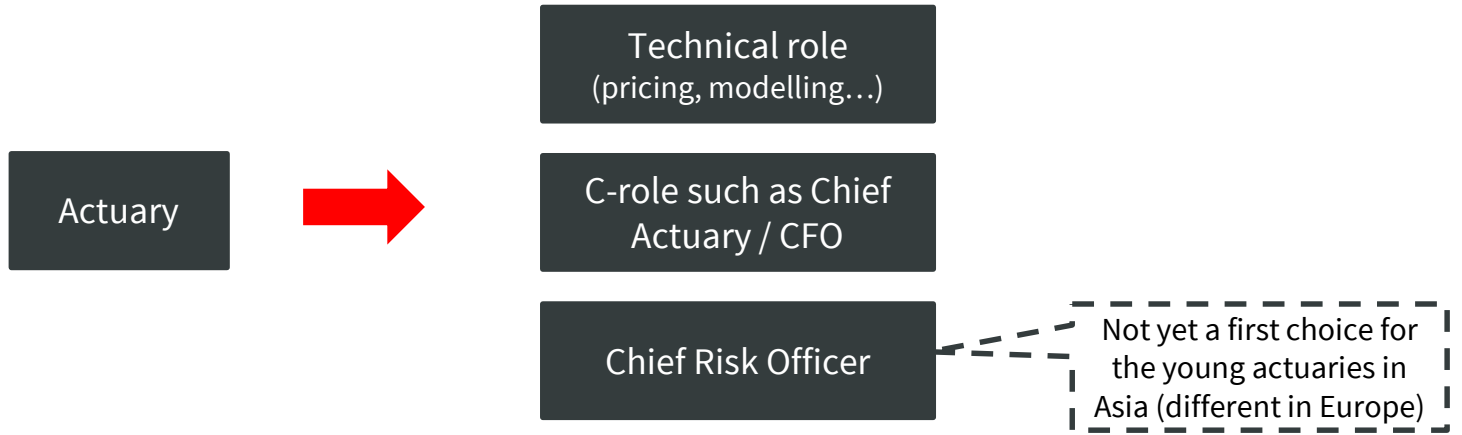




# The critical role of the actuary in Risk Management

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# Actuaries are typically attracted by technical roles or by Chief Actuary / Chief Financial Officer positions but not often by Risk Management



**But there is a critical need for actuaries in the risk management departments of the insurance industry**

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# 1 What is risk management?



Warren Buffett

“Risk comes from not knowing what you are doing.”

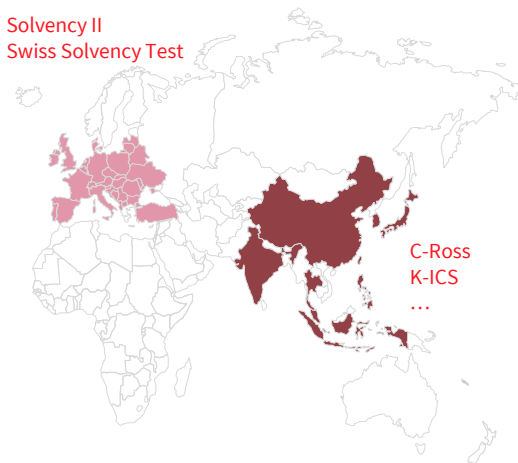
“Never invest in a business you cannot understand.”

# Due to significant issues in the financial industry over the last years, there was a need to reinforce regulation and the company's controls

We are in a risky and changing environment and financial services have faced several failure

- Financial crisis in 2007 - 2008
- 2008 Société Générale trading loss
- Wells Fargo paid \$185 million in penalties for inappropriate sales practices in 2016
- Dutch bank ING fined \$900 million for failing to spot money laundering in 2018
- ...

The regulation is changing all around the world (main impacts for AXA are in Europe and Asia)



The reinforcement of the three lines of defence is paramount

1<sup>st</sup> line (operations, IT...)

2<sup>nd</sup> line (risk management, compliance...)

