



Society of Actuaries in Ireland

ERM Forum

14th April 2015

Agenda

- 16:00 Introduction and update from ERM Committee – Eamonn Phelan
- 16:10 Current hot topics: life and non-life – Tom Donlon & Billy Galavan
- 16:30 Risk Appetite: some perspectives from the Central Bank of Ireland – Máiréad Devine & John McElligott
- 17:10 ERM: lessons learnt by insurers and why they matter to pension schemes – Colm Guiry
- 17:40 CROs and practising certificates : a recent consultation from the Institute & Faculty of Actuaries – Eric Brown

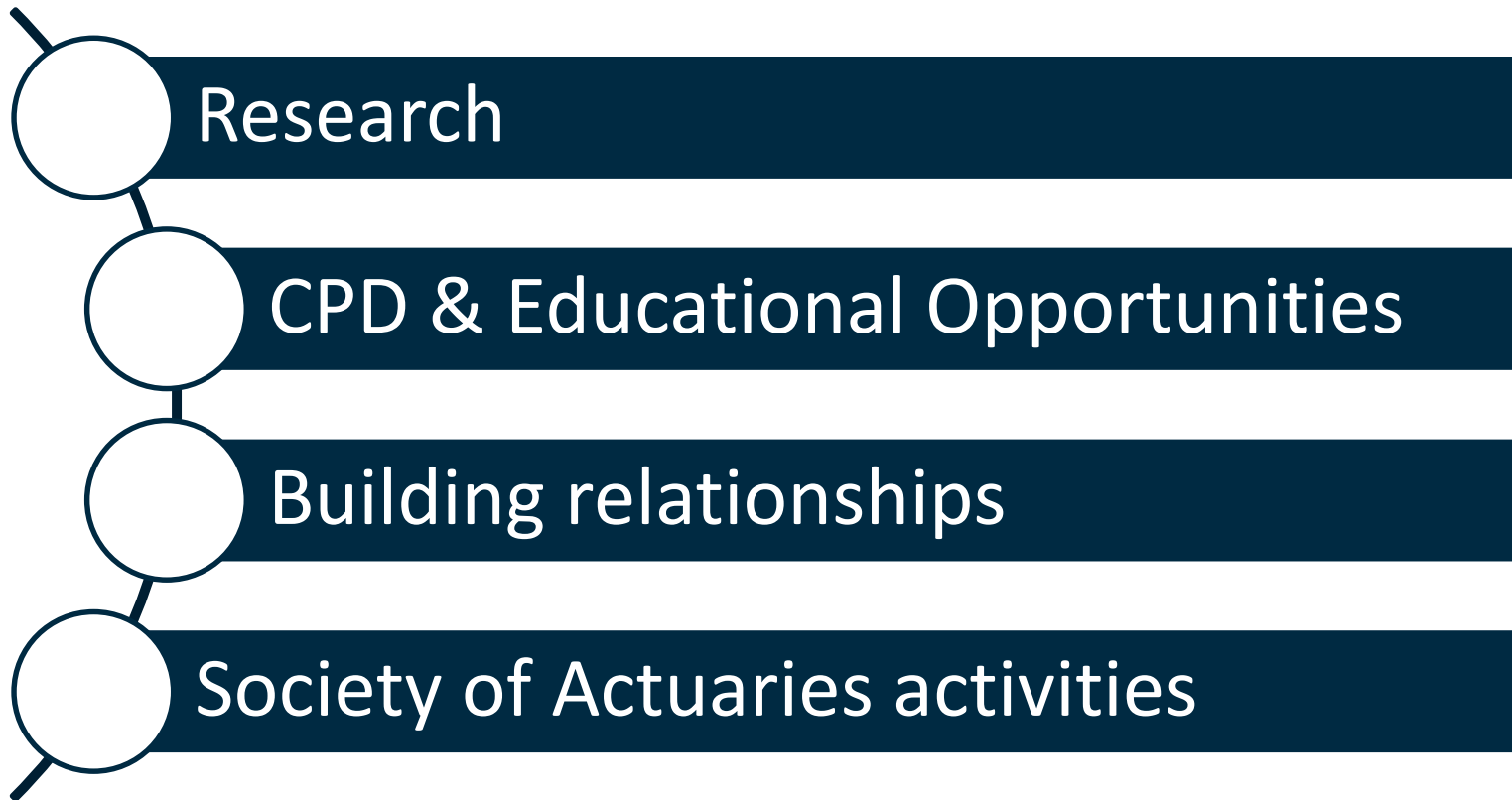


ERM Committee membership

- Alex Breeze
- Billy Galavan
- Brian Morrissey
- Colm Fitzgerald
- Danielle O’Sullivan
- Don Browne
- Eamonn Mernagh
- Eamonn Phelan
- Eric Brown
- Jean Rea
- Richard McMahon
- Tom Donlon



Committee subgroup structure





Recent activity - Research

- Subgroup membership
 - Anne-Marie Dillon
 - Colm Fitzgerald
 - Donal O'Brien
 - Eamonn Phelan
 - Patrick Meghen
 - Rachel Lynch
 - Richard McMahon
 - Sinéad O'Halloran
- Current focus
 - ERM resource database



Recent activity – CPD & Educational Opportunities

- Planning and organisation of ERM-related events
- Main areas of focus
 - Forum
 - Seminar
 - Ad-hoc CPD events



Recent activity – Building Relationships

- Compiling key contact list
- Target organisations include:
 - IAA
 - AAE
 - Institute & Faculty of Actuaries
 - PRMIA
 - GARP
 - IAPF
 - Chartered Accountants
 - Association of Compliance Officers
- Looking at ways to collaborate



Recent activity – SAI Activities

- Main areas of focus
 - Responding to consultations/discussion papers/statements of intent
 - IAA (ISAP5 and ISAP6: statements of intent)
 - AAE (ESAP3: ORSA discussion paper)
 - CBI (Risk Appetite discussion paper)
 - Institute & Faculty of Actuaries (CRO practising certificates)
 - Working with other SAI Committees (e.g. Solvency II Committee) on ERM related topics
 - Building profile of risk management



