Actuaries Institute Podcast
Title: RMPC takes proactive approach to tackle industry challenges – Practice Update Podcast

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Speakers: Liz Baker
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Introduction

Susan:

Hello, and welcome to the Actuaries Institute Podcast. This episode is part of the Practice Update Series and we will bring you the latest news and developments from the Institute's Risk Management Practice Committee, also known as the RMPC. My name is Susan Looi and I'm the Convenor of the RMPC and with me here is Liz Baker, the Deputy Convenor of the RMPC.

The RMPC is a committee covering cross-practice risk management topics. We have 14 members with a broad set of skills and experience. They come from diverse experience like life insurance, general insurance, health, banking and we also have a member who works for an insurtech, and another member who's in marketing analytics. It's important for us to have a diverse set of members, because risk management really is cross-practice in nature in a lot of the issues that we see. In terms of current issues and emerging risks that the RMPC is considering, Liz, what do you think?

Liz: So, there are many issues, current issues and both emerging, and certainly 2019 was a very busy year. So, we had the report on the Financial Services Royal Commission that was published in February 2019, and the Royal Commission included more than a few case studies, and it was across a range of topics and institutions and it covered things like 'fees for no service'.

So, this has been followed by the introduction of several major pieces of legislation, such as 'unfair contract terms', 'anti-hawking', claims as a financial service, and these things are going to have a very big impact on the industries where we work. So, the themes in risk management are governance, remuneration, accountability and culture, or 'GRAC' or some combination of 'GRAC'. So, looking at governance, Boards are increasingly focused on non-financial risks. So, several institutions have seen their non-financial risks such as the management of anti-money laundering or 'fees for no service', turn into very significant financial risks with large fines and in some cases court proceedings, and ASIC also issued a very interesting report on corporate governance of non-financial risks.

So, clearly non-financial risk is a very ongoing risk management topic and it needs to cover newly emerging and those with risks and those with growing financial consequences, and APRA has an expectation that Appointed Actuaries and insurers will contribute to the effective management of non-financial risks. For remuneration, there's a CPS 511, which is a new Prudential Standard, coming out on remuneration and it's to promote the effective management of financial and non-financial risks.

This is going to affect some risk management professionals and actuaries working in financial services and accountability. So, the senior management of APRA-regulated entities are going to be the subject of what they call 'FAR', that's the Financial Accountability Regime. And we already have 'BEAR', that's for banks, and BEAR is going to be replaced by the FAR, and certainly for actuaries, the management of insurers' actuarial functions is going to be one of the responsibilities that is intended to be covered under FAR. So, there's many things. So, Susan, what else is there apart from all these issues that we've seen?

Susan: **Well, there's lots of other risk issues, but I just want to make one comment actually on the Royal Commission and the kind of the outcomes and one of the consequences of the proposed implementation of FAR. Underpinning all the happenings that are in the commissions is this notion of taking a 'customer lens' and being fair to the customer. Now, it's easy to say we need to be fair to the customer, but what does that actually mean? And more generally when it comes to products claims management and business practices, what does it mean for us as an actuarial profession in terms of ensuring that what we issue to the customer and how we price our product is also fair?**

There's a need for actuaries, I believe, and also the rest of the RMPC believes as well, to when considering pricing and products and the design of the products, as well as management of those products, that we need to take a wider lens than what we've traditionally taken just by our traditional actuarial training. Some other risk management topics that the RMPC is currently working on and looking at and some of these are in conjunction with the other practice committees, are on things like pandemics. We are living through the coronavirus

right now which is very topical, but it's more than that, and there's climate risk as well that several of our members as well as I think generally others in the profession, are also working on.

The Bank of England, for those of you who keep up with stress testing, has issued some guidance in terms of climate risk stress tests, and we know that our local regulator APRA intends to do the same for insurance insurers and banks in 2020. We've also got other issues like these that are ongoing ones, data privacy, ethics, what is ethical use of data? Especially as we are utilising more and more of this, not just in what we do normally, but in terms of machine learning and AI (Artificial Intelligence).

And of course, cyber risk continues to be a constant threat of cyber-attacks, having the ability to lead to major business interruptions with systems taken down and of course loss of customer information including their private data. APRA's 'CPS', or Consolidated Prudential Standard 234 information security, was recently introduced. That was from July 2019 and it requires robust management of institutions to manage such types of risks. So, with all these things that are going on that Liz had mentioned and that I just talked about, we believe it's more important than ever for actuaries to keep up with their risk education and keep up with things. Liz, what's happening in this space?

