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Chairperson's Corner:

SOA Plans New Risk Management Section

by Douglas A. George

By the time you read this, you should have already been solicited by the SOA to join the new Risk Management Section. Since this has implications for Investment Section members, I thought I'd try to provide some brief background through this column.

The SOA has never before had a section dedicated solely to risk management. Many sections include some coverage of risk management issues. Ours, in particular, has a significant risk management component. After all, many of the risks faced by insurance companies and pension plans are investment-oriented or asset-liability in nature. Consequently, our section supports a number of activities with a risk management focus. We sponsor the Basic and Advanced Risk Management Seminars and the Stochastic Modeling Symposium. We actively participate in the Risk Management Task Force and provide funding for its activities. Just take a look at the name of this newsletter and you can see that risk management is core to our function. In addition to being the Investment Section, we have, over the years, become the de facto Risk Management Section of the SOA.

About one year ago I actually considered proposing to our Section Council that we change our name from the Investment Section to the Risk Management Section. It seemed to me that as much of our efforts were spent on risk management as on investment issues (while realizing that there is tremendous overlap between the two). However, I backed off because I believed that a portion of our membership would want us to retain investments as the primary focus, rather than shift to risk management, even if the shift were minor. Besides, we've been covering both topics anyway so why bother.

Then why does the SOA believe we need a separate and distinct Risk Management Section? It appears that a number of elements have contributed to the SOA's decision. The accounting scandals, the threat of terrorism and recent geopolitical events have increased worldwide attention on risk management. The SOA has made efforts to increase the visibility of our profession, and in particular to enhance the image of actuaries as risk managers. The success of the Risk Management Task Force, with 250 members and 10 subgroups, has also been a factor. Whatever the case, the Risk Management Section initiative has gained momentum very quickly and is on the fast track to

move forward at the SOA with the membership drive, election of a Section Council, a newsletter and funding all scheduled to get up and running in the near term.

What does this mean for the Investment Section? It's a bit too early to tell, but in concept, when it comes to risk management, the Investment Section should focus on investment risks and asset-liability risks (mainly C-1 and C-3). The Risk Management Section should include risks from both sides of the balance sheet (C-2 also). The Risk Management Section should also cover business risks (C-4). This latter category would include another hot topic these days, enterprise risk management. If you are not familiar with enterprise risk management, there are many different definitions, but in general it involves taking a comprehensive view of all risks facing a company. These include, for example, strategic risks and operational risks, in addition to the financial risks. Enterprise risk management usually also involves developing a corporate risk strategy, and implementing processes to quantify and monitor risk in light of corporate objectives.

So, in the end, I do not see the Investment Section stepping away from risk management, but our focus may become more refined. My own view is that the volume of activity in the areas of investments and risk management provides enough room for two sections to address the issues. I would hope and expect to see a lot of coordination and cooperation between the two sections, such as cosponsoring seminars, research and sessions at SOA meetings.

If you haven't signed up for the Risk Management Section, I would urge you to join. Joining the new section will allow you to participate more directly in all of the current activity. For example, various subgroups of the Risk Management Task Force are developing research, writing specialty guides, performing surveys, sponsoring webcasts and putting together reading lists. Joining the section will help to sponsor these types of activities and will provide additional access to the valuable information produced by them.

Oh, and by the way, please make sure you continue to support the Investment Section too! We are still the strongest SOA section, with 4,174 members, and will continue to play a significant role in SOA, risk management and investment activities, no matter how this all plays out! 🍀



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