



Society of Actuaries in Ireland

Using Actuarial skills within the Banking industry

ERM Forum - November 2012
Don Browne



Agenda

- **Introduction**
- **Risk Management in Banking – Challenging Times**
- **ERM – What it is / What it isn't**
- **ERM - Key Banking Risks**
- **Actuarial Skills – Banking Opportunities**
- **Final Thoughts**



ERM & Banking – Hot Topics

- Possible Unintended Consequences of Basel III and Solvency II - June 2012
- ERM Seminar - Feb 2012
- Risk Management - Banks versus Insurers – Nov 2011
- ERM Forum - Oct 2011
- Risk Appetite - Panel Discussion - May 2011
- ERM and Credit Risk - Oct 2010
- ERM and the CERA qualification - June 2010
- Concepts and Methods of Risk Mitigation - June 2010
- Actuarial Techniques in Banking - May 2010
- ERM : Concepts and Framework – May 2010
- Towards a Banking System fit for Ireland’s purpose- Jan 2010



Banks & ERM– Bolting the Stable Door..

- Massive burden for Irish taxpayer – bank recapitalisations - €63bn..
- US Sub-prime lending & Mortgage backed Securities
- LIBOR Manipulation Scandal – Barclays et al
- Royal Bank of Scotland – Clearing System “Technical Glitch”
- PPI Mis-selling – UK
- Trading Losses - JP Morgan 2012 (\$5.7bn) ; Soc Gen 2008 (€4.9bn) ; AIB 2002 - John Rusnak (\$691m) ; Barings Bank 1995 - Nick Leeson (\$1.3bn)



Banks & ERM – Don't Despair!

- Seemingly endless capacity for banks to “mess up”
- Is money indeed “the root of all evil”??

- How could ERM (& actuarial skills..) help to improve the stewardship of banks in the future?

“Grant me the serenity to accept the things I cannot change,
The courage to change the things I can,
And the wisdom to know the difference.”



ERM – A Definition..

- No single definition!

“ERM is a structured and disciplined approach, aligning strategy, processes, people, technology and knowledge, with the purpose of evaluating and managing the uncertainties the enterprise faces as it creates value.” – KPMG (2001)

- Creating value – raison d’être of all businesses
- ERM should support real value creation, not act as an obstacle to it



ERM – What it is.. Hard Work!

- Key responsibility for Board of Directors
- Risk management applied consistently across the whole enterprise
- All risks identified – interaction / diversification
- Upside & downside risks – value creation opportunities
- Quantifiable & non-quantifiable risks
- Central risk function – CRO
- Integrated into the business process
- Dynamic process.. “a journey”..
- Action-oriented – Retain / Remove / Reduce / Transfer Risk



ERM – What it's not..

- Once-off task
- Box-ticking exercise
- Specialist “silos” operating in isolation
- Buying an “off-the-shelf” software package
- Creating spurious complexity

ERM Health Warning – ST9 – Page 1, Chapter 1

“Just going through the motions of implementing ERM, without truly embracing its ethos, can increase the bureaucracy of an organisation, and even damage it.”



ERM – Key Banking Risks

- Credit Risk & Counterparty Risk
- Liquidity Risk
- Market Risk – Interest Rate, FX etc
- Regulatory & Compliance Risk
- Operational Risk

- Significant opportunities for the actuarial profession in both the measurement & management of these key risks



Actuarial Skills – Banking Opportunities

- What is an actuary? What does an actuary do?

Actuarial Profession website:

- Experts in risk management
- Use mathematical skills to help measure probability & risk of future events
- Deep understanding of financial systems
- Problem solvers & strategic thinkers
- Apply financial & statistical theories to solve real business problems
- Analysing data, Evaluating Financial Risks, Communicating Clearly



Actuarial Skills – Banking Opportunities

- What do recruitment agencies want from bankers?
- Problem-solving & decision-making – identifying issues & problems, developing solutions & using judgment to make sound decisions
- Excellent analytical skills - ability to think laterally & creatively
- Business acumen & knowledge of IT systems & financial modelling
- Ability to work on own initiative & as part of a highly motivated team
- Strong qualitative skillset including detailed knowledge of risk & financial modelling
- Demonstrated awareness of financial market developments
- Motivated outlook with an ability to question beyond the obvious
- Demonstrated ability to constructively challenge & persuasively communicate to senior colleagues



Final Thoughts – Back to the Golf Course..

- “Golf is not a game of perfect” – Bob Rotella (Golf Psychology Guru)
- “The more I practise, the luckier I get” – Gary Player (9 time Major golf winner)