

# The Future of the Actuarial Profession in Global ERM

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# Our Journey Today

- Actuaries in ERM:
  - Past
  - Present
  - Future

# Actuaries in ERM - Retrospective

- We've always been risk managers!
- Insurance industry foundation
- Evolution not revolution
  - Mortality, morbidity
  - General insurance
  - Pensions
  - Interest rates
  - Equities
  - Investments & Hedging

# Actuaries in ERM - Retrospective

- ALM emerges as a core actuarial driven activity
- Investment strategies formulated to meet liability requirements
- Hedging interest rate risk becomes a common activity

# Actuaries in ERM - Retrospective

- Equity linked guarantees emerge as major insurance industry products
- Actuaries play key role in product development and risk mitigation
- Hedging programs emerge with actuaries defining strategies and managing programs

# Actuaries in ERM - Retrospective

- More importantly Enterprise Risk Management emerges as a core discipline in the Insurance Industry
  - Companies establish ERM Departments
  - Many companies appoint Actuaries as CROs
  - Actuaries populate ERM & risk management positions

# Actuaries in ERM - Retrospective

- ERM becomes a key element of Actuarial education
- SOA establishes Chartered Enterprise Risk Analyst “CERA” in July 2007
- SOA actively promotes the Credential

# Actuaries in ERM - Today

- Globalization of “CERA” credential – November 2009 Hyderabad, India
- Eleven Award Signatories
  - Actuarial Society of South Africa
  - Institute of Actuaries of Australia
  - Casualty Actuarial Society (USA)
  - Canadian Institute of Actuaries
  - Svenska Aktuarieföreningen (Sweden)
  - Deutsche Aktuarvereinigung e.V. (Germany)
  - Institute and Faculty of Actuaries (UK)
  - L’Institut des Actuaries (France)
  - Het Actuarieel Genootschap (Netherlands)
  - Institute of Actuaries of Japan
  - Israel Association of Actuaries



# Actuaries in ERM - Today

## ■ Beyond Insurance

- North American penetration in non-traditional markets especially banking have been minimal – applies to ERM and non-ERM roles
- Other parts of the world have fared better – South Africa and Australia have had the most success.

# Actuaries in ERM - Today

- SOA Survey of:
  - Actuaries and Non-Actuaries working in senior ERM insurance industry positions
  - Insurance Industry Regulators
  - Insurance Industry Rating Agency Analysts

# Actuaries in ERM – SOA Survey

- Economic crises and government regulations have contributed to ERM's growing prominence
- ERM is a relatively new endeavor for some, it continues to grow and evolve
- In terms of market risk and more qualitative types of risk management, banks are seen as more advanced than insurance companies
- Those in ERM generally must, and do, work together with numerous other areas of the company

# Actuaries in ERM – SOA Survey

- Actuaries:
  - Actuaries are credible and valued in ERM
  - In insurance, staffing of most ERM departments is skewed in favor of actuaries
  - Actuaries tend to be hired into ERM when the focus is on insurance risk
  - Where actuaries fill senior management positions, they are regarded particularly highly—and this is even truer when the CRO is an actuary

# Actuaries in ERM – SOA Survey

## ■ Non-Actuaries

- In analytical and modeling roles - advanced degree holders in math, physics, statistics, and economics
- In more qualitative roles - MBAs or general business degrees
- Other non-actuaries in ERM - investment professionals, CPAs and even lawyers
- Broader financial industry risk management backgrounds are valued since actuaries aren't necessarily perceived as strong in market or financial risk

# Actuaries in ERM – SOA Survey

## ■ Required Skills:

- Thorough understanding of the insurance industry, capital markets, and regulation
- Strong quantitative and analytical abilities
- Qualitative skills— applying creativity and understanding to solve a problem
- Excellent communication skills, including writing—to effectively communicate risk to others in the organization
- People skills—ability to collaborate and persuade
- Big picture thinking—how elements fit with the overall organization

# Actuaries in ERM - Today

## ■ Insurance Industry CROs in the USA

<u>USA Rank</u>	<u>Company</u>	<u>CRO an Actuary</u>
1	Metlife	Yes
2	Prudential Financial	No
3	American International Group	Yes
4	TIAA-CREF	No
5	Berkshire Hathaway	No
6	Hartford Financial Services	No
7	New York Life Insurance Company	Yes
8	Lincoln National	Yes
9	State Farm Insurance	No
10	Massachusetts Mutual Life Insurance	No
11	Northwestern Mutual	No
12	Principal Financial	No
13	Nationwide	No
14	Allstate	Yes
15	Liberty Mutual Insurance Group	No
16	Aflac	No
17	Pacific Life	No
18	Genworth Financial	Yes
19	Travelers	No
20	USAA	No

# Actuaries in ERM - Today

## ■ CRO Forum

### CRO Forum

### CRO an Actuary

Aegon	Yes
Allianz	Yes
AXA	No
Aviva	Yes
Swiss Re	No
Groupama	No
ING	Yes
Prudential Plc	No
Zurich	No
Achmea	Yes
Ageas	Yes
Generali	No
Hannover Re	Yes
Munich Re	No
Unipol	No



# Actuaries in ERM - Today

## ■ Challenges

- Maintaining, protecting and expanding our position in our traditional space
- Thwarting competition
- Perceptions about our skill set
- Acquire new skills critical to key roles in ERM - Operational risk, management skills, investment/credit risk
- Expanding beyond traditional risk management roles

# Actuaries in ERM – The Future

- Excellent prospects for actuaries in our traditional space:
  - We understand the business and the risks
  - We have the technical skill set to succeed as risk managers
  - We have the non-technical skills to play a key role in ERM
  - Our professional organizations will continue to provide “state of the art” educational content

# Actuaries in ERM – The Future

- Protecting our traditional space:
  - Focus on acquiring skills core to ERM but not traditional actuarial skills
    - ◆ Investments especially credit
    - ◆ Operational risks
    - ◆ Management skills – people, communication & collaboration
  - Enhancing actuarial education to meet requirements for success

# Actuaries in ERM – The Future

- Promote our risk management & CERA brand to everyone

# Actuaries in ERM – The Future

- Challenges for actuaries in non-traditional markets:
  - We need to know the business
  - We need to know the business
  - Our credential & skill set is not well known outside our traditional markets
  - Universities, employers and placement firms do not view actuaries as candidates for non-traditional ERM roles

# Actuaries in ERM – The Future

- Meeting Non-Traditional Market Challenges
  - Get in on the ground floor & learn the business
  - Apply actuarial training in addressing non-traditional market ERM
  - Pave the way for fellow practitioners

# Actuaries in ERM – The Future

- Meeting Non-Traditional Market Challenges
  - Actuarial organizations need to:
    - ◆ Target non-traditional industries
    - ◆ Create education targeted to them both in terms of basic and continuing education
    - ◆ Actively seek to create university recognition of new pathways
    - ◆ Actively promote profession & ERM skills to the non-traditional industry participants and placement services

# Actuaries in ERM – The Future

- ERM is one of the most exciting disciplines today
- New ideas = new techniques
- Becoming the driving force in the management of companies