ACTUARIAL SOCIETY
OF SOUTH AFRICA

QUANTIFYING RISK, ENABLING OPPORTUNITY

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Investments Seminar – 23 May 2014
Being a CFO/CRO with an actuarial background

Some background

- B.Bus.Sc (Actuarial) – UCT 1990
- FFA/FASSA – Faculty of Actuaries 1994
- ASA – SOA 1994
- CERA – SOA 2009
- Next Generation CFO – Deloitte 2010
- Managerial Skills for International Business – INSEAD 2011

Roles & Experience

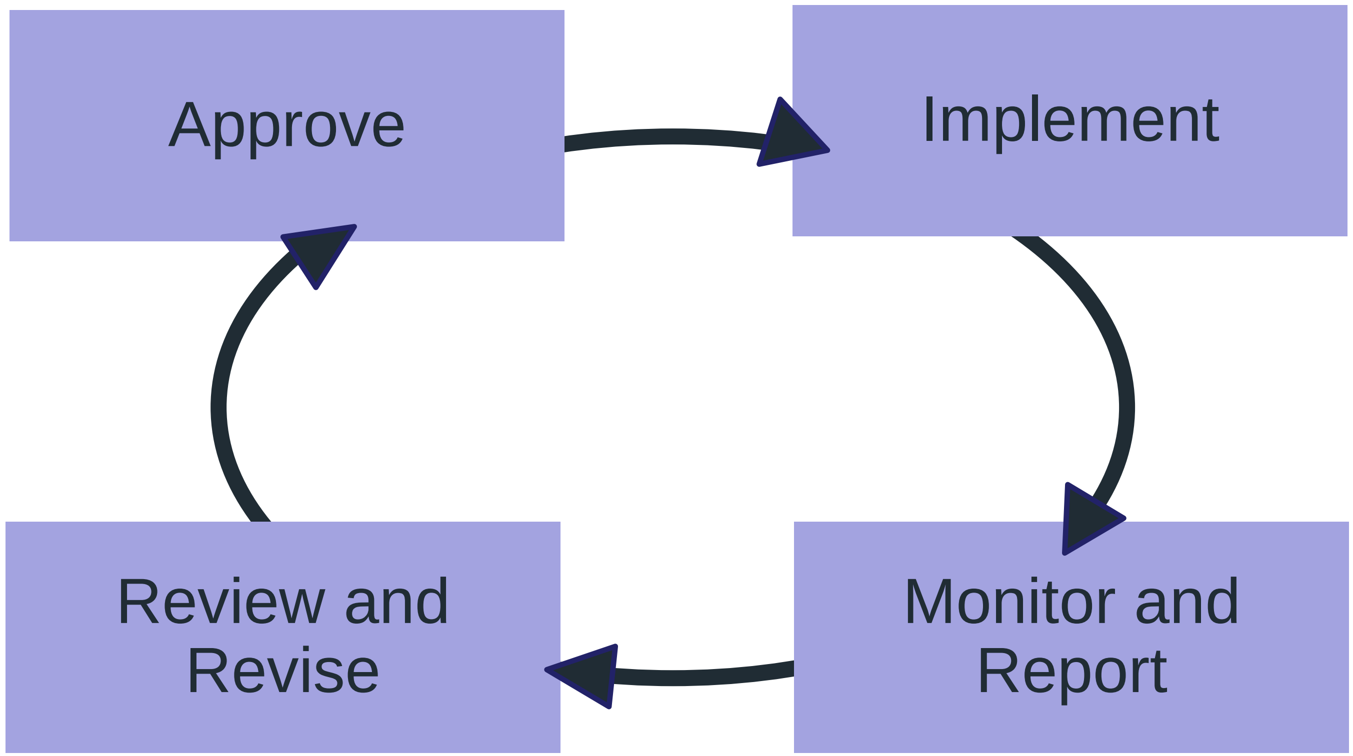
- Metropolitan Life : 1991 to 1999
  - Valuation Actuary 1991 - 1994
  - Set up Metropolitan Health in 1994/1995
  - Then Life Product Development / Marketing Support / Corporate Advertising !
- Capital Alliance Life and Holdings : 1999 to 2005
  - CFO : Actuarial, Accounts, Tax, Investments, Shareholder relations
  - 10 acquisitions (SA, Aus) in 7 years
- Investec Securities : 2005 to 2007
  - CFO and COO : Private Clients, Institutional Stockbroking, Corporate Broking
- Old Mutual South Africa : 2007 to 2008
  - CRO : Risk and Capital Management