Society of Actuaries in Ireland

ERM Forum Hot Topics

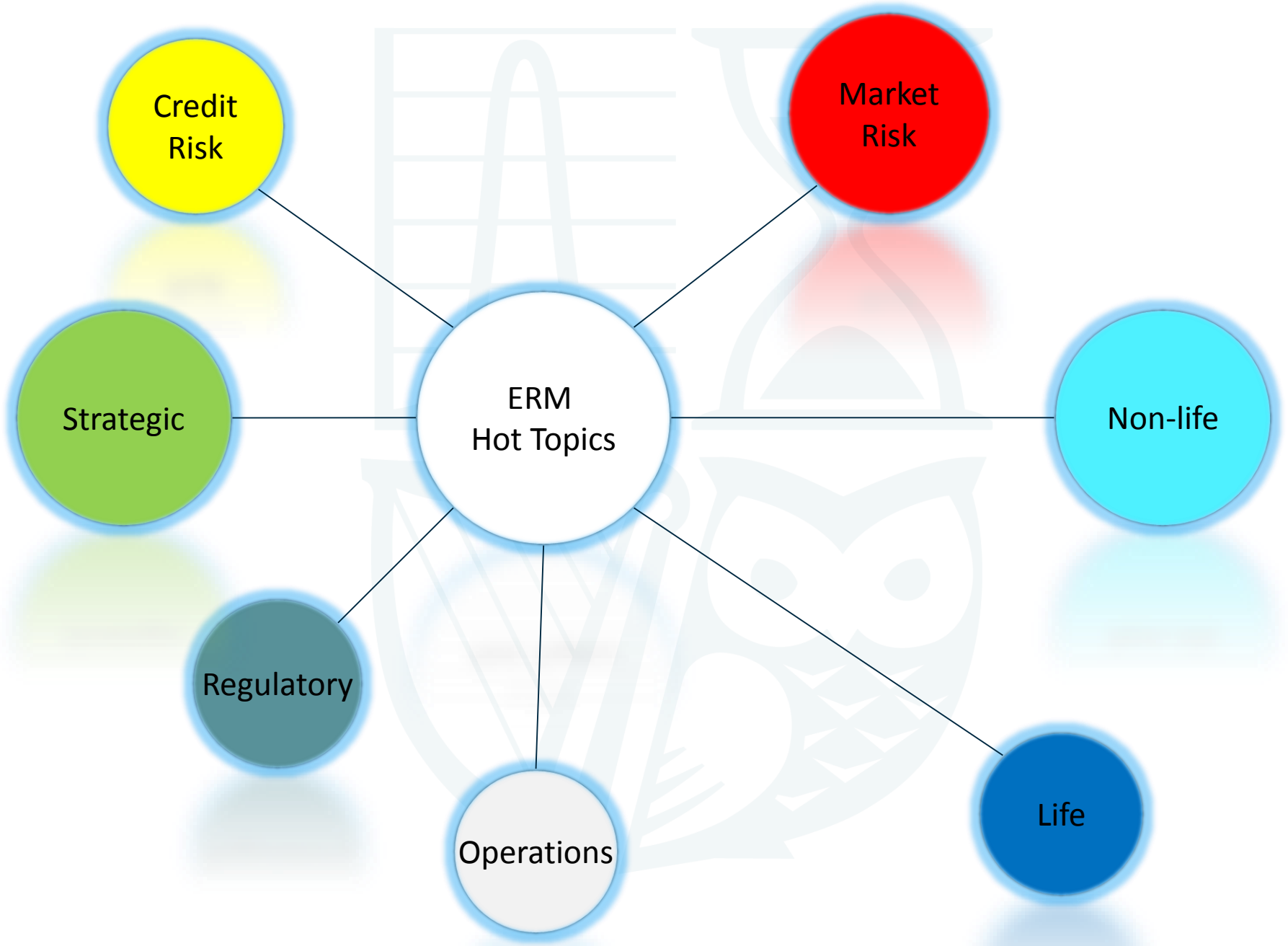
14 April 2015

Agenda

- Hot Topics in ERM
- Focus on Non-life
- Focus on Life

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Credit Risk

Market Risk

Non-life

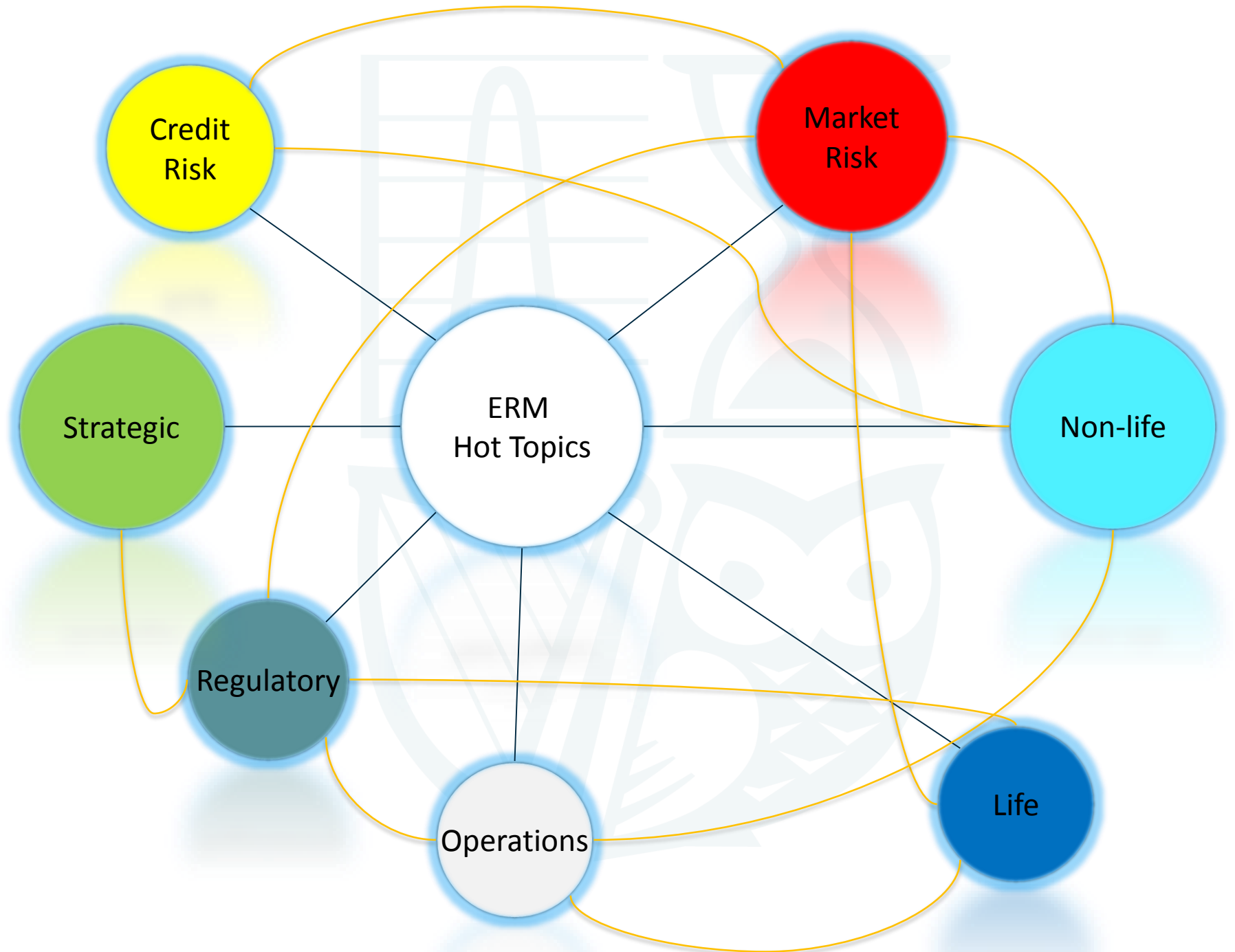
Life

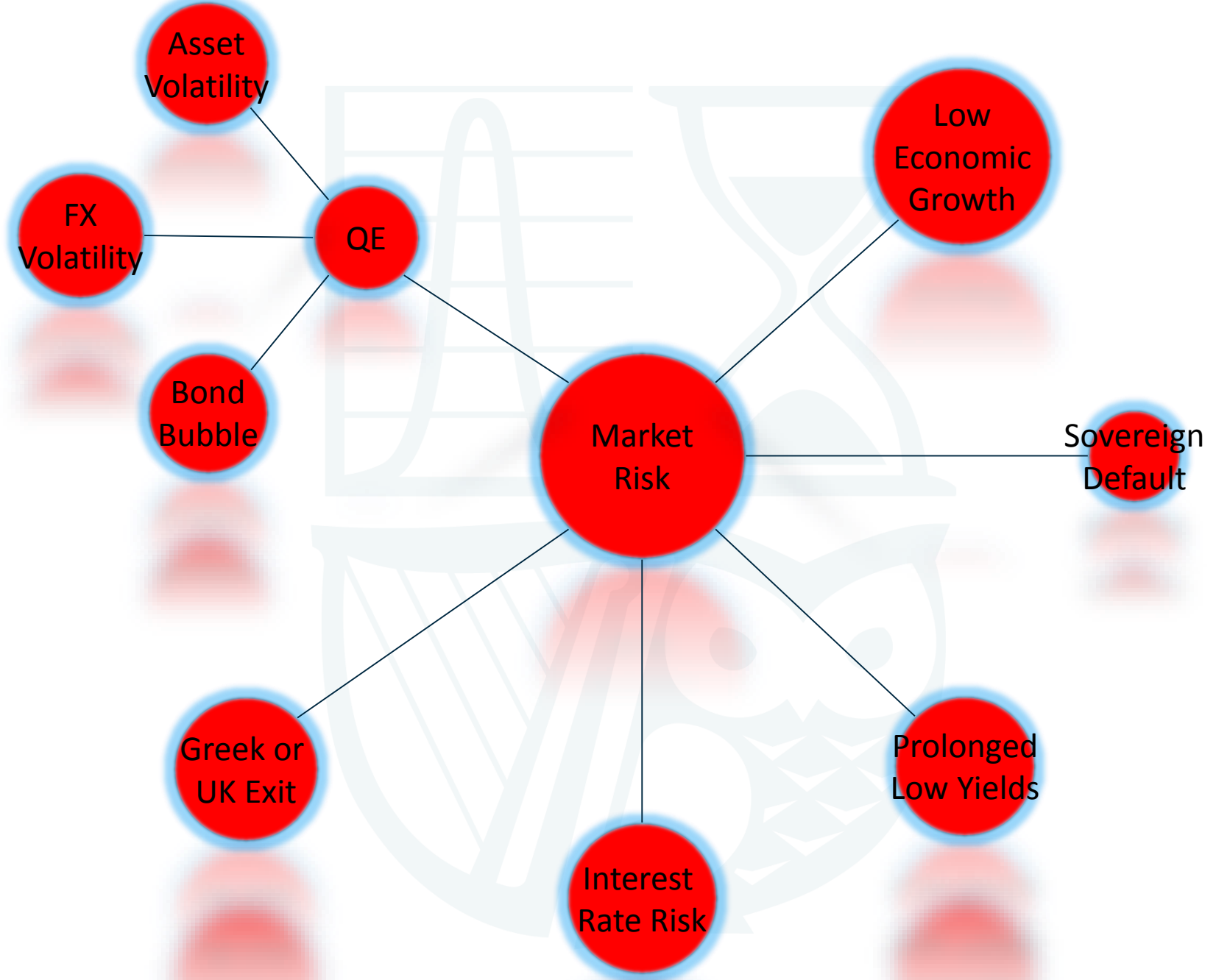
