



SOCIETY OF ACTUARIES

Article from:

# Risk Management

July 2005 – Issue 5

# Chief Risk Officer—The New Domain for Actuaries

by Dorothy L. Andrews and Ken Seng Tan



Dorothy L. Andrews, ASA, MAAA, is second vice president, risk management, with Transamerica Reinsurance in Charlotte, N.C. She can be reached at [Dorothy.Andrews@transamerica.com](mailto:Dorothy.Andrews@transamerica.com).



Ken Seng Tan, ASA, Ph.D., is Canada Research Chair Associate Professor in quantitative risk management at the University of Waterloo in Ontario, Canada. He can be reached at [kstan@uwaterloo.ca](mailto:kstan@uwaterloo.ca).

A new frontier is unfolding on the geography of insurance and it is yielding fertile ground for actuaries with talent, vision and a strong sense of responsibility. Risk management, sometimes called Enterprise Risk Management (ERM), and often inclusive of Operational Risk Management, is not a new concept to fields such as banking, manufacturing, informational technology and telecommunications. Even the armed forces have policies and procedures to mitigate operational risks.

So, why has it taken the insurance industry so long to recognize the need to install risk surveillance systems? And to appoint a team with full-time responsibilities to steer companies clear of activities that jeopardize the ability of insurer's to make good on all those promises made to policyholders? It may not be important to find the answers to these questions, but who is better suited to the task of risk management than actuaries—after all, studying and hedging risk comes so naturally to us. However, we as actuaries no longer live in a world where C1, C2, C3 and C4 risk can be our only focus. The environment and our policyholders are more dynamic, with characteristics now studied using sophisticated stochastic models. This alone charts the course we must all follow into new territory and provides the impetus for developing effective tools and prudent policies to mitigate risks that would adversely affect company value.

This article is a conversation with four eminent actuaries—Douglas Brooks of Sun Life Financial, Tony Coleman of Insurance Australia Group, Beverly Margolian of Manulife Financial and Craig Raymond of Hartford—discussing their rise to the rank of Chief Risk Officer (CRO). The goal of this conversation is to guide others through the process of establishing CRO topographies in their companies.

Let's get started.

## An Interview with Douglas W. Brooks, FSA, FCIA, MAAA, B.Math – Sun Life Financial



Douglas W. Brooks attended the University of Waterloo in mathematics and actuarial science, joining Mutual Life after graduation. At Mutual Life (later Clarica), he spent a number of years in actuarial positions in group pension, computer systems and the individual division. In the individual division, he had increasing responsibility for product design, pricing and dividends for individual insurance products, along with financial analysis and projections of individual division products. He was heavily involved with a number of acquisitions, including the acquisition of Prudential of England's Canadian business.

In 1997, Brooks accepted a position as chief actuary, overseeing the actuarial aspects of the company's demutualization, as well as the role of the appointed actuary for the company. Additionally, he was involved with the acquisitions of MetLife's Canadian operation and Sun Life's reinsurance business. In 2000, he was appointed senior vice president and chief actuary, and added responsibilities for capital management, risk management and internal audit. In June 2002, Brooks was appointed

vice president and CRO at Sun Life, upon the acquisition of Clarica, where he has accountability for developing an enterprise-wide framework for risk management.

Brooks has acquired a number of industry involvements, which include: involvement with actuarial education committees, the CLHIA committee on solvency and capital, and within the Canadian Institute of Actuaries as a member of the CIA committee on the role of the Appointed Actuary; past chairman of the Life Practice Committee of the Canadian Institute of Actuaries; current chair of the CIA Committee on Risk Management and Capital Requirements and a member of the CIA's Board of Directors, as well as leading a committee on source of earnings disclosure. He is also on the Council of the SOA Risk Management Section.

Let's look at his responses to our interview questions:

**1. It is clear that risk management is a much more important topic at your company today than several years ago. What do you see as the primary motivations for elevating the enterprise risk management function in your company?**

*There are a number of reasons for the increased importance of enterprise risk management. These include the ever-increasing nature of both our products and the market instruments with which to hedge their risks, as well as an increasingly challenging regulatory environment.*

**2. Who has sponsored the initiative?**

*Senior management and the board have sponsored the development of risk management as a function within the organization.*

**3. How does your experience make the transition into this position easier, and what gaps have you recognized?**

*Business experience is critical to building an effective enterprise risk framework. There are a number of gaps inherent in traditional approaches to risk management, which tend to be focused on individual risks. So, aggregation of risks and reflection of diversification is something that hasn't had a lot of attention or tools with which to measure its impact. Operational risk is also an area that lacks tools and*

*approaches to comprehensively measure and manage on a consistent basis.*

**4. What is the mission statement of the office of the CRO in your company?**

*The mission is to contribute to shareholder value by providing a framework to ensure the organization makes appropriate risk-adjusted business decisions.*

