions. The article also touches on other benefits of liability benchmarks, particularly in helping the manager understand asset performance.

"Effective Resilience and Interdisciplinary Approaches to Risk" by Rick Gorvett discusses how to effectively compare risks in a multidisciplinary context. The author considers "effective resilience," a metric that incorporates both adverse events and management responses. By including both the event and recovery period, this metric tries to capture the true impact an event will have on the company.

RISK RESPONSE

"Liquidity Risk in an Insurance Operation" by Derek Newton, David Sanders, and Gary Wells discusses the need for a direct treatment of liquidity risk. The authors argue for integrating liquidity risk into the overall framework by highlighting past liquidity events that led to insolvency. They show that a traditional liquidity management philosophy may not adequately protect an insurer against a liquidity event.

RISK CULTURE AND DISCLOSURES

"Understand ORSA Before Implementing It" by Anthony Shapella and Owen Stein explains the purpose of ORSA as well as practical considerations that go with it. The paper describes how an effective ORSA program should manifest itself as an ongoing process with qualitative outputs.



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“Towards a Risk Management Profession” by Dave Ingram is an overview describing the evolution role of actuaries in risk management. In response to evolving regulation and desired skill sets, the actuarial profession is adapting to meet these demands. Because of the CERA track and the developing professional standards of practice, the author argues that the actuaries are well placed to be leaders in the industry.

“A Friendly Conversation: Emerging Markets—Enterprise Risk Management within the Banking Industry” by Jawwad Farid is a thoughtful overview of risk management practices in emerging markets. The article covers some of the issues unique to these markets as well as how risk management is regarded in general. The author also touches on the key steps to successfully introducing an ERM practice into an emerging market bank.

I would also like to take this opportunity to encourage our readers to contribute to the section by writing an article. We are always interested in increasing our contributor base and getting new ideas out there. Both traditional and nontraditional subjects are welcome. We're also interested in book reviews or synopsis of seminars or other meetings. There are other ways to get involved if you are interested; see below for one such project from the SOA ERM Exam Committee.

The SOA ERM Exam Committee is looking for volunteers to help educate the next generation of actuaries that are specializing in the ERM field and seeking the CERA designation. You, as members of the Joint Risk Management Section, are uniquely qualified via your experience and interest to assist in this objective. In addition to your philanthropic contribution to the profession and the inherent networking opportunity, time spent researching exam material counts toward SOA CPD credit.

Our primary needs are in question writing and development. We're also looking for help in enhancing our newly created Case Study, which is used as the basis for a portion of our exam questions. The ERM Exam encompasses six distinct tracks and we are interested in volunteers of any background; however, we are particularly short of volunteers in the retirement, health and P&C tracks.

The qualified volunteer should be dedicated to completing his or her assigned task within the target deadlines. We prefer the volunteer to commit to volunteering for multiple exam sessions, such that we may maintain committee continuity and groom these volunteers for future leadership roles within our committee. The exam committee and the SOA can provide the training and guidance necessary to writing quality questions.

To express your interest in helping out, or if you have any questions, please contact Sean Conrad at sean.conrad@hlamerica.com or 704-731-6382. ■