Operations

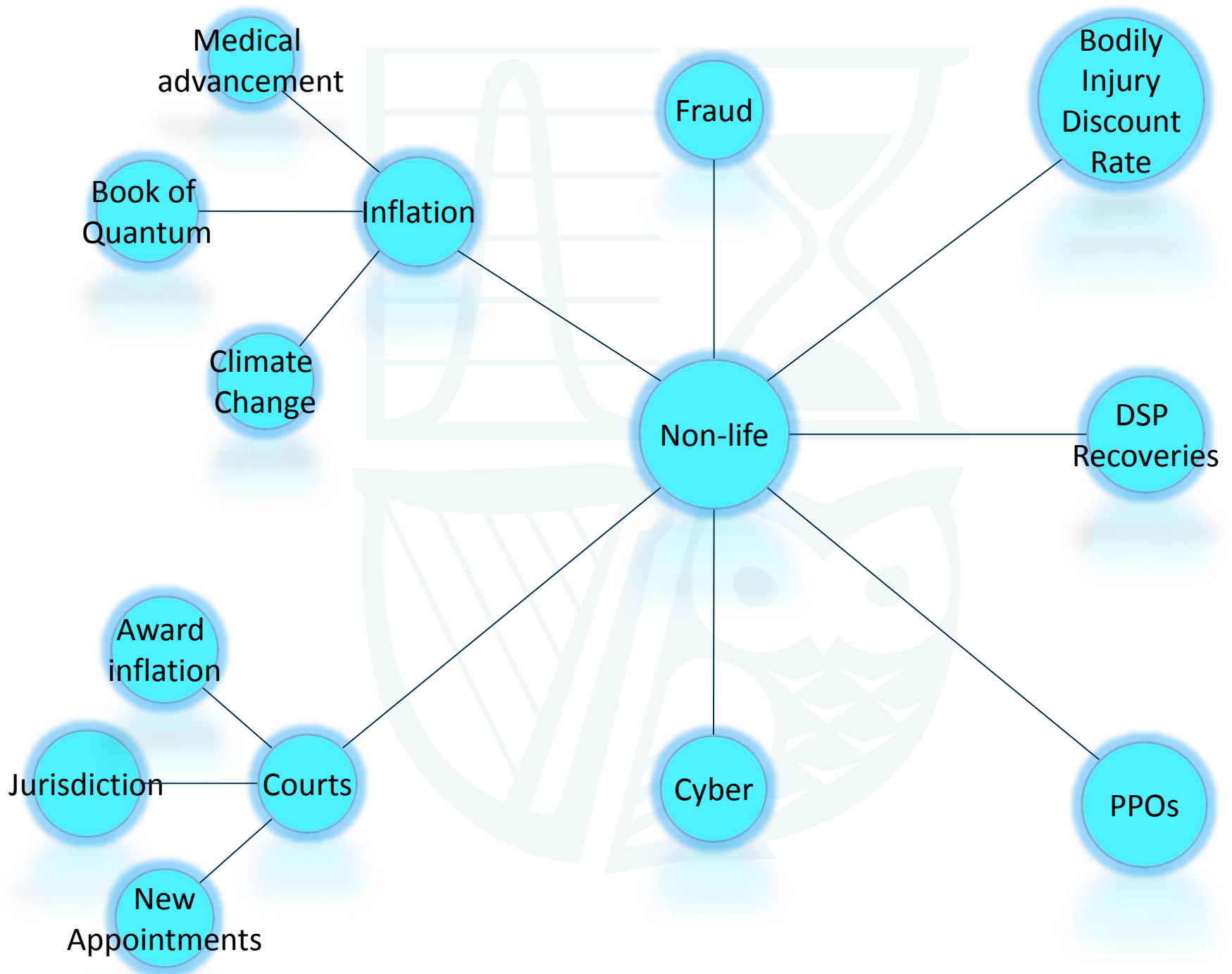
Regulatory

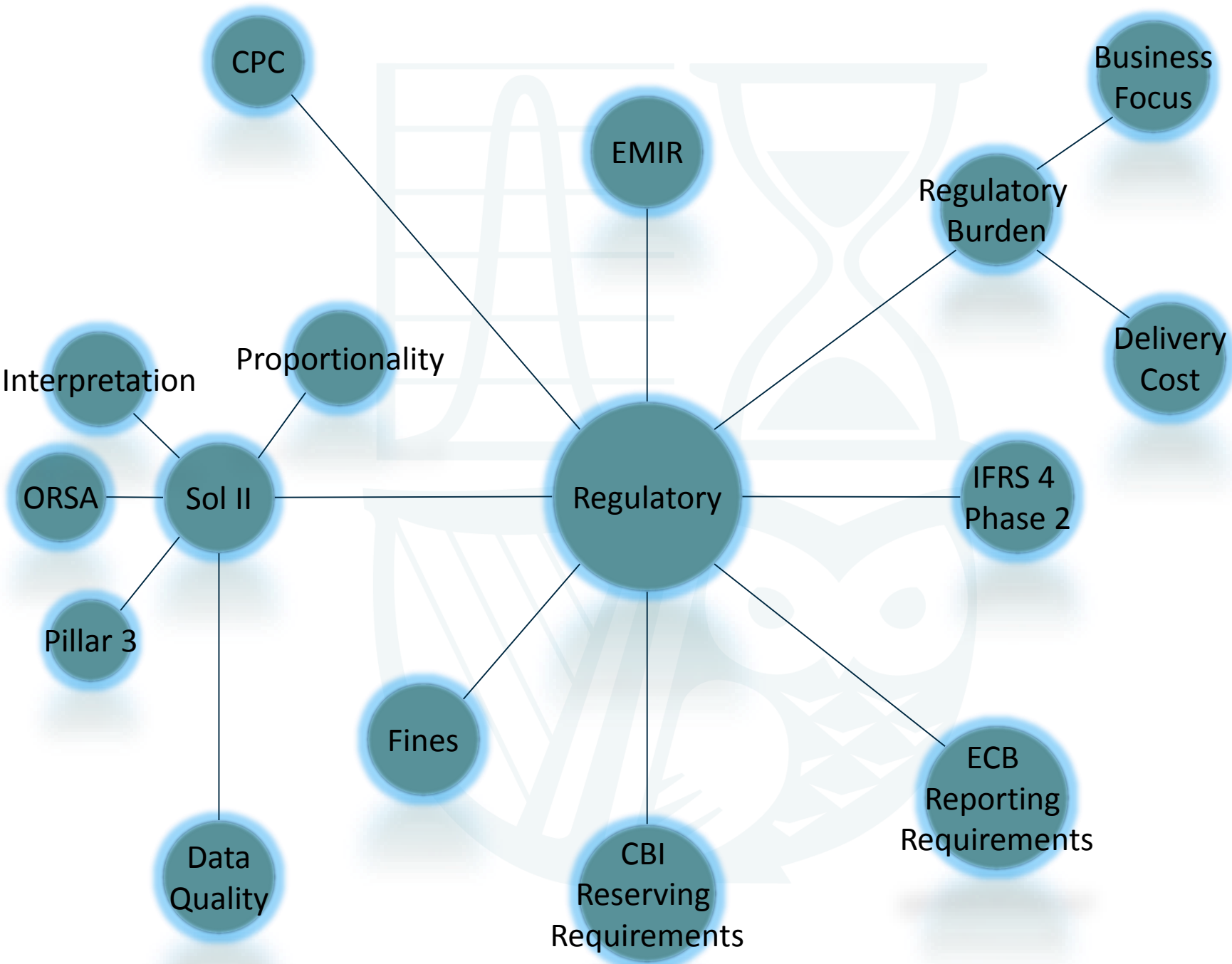
Strategic

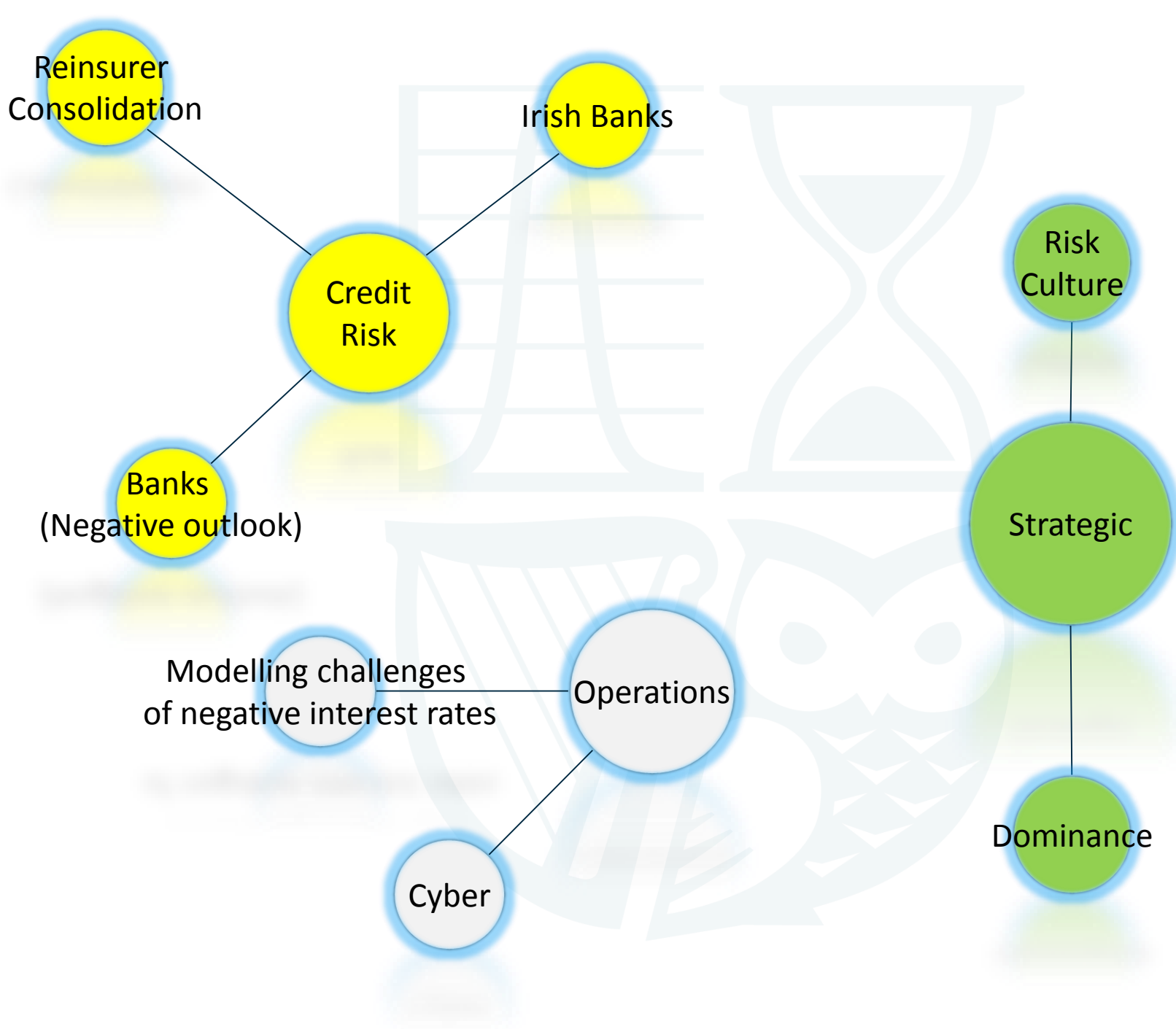
ERM Hot Topics





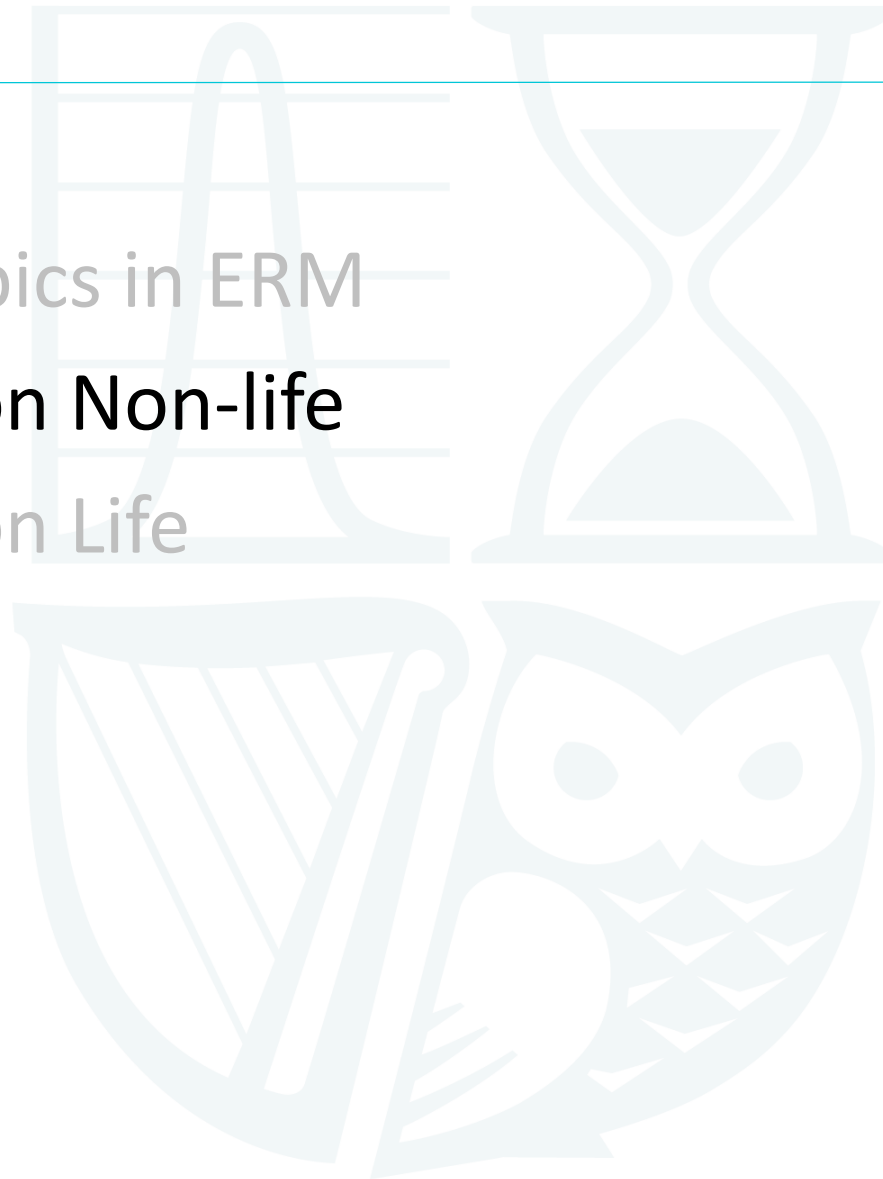






Agenda

- Hot Topics in ERM
- **Focus on Non-life**
- Focus on Life





Focus on Non-Life – Discount Rate

- Discount Rate 3.0% since 2000
- Current market consistent rate closer to 0.0%
- Russell v HSE set a 1.0% level
- Economic Impact is Material, depending on:
 - Applicability of judgement to other cases
 - Appeal
 - Claimant profiles
 - PPOs
- Immediate impacts:
 - Best estimate / Margin for Uncertainty / ORSA
 - Reinsurance market reaction