**5. What do you see as your number one challenge as CRO?**

*Prioritization—putting the emphasis in the areas that need the most attention while doing so as part of an integrated whole.*

**6. How would you describe the risk management function's relationship with the various business units in your company today? How has it evolved? What challenges remain?**

*The company is operationally decentralized, and its various businesses are quite different in nature and business model. Therefore, what works in one business may not work in another. Building technical expertise in developing markets where resources are scarce and retention is challenging is particularly difficult.*

**7. What risks get the most attention and why?**

*Risks are prioritized based on assessments of probability and severity. The company has a lot of equity exposure given its significant wealth management businesses and variable annuity and segregated fund businesses. Legal and regulatory risk is also significant given the current environment, particularly in the United States.*

**8. Creating a risk culture is part of the enterprise risk management process. Describe where your company is in the process, and what are some of the biggest challenges?**

*Culture is the single most important factor in the success of enterprise risk management. Given the sponsorship of risk management by the board and senior management, there is a high level of awareness of the importance of risk management. One challenge is to develop a "measure" of culture to provide a basis for assessing improvement.*

“

There are a number of gaps inherent in traditional approaches to risk management, which tend to be focused on individual risks.

”

continued on page 6 ■

## Chief Risk Officer — The New Domain for Actuaries

▶ continued from page 5

### 9. What functions are included in your portfolio of risk management responsibilities?

*The risk management function is accountable for developing a framework within which all risks of the organization are consistently measured. These include financial risks, as well as operational risks. The corporate role involves developing the framework, communicating it, developing tools if capabilities do not exist elsewhere and then monitoring and reporting on the management of risks in the organization.*

### 10. Do you have a risk policy, and if so, what was your process for setting it up?

*We have a number of risk policies for the management of financial and operational risks, including risk tolerances. Policies are developed by the corporate “function owners,” including risk management.*

### 11. What are some of the main regulatory guidelines you need to be cognizant of in performing your duties as CRO, or to what extent does the Sarbanes-Oxley Act help to shape the development of risk policies for your company?

*Our primary regulator, Office of the Superintendent of Financial Institutions (OSFI), takes a risk-based approach to assessing organizations. Regulatory guidelines are obviously important, but the business should drive the establishment of appropriate policies for the organization. Part of this will involve ensuring compliance with policies or practices required by regulators.*

### 12. Discuss the risk governance structure at your company. To whom do you report? Do you have board-level reporting? Is there an Executive Management Risk Committee?

*I report to the executive vice president and CFO. I am accountable for reporting to the Board’s Risk Review Committee on risk issues. There is an Executive Risk Committee that includes the CEO, COO, CFO and general counsel.*

### 13. What type of reporting is routinely done? What’s your vision for the future as it relates to risk position reporting?

*We report on both financial and operational risks. This includes analysis of income sensitivities to market risks, as well as the effectiveness of hedging programs and assessments of operational risks. My vision would be to provide an overall picture of the company’s risk profile, on a consistent basis, with trending of key risk indicators.*

### 14. What qualifications does someone need to function as a risk professional in your department?

*Risk management requires different perspectives to be effective. The primary qualifications are an understanding of the business and an inquiring mind—perhaps even healthy skepticism. Some roles require specific technical expertise—actuarial backgrounds are useful because of the training in the insurance-based businesses, but other skills add to the mix.*

### 15. What do you see as the future importance and prospects for the office of the CRO?

*I believe that risk management is a vital function in any organization, particularly financial institutions. It is important that risk management not be viewed as the function that manages all the risks of the organization, but that it provides the framework and tools by which risks are managed, and that it encourages everyone to think like a risk manager. Every organization can benefit from this type of framework, though it will look different and have different emphasis in different organizations.*

### 16. How does your ERM function help protect or enhance shareholder value, minimize operational risk and ensure solvency?

*A risk-based approach to management helps to ensure that business decisions reflect these factors. To be effective, risk management must be proactive, addressing issues before they become problems. The question notes the fact that risk management applies across a broad spectrum of concerns—financial and nonfinancial, shareholder value and long-term solvency.*

“

I believe that risk management is a vital function in any organization, particularly financial institutions.