Roles & Experience

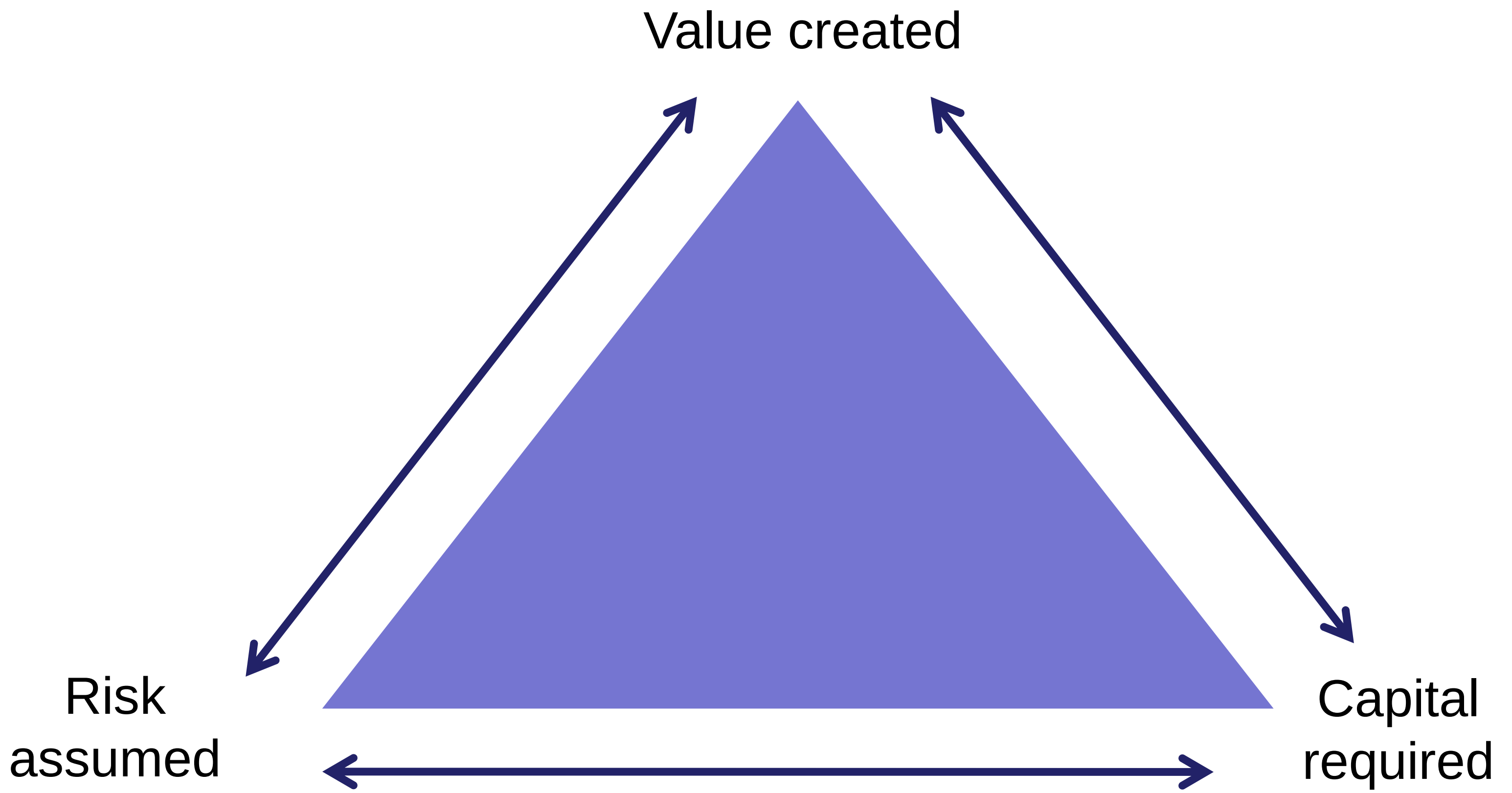
- Old Mutual plc : 2008 to 2011
  - Group Chief Actuary initially, additionally Group CRO from 2009
  - Member of Group Executive Committee
  - Ring side seat of Global group going through 2008 – 2011 Financial Crisis
- Guardian Financial Services : 2012 to date
  - CFO of business
  - One of the oldest life insurers in the world, by 2011 had been in run off for 12 years
  - Part of acquiring team, EV grown more than 6 fold in 2 years