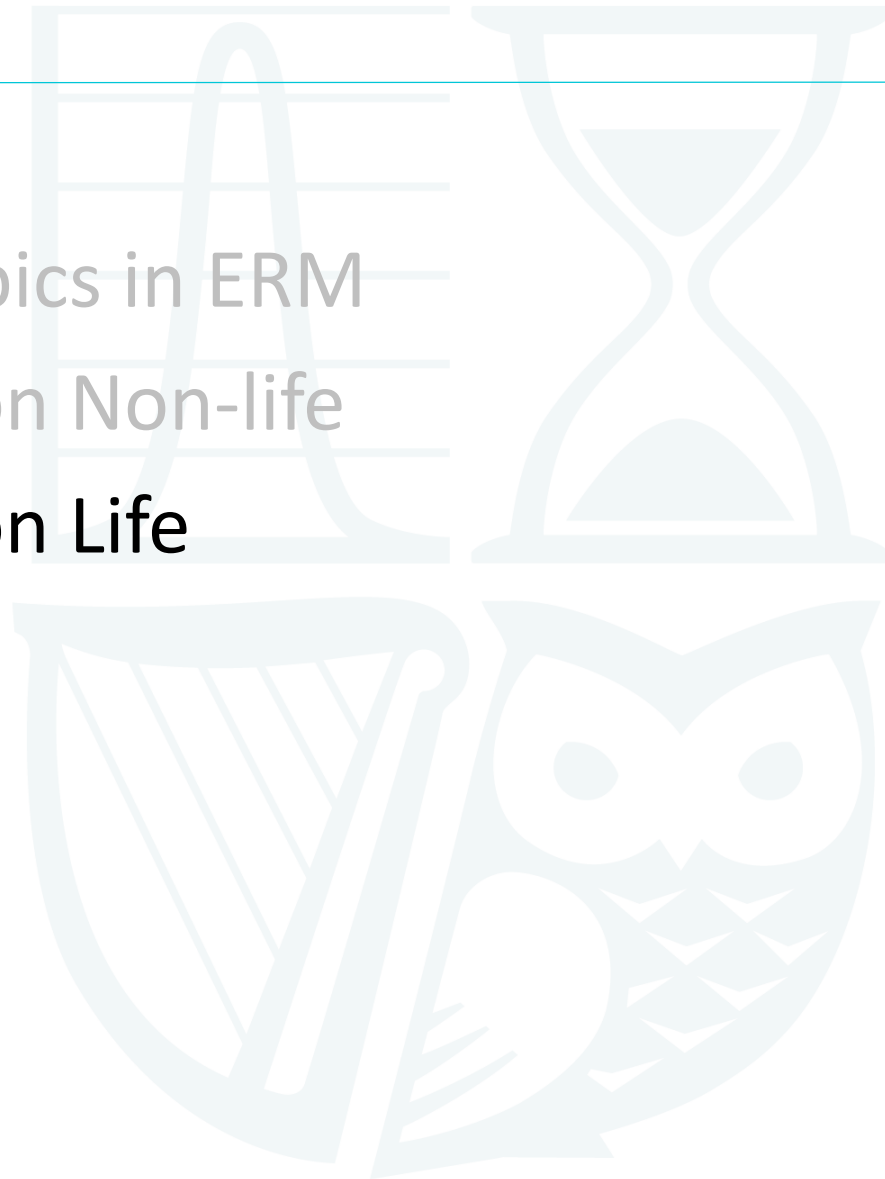


Focus on Non-Life – DSP Recoveries

- Social Welfare Act 2013
- 1 August 2014 : Insurers shall recover state benefits
- Impact on Insurance Companies
 - Operational Complexity
 - Claims cost inflation
 - “All in” settlements impaired

Agenda

- Hot Topics in ERM
- Focus on Non-life
- **Focus on Life**





Risk Management Function Readiness

- Pillar 2 of Solvency II sets out expectations of the Risk Management Function
- Risk Management Function may already be reasonably well embedded e.g. Corporate Governance Code already sets out requirements (“Risk” mentioned 93 times in 2013 version, up from 53 in 2010!)
- Challenge for Risk Management Functions
 - Map current capability to Solvency II requirements
 - Identify key gaps
 - Drive current capability to a higher level



Risk Management Function Readiness

Requirement	Capability
Identification	Robust Risk Identification Process
Quantification & Limits	Risk Capital calculations; Risk Appetite; ORSA; Internal Controls Framework.
Reporting / Accountability / Governance	Chief Risk Officer; Risk Committee; Measure, Monitor & Report.



Risk Management Function Readiness

- Indicators of maturity:
 - Risk strategy (acceptable risks)
 - Well established ‘lines of defence’ model
 - Integration with other ‘control’ functions
 - 1st line responsibility
 - Integration of ‘risk’ in ALM decisions, business planning, etc
 - Governance and accountability (quality of Risk Committee)
 - Capital models / Early warning systems
 - Appropriate remuneration policy
 - Risk Culture / Organisational Culture!



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem



Risk Appetite

Perspectives from the Central Bank of Ireland

Máiréad Devine & John McElligott – Policy and Risk Directorate



Agenda

1. Introduction & Background
 2. Risk Appetite and the CBI
 3. A Common Language
 4. Governance and Accountability
 5. Expression of Risk Appetite
 6. Points for discussion
 7. Next steps and concluding remarks
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Central Bank Requirements

- The Corporate Governance Code for Credit Institutions and Insurance Undertakings requires the setting of a Risk Appetite.

*The board is required to understand the risks to which the institution is exposed and shall establish a documented risk appetite for the institution.
The risk appetite definition shall be comprehensive and clear to all stakeholders.
The definition shall clearly define the appetite and address separately the short, medium and long term horizons.*

- Institutions are free to select and apply their own definition of Risk Appetite as no definition is provided within the Code.



Why a Discussion Paper?

- Supervisory assessments of Risk Appetite Statements
 - Statements substandard
 - A Principles or Rules based approach?
 - Discussion Paper issued to:
 - Raise awareness and generate debate
 - Inform CBI thinking
 - Proactive contribution
-



Why set Risk Appetite?

- All organisations take on risk to generate returns or achieve a specific objective.
 - Risk Appetite enables an organisation to take on calculated risks in pursuit of long term strategic goals.
 - Supports strategy setting, risk management, sets boundaries for risk taking (improves decision making) and provides transparency to stakeholders.
 - Setting a Risk Appetite is not about removing all risks in entirety; rather it is about limiting risks in certain areas whilst embracing risks in others.
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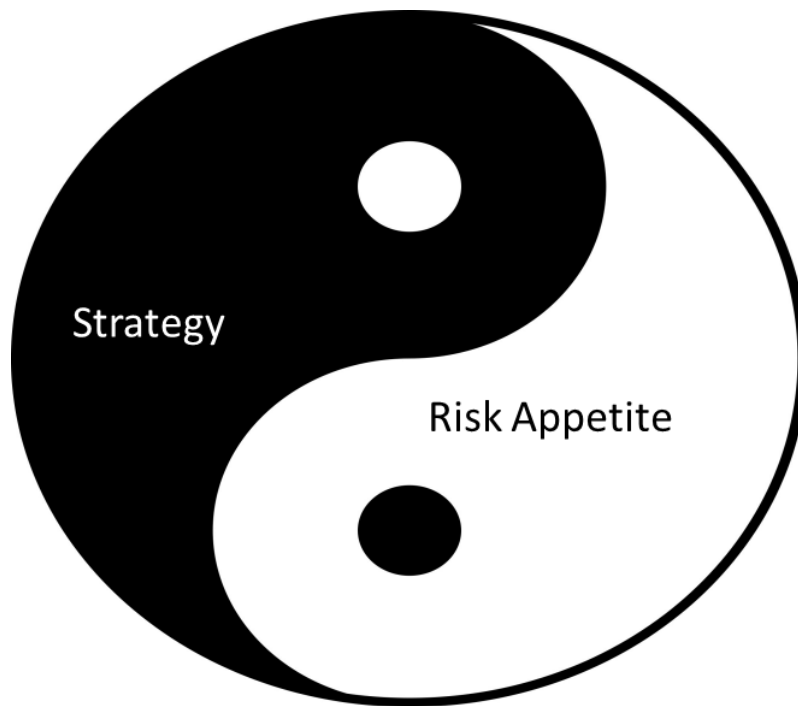


Feedback themes

- Universal agreement that organisations should have a RAF which should be aligned with goals and strategies of the business. ‘Critical’ /‘Necessary’ aspect of any business.
 - Proportionate approach applied based on scale, nature and complexity of the organisation.
 - RAF established:
 - In response to external requirements (including legal/regulatory),
 - Arising from the establishment of formal risk management processes at local or group level,
 - To support the strategic planning and risk management processes.
 - Caution against excessive codification – principles based preferred.
-



CBI – Risk Appetite (Financial Regulation)



The Central Bank's risk appetite is developed from its mandate for consumer protection and financial stability.



PRISM - A framework for Risk Based Supervision

PRISM provides a structured framework for risk assessment.



Challenge, Judge, Mitigate

CBI categorises firms according to its tolerance for their failure (driven by potential damage to the economy). Systemic importance is captured by 'Impact'.

This drives allocation of resources and level of supervisory engagement.



A Common Language

- RAF – the overall approach including policies, processes, controls and systems to ensure that Risk Appetite is established, communicated and monitored. Includes a RAS, risk limits and outline of roles and responsibilities.
 - Risk Appetite – Aggregate level and type of risk a firm is willing to assume within risk capacity to achieve strategic objectives and business plan.
 - Risk Capacity – Maximum amount of risk a firm is technically able to assume before breaching one or more of capital base, liquidity borrowing capacity, reputational and regulatory constraints.
 - Risk Limits – Quantitative/Qualitative parameters used in assessing a specific category of risk, and a measurement of the aggregate amount of that risk.
 - Risk Tolerance – acceptable variability around the risk limits.
 - Risk Profile – point in time assessment of risk exposures.
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Feedback themes

- General consistency in definition employed for Risk Appetite.
 - Disagreement regarding usefulness of a ‘common language’.
 - Importance of clear escalation and remediation requirements in respect of risk alerts.
 - Ambiguity around the term ‘risk tolerance’ and its use.
 - Early warning mechanism in place in majority of firms.
-



Governance and Accountability (i)



Board

Senior
Divisional
Management

Business Unit

Board – Approves RAS, ensure risk limits are in line with strategy, monitor profile against limits and ensure mechanisms in place to mitigate adverse risk exposures

Senior Management - Prepare the RAS (consistent with strategy), ensure translation into operational limits and implementation, provide leadership in communication

Business unit leaders – ensure alignment between RAS and decision-making, embed into day-to-day activities, implement controls and processes, mitigate/escalate as appropriate.