”

**17. What do you see as the most important tools you need to be effective in your role?**

*Communication with business leaders and managers is particularly important. The role must encourage business decision-makers to think like risk managers and to know where to go for tools and resources to help make better risk-adjusted business decisions.*

**18. How did your skills and experience as an actuary position you to earn the CRO title?**

*The actuarial training provides a solid basis in the technical understanding of the business and its risks. It is an ideal basis for risk management in an insurance-based financial institution where the most significant risks are those related to long-term liabilities in our products.*

**19. What advice would you give to other actuaries who aspire to be CROs?**

*Learn and understand the business. Listen to different perspectives and incorporate them into the overall understanding of the business. Avoid "tunnel vision," whether from professional training or business background.*

**An Interview with Tony Coleman, FIA, FIAA, MBA, BA – Insurance Australia Group**



Tony Coleman is the CRO of Insurance Australia Group (IAG), the largest general insurer in Australia and New Zealand. Reporting to the CEO, his responsibilities include all aspects of risk management at IAG—insurance product pricing policy, valuation of claim

liabilities, R&D, operational risk monitoring, fraud and security risk control and the internal audit and compliance functions for all of IAG's businesses. Prior to joining IAG in December 2000, he was a senior corporate finance partner of Price Waterhouse Coopers (PWC). His 15-year career as a partner at PWC covered both internal management roles building businesses and a diverse range of business valuation and corporate finance advisory work for clients in a wide range of industries. Tony also has extensive financial services industry experience, having worked earlier in his career in both banking and life insurance.

Throughout his career, Coleman has played an active role in the actuarial profession. He was president of the Institute of Actuaries of Australia (IAAust) in 2001, and later chairman of the IAAust's HIH Royal Commission Taskforce. On the international front, he is vice chairperson of the Financial Risks Committee of the International Actuarial Association (IAA) and is a member of the IAA Insurer Solvency Subcommittee. In 2004 Tony received the prestigious "Actuary of the Year" award from IAAust. He was recently appointed as the only Australian representative on the International Accounting Standards Board Insurance Working Group, which was formed to provide advice to the IASB on its International Insurance Accounting Standard project. He is a Fellow of the Institute of Actuaries of Australia (FIAA) and holds BA and MBA degrees from Macquarie University in Sydney (where he also won the Allen Knott memorial award for best overall performance in his year for the MBA degree).

Let's look at his responses to our interview questions:

**1. It is clear that risk management is a much more important topic at your company today than several years ago. What do you see as the primary motivations for elevating the enterprise risk management function in your company?**

*The need to manage the true volatility of the business (not just the volatility of reported profits) and the need to coordinate risk acceptance criteria across the organization rather than in silos.*

continued on page 8 ▶

“

A risk-based approach to management helps to ensure that business decisions reflect these factors. To be effective, risk management must be proactive...

”

## Chief Risk Officer — The New Domain for Actuaries

▸ continued from page 7

### 2. Who has sponsored the initiative?

*The CFO, who saw ERM as expanding beyond the CFO role and becoming an area that demands its own senior expertise and function.*

### 3. How does your experience make the transition into this position easier, and what gaps have you recognized?

*Actuarial understanding of risk combined with 15 years working in a major accounting firm gave me a broad understanding of the relevant issues, including how internal audit can add value and the impact of risk on the corporate share price.*

### 4. What is the mission statement of the office of the CRO in your company?

*“Turning risk into value.” This statement emphasizes the positive sense of being able to take risk to earn a return in a controlled way, not just the negative aspect of seeking to always reduce or eliminate risk.*

### 5. What do you see as your number one challenge as CRO?

*The number one challenge is creating a genuine culture and shared vision across the organization so that each of our 11,000 people will proactively manage risks in the same way without “shooting messengers” or allowing “bad news to travel slowly.”*

### 6. How would you describe the risk management function’s relationship with the various business units in your company today? How has it evolved? What challenges remain?

*The relationship is sound and based on mutual respect. We try to be seen as a partner to the business that has their best interests at heart but who, like a doctor, sometimes has to deliver messages that the “patient” does not want to hear, even though it has to be done!*

### 7. What risks get the most attention and why?

*This varies over time as we reassess the key risks faced by the organization each quarter and rank them both by estimated impact and probability so as to prioritize where management should focus their attention on the risks that need to be managed—in*

*the last two years the focus for us could be characterized as swinging from investment market risk and governance issues back to reputation risk and increasing insurance market risk.*

### 8. Creating a risk culture is part of the enterprise risk management process. Describe where your company is in the process and what are some of the biggest challenges?

*We have begun this journey but I see this as the biggest challenge in the role. In some ways this job will probably never be finished because it requires continued care and attention as the risks and circumstances of the business change (M&A, etc).*

### 9. What functions are included in your portfolio of risk management responsibilities?

*Insurance product pricing policy, insurance liability advice to the board (independent of management), asset & liability management, R&D, internal audit, fraud, physical security and compliance.*

### 10. Do you have a risk policy and, if so, what was your process for setting it up?

*We have a comprehensive risk management statement that is reviewed annually and endorsed by the board for formal submission to our prudential regulator—APRA. This document sets out our key risk policies and processes.*

### 11. What are some of the main regulatory guidelines you need to be cognizant of in performing your duties as CRO or to what extent does the Sarbanes-Oxley Act help to shape the development of risk policies for your company?

