



SOCIETY OF ACTUARIES

Article from:

# Risk Management

July 2005 – Issue 5

# The 3rd Annual Premier Global Event on ERM...Where Cutting-Edge Theory Meets State-of-the-Art Practice

Contributors: Mark Abbott, Hubert B. Mueller, Max Rudolph, Fred Tavan, David L. Ruhm, John J. Kollar, David N. Ingram and Sim Segal

Over 500 risk management professionals participated in the 2005 ERM Symposium, held in Chicago on May 2-3 2005. The symposium featured six general sessions with presentations from Bob Stein, James Lam, Nassim Taleb, Leslie Rahl, Bennett Stewart, Prakash Shimpi, Harry Panjer, Chris Duncan, Shyam Venkat, Steve Manning, Robin Lenna, Larry Moews and Don Watson. The meeting also offered over 30 concurrent presentations from over 100 enterprise risk management practitioners. Here are summaries of a sampling of those sessions.



Mark C. Abbott, PRM, is managing director and head of investment risk management and quantitative research for Guardian Life. He can be reached at [mark\\_abbott@glic.com](mailto:mark_abbott@glic.com).



Hubert B. Mueller, FSA, MAAA, is a principal with Towers Perrin in Weatogue, Conn. He can be reached at [Hubert.Mueller@towersperrin.com](mailto:Hubert.Mueller@towersperrin.com).

## General Session 1: Frontline Briefing on ERM

David Ingram, Insurance Enterprise Risk Management, Standard & Poor's, introduced the session and speakers by asking that attendees open their eyes and minds to look at risk from different perspectives and challenge their existing conventions and conceptions.

James Lam, president, James Lam & Associates, provided wise guidelines and ways to successfully change culture to adopt and use risk management to help align interests, the importance of buy-in and credibility and how risk dashboards can help provide transparency and a self correcting process.

Robert Stein, chairman, Global Financial Services, Ernst & Young, framed ERM, suggested objectives and benefits, reviewed implementation challenges and leading practices and discussed making it work with effective risk governance.

## General Session 2: Current Thinking on Risk Management: Not Fooled By Randomness

Shaun Wang, director of the actuarial science program, Risk Management & Insurance

Department, Georgia State University, introduced the need to define and evolve ERM frameworks beyond the silos that exist, involving both practitioners and academic thinkers to build the theoretical foundation for this new discipline.

Nassim Taleb, author, *Foiled by Randomness* stressed that we need to discard our Gaussian views and look at alternative risk measures for such processes where the outliers contain all the information.

Leslie Rahl, president, Capital Market Advisors, Inc. expanded on the galaxy of risks and the importance of valuations.

## General Session 3: Proper Alignment of Senior Management Measures and Incentives

Mark Abbott, managing director of risk management and quantitative research at Guardian Life, and a PRMIA board member, introduced Bennett Stewart and suggested that arguments such as Bennett's should help move senior management away from traditional accounting performance measures, like ROE, and more toward economic measures, like EVA.

Bennett Stewart, senior partner, Stewart Stern & Co., discussed common pitfalls from several case studies that identified earnings that may be manipulated by management as a poor management performance metric. He went on to highlight that increasing transparency and offering more frequent financial reporting in the absence of earnings guidance actually decreased stock price volatility. He proposed that to optimally manage businesses, an alignment of management performance measures was needed, and suggested that EVA could help achieve such. He also proposed that incentive caps could actually destroy value. His conclusion was that effective performance measures are