Governance and Accountability (ii)

Roles and responsibilities clearly articulated

Embedded fully into key processes

Importance of supporting infrastructure

Underpinning 'Risk Culture' reflects Risk Appetite

Risk Culture – the norms of behaviour for individuals and groups within an organization that determine the collective ability to identify and understand, openly discuss and act on the firm's current and future risk.



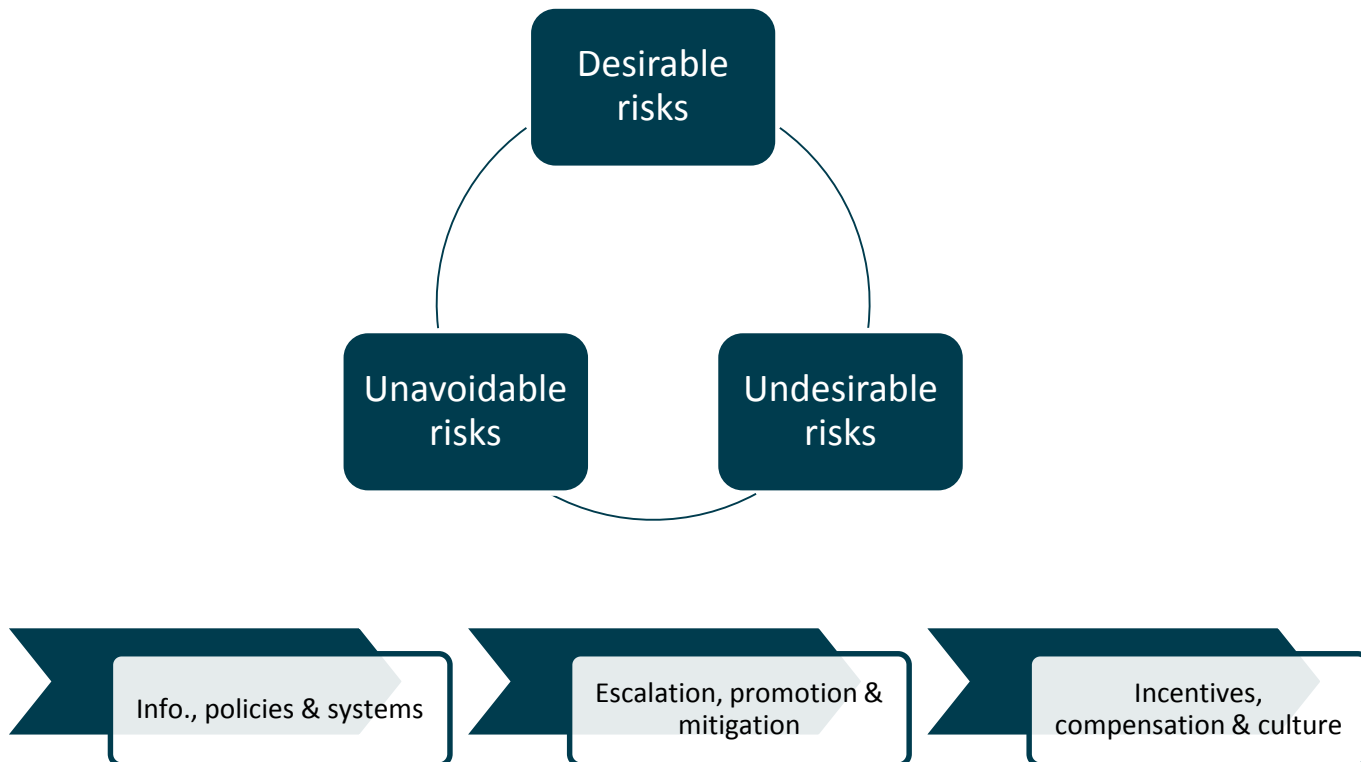
Feedback themes

- Majority indicated that formal assessment mechanisms were in place regarding risk culture.
 - Importance of tone at the top emphasised.
 - Communication and embedding greatest challenge - how much to communicate at different levels.
 - Building blocks of culture – attitude, behaviour, culture.
-



Expression of Risk

Risk Capacity





Feedback themes

- Support that RAS should be brief, concise and intuitive enough to be easily understood.
 - Importance of regular review and testing of RA.
 - Metrics determined based on relevance and alignment with underlying risk frameworks, information required to ascertain if firm achieving goals and objectives and through interaction with business. Ongoing and iterative process.
 - Response to undesirable risks should be more around mitigation and resolution than avoidance.
 - RAS should focus on risk/return trade-off and not just absolute levels of risk.
-



Feedback – some points for discussion

- Risk Appetite at the level of the Subsidiary.
 - The importance of independent assessment and the role of Supervisory Engagement.
 - Risk Culture – is it a panacea?
 - The appropriateness of a taxonomy.
 - The linkage between Risk Appetite and Strategy – chicken and egg?
 - Use of external benchmarks .
 - CBI to host a Risk Appetite forum.
-



Next Steps and Concluding Remarks

- Industry Roundtable – Q3 2015
 - Can your organisation contribute to Risk Appetite roundtable?
 - We would like to hear from you: riskappetite@centralbank.ie
-



Society of Actuaries in Ireland

**ERM – some lessons learnt by insurers
and how they matter to pension schemes
(Colm Guiry, Towers Watson)**

14 April 2015

Background

- ERM is a constantly evolving function
- Actuarial roles and activities continue to develop in all disciplines
- Solvency II has been a catalyst in insurance industry
 - Framework of understanding
 - ERM activity in some companies / markets moved ahead of Solvency II (and continues to do so)
- Discussion will build on report of SAI working party:
 - “Risk Management for Pensions” (October 2014)

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Overview of areas to be covered

- Potential solutions from October 2014 SAI working party:
 - 3 lines of defence
 - Risk appetite / overview statement
 - Risk checklist / register
 - Risk management cycle
- Experience of the insurance industry with implementation
- For insurance companies and pension schemes, proportionate solutions are required
 - Balancing cost and efficiency
- Different insurance market sectors and companies
 - Resources available
 - Nature, scale and complexity of risks



3 lines of defence

Business operations / units

Risk management function

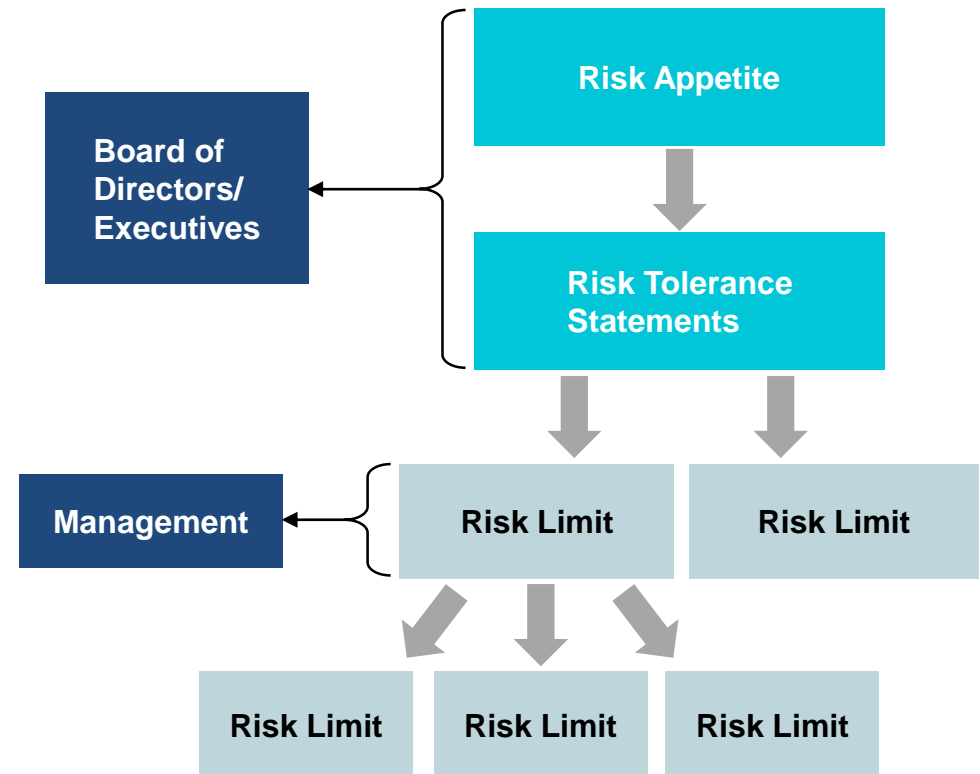
Internal Audit

- Clear lines of responsibility
- Embedding risk management concepts into 1st line
- Out-sourced activities
- Challenge of operational independence in 2nd line
 - Value-adding or compliance
- Balance between local & centralised (group) activities