*Sarbanes-Oxley is not relevant to our company. However, we do follow the principles of the COSO ERM framework and have onerous Australian stock exchange requirements, prudential risk management standards and consumer protection legislation and regulations, with which we must comply.*

### 12. Discuss the risk governance structure at your company. To whom do you report? Do you have board-level reporting? Is there an Executive Management Risk Committee?

*I report to the CEO. I also have direct access to the main board of the parent company and key subsidiary company boards. At the board level, we*

“

The number one challenge is creating a genuine culture and shared vision across the organization so that each of our 11,000 people will proactively manage risks in the same way without ‘shooting messengers’ or allowing ‘bad news to travel slowly.’

”

have an independent chairman (not the CEO) and we have an audit committee and a separate risk management & compliance committee (RMCC), both chaired by independent directors. At management level, we have three key committees that meet monthly and are devoted to risk issues all chaired by the CEO (an asset & liability committee, an underwriting and pricing policy committee and a reputation committee).

**13. What type of reporting is routinely done? What's your vision for the future as it relates to risk position reporting?**

Monthly reporting to the group monthly performance management meeting (chaired by the CEO) with an identical copy of that report provided monthly to the main board RMCC (see above). All risks can be classified by importance and all "key" risks note the name of the responsible executive and a date by which action has to be taken.

**14. What qualifications does someone need to function as a risk professional in your department?**

Generally people need either actuarial or accounting qualifications, although we also have a few with legal backgrounds.

**15. What do you see as the future importance and prospects for the office of the CRO?**

The CRO role will increase in importance as it becomes viewed more and more as a key contributor to corporate value through the protection of a company's reputation and has the ability to prospectively prevent or "head-off" problems before they become big issues.

**16. How does your ERM function help protect or enhance shareholder value, minimize operational risk and ensure solvency?**

It does in many ways. They are too numerous to mention in a summary such as this.

**17. What do you see as the most important tools you need to be effective in your role?**

It is important to have credibility and the confidence of senior managers of the business so that they will take notice of issues raised. It is also important to be seen as adding value to the business

rather than just always taking a reactive, conservative or preventative stance.

Risk management is not just about downside—it is also about maximizing opportunities and pointing out where under-performance can be improved.

**18. How did your skills and experience as an actuary position you to earn the CRO title?**

The quantitative skills derived from actuarial training and the "control cycle" concept help an actuary in a CRO role. The skills most actuaries don't have that assist in a CRO role involve an understanding of internal audit and control concepts and qualitative principles of risk management.

**19. What advice would you give to other actuaries who aspire to be CROs?**

Ask the question "what-if?" more often at the right time and stay abreast of issues outside your normal area of competence that could impact your employer's or client's operations.

**An Interview with Beverly S. Margolian, FSA, FCIA, BCOM – Manulife Financial**



Beverly S. Margolian is executive vice president and CRO, responsible for all aspects of Manulife Financial's risk management programs worldwide, including programs related to credit risk, market and asset liability risk, product and underwriting risk, as well as operational risks.

“

The skills most actuaries don't have that assist in a CRO role involve an understanding of internal audit and control concepts and qualitative principles of risk management.

”

continued on page 10 ■

## Chief Risk Officer — The New Domain for Actuaries

► continued from page 9

She chairs Manulife's Corporate Risk Management Committee, Global Asset Liability Committee and Product Risk Committee. She also sits on the Credit Committee and is a member of the company's Management Committee. She is a member of the Board of Directors of John Hancock Life Insurance Company.

Margolian joined Manulife in 1979 and has held several actuarial and financial management positions, including roles in many of Manulife's operating divisions. Prior to her appointment as CRO in 2001, she was senior vice president and corporate controller. In that role she heavily participated in Manulife's demutualization initiative.

She received her Bachelor of Commerce degree from the University of Toronto, and is a Fellow of the Canadian Institute of Actuaries and the Society of Actuaries. She has participated on a variety of industry and professional committees and is currently a member of the Society of Actuaries' Risk Management Section Council.

