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And Then There Were Two...

by David Ingram

The international risk management community is now being served by two professional organizations. The Global Association of Risk Professionals (GARP) and the Professional Risk Managers' Association (PRMIA).

GARP has existed for over five years and continues to administer a testing process to qualify practitioners as financial risk managers (FRM). This fall, they have over 2000 students registered worldwide. GARP boasts a membership list of over 20,000 with almost 2,000 of those being FRMs. GARP also publishes a slick 40–50 page magazine, *GARP Risk Review*, six times per year. The May/June issue featured 16 articles on special purpose vehicles (SPVs), IAS 39, counter-party risk after Enron, non-adaptive FFT-based approximations with Fourier inversion integrals and three articles about various issues in the Russian markets. To receive the magazine, you must be in one of the paid membership categories, which last year meant a $100 membership fee. GARP hosts several large conferences each year in New York, Hong Kong and London. Conferences in the past year have focused on credit risk and operational risk.

Early in 2002, GARP started a major reorganization with the almost complete replacement of the senior administrators of the organization and much of the board of directors. In August, that process was completed when a new GARP board was elected by the membership and a new set of by-laws was adopted. First on the list of bylaws was a statement that GARP was nonprofit and would not change that status without the expressed permission of the membership.

Conflicts over the governance structure and a puzzling series of shifts from nonprofit to profit status had lead to the abandonment of GARP by over a dozen of the former regional directors. Those former regional directors formed the new organization, PRMIA.

PRMIA, which started in the beginning of 2002, has attracted a membership of almost 4,000 people worldwide. Membership is free. PRMIA will be giving a qualifying exam for its PRMIA certified risk manager designation. In addition, they have extended that designation to anyone with an FRM designation obtained prior to the first PRMIA exam. PRMIA has very active local chapters in several areas. For example, the New York chapter has a monthly meeting where attendance usually totals about 60 people. Topics discussed at meetings have included corporate governance and risk management issues and Enron, new product review processes and credit risk management. The new product review discussion included a speaker from the New York State Insurance Department talking about their expedited review process. The Credit Risk discussion attracted almost 200 attendees. PRMIA posts a distribution of its membership by country on their websites which shows that 37 percent of their members are from the U.S., 11 percent from the U.K., 7 percent are from Canada and the other 44 percent are from over 50 other countries on every continent.

Neither organization has yet to incorporate anything directly related to risk management in the life insurance industry, though GARP has made contact with both the CAS and the SOA. Both organizations are including risk management for asset managers who are often pension asset managers.

Here are two sample questions from the new PRMIA exam:

1. Assuming independence and a recover rate of 70 percent, what is the expected loss of the following portfolio:

Bond A – 1000 EUR – probability of default 40 percent
Bond B – 2000 EUR – probability of default 30 percent

a) 300 EUR
b) 900 EUR
c) 1,000 EUR
d) None of the above

2. In a long option straddle strategy, where one buys a put and a call simultaneously at the same strike price,

a) Delta will be zero, regardless of the level of the spot price
b) Gamma will be the highest at the money and approaching zero
c) Delta will be near the 1 at the money and approaching maturity
d) Gamma will be zero at the money and approaching maturity

Answer Key:
1) a
2) b

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