3<sup>rd</sup> line (Internal audit)

# Risk management is not about stopping risk but about understanding them and choosing those we want to keep to earn money

- Insurance business is the **risk business**
- To grow insurance business, **insurance companies need to take risks** but only those we understand and they agree to take (better risk/return)
- The risk management ensures that the daily business decisions take into account the risk cycle
- The risk management is a technical consultant to the senior management giving an integrated and different view about the business risks and the way the Company is operating
- Risk people are technical, business-minded and strong communicators that are influencing the way the Company is doing business



# The risk management department needs to develop a comprehensive framework embedded in the insurance companies

Pillar II of Solvency II

STRATEGY

Risk appetite

Risk culture

Pillar II of Solvency II

GOVERNANCE

Roles and responsibilities

Committees and decision-making processes

Pillar I and III of Solvency II

PROCESSES





Why do we need actuaries in risk management

2

# Actuarial capabilities are critical to manage the insurance companies' risks



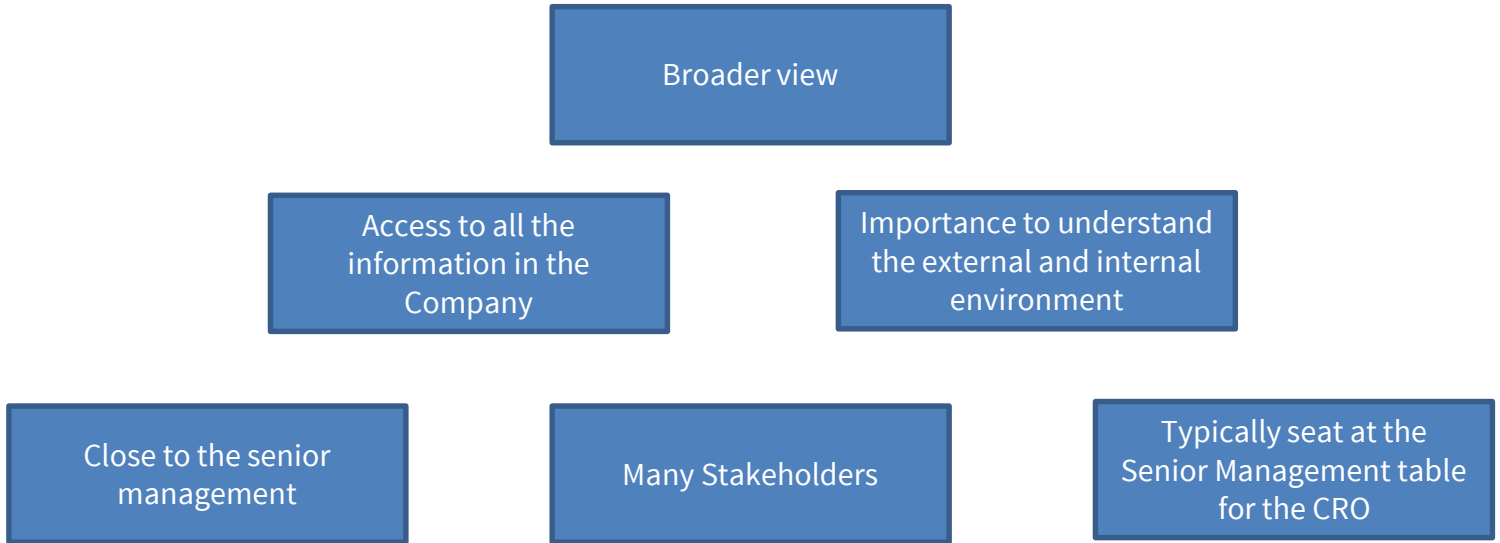
# Case study: 8 key processes with Risk Management involvement at AXA

- 1** Product approval process
  - Entities must not launch a new product without performing a Product Approval Process;
- 2** Investment Approval Process
  - Entities must not purchase any new non-routine investments without performing an Investment Approval Process;
- 3** SAA and ALM
  - Risk Management must review ALM studies and any change in the proposed local Strategic Asset Allocation;
- 4** M&A and greenfield
  - M&A transactions and non-BAU transactions (reinsurance, outsourcing) must be reviewed by RM
- 5** Strategic IT, Information Security and Data projects
  - Local risk management must review those projects involving a significant risk to the entity
- 6** Strategic Plan
  - Local CRO 2nd opinion on strategic plan is a must
- 7** Reserving
  - Entities must ensure that 2 independent opinions on reserves are performed
- 8** Reinsurance
  - The proposed reinsurance program must be reviewed by Risk Management and complies with the Risk Appetite limits