Let's look at her responses to our interview questions:

**1. It is clear that risk management is a much more important topic at your company today than several years ago. What do you see as the primary motivations for elevating the enterprise risk management function in your company?**

*Manulife Financial is in the business of taking risks to generate profitable growth. How effectively we manage these risks is critically important to meeting the expectations of our key stakeholders and to safeguarding our reputation and our capital.*

*Risk management has been ingrained as part of our culture globally for a long time. Manulife appointed their first CRO in 2001 and we formalized our enterprise risk management function at that time. In fact, this was a natural next step in the evolution of our risk management practices. It has allowed us to bring all our risk management programs under one umbrella and has provided a focused set of resources to help enable the board, CEO and executive management*

*to shape risk policy, guide risk-taking activity, monitor key risk exposures and champion the strategic development of our risk management capabilities. We believe this could provide us a competitive advantage, allow to us better meet the increasing expectations of our key stakeholders and proactively manage the increasing complexity arising from external sources, as well as our own business operations.*

**2. Who has sponsored the initiative?**

*The establishment of the new function was sponsored by the CEO and CFO and was widely supported by the board and executive management.*

**3. How does your experience make the transition into this position easier? What gaps have you recognized?**

*My educational background and work experience allowed me to move into this position with ease. As a qualified actuary, I had gained extensive experience in many areas related to risk and financial management, covering both the investments and insurance side of the business. I also had a very good understanding of the market and regulatory environments in which we operate. I believe this background is one of the best for a life insurance company CRO. Of course, as CRO I have accountabilities that extend beyond the traditional actuarial roles, such as credit risk management and operational risk management. However, I have found that the gaps in knowledge related to these areas were not large and could be closed by selecting the right team of risk professionals to work with.*

**4. What is the mission statement of the office of the CRO in your company?**

*The fundamental objective of our risk management program is to support shareholder value growth while ensuring commitments to customers are met and reputation and capital are protected.*

*The mission of the office of the CRO is to ensure our enterprise risk management program effectively guides all risk-taking activities globally, ensuring they are aligned with corporate philosophy; taking risks that are prudent in relation to our capital strength, meet corporate ethical standards, that are diversified across risk types, businesses and geographies and for which appropriate compensation is earned.*

“

Risk management has been ingrained as part of our culture globally for a long time...In fact, this was a natural next step in the evolution of our risk management practices.

”



**5. What do you see as your number one challenge as CRO?**

*As CRO, my number one challenge is to help management to maintain the right balance between risk and opportunity. My mandate is not to ensure we take no risk on. It is to make sure we understand and have assessed the risks we are taking on in a rigorous manner, and that we ensure we get compensated appropriately for taking on the risk. No amount of risk models and metrics can take the place of strong business managers who understand the risks inherent in their businesses. We must provide the framework and tools to help them manage risk, and effectively champion new risk management techniques and processes throughout the organization.*

**6. How would you describe the risk management function's relationship with the various business units in your company today? How has it evolved? What challenges remain?**

*Our corporate risk management group works in partnership with the various business units. Although our operations are diverse geographically and by line, we have always had a strong corporate center of influence. A critical function of the corporate risk management group is risk policy and oversight, but we do this in working alongside the various business units. We can invest in new risk management R&D that they could not afford on their own, but benefit from it as a collective group. The biggest challenge for all of us collectively is to resource dollars and people and be able to move forward on all the initiatives we would like to.*

**7. What risks get the most attention and why?**

*There are no one or two risks that get the most attention. Our risk management practices are robust and we have been managing all risks for some time. Our reputation is one of our most valuable assets, and in today's environment of increasing scrutiny by stake holders, it is vital that it be safeguarded. The potential impact on our reputation is thoughtfully considered in every transaction, initiative or operating procedure. On the financial side, market and credit risks also get a lot of attention as the external environment can be very volatile and we must proactively manage positions. Corporate governance,*

*communication of corporate values and risk policies and our integrated approach to managing risk, capital and business objectives sets the foundation for mitigating all financial, strategic and operational risks.*

**8. Creating a risk culture is part of the enterprise risk management process. Describe where your company is in the process and what some of the biggest challenges are.**

*Manulife has always had a very strong risk culture and, for us, this hasn't been part of the challenge in implementing our enterprise risk management program. Risk management is not seen as a separate and distinct process, but a natural part of all our business and operational processes.*

**9. What functions are included in your portfolio of risk management responsibilities?**

*At Manulife, the CRO is responsible for managing the overall enterprise risk management program, and that covers all financial and operational risks. Specific portfolios, such as legal and compliance, are the direct accountability of the general counsel, and certain operational risks such as business continuity and information security are the direct responsibility of our Chief Administrative Officer (CAO). I work with our general counsel and CAO in these areas. As CRO, I have direct accountability to oversee our credit, market and asset liability and product risk management programs as well as oversee all our corporate insurance risk mitigation programs.*

**10. Do you have a risk policy, and if so, what was your process for setting it up?**

*We have an enterprise risk policy and this was developed to put an umbrella over all our existing risk policies. As CRO, I championed its development and approval. The policy went through a number of iterations as it was reviewed and eventually approved by our Executive Risk Committee and our Board's Audit and Risk Management Committee. The policy covers four cornerstones: risk governance, risk management processes, risk exposure measurement and risk limit management. It also includes our company's general risk philosophy.*

“

Risk management is not seen as a separate and distinct process, but a natural part of all our business and operational processes.

