



Society of Actuaries in Ireland

Risk Management – a view from the Boardroom

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Agenda

1. What a Board really, really wants from Risk Management and the CRO
2. Will we know, and How will we know, if Risk Management works?
3. Is the new system robust - big questions going forward - what will be the next crisis that brings countries down?



Details of CRO duties

- New Corporate Governance Code (effective 1 January 2015) details the role and duties of CRO
- Recent talk to SAI by FSAs Ciara Regan and Angela McNally, entitled *“Three lines of defence: where does the CRO’s role start and end?”*



INEDs expect a lot from a company's Risk Management

- A good Risk Culture will be **set from the top**.
- The company will have an excellent **Risk Appetite Statement** that actually **makes a difference** to how the company is run.
- The CRO, CFO and others will be **experts** who have a complete and up to date list of policies in place.
- They will be able to **identify, measure, monitor and control** risks.



What INEDs really worry about

1. The company does not go **insolvent**, and warnings work before we reach that.
2. **Reputational** failures do not occur. Operational risk is now a big concern.
3. If there is a **Parent** Company, it will bail out the subsidiary.
4. **2008** or equivalent doesn't happen on our watch.



What INEDs really worry about

3. If there is a Parent Company, it will bail out the subsidiary.
 - Not acceptable but may still influence!
 - Correlation between being a subsidiary and allowing lower capital?
4. 2008 or equivalent doesn't happen on our watch.
 - 1929 and 1935
 - Insurers survived and met policyholder promises
 - Are stress tests strong enough?



AREAS of LESS CONCERN than expected

- Reason for existence
- Profitability of expanding into new country
- Short-term product losses
- Return on IT developments

For P/h's – worry about the pennies

For S/h's – billions then millions



Part 2: How will we know if Risk Management works?!

Examples:

Tracker Mortgages

The problem here was giving a rate guarantee but having no backing asset



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Examples:

Tracker Mortgages

The problem here was giving a rate guarantee but having no backing asset

Variable annuity business

The problem here was giving a rate guarantee but having no backing asset



Will we know if Risk Management is successful?

Conclusion:

In many cases of great Risk Management, we will never know or notice the success.

It must still be done!



Part 3: Big Questions for the future of Risk Management

1. Have we rebuilt the management and regulatory system to avoid 2008 in future?
2. Is there anything happening right now, not on our radar, which could be the next crisis?
3. What else can we do to enhance risk management?



Big Questions

Have we rebuilt the management and regulatory system to avoid 2008 in future?

- Better Boards, regulators and regulation
- Solvency II

versus

- Number of issues on the Risk Agenda
- Are consumers willing to pay for Risk Management?



Big Questions

Is there anything happening right now, not on our radar, which could be the next crisis?

What else can we do to enhance risk management?



Big Questions

Is there anything happening right now, not on our radar, which could be the next crisis?

- Ukraine
- Public Service pensions
- Long-term low inflation



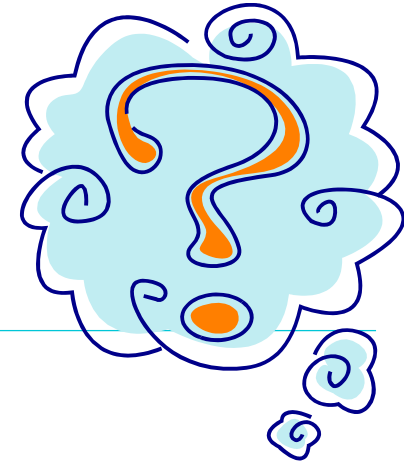
Big Questions

What else can we do to enhance risk management?

- Visit subsidiaries
- Talk to Outsourced service providers
- Set time for Unknown Unknowns



Questions?



- Is your Risk culture led from the top
- Stress tests – will Parent step in – 2008 levels or worse
- Why didn't we avoid Tracker and VA losses
- Can INEDs keep an eye on Everything
- What's happening now, not on our radar, which could bring the next crisis
- What else can we do to enhance Risk Management