Thus far 3 CFO roles, and 2 CRO roles, following slides based on personal views on benefit from actuarial training, and thoughts on additional elements required

Actuarial discipline – Control Cycle

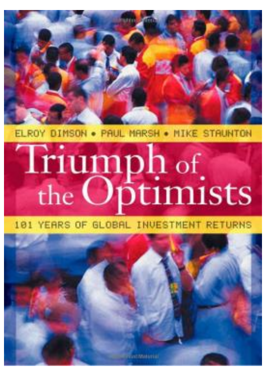


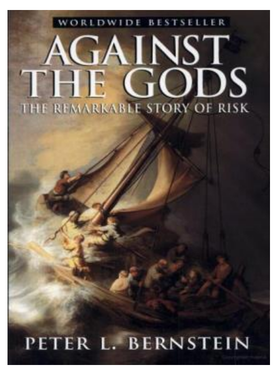
Actuarial discipline – R, C, V



Actuarial discipline - Data

- Data driven analysis
- Quality and credibility of data is key
- Approximations or assumptions often required
- Must understand limitations of these
- Use data / credibility assessment (implicit or explicit) to consider future impacts

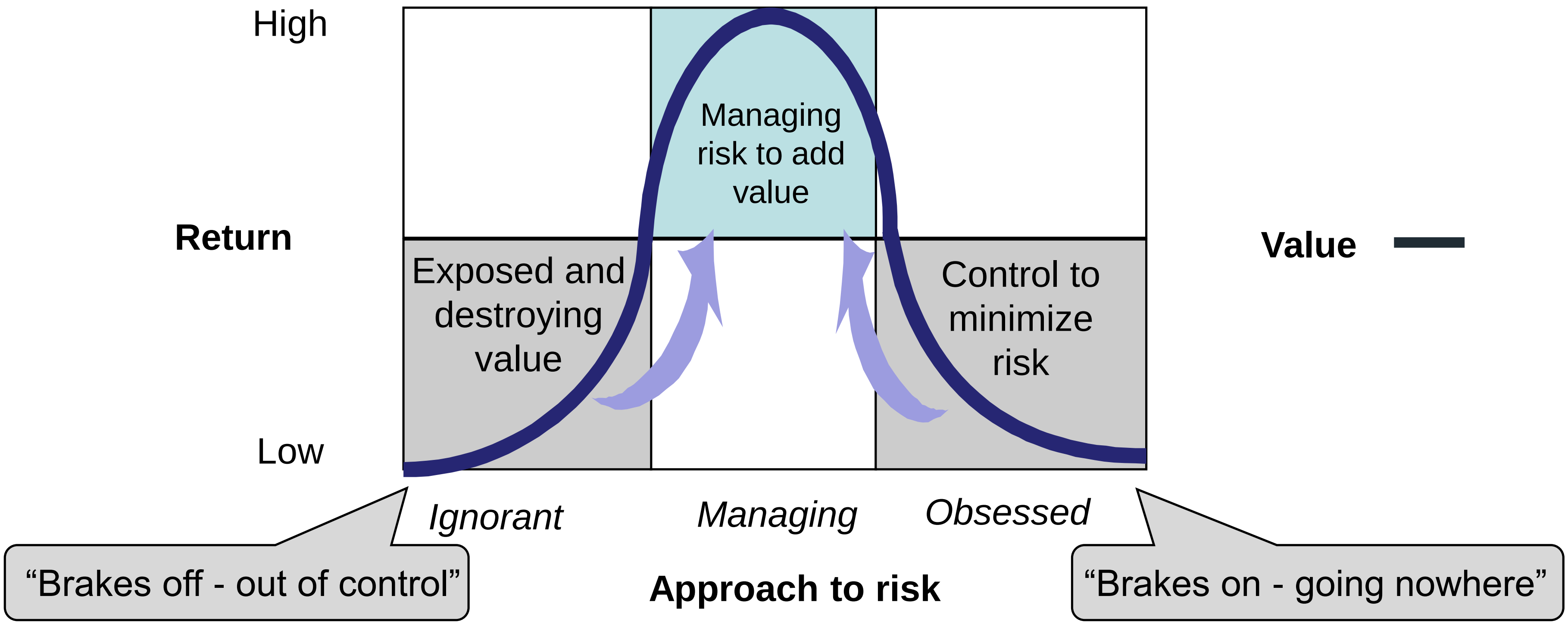




The information you have is not the information you want.
The information you want is not the information you need.
The information you need is not the information you can obtain.
The information you can obtain costs more than you want to pay