”

continued on page 12 ►

## Chief Risk Officer — The New Domain for Actuaries

▸ continued from page 11

**11. What are some of the main regulatory guidelines you need to be cognizant of in performing your duties as CRO, or to what extent does the Sarbanes-Oxley Act help to shape the development of risk policies for your company?**

*Manulife operates in many countries and has a full array of product and service offerings, so we must be on top of a wide range of regulatory guidelines, and we have a global compliance program that ensures this is done effectively. The SEC and OSC are our primary securities regulators in North America. We also have a host of insurance regulations and accounting and actuarial standards to comply with. SOX 404 is one of the most significant and onerous regulations we are currently dealing with. As CRO, my mandate is to ensure that we have effective risk management policies and practices, and while expectations of regulators are an influence, the policies and practices are shaped more by our own fundamental objectives.*

**12. Discuss the risk governance structure at your company. To whom do you report? Do you have board-level reporting? Is there an Executive Management Risk Committee?**

*As CRO, I report to the CFO. We have established a Corporate Risk Management Committee that I chair, comprised of all general managers and key corporate executives. This committee has a mandate to approve risk management policies, review risk exposures and provide oversight and strategic direction related to risk management. In addition we have a Product Risk Committee and Global Asset Liability Committee, each of which I chair, and a Credit Committee, which the chief financial officer chairs. The Audit and Risk Management Committee of the board, along with the Conduct Review and Ethics Committee, oversee global risk management. These committees approve and monitor compliance with key risk policies and limits, and regularly review trends in material risk exposures, major risk-taking activities and the ongoing effectiveness of risk management practices. Each quarter I present two regular reports to both the Corporate Risk Management Committee and the Board's Audit and Risk Management Committee for review: a risk position report and a risk policy*

*compliance report. In addition, periodically key risk management programs are reviewed in more detail with the committees.*

**13. What type of reporting is routinely done? What's your vision for the future as it relates to risk position reporting?**

*There is a multitude of risk reporting done for various levels of risk committees and management. The risk position report that is presented to our executive risk committee and Board Audit and Risk Management Committee focuses on the most material exposures and gives a fairly detailed accounting of the exposure and management actions. The report covers our full standard inventory of risks but highlights in detail only ones where management is focusing a heightened level of attention. The risk policy compliance report provides sufficient detail to allow the committees to ensure all key policies and limits are being complied with.*

*Key risk indicators are reported on for various types of risk exposures. As we fully introduce new common risk exposure metrics, such as economic capital, we will begin to focus more on these measures as well. The reporting should allow management to understand the profile of the company's risks and concentrations and also ensure that the company is being appropriately compensated for taking on these risks.*

**14. What qualifications does someone need to function as a risk professional in your department?**

*The Corporate Risk Management Group is responsible for a wide range of risk management programs, so naturally, the team includes professionals with varied skill sets and experience backgrounds. We have resources with actuarial and investment backgrounds, with PhD mathematics backgrounds, MBAs and accounting backgrounds. I believe that a CRO needs to build a team with a complementary set of skills and experiences that will work together in partnership. However, as the world becomes more complex and the risk measurement tools become more sophisticated, people with strong quantitative skills, together with good business judgement, will be the kind of resources we will look for.*

“

As CRO, my mandate is to ensure that we have effective risk management policies and practices, and while expectations of regulators are an influence, the policies and practices are shaped more by our own fundamental objectives.

”

**15. What do you see as the future importance and prospects for the Office of the CRO?**

*In 2001, when I took the role of CRO and established the corporate risk management function, which included our centralized asset liability management function, we had about 15 people. Four years later, the group now includes about 50 people. A few groups were amalgamated and we have hired and added functionality primarily focused on risk management R&D to close gaps in a few areas. The importance of risk management and the CRO role is well recognized. It's not a "flavor of the month." If the function adds value for the businesses, and meets its objectives, it will only continue to grow in importance. Our risk management program is a constant work in progress, and it will continue to evolve and grow. Expectations of stakeholders are constantly changing. Our business, and the external environment in which we operate, will continue to get more complex. Risk management practices will need to change and grow with the times, and it is up to the CRO to ensure that this happens.*

**16. How does your ERM function help protect or enhance shareholder value, minimize operational risk and ensure solvency?**

*Our ERM framework is an integral component of our business management processes. Risk management, capital management, financial management, performance measurement—they are all linked and consistent. The risk management piece provides management with the proper tools and processes to assess risk and risk-adjusted returns, allowing them to make the most informed business decisions. We believe this will allow management to make decisions that will further enhance shareholder value and ensure solvency. Our ERM framework also ensures reputation risk, and all operational risks are considered in any business decisions.*