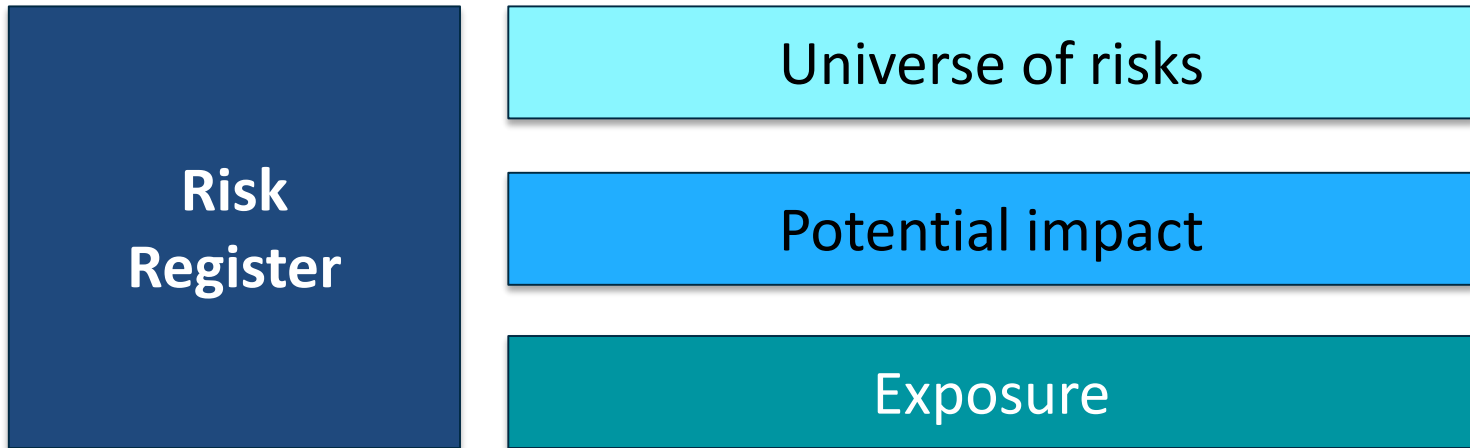
Risk appetite / overview statement

- Competing aims
- Balancing top-down appetite with bottom-up limits
- Facilitate ongoing monitoring
- Implement required policies & procedures
- Avoid trapping yourself!





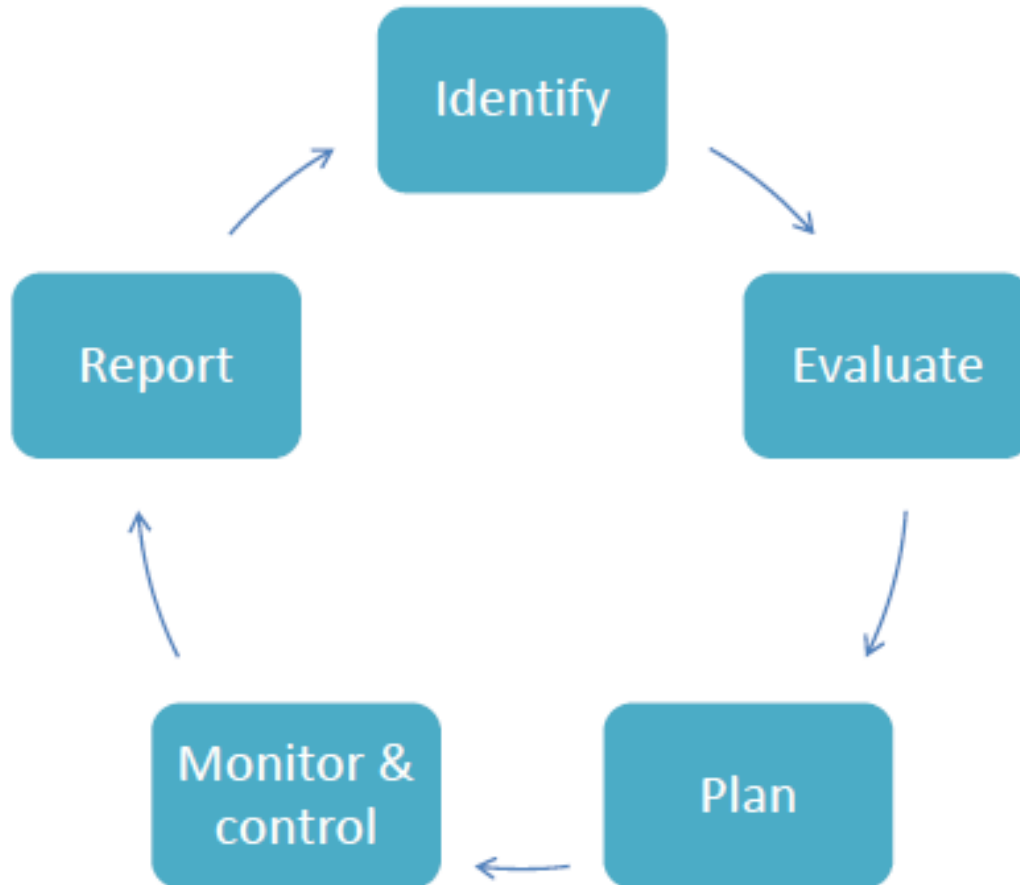
Risk checklist / register



- Input from wide range of sources within business
- Categorisation (likelihood / severity)
- Emerging risks
- Not a static document
- Responsibilities



Risk management cycle*



(* Taken from SAI Working Party paper, October 2014)



Risk management cycle

Identify

- Use of risk register / map
- Categorise source
- Important to consider remote risks
- In conjunction with P&L attribution
- Operational risks

Evaluate

- Key area of actuarial input
- Balance model accuracy & complexity
- Subjectivity
- Multiple metrics (solvency, profitability, IFRS)



Risk management cycle

Plan

- Is this a risk you want to accept?
 - Balance risk & reward
 - Capital required
- Forward-looking
 - FLAOR / ORSA
- Retain or transfer
 - Cost
 - Terms
- Implications for business?
 - Scenario testing
- Reverse stress testing
- Stronger link to capital management





Risk management cycle

Monitor & control

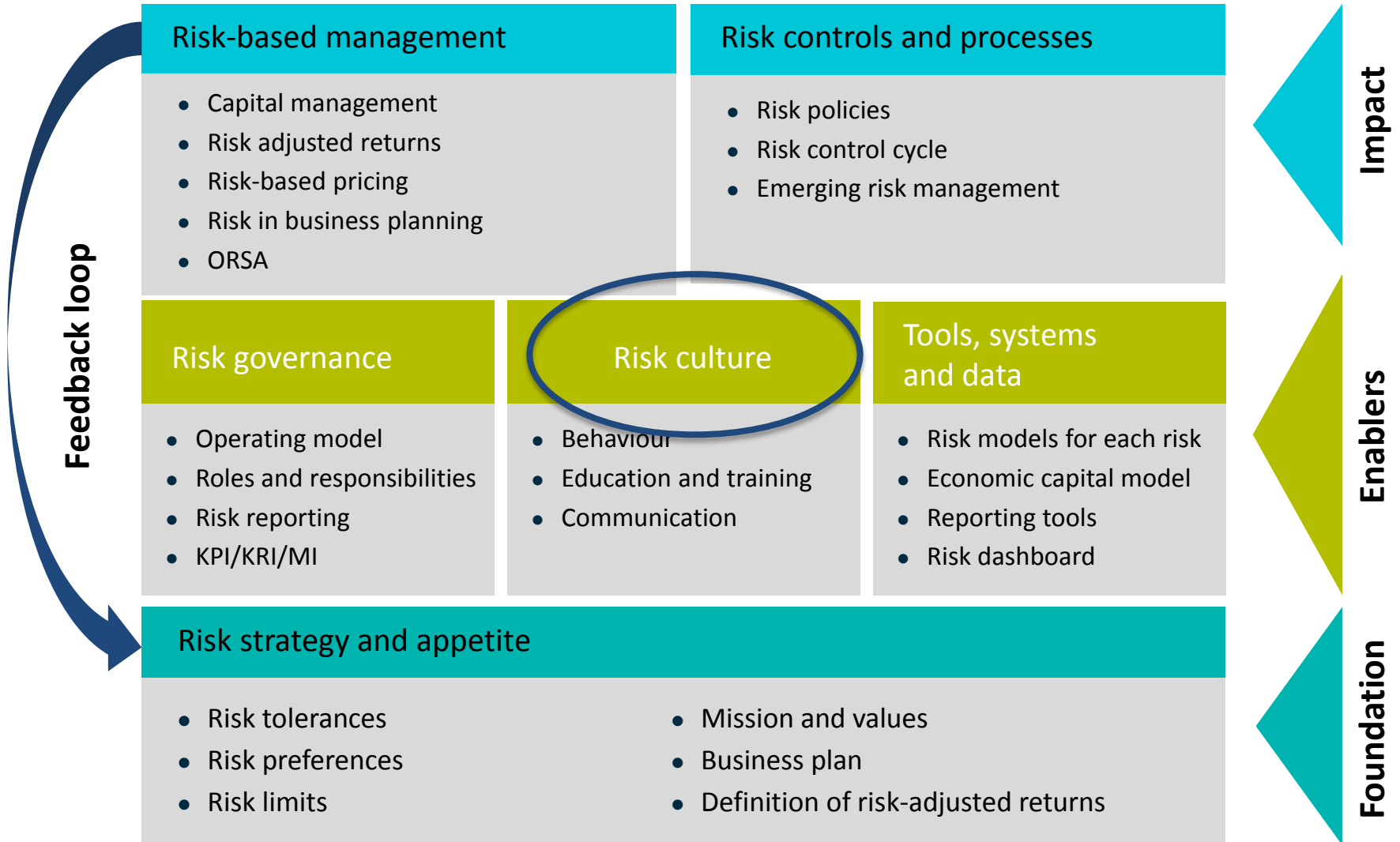
- Traffic lights
- Importance of segregating responsibilities
 - Benefits of challenge
- Frequency of monitoring
 - Linked to materiality / solvency position
- Trigger actions to be identified