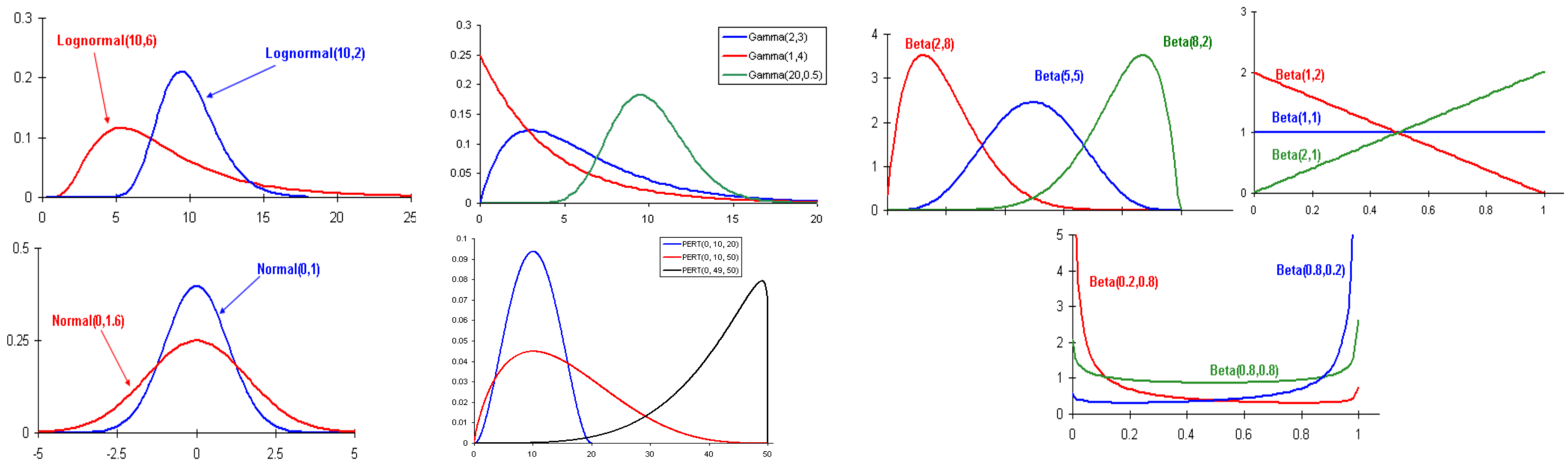
Peter L Bernstein, Against the Gods

Actuarial discipline - balance



Actuarial discipline - Distributions

- Point estimates should not be seen as absolute, but just represent points on a distribution, important to know whether using a different value is material or not – sensitivity important
- What is the potential distribution, and confidence interval, how material is it ?



Actuarial discipline - Models

- A model is just a representation of interactions between variables resulting in range of output
- All models are wrong, the “wrongness” must be understood
- If the impact of “wrongness” is serious / catastrophic (eg credit models pre Global Financial Crisis) – must be understood
- If impact is immaterial, less risk to using
- We use models extensively, must ensure that we understand downside risks and communicate these, particularly if important decisions based on these

Key elements of CFO role

Execution challenges

Stimulate behaviours across the organisation to achieve strategic and financial objectives

Performance challenges

Provide financial leadership in determining strategic business direction and align financial strategies