Liz: So clearly, as you've said, there's lots of need for increased education and risk management and the Institute provides a number of avenues to increase risk management education, and members of the RMPC are actively contributing to that. So firstly, we manage the 'CERA' accreditation for the Actuaries Institute in Australia and we've contributed to the CERA review. We're also looking at the accreditation of the risk management courses at some Universities in Australia, including the ANU and University of New South Wales, and lastly, there will be a new Part III course on risk management and it's coming out in 2022, and that involves a lot of work and the RMPC members are actively contributing to that. And as well as all of that work on education in 2019, we ran a number of sessions and there was the Actuarial Summit and we gave some papers to that.

So, things that we covered, we did a paper on technology risk and the impact of that. We had a panel of Chief Risk Officers, CROs, who are working in industry and gave their practical tips on how they got to the positions that they were in. And some of those people had appeared actually in the Royal Commission as witnesses. So, they had firsthand experience. We contributed to a data and ethics paper because as Susan said, increasingly with the use of machine learning and artificial intelligence and data is a key input into that. There's a lot of ethics about what data that you use and the impact it might have on customers. So those are some of the things that we presented at the Summit as well as we worked on data and underwriting in the life insurance space because there are requirements of the disability discrimination act that actuaries, amongst others, have to meet.

So that was the Summit. We also held an insurance risk forum and that was another forum where CROs working in the industry got together under ‘Chatham House Rules’. So we can't really tell you what went on, but we know that it's pretty insightful about people sharing experiences of dealing with some of these issues that Susan covered, and one of our contributors, Tim Gorst, presented an Insights session and both in Melbourne and in Sydney and it was on the very topical ‘fees for no service’ and how the frameworks that could have been improved to possibly prevent some of those things that were seen in the Royal Commission. And lastly, in September we had a session at the Young Actuaries Program where a CRO of Law Cover who's working in the industry gave some tips to students. So, it's been a busy year. We also contributed to the Joint Regional Seminar in August, it's been very, very busy and 2020 is kicking off just in the same way. So, maybe Susan will share with us what we're going to do this year.

Susan: **Thanks Liz, and looking ahead to what's in store for 2020, I mean Liz has just rattled off a whole bunch of things that we were involved with. I mean the Joint Regional Seminar that she mentioned was actually a contingent from Asia. We've got linkages with the Asian actuarial community there on risk management practices and we want to continue with these relationships. Clearly, we want actuaries and with other regional actuaries.**

A taste of what's coming through this year. One, we are delivering a paper covering the management of non-financial risks of the upcoming Actuaries Summit in June 2020 at the Gold Coast. This is going to include a discussion of aspects of non-financial risks that members should be considering or can consider because this is very much an emerging area of practice and it's very new. Because of that, it's pretty exciting actually. Actuaries have traditionally been involved with what we call financial risk management of insurance risks. Non-financial covers areas as diverse as what's come through in the Royal Commission in terms of conduct and accountability, but also non-financial covers operational risks.

Things such as risks relating to people, processes and systems and the financial consequences, potential financial consequences if things go wrong in those areas. How might we help in this area? Well, we can actually contribute to a lot, I think as a profession to non-financial risk management including development of risk appetites and key risk indicators

and data analytics around non-financial risks. We are also, secondly, participating in the cross practice Anti-Discrimination Working Group and there will be an Insights Session coming up in March, which we hope that members are able to come and attend with a follow-on presentation at the Summit in June.

We are also planning some other Insight sessions in Sydney and Melbourne and with a webinar to focus on some of the current topics and emerging risks, which would cover things like, for example, stress testing, impact assessments and what are implications for businesses, and then other topical risk issues. I don't want to go on too much about 2020 because we were still to plan it through. We're just at the beginning of the year, but that's just a taste for what's coming through.

All this work would not have been possible without the commitment of the all the RMPC members and members of the working groups and task force reporting through to the RMPC which had been very busy throughout 2019 and will continue into 2020. As ever, we would really encourage any members of an interest in risk management matters, no matter what your primary practice area, to come and talk to us. We'd love to hear from you and if you are interested in doing some of the work that we are currently planning, please visit the risk management microsite on the Actuaries Institute website and do come along to our upcoming Insight session and seminars. That's all for us from now. Thank you, Liz, for joining me.

Liz: Thank you very much

Susan: That's the update from the RMPC. I'm Susan Looi, bye for now.