**17. What do you see as the most important tools you need to be effective in your role?**

*To be effective as a CRO of a life insurance company, you need to have a good blend of quantitative and analytical skills, but more importantly, you need to have very strong communication and people skills and good business judgment. As CRO, you are part of the senior executive team*

*and must be able to be effective on that team. On the other hand, for any CRO to be effective, they need the strong support of the CEO, and to be given an equal seat at the table.*

*With all that in hand, the CRO needs to be able to work within the culture and organization structure of their company to build or enhance the risk management practice. This means establishing the appropriate governance processes, ensuring the right resources are in place, developing the most appropriate risk measurement tools and reporting mechanisms to communicate these effectively. Most importantly they need to make sure that the risk management programs are not separate or distinct but form a natural part of all business decisions and operational processes.*

**18. How did your skills and experience as an actuary position you to earn the CRO title?**

*Answered above.*

**19. What advice would you give to other actuaries who aspire to be CROs?**

*The role of CRO is one of the most interesting and rewarding roles I have taken on. Actuaries, with the appropriate experience base, are most uniquely suited to be effective life insurance company CROs. Anyone who aspires to become a CRO or any other senior executive, needs to ensure they get a well-rounded set of work experiences and put themselves into positions where they can develop the skills needed to be a senior executive. Varying your career choices along the way, working in a variety of different areas—some traditional actuarial and some nontraditional roles—will give you a better perspective and make you a more valuable executive.*

“

...as the world becomes more complex and the risk measurement tools become more sophisticated, people with strong quantitative skills, together with good business judgment, will be the kind of resources we will look for.

”

continued on page 14 ■

## Chief Risk Officer — The New Domain for Actuaries

▶ continued from page 13

### An Interview with Craig R. Raymond, FSA, MAAA, BS — Hartford Financial Services Group



Craig R. Raymond is senior vice president and CRO for the Hartford Financial Services Group, Inc., one of the nation's largest insurance and financial services companies. As CRO, Raymond heads the Enterprise Risk Management function for The Hartford. In this role, he directs the efforts to enhance The Hartford's risk management functions and chairs the Enterprise Risk Committee. Additionally, Raymond is head of strategic development for The Hartford and has responsibility for all merger and acquisition activities.

Raymond joined The Hartford as a life actuarial student in 1985. In his 20 years, he has held a range of roles in the life operations. Most recently, he served 10 years as chief actuary of Hartford Life, prior to moving into his current position in 2004.

As a Fellow of the SOA and a member of the AAA, Raymond has volunteered his professional expertise to numerous committees, including serving a two-year term as vice president of the SOA, and is a frequent speaker at industry meetings.

Raymond is a graduate of the Wharton School of the University of Pennsylvania.

Let's look at his responses to our interview questions:

**1. It is clear that risk management is a much more important topic at your company today than several years ago. What do you see as the primary motivations for elevating the enterprise risk management function in your company?**

*At The Hartford, the motivation for formalizing an ERM function was primarily driven by the recognition that there are events, such as terrorist attacks, that present financial risk across the breadth of product lines in the organization. We generally value the diversification that our mix of life and property and casualty businesses provides, but these risks are not totally uncorrelated. An enterprise-level function is the only effective way to understand and manage the implications of these types of risks.*

**2. Who has sponsored the initiative?**

*This was driven from the top, starting with the chairman.*

**3. How does your experience make the transition into this position easier, and what gaps have you recognized?**

*I moved into this position after 10 years as the chief actuary of our life company. My knowledge of the organization—the people, the businesses, the information flows, the way we get things done—was critical in creating a new role that could be accepted and could create an impact in a short period of time. Due to the breadth of this role, anyone entering it will have gaps in their experience. For me, understanding the P&C business and operational risk in general are new challenges. Developing a communication strategy and approach to the board of directors is also breaking new ground.*

**4. What is the mission statement of the office of the CRO in your company?**

*The mission of ERM is to create a consistent framework for understanding, evaluating, reporting on and decision-making on risk throughout the enterprise. Business managers have ownership of and responsibility for managing risk. ERM's role is to ensure that informed, consistent decisions on risk are being made. More informed risk taking enables the enterprise to expand its appetite for risk.*

“

To be effective as a CRO of a life insurance company, you need to have a good blend of quantitative and analytic skills, but more importantly, you need to have very strong communication and people skills and good business judgment.

