

16 November 2018

**Meeting notes of the CRO Round Table
held on Friday 16 November 2018 in Brussels**

PURPOSE

Malcolm Kemp opened the CRO Round Table and introduced the CRO Round Table and the Risk Management Committee of the AAE and its objectives taking into account the strategic options of the AAE. The purpose is to explore the creation of a network of actuaries who are Chief Risk Officers or Risk Function Holders in insurance companies throughout Europe. The AAE wants to identify how they can help provide an appropriate professional framework for risk management actuaries.

REGULATORY FRAMEWORK AND EXPERIENCE

Siegbert Baldauf introduced the regulatory framework and the underlying drivers with respect to Risk management (*slide presentation available*). His presentation included the upcoming review of Solvency II and additional work for the Risk management Function to assess future profits (FMA/LAC).

Malcolm Kemp presented his personal views on the experiences with the current framework and how it can be fine-tuned. (*Slide presentation available*). His views included

- Regulator considers insurance as a systemic risk
- Higher capital is needed for systemic risk insurers (also for insurers?)
- ICS will have impact as Solvency II is not set in stone
- Corresponding Cost of Capital of high solvency requirement could accelerate systemic risk

POINT OF VIEW OF THE ADMINISTRATIVE, MANAGEMENT OR SUPERVISORY BOARD

The topic and speaker were introduced by Roberto Muscogiuri. As the CRO is a second line of defence role, he/she has a responsibility in governance but also a role in supporting the strategy of the company. Therefore it is key to take into account the point of view of the AMSB who is executing the strategy and needs to combine business objectives with risk appetite and risk tolerances.

Annemarie Mijer presented the challenges experienced by her in her role as CRO and member of the Executive Board of Delta Lloyd Group, The Netherlands. (*Slide presentation available*).

Annemarie's presentation included issues like

- Role CRO : enable CEO and management Board to be in control
- CRO needs to take into account all stakeholders including shareholders (identify all stakeholders)
- Integrated framework
- What events can jeopardize the objectives of the company? What is the likelihood and what are the residual risks?
- Important to embed Risk Management in the organization and to combine a top-down with a bottom-up approach
- Behavioural and cultural environment to be created: evidence of effectiveness is needed
- Actuaries are involved in all lines of defence : the CRO is the link to the Board
- CRO required skills : image of the sheep with five legs – actuarial background can help but other skills are required
- CRO-Actuary : how can we bring the actuary as close as possible to the five-legged sheep

POINT OF VIEW OF THE CRO

A number of CRO's presented their experiences and needs in a panel session, while focusing on the challenges and subjects especially for actuaries in the role of CRO. Kartina Thomson introduced the members of the panel session and acted as moderator.

1. Challenges
 - a. Let people understand the added value
 - b. Understand what is behind the figures
 - c. Connectivity in both senses
 - d. Be open for the business
 - e. Develop risk language and pay attention to communication
 - f. RM has to identify leverage use of capital and support business
 - g. Risk has no borders : the classification is only a framework
 - h. Recognize and manage emerging risks (ex: cyber, operational,)
 - i. Understand what the borders are of RM system
2. Required skills
 - a. Business oriented
 - b. Career plan : learn about the business in a first period
 - c. Be a critical friend/listener
 - d. Be self-critical
 - e. Think wide/out of the box
 - f. Communicate clearly
 - g. AAE Role : Improve view on how key functions can cooperate and share this with EIOPA - It is easier for an actuary to become a RM/CRO than for other professions
3. AAE
 - a. Create network : CFR CRO RT
 - b. Provide appropriate education
 - c. Not all actuaries do fit as CRO : identify who is fit and what experience is needed – develop curriculum – encourage actuaries to go for experience
 - d. CERA can help
 - e. Show what actuaries can bring to RM
 - f. Speak with language of the other (CFO, ...) – communication skills
 - g. Identify who is the constraint : the actuary/CRO or the other ...