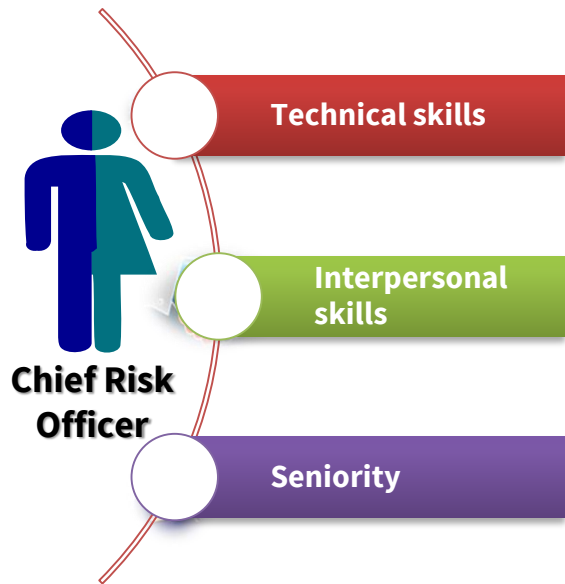


# Why is it attractive for actuaries

# From actuarial to risk management



# The actuary will need to develop exciting new capabilities to become a risk manager and a Chief Risk Officer



**Analytical skills:** deep understanding of capital management, actuarial and risk management techniques, finance, and regulation

**Business skills:** ability to place technical risk issues into broader business context, sensitivity to the broader economic and social environments

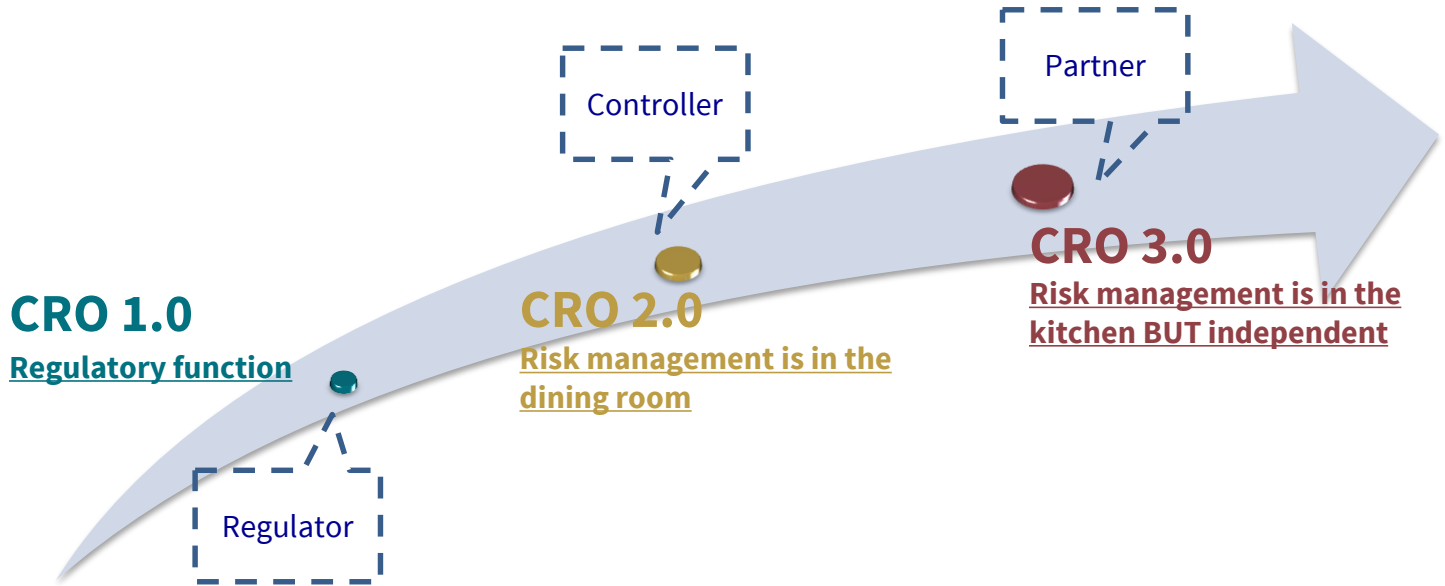
**Communication skills:** clear and understandable, concise and direct, engage key stakeholders

**Negotiation skills:** clear and understandable, concise and direct, engage key stakeholders

**Leadership:** Strategic thinking, Credibility, driver of innovation and change, and other typical insurance industry leadership skills

**Influencing:** ability to persuade 1<sup>st</sup> line to participate actively, ability to educate the business on RM benefit and give guidance / advice

The Risk management function should evolve from a compliance function to a business partner role overseeing the company's risk profile





Thank you