”

**5. What do you see as your number one challenge as CRO?**

*Prioritizing. There is so much that we want to accomplish and everything is important. Determining the most effective way to use limited resources to create an impact in the short term is my biggest challenge.*

**6. How would you describe the risk management function's relationship with the various business units in your company today? How has it evolved? What challenges remain?**

*Risk management has long been very ingrained in the operations of our businesses. I work very closely with existing staff, in each of the businesses having existing risk management responsibilities. In fact, we formalized this structure by naming individuals with key existing risk management roles in each of our major businesses units CROs of their units. These unit CROs are the key members of my ERM team. As we broaden the range of risks we are looking at, we will need to continue to tap into key resources throughout the organization.*

**7. What risks get the most attention and why?**

*Our initial focus is on risks that either impact multiple business lines across the enterprise or present a significant financial risk to the enterprise as a whole. We have very robust existing risk management processes within each of the operating units, so our focus is on those areas that need to be managed at the enterprise level.*

**8. Creating a risk culture is part of the enterprise risk management process. Describe where your company is in the process and what some of the biggest challenges are.**

*I am fortunate to work in an organization that has always had a very strong risk culture. I actually have found that one of my biggest challenges is to get business managers to understand that the role of the ERM function is not to take away their responsibility for risk management, but rather to enable them to be more effective in their role as risk managers.*

**9. What functions are included in your portfolio of risk management responsibilities?**

*The ERM function includes all aspects of risk. This includes the determination of internal economic capital measures, product pricing review and reinsurance oversight.*

**10. Do you have a risk policy, and if so, what was your process for setting it up?**

*We are in the process of formalizing a risk policy. My staff has direct responsibility for developing and drafting this policy in cooperation with the business units. I chair an Enterprise Risk Committee that has responsibility for adopting risk policy. This committee includes the president and his direct reports along with key risk staff from the operating units.*

**11. What are some of the main regulatory guidelines you need to be cognizant of in performing your duties as CRO, or to what extent does the Sarbanes-Oxley Act help to shape the development of risk policies for your company?**

*Our approach to ERM separates responsibility for compliance and audit functions from ERM. From the CRO's point of view, I need to gain comfort with these functions and evaluate areas of risk that fall outside their work. SOX actually helps with this work in formalizing financial control processes in a way that allows me to start at a high comfort level.*

**12. Discuss the risk governance structure at your company. To whom do you report? Do you have board-level reporting? Is there an Executive Management Risk Committee?**

*I report to the CFO and have direct responsibility for reporting on risk to the board of directors on a regular basis. We have a senior-level Enterprise Risk Committee that I chair.*

“

The mission of ERM is to create a consistent framework for understanding, evaluating, reporting on and decision-making on risk throughout the enterprise.

”

## Chief Risk Officer — The New Domain for Actuaries

▶ continued from page 15

### 13. What type of reporting is routinely done? What's your vision for the future as it relates to risk position reporting?

*There currently exists a vast array of reporting on risk throughout the organization. We provide ERM reporting to the board as a regular part of each board package. We are in the process of introducing a series of reports that will provide metrics on each key risk area. I expect this to be a constantly developing package.*

### 14. What qualifications does someone need to function as a risk professional in your department?

*Expertise in a specific area of risk or risk management is a given. Most critical is the ability to work effectively and cooperatively with professionals across the organization. Communication and team building skills are essential.*

### 15. What do you see as the future importance and prospects for the office of the CRO?

*I am very excited about the potential for where this role can go. We have our hands full now just laying the groundwork for understanding and reporting on risk. The real value of this role will be more fully appreciated once this groundwork is in place. Enabling the organization to expand our ability to take risk is where this value will have the biggest impact long term.*

### 16. How does your ERM function help protect or enhance shareholder value, minimize operational risk and ensure solvency?

*By creating a common framework for evaluating risk, we have consistent risk/return metrics across the enterprise. This allows effective decision making around the use of capital throughout the organization. We also ensure that we have appropriately evaluated any risks to solvency and have processes to manage these risks and the capital needs associated with them in place.*

### 17. What do you see as the most important tools you need to be effective in your role?

*Communication skills cannot be undervalued in the CRO role. The CRO needs to have the business and analytical sense to understand and evaluate risks, but the ability to translate the implications of risk and the risk management processes to a broad audience is essential to being effective.*

### 18. How did your skills and experience as an actuary position you to earn the CRO title?

*As the chief actuary of our life company, I really had been operating as the CRO for the life business for a number of years. An effective actuary should see their role as including much of what the CRO does. Understanding and evaluating risk and communicating its implications are at the core of what an actuary does.*

### 19. What advice would you give to other actuaries who aspire to be CROs?

*Actuarial training is a great background for this type of role, but be open-minded in learning about how other disciplines think about and evaluate risk. Having the knowledge and skills to bridge the gaps between the many disciplines involved in managing risk will open up doors to broader risk management opportunities. ♦*

“

By creating a common framework for evaluating risk, we have consistent risk/return metrics across the enterprise. This allows effective decision making around the use of capital throughout the organization.

”