Control challenges

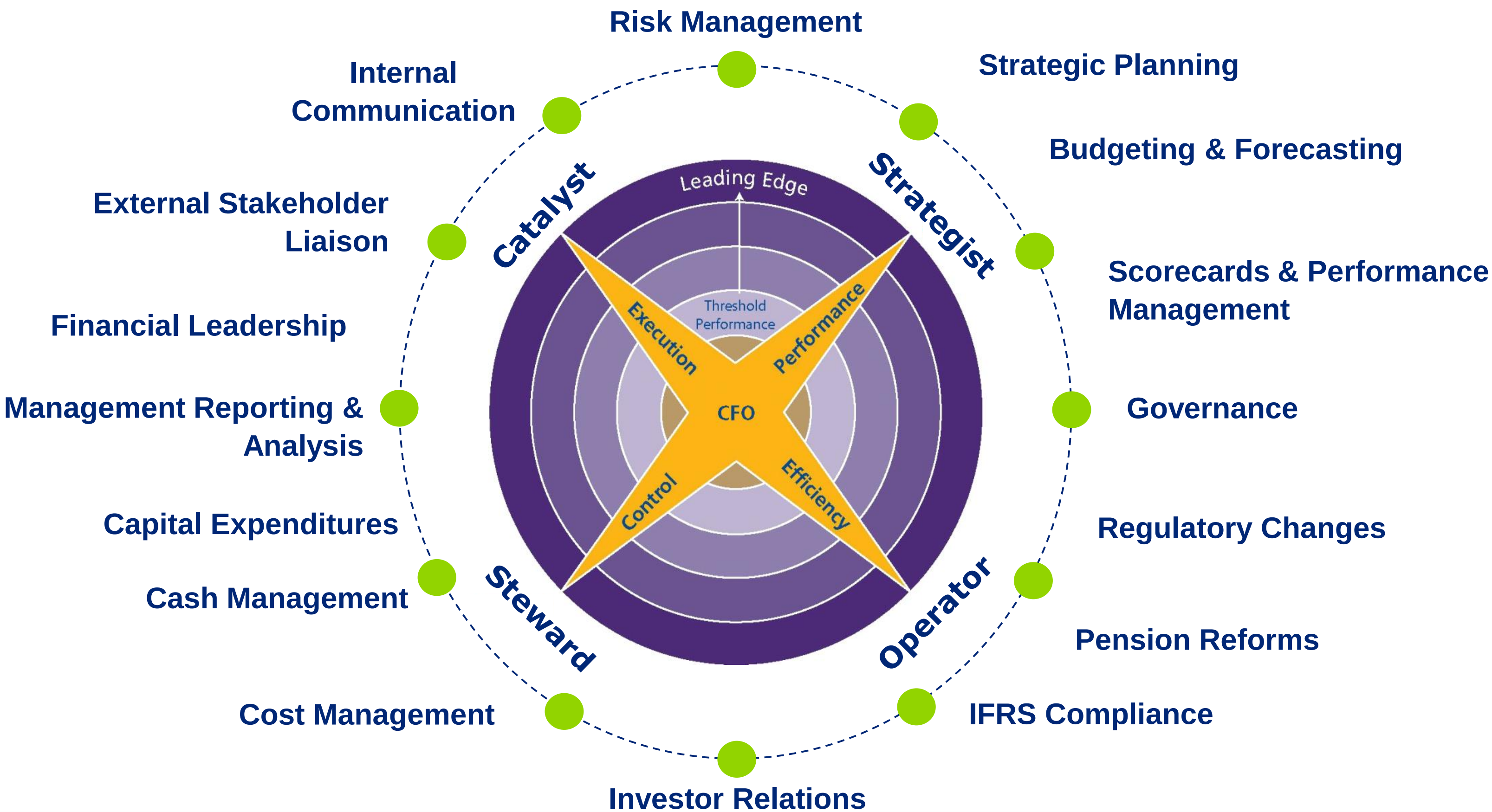
Protect and preserve the assets of the organisation and ensure compliance and good judgement

Efficiency challenges

Balance capabilities, costs and service levels to fulfil the Finance and wider organisation's responsibilities

Source : Deloitte Next Generation CFO

Key elements of CFO role



Source : Deloitte Next Generation CFO

Insurance CFO role

- Generic CFO role well described by previous 2 slides
- Insurance CFO role is different – it is located in the “Engine Room” of the business, at the heart of where risk and capital are managed to add value
- Typically oversight of Actuarial and Investment Functions – in an insurance company these are probably the most critical elements to deliver value
- My view is that Insurance CFO role has more involvement in “Core Product” and “Manufacturing” than CFO’s in other industries

Insurance CFO role – cautionary note

Must Ensure clear separation of duties between CFO role and Statutory Actuary role – even if Statutory Actuary reports to CFO

- CFO has many stakeholders, but focus tends to be on Financial Performance, hence shareholders
- Statutory Actuary typically has clear responsibility to customers, particularly regarding issues of equitable customer treatment
- Respect the difference; separation of duties and clarity of roles is there to protect customers, and ultimately those in role

What are CRO's, and who needs them?

