**July 2012**

*By Max J. Rudolph, FSA CFA CERA MAAA*

# ERM Standards for Individuals

*By Max J. Rudolph, FSA CFA CERA*

I don't volunteer for the actuarial profession as often as I used to. Don't get me wrong. I have enjoyed the thousands of hours spent working with the Society of Actuaries over the last 15 years. Starting with the Investment Section, serving a term on the Board of Governors, helping advance the actuarial role in enterprise risk management and receiving the President's Award in 2010 have been among the many highlights. I also spent a lot of time helping to advance principle-based approaches for modeling techniques, with less immediate success but still rewarding. In addition, the people you meet are great so network as much as you can. In any case, I don't often say yes when the phone rings.

But when Dave Ingram asked me to join the team working on ERM standards I could not say no. Dave put together a phenomenal team of well respected, experienced, practitioners with nothing but the best interests of the profession in mind. Many internally have made the comment that this group did a great job working together and listening as well as being engaged in making this a great product to be proud of. Hopefully the two standards being developed will be approved by the Actuarial Standards Board in the next 6-9 months. Our work, along with all comment letters, is public and can be accessed at the Actuarial Standards Board website.

Following the initial drafts quite a few comments came in about the Risk Evaluation standard. Most were well thought out and worth reading on their own to gain perspective, and all will be considered as we work toward a final version. But one letter jumped out at me, and concerns me enough to write about it here. The North American CRO Council was formed in the fall of 2011, and includes large insurers domesticated in the US and Canada. The CRO Forum has been active for many years in Europe and this seems to be an attempt to do something similar on this continent. They have made a few presentations but their website is restricted so transparency is limited. They were able to secure time at an NAIC quarterly meeting to present, which is quite impressive. Smaller insurers have complained that they are not included, and it is not clear what role Towers Watson (secretariat) or the general counsel (now bankrupt) play (note that a graphic presented of the "consensus view" of ERM is nearly identical to one in a paper authored by TW employees and entered in an SOA sponsored essay competition).

The North American CRO Council (council for short) submitted a letter dated June 30, 2012 about the proposed Risk Evaluation ASOP. While several other organizations submitted letters that were favorable, or at least neutral to, the process undertaken, the letter signed by the council chair, Michael W. Mahaffey, and the Sound Practices Committee chair, Michael Stein, is perceived by me to be quite negative. Using statements such as “ERM is not an actuarial process” and “premature to develop a standard related to ERM” the group concludes that “the North American CRO Council cannot support the adoption of this ASOP”. Despite my disagreement with these statements, my head shakes in bewilderment at the following statement. “Moreover, the promulgation of actuarial standards for ERM may result in other professional associations providing similar, but conflicting ERM standards (for example the American Institute of Certified Public Accountants, the Chartered Financial Analyst Institute or others).” The council refers to itself as a professional association early in the letter, so perhaps they have plans to develop standards as well.

I have learned a lot about actuarial standards over the past year. They apply to individuals, not companies, and provide a level of expertise nowhere near best practice. They describe a minimal required level to complete. No matter the topic, if an actuarial opinions involved (which is nearly everywhere anymore), the general ASOPs covering topics like Communications and Data Quality are already included. So an argument that an actuary working on an ERM project, or a regulatory requirement like ORSA, would not already need to follow ASOPs is incorrect. By making the individual actuary responsible it assures that the work is done to a certain level. It may be considered minimal within the actuarial membership, but is likely much higher than those with other credentials or with only academic qualifications might contemplate on their own.

An employer hiring an actuary knows that their work product on Risk Evaluation topics will be meaningful and not have to flesh out an individual’s specific skill set and ethical past. Other organizations will be able to use these standards as a starting point and not have to begin with a blank slate. Had actuaries written previous ERM documents first the industry might have focused more on principles and ethics and less on rules and checklists, perhaps lessening the current financial crisis. Hopefully these standards will lead to better practices for all. That is the goal!

*Warning: The information provided in this newsletter is the opinion of Max Rudolph and is provided for general information only. It should not be considered investment advice. Information from a variety of sources should be reviewed and considered before decisions are made by the individual investor. My opinions may have already changed, so you don’t want to rely on them. Good luck!*