Report

- Comprehensibility
- Ensure Board understands key information
- Avoid over-loading with detail
- Disclosures to different stakeholders
 - Most relevant messages (Group vs. Local Board)



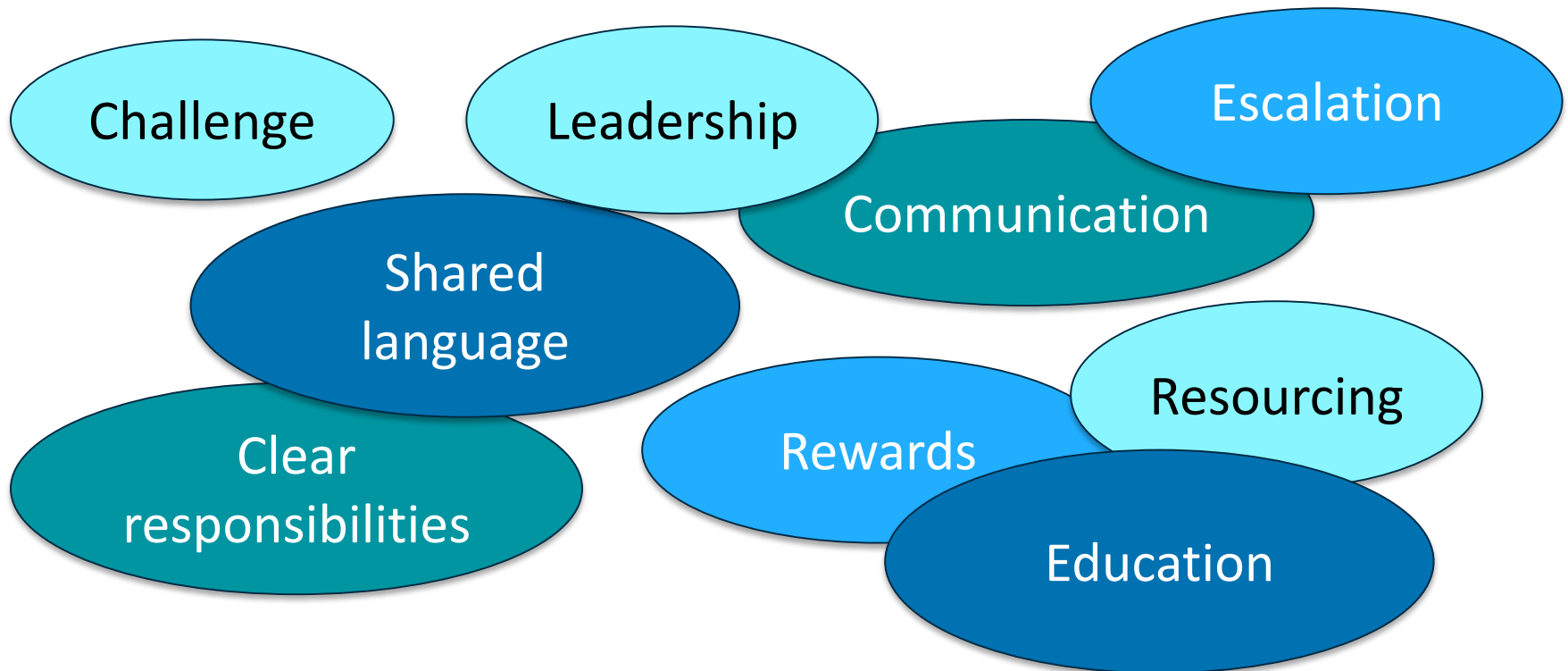
Alternative ERM framework





Risk culture

- A less-tangible area
- Increasing awareness that risk management framework cannot be effective without the right risk culture in place
- Difficult to define but easier to identify good / bad signs:





Some good news!

- Surveys have shown steady increase in level of recognition of benefits of ERM:
 - Avoiding large losses
 - Better risk-return trade-off
 - Relationships with regulators / ratings agencies
 - Efficiency:
 - Capital management
 - Reinsurance
 - Operations
 - Investment
 - Decision-making
- But these take time to be realised!



Summary

No single structure will work in all situations

Education & understanding are key

Simplicity of information reported to management

Clear lines & roles of responsibility are needed for governance structure to function

Each element of the framework is important

Risk culture is at the heart of the framework

ERM is a positive development



Society of Actuaries in Ireland

CROs and practising certificates – a recent consultation from the Institute & Faculty of Actuaries (IFoA)

14th April 2015

Agenda

- Background to the consultation
- Why?
- Proposed structure of regime
- Criteria required to be met –
Generic/Technical/CPD requirements
- Questionnaire
- SAI ERM committee feedback

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Background to the consultation

- 1st consultation - 11th April 2014 on regulation of role of actuaries performing significant functions under the Solvency II (SII) Directive by IFoA
 - Practising certificate (PC) will be required for members who are approved to undertake the actuarial function
- 2nd consultation – 23rd December 2014
 - Intend to introduce a PC for members responsible for risk management role (voluntary basis)
- Looking for feedback from across the industry including company boards/regulators
- Proposed inception date in line with SII – 1st January 2016
- Consultation closed for feedback on 23rd February 2015
- Only for undertakings regulated by PRA



Why?

- A public expectation the IFoA will have a regulatory responsibility
- To reflect the risk management element of the PRA's supervision regime
- To assist the Board in assessment of the quality of actuarial skills
- Previous consultation feedback supported the introduction of a voluntary PC



Proposed structure of IFoA regime

- Voluntary
- Renewable on annual basis
- Generic criteria
- Technical criteria
- Requirement to demonstrate continued compliance – in line with existing Category 1 CPD requirements



Generic Criteria

- Fellow of IFoA
- IFoA CRO PC holder must attest for 1st time applicants
- Transitional measure in 1st year
 - Attestation by any Fellow with 5 years PQE provided he/she does not have influence over the applicant in the workplace
- Fitness and probity requirements – credit and criminal record checks



Technical Criteria

- Sufficient breadth of recent work experience within risk management:
 - In 3 of the last 4 years
 - In 3 of the last 12 months
- Specific technical areas outlined:
 - ERM concept and framework
 - ERM process
 - Risk categorisation and classification
 - Risk measurement and assessment
 - Risk modelling and aggregation of risks
 - Risk management tools and techniques
 - Economic capital
 - ORSA



CPD requirements

- Consistent requirements with existing PC holders
- 30 hours in each certificate year
- Transitional measure in 1st year – relaxation of requirement to complete Category 1 CPD requirements in the year leading up to the 1st PC application



Questionnaire

- Generic information on respondents
- Views on the consultation:
 - Do you agree with the proposal of the introduction?
 - Do you agree with the proposed generic criteria?
 - Do you agree with the breadth of technical experience set out?



SAI ERM Committee response

- We agreed with the majority of the proposals
- Challenges raised by ERM committee:
 - Two or more individuals should attest to the professional suitability of the applicant (not necessarily IFoA members)
 - Transition period of 1 year may not be sufficient
 - Greater consideration should be given to the independent oversight role of the CRO and ability to challenge business decisions
 - Will the scheme be made available to CROs of branches of PRA regulated entities
 - The geographical extent of the proposal should be reviewed annually for first 3 years
 - To avoid duplication of requirements imposed by the PRA's own fitness and probity requirements



Questions and comments?

- Do people agree with the introduction of a PC for CROs under Solvency II?
- Would people like to see this introduced locally?
- Any other?