Business failures, customer detriment and stakeholders' expectations are resulting in increasingly interventionist regulators and a shift of debate from "risk management can't be measured" to "we need to demonstrate what we're doing about risk management"

£200m losses at RSA - bad luck or bad management ?

£20bn cost across Financial Services industry from PPI

Where we believe cultural measures expose the firm to a high level of risk in the context of our objectives, we will expect the firm to take account of it. In other words firms can and will face enforcement action for having a poor culture.

Source: Clive Adamson – "The importance of culture in driving behaviours of firms and how the FCA will assess this" – April 19, 2013

£3bn to date from Libor scandal

Internal Audit should include within its scope the risk and control culture ...assessing whether the processes (e.g. appraisal and remuneration) and actions (e.g. decision making) are in line with the values, ethics, risk appetite and policies of the organisation.

Source: Chartered Institute of Internal Auditors (IIA) – Effective Internal Audit in the Financial Services Sector, Final Recommendations, July, 2013

Key objectives of CRO role

- Provide overall leadership, vision and direction for effective enterprise-wide risk management
- Guide the Board, EXCO and Risk Management Committee on setting risk appetite, policies, delegated authorities and limit structures; embed these within the Risk Management Framework
- Review and approve risk management methodologies & models and ensure consistency of risk assessment approach
- Challenge, test and monitor design and performance of risk assessment
- Analyse and assess key accumulations of risk across the organisation
- Review and report to the Board on risk exposures against risk appetite
- Challenge business decisions on key risk areas; escalate unresolved issues
- Provide support, assistance and guidance to line 1 management on all risk related matters

Key aspects of CRO role

- Advisor
  - Provide advice and guidance to Line 1 when setting business strategy
  - Design framework and advise on appropriate risk appetite measures and limits
- Ambassador
  - Establish effective relationships to ensure there is a positive approach to risk management
- Enabler
  - Actively challenge management in relation to significant risk exposures
  - Bridge between control functions to share information and co-ordinate responses
- Enforcer
  - Ensure the risk management framework is embedded
  - Ensure the business identifies, escalates and manages risk issues
  - Follow up on remedial actions to minimise loss and prevent reoccurrence

CFO / CRO roles, help needed !

- Actuarial disciplines undoubtedly provide the technical skills required for both of these roles
- As roles become more senior, technical competence matters less to delivery (where important, it is taken as a given…)
- Linking technical skills to “soft” skills absolutely key – particularly in Line 2 roles, where one often does not own outcome, but need to influence result
- Difficult (not just for actuaries) – life time journey, will be career limiter if not taken seriously
- Get help – courses, coaching, assessment – requires active “one to one” engagement, can’t be done via book learning

The international dimension

- Moving from SA was an enormous learning curve
- In SA we benefit from the exposure and engagement to multiple cultures, hence one would think easy to work with new cultures
- But, very pronounced differences between cultures when one works internationally – can lead to unexpected outcomes
- Work in / have worked with / in :
  - UK, Ireland, Canada, USA, Sweden, Denmark, Norway, France, Germany, Australia, India, China
  - Extraordinary differences even between neighbouring countries
- Managerial Success in International Business – INSEAD 2011 – wish I had attended this years before
- INSEAD example………

The international dimension

When the British say…….	British mean….	Dutch understand….
I hear what you say…	I disagree…	He accepts my view….

Source : INSEAD

The international dimension

When the British say…….	British mean….	Dutch understand….
I hear what you say…	I disagree…	He accepts my view….
With all due respect…	I think you are wrong…	He is listening to me…

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I'm sure it's my fault	It's not my fault	It was their fault

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I'm sure it's my fault	It's not my fault	It was their fault
That is an original point of view	You must be crazy	They like my ideas !

Source : INSEAD

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I'm sure it's my fault	It's not my fault	It was their fault
That is an original point of view	You must be crazy	They like my ideas !
I almost agree	I don't agree at all	He's not far from agreement

Source : INSEAD

In closing

- Actuarial training has given me many of the key skills to be successful in the roles I have taken
- Being able to put them into practice has been key
- This typically means working with people, as team members, subordinates, peers and superiors – success in senior roles often only comes by working through others
- “Soft” skills are more important as roles become more senior, where ability to influence and challenge effectively is key
- This is an ongoing process, and typically as actuaries, we have a lot to learn, our profession focuses more on technical than soft skills

“It is your attitude, not aptitude, that determines your altitude”