

**UK Institute and Faculty of Actuaries and Institution of Civil Engineers
Joint ERM Event, 4 October 2011**

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Committee**

This article is based on a talk that Malcolm Kemp gave at this Joint Actuarial Profession / ICE ERM Event

I have great pleasure in representing the leadership of the Actuarial Profession this evening. This event is another important joint activity in our long and fruitful collaboration with the ICE over many years - an association that we value very highly. I'd particularly like to join Richard Coackley in thanking all of those who have already contributed to the ERM guide we will be discussing this evening and to thank in advance those of you, many I hope, who will make further contributions to it this evening.

The Actuarial Profession believes strongly that ERM should be enhanced and applied better for the benefit of business, the public sector and society as a whole. In an increasingly connected global world, unforeseen events can have far reaching impact. Responding better to the great "unknowns" that will inevitably occur will help make the private and public sectors more resilient and use their resources more effectively. A core element of a prosperous and successful society is a willingness to adopt a well-tempered but still entrepreneurial mind-set. Inevitably this results in uncertain outcomes. Our task is not to eliminate risk, but to be smart in the risks that we do take on and in how we manage them.

In the private sector, the Financial Reporting Council, which sets the UK corporate governance code, has recently confirmed in its document "Boards and Risk" the importance of continuing to enhance application of risk management disciplines. The FRC stresses the need for risk management to be holistic, i.e. enterprise-wide. Unless this is the case, Boards will fail to discharge effectively the responsibilities they have for determining the nature and extent of the risks their firms are taking and for maintaining sound risk management, especially on strategic issues.

In the public sector, risk management and governance is also becoming a more critical priority, particularly in these times of severe financial constraints when financial and human capital needs to be deployed very efficiently.

The actuarial profession has a long history of engagement with holistic risk management. Having started out primarily focusing on the development of life assurance and handling the associated risks more than a century ago, actuaries now apply their core skills of statistical analysis, modelling the variability and uncertainty of assets and liabilities and communicating and advising on the implications in a wide range of activities, including pensions, investment, general insurance and healthcare. In recent years, the profession has also moved beyond the financial sector into other business areas. It has a specific ERM Practice area which has over 1,000 affiliated members, a vibrant ERM-related research and education programme and has recently introduced a new qualification, the Chartered Enterprise Risk Actuary, a global qualification that we have high hopes will become a leading professional qualification in this area.

A critical component of effective ERM is a willingness to be open to new insights. Our research around the draft ERM Guide that we will discuss tonight is that truly effective risk management – and, remembering the opportunity side of ERM, the competitive advantage that it brings - is not

about coming up with single number from a sophisticated model. It is also not about slavishly following what some specific law and regulation requires. Instead, it is about:

- understanding risks and their sources
- assimilating multiple risks into a coherent whole
- being aware of uncertainty and managing it effectively
- using appropriate ways of quantifying and analysing potential risks whilst recognising the limitations of models and assumptions, the aim here being to inform rather than necessarily drive strategic decision-making,
- defining and promoting the right cultural behaviours both in terms of leadership attitudes and the wider organisational and staff values; and
- communicating the issues clearly to all stakeholders

Engineers and actuaries both have specialist knowledge and skills that we can bring to table in this context. Indeed we owe it to society at large to use these skills for the greater good. But we both face a challenge here, which is to ensure that our specialist skills contribute to good risk aware decision making rather than being seen as “techiness” that ends up not being valued as highly as it could be. We share a common challenge in bridging the gap between our technical skills and the “lay” skills and experience of the Boards whom we serve. There are many good examples of successful bridging of this gap from both of our fields. Tonight is a further opportunity to learn from each other. To this end, we are looking forward to an active exchange of views that can inform further research and development activity involving both the actuarial profession and the ICE.