4. Future RM
 - a. Use of big data in RM
 - b. Use of RM dash board
 - c. Forward looking perspective
 - d. Strengthen first line of business first
 - e. Assure independence : work together but challenge
 - f. Interaction technical oriented oversight oriented attitude

WHAT DOES RM MEAN FOR THE ACTUARY AND WHAT DOES THE ACTUARY MEAN FOR RM?

Due to the outflow of the program these presentations unfortunately had to be cancelled, but the original slide presentations are available.

Karel Goossens, chairperson AAE Task Force Roles of Actuaries, explained the results of surveys and observations in the field of risk management and introduced the AAE efforts to create a professional framework.

Roberto Muscogiuri, member of the AAE Risk Management Committee, introduced a position paper of Frank Schiller on the promotion of actuaries in Risk Management.

ROUND TABLE

A discussion, both plenary and in breakout sessions, with all participants followed. The following questions had been put together for the discussion. The questions include the various responses.

Q1: What is the added value of having actuaries in Risk Management?

- Analytical/numerical skills
- Risk analysis is an integral part of our thinking
- By nature calm under pressure and high level of integrity and professionalism
- Knowledge of interactions of assets/liabilities
- Quantitative knowledge and experience
- RM very generic but in insurance actuaries are well placed
- SII enhances needs for actuarial skills
- In the case of internal models – ownership for models
- Skills of modelling
- Strong knowledge of the business
- Quantification - quantitative approach (fact based vs feelings) , thinking probabilities, education - understanding the business, having feeling for numbers, being able to talk about
- Continuous education
- Diversified team

Q2: How do we promote the need for actuaries in Risk Management?

- To promote above mentions skills
- Good communication
- Increase outreach by writing articles on RM topics
- Try to pre-empt by creating “CRO group”
- Responsibility

- Organized profession , having code of conduct
- Capital model - risk (solvency I vs Solvency II)

Q3: What skill set and education needed for actuaries to fulfil a role in Risk Management?

- Good communications skills
- Broad experience in different areas
- Data science/AI in education
- Risk management in education
- CERA education
- Skill set: soft skills like communication and leadership
- Communication
- Holistic view - operations, governance,
- Risk management topics as part of actuarial education
- Create not only risk averse

Q4: How can the actuarial profession help you as a CRO?

- Networking and creating a community (like CRO Round Table)

Q5: How can the actuarial profession interact with other professional organisations?

- Networking events/workshops/sharing experience
- Try to circulate RM specific guidelines to other professional teams (like ORSA guideline)
- Financial analysts
- Internal auditors
- Joint events, seminars, panels, round tables

CONCLUSIONS AND ACTION POINTS FROM THE ROUND TABLE

Karel Goossens concluded and summarised the day.

1. Regulation evolves – role of RM/CRO extends
2. Insurance is a systemic risk requiring global approach: impact ICS to be expected
3. Is the actuary better prepared to become a five-legged sheep?
4. Challenges for actuaries more in behaviour and attitude
 - a. Add value and business orientation
 - b. Understand what is behind numbers
 - c. Communication
5. Additional skills required: technical competence as a sufficient condition – behavioural skills as needed condition
6. Role of the profession
 - a. Network CRO
 - b. Identify criteria to become CRO and define curriculum
 - c. Provide basic complementary education

POSSIBLE ACTIONS

1. Build CRO – Actuary network starting with the Round Table
 - a. Exchange coordinates of participants
 - b. Invite others to join (1000?)
 - c. Initiate Forum
 - d. Plan events and meetings
 - e. Owner : AAE Risk Management Committee

2. Discuss and promote skills set
 - a. Complementary to syllabus
 - b. Define curriculum
 - c. Create framework to acquire skills
 - d. Owner: AAE Education and Risk Management Committee
3. Challenges for the profession
 - a. Not only focus on technical matters
 - b. Create the right professional environment: code of conduct, professional skills,
 - c. Challenge not only for RM but for all professional roles of actuaries
 - d. Owner : AAE Board of Directors

CONCLUSIONS OF THE DAY

The AAE Chairperson, Esko Kivisaari, thanked the attendees for their presence and participation in the Round Table.