

Building up Singapore's ERM community

Enterprise Risk Management (ERM) is a growing field and it is important to build up the community for it in Singapore and undertake the ERM journey collectively. This was the message from Mr Roland Teo, Governing Council Member of the Risk & Insurance Management of Singapore, at the 2nd Singapore Actuarial Society (SAS) ERM Conference 2015.

The importance of ERM

"We need to look into the human capital aspect – we hear a lot about the risks that are coming, but more importantly, it's the people who make risk management effective," he said.

Citing the role of risk managers as "pestbusters" and "firefighters", he noted that ERM is important as it is an integration of functions, from previously separate ones like IT, safety and finance. He said that risk managers are the "brawn" while actuaries look at the more "brain" functions of risk. ERM helps to stratify risks for clarity and communication – especially important today given the challenging tasks of managing social media and reputation where messages are transmitted much faster than in the past.

Presenting the findings of Towers Watson's 2014 Global ERM Survey at the conference, Mr Roberto Malattia, Director, General Insurance Consulting said that most respondents see the risk management function as a strategic partner, with insurers' overall satisfaction with ERM performance having increased since 2012, with the largest increase in Asia-Pacific.

The key drivers for the rise of ERM are the need to comply with regulations, along with board and senior management desire for improved ERM and group reporting requirements. "Boards try to create value out of ERM since significant time is spent on compliance," said Mr Malattia.

A rating agency's perspective on ERM

ERM is also key when it comes to rating agencies' assessment of companies, given that it is the common thread that links balance sheet strength, operating performance and business

profile, which form key quantitative and qualitative rating factors together with country risk.

A.M. Best Asia-Pacific Ltd's Associate Director of Analytics, Mr Jeff Yeung shared how the agency looks at an insurer's Best's Capital Adequacy Ratio (BCAR), which takes into consideration asset, underwriting and other risks. The agency will allow companies with strong risk management to maintain lower BCAR levels relative to the guideline for its rating – essentially, a company's risk management capability needs to meet its risk profile.

Caution on over-reliance on models

Speakers at the conference also talked about the virtues and drawbacks of using statistical risk modelling techniques.

Ms Shamayel Hassan, Risk Analyst at Kuwait National Petroleum Company, showed how the use of a Cash Flow at Risk Model (CF@R) is able to quantify risk impact and help her employer enhance its business decision-making.

However, speakers also cautioned that the over-reliance on models and their assumptions had shown how actuarial forecasting could be prone to mistakes with serious financial consequences, such as during the 2008 global financial crisis.

"You may be using the wrong cues to make poor decisions, thus you constantly need to analyse the quality of your decision making. I believe actuarial forecasting needs to be a combined approach of statistical and technical thinking with different models of judgement, said Mr Gavin Raj Maistry, Chief Actuary and Chief Risk Officer, Munich Re Asia Pacific, looking at the deeper processes behind judgement.

Qualitative, not just quantitative

To the audience largely composed of actuaries, Mr Joshua Ho of Arrow Consulting concluded that qualitative factors must be considered with quantitative ones when it comes to risk assessment and management.

"When faced with uncertainty in outcomes, people's intuitive probability assessments and diagnoses do not conform to laws of probability and statistics," he said, noting that individuals attribute meaning to an event through a process of interpretation, affected by both their social and psychological background. "An organisation's risk management culture transcends those who work in it at any one time, and building this culture is largely in the hands of management."

The two-day conference featured a risk culture workshop where participants were presented with a role-play scenario to put their ERM knowledge into practice. ■



Mr Raymond Cheung, SAS Honorary Secretary

Participants at the Singapore Actuarial Society ERM Conference 2015 taking part in an exercise on risk culture