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What Do You Mean You Are An FRM From GARP?

by David N. Ingram

Editor's Note: In mid-January 2002, about two-thirds of the regional directors of GARP have moved to set up a rival organization PRMIA (Professional Risk Managers' International Association) in a disagreement over organizational structure and governance of GARP.

If you listened carefully, you heard references to GARP several times at last spring's SOA meeting in Toronto. If you looked carefully at the Power Week brochure, you saw two of the seminar speakers listing themselves as FRM in addition to FSA designations. GARP is the five-year old Global Association of Risk Professionals and FRM is their professional designation of a Financial Risk Manager.

GARP has over 20,000 members worldwide according to their Web site *www.garp.com* and about 1000 of those members have achieved the FRM designation. GARP hosts conferences on various risk management topics, publishes papers and administers the exams that qualify candidates for the FRM designation. Conferences in 2001 have included ALM, Energy Risk Management, Trading controls, VAR and Options Markets. GARP has chapters in North America, Europe, Asia, Middle East, and South America. A recent daily email bulletin had references to stories about happenings in Thailand, Philippines, Europe and the U.S.

The 2002 GARP annual meeting, February 11–14 in New York, has sessions like "Practical Approaches to Improved Market Risk Measurement and Management," "Market Risk Models and Reality," and "Derivative Accounting: Implications for Risk Measurement, Management and Hedge Assessment."

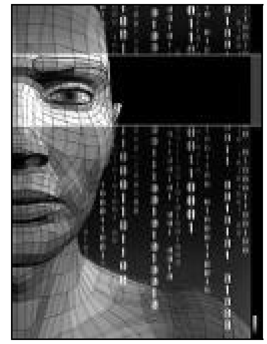
The organization is oriented to the highly technical risk managers in banking and other industries. Very little of their materials have addressed any Life or Casualty insurance concerns. However, several actuaries have found that affiliation with GARP is valuable.

John Gradwell, FCAS, is a member of the Philadelphia chapter steering committee. He sees GARP as an important bridge to the financial risk management area in banks and feels that with the coming convergence of banking and insurance that will be important to all actuaries. Ultimately he feels that actuaries can have a competitive advantage in the financial services arena due to our ability to model complex insurance liabilities.

The FRM exam is an all-day exam held annually in November. The exam focuses entirely on financial risk management as practiced in banks. Besides requiring a thorough understanding of the trading of bonds, stocks and derivatives on financial instruments, currencies and commodities, the course of study divides the main subject into Market Risk Management, Credit Risk Management and Operational Risk Management. The GARP materials proclaim that this is "a practitioner oriented exam [where] reading textbooks alone will not generally be sufficient to pass." GARP publishes a 1000-page study guide authored by Phillippe Jorion that includes a brief review of the materials and over a hundred sample questions with explanations of answers. From these samples it can be seen that some do actually depend on knowledge that is difficult to obtain outside of a trading desk. In addition, GARP has 8 texts of required reading and six optional texts as well as publications of the Basel Bank of International Settlements.

The student will be exposed to in-depth materials on capital market vehicles, decomposition of market risk factors, VAR methods, hedging linear and non-linear risks, portfolio based credit risk assessment and management, and RAROC techniques. Somewhat less useful to someone in the insurance industry are the materials on bank regulation and capital requirements.

Andres Vilms, FSA, FRM, became interested in the FRM exam because he found the syllabus to be an interesting body of material. He feels that banking is "doing more sophisticated risk management in a more standardized framework with more timely and intensive analysis." Vilms expects that when the U.S. adopts Fair Value accounting, there will be rapid convergence of banking and insurance company risk management practices. He found that the learned quite a bit about VAR, Credit Risk Management and Operational Risk management from his FRM studies. One area of the exam that he felt was not as useful to actuaries was the detailed material on the bank regulatory capital requirements. The FRM exam allowed Vilms to find out how well the actuarial exams prepared him for the level of analytic and quantitative rigor required of other financial services professionals.



One reason that David Braun, CFA, FSA, FRM, took the exam was to gain more asset-side risk management knowledge. Two years after taking the FRM exam, he feels that the preparation he did for the exam was "incredibly worthwhile." He has found that material he had studied on capital at risk, RAROC, correlation effect on risk, natural hedges and true economic capital has been useful to him in his work as a consulting actuary. As a result of what he learned, Braun has been able to incorporate more recent developments in investment theory in his models. Ultimately, he feels that the real value will emerge as the insurance industry learns to use the risk management techniques to "not just protect yourself from risk, but to use these skills to identify and exploit profitable opportunities."

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