Introduction

Systemic risk is the risk of the collapse of an entire financial system or market as opposed to risks associated with any one individual entity. Risk systems consist of social institutions, laws, processes and products designed to facilitate the transfer, sharing, distribution and mitigation/hedging of risks between various buyers and sellers. Historically, risk systems have been rarely analyzed in a manner that looks at the ability of a system to survive extreme risk events and still carry out its function – creating an ongoing market for the exchange of risk.

On behalf of the Society of Actuaries, the Casualty Actuarial Society and the Canadian Institute of Actuaries, we are pleased to provide a series of essays on "***Risk Management: Part Two - Systemic Risk, Financial Reform, and Moving Forward from the Financial Crisis.***". This e-book is a collaboration of the following organizations:

- The Joint Risk Management Section of the Society of Actuaries, the Casualty Actuarial Society and the Canadian Institute of Actuaries;
- The Investment Section of the Society of Actuaries;
- International Network of Actuarial Risk Managers (IN-ARM);
- Enterprise Risk Management Institute International (ERM-II);

The intent of this publication is to offer thought leadership on the ERM discipline and the essential elements needed to maintain risk transfer systems in times of unusual stresses and unlikely events. Included herein are the opinions of a number of authors written in response to our call for essays. An essay is, essentially, a short non-fiction form of writing expressing the often subjective opinion of the author. The thoughts and insights shared herein are not necessarily those of the Society of Actuaries, the Casualty Actuarial Society, the Canadian Institute of Actuaries, or the authors' employers.

In the first e-book published at the end of 2008, "***Risk Management: The Current Financial Crisis, Lessons Learned and Future Implications***," we published 35 short essays highlighting key lessons learned, in the interest of inspiring prudent risk management practices for years to come. We learned how operational risk can combine with other risks and to precipitate a collapse of an entire financial system. We learned the need for a risk culture that balances incentive compensation with desired performance. We also learned the need to align the authority to make decisions with bottom line accountability. Ultimately, it became a story of risk that manifests itself through the decisions and behavior of people, and not necessarily through exogenous events.

The U.S. Congress recently passed the most sweeping financial reform measure since the Great Depression. The purpose of this legislation is intended to prevent the risky behavior and decision-making that led to the financial crisis, and to prevent future crises. In reflecting on the events of the last two years, is it possible to effectively develop early warning indicators that trigger beneficial actions in advance of a complete collapse of an entire financial system or market? Does it make sense

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to have a chief risk officer of, say, the United States of America, whose role it would be to manage/mitigate this risk? Does this legislation solve the problems of the past? Are there other issues not addressed? Does this legislation cause other concerns? You'll find these and a myried if other questions confronted in these essays. We hope these essays will provide thought-provoking discussion and commentary in the months and years to come. We congratulate the following essayists whose essays were selected as the top three prize winning essays for this Call:

- First Prize: The Financial Crises: Why Won't We use the F(raud) Word? By Louise Francis
- Second Prize: Perfect Sunrise–A Warning Before the perfect Storm By Max Rudolph
- Third Prize: Who Dares Oppose a Boom? By David Markel

Sincerely Yours,

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On behalf of

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