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AAA Enterprise Risk Management Task Force

by James Rech

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The defining element of Enterprise Risk Management (ERM) is its holistic view of risks facing an organization. The complex nature of such a “broader” view of an enterprise results in competing, parallel frameworks. While management has often attempted to qualify organizational risks, quantification was limited due to complexity or simply not a priority. With several significant financial failures, such as Barings Bank, Long-Term Capital Management, Reliance and Enron, financial regulators have begun to demand more transparency regarding enterprise risks. To fill this void, various organizations are stepping up to provide enterprise risk management definitions, structural design and operational precepts. For example, in the United States we are most aware of the Committee of Sponsoring Organizations (COSO) of the Treadway Commission’s 2004 ERM—Integrated Framework. The Casualty Actuarial Society (CAS) has also provided a definition for ERM. ERM Institute International, Ltd. (ERMII) is currently developing a more quantitative approach within its definition of ERM. These frameworks are designed for all business activities, not just financial organizations.

One should not assume that ERM is solely a U.S. thought process. It is global in its impact to the business community. While the benefits of ERM may be thought of as being driven by corporate governance, management controls, financial transparency and governmental regulations (Sarbanes Oxley), by far the strongest impetus for financial institutions has been from the international regulatory authorities (Basel II, Solvency II, IAIS) and rating agencies (e.g., S&P’s new ERM initiatives).

In North America, each actuarial organization has been working on its own response to ERM relative to the needs of its constituency. In January 2005, the American Academy of Actuaries created the ERM Task Force in recog-

inition of the emerging importance of ERM. The purpose of the task force is to improve communications regarding ERM initiatives among the North American actuarial organizations; this task force includes members from Canada, Mexico and the United States. The task force is organized under the AAA’s Financial Reporting Committee and was created by the North American Actuarial Council.

The Enterprise Risk Management Task Force serves as the North American actuarial profession’s hub for discussing research, educational and public policy initiatives relating to enterprise risk management, and seeks to develop work on ERM-related public policy issues that affect multiple areas of actuarial practice. The task force adheres to the following guidelines:

- The ERM Task Force serves as the entity where the North American actuarial profession can freely discuss and, if appropriate, coordinate the various ERM-focused projects underway within the Academy and the other North American actuarial organizations.
- The ERM Task Force, with the consent of any involved group, capitalizes on the research and findings of these ERM-focused projects and tailors this information to address or respond to public policy issues.
- With respect to the other North American actuarial organizations or Academy groups dealing with ERM, the ERM Task Force serves solely as a forum for communication and holds no authority over any aspect of a project or work product developed outside of the ERM Task Force.

The members of the ERM Task Force hold monthly conference calls. Recent forum discussion items included, for example, ERM



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requirements for Mexico's Insurers, development of the ERMII paper on ERM for insurers, currently being written by Shaun Wang and Robert Faber, interest and potential for development of a series of ERM case studies for life, health and P/C carriers, and ERM topics at annual and regional actuarial meetings.

The concepts involving ERM are rapidly developing along a number of parallel paths. There are a variety of projects underway at the various

actuarial organizations and within the Risk Management Section, each examining ERM from different perspectives. These projects reflect a need for the risk measurement and management skills inherent to actuaries. The ERM Task Force represents one hub of communication to discuss these projects, share information, and reduce the possibility of redundant or contradictory work. ♦

Do you know...

Do you know the SOA Library has recently expanded its book collection of ERM?

Some of the excellent titles include:

Quantitative Risk Management: Concepts, Techniques and Tools by A. McNeil, F. Rudiger, and P. Embrechts. NJ: Princeton University Press, 2005.

Catastrophe Modeling: A New Approach to Managing Risk Edited by P. Grossi and H. Kunreuther. Springer 2005.

Operational Risk Modelling and Analysis: Theory and Practice. Edited by M. Cruz. London: Risk Books, 2004.

Managing Hedge Fund Risk: Strategies and Insights from Investors Counterparties, Hedge Funds and Regulators. Edited by V.R. Parker (editor), London: Risk Books, 2nd edition, 2004.

Economic Capital: A Practitioner Guide. Edited by A. Dev. London: Risk Books, 2004.

These books can be borrowed by the SOA members free of charge (four weeks within U.S. and Canada and six weeks outside United States and Canada); another membership value!

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