Actuaries Institute Podcast
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Speakers: Meera Sardana
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Liz Baker:	**Welcome to the Actuaries Institute Podcast. This episode is part of the Practice Update Series, and we're going to bring you the latest news and developments from the Institute's Risk Management Practice Committee, also known as RMPC. My name is Liz Baker, and I'm the Convenor of the RMPC. With me here is Meera Sardana, who is a member of the RMPC.**
Liz Baker:	**So, what's the RMPC? It's a committee covering cross-practice risk management topics. We've got 12 members with a broad set of skillsets and experience. They're working in a range of industries like life insurance, general insurance, wealth management. We've got a member who's doing marketing analytics, and we've got others who are university educators. That's very important because we need a diverse set of members because risk management really is cross-practice in nature, and there are a lot of issues that we see. So, in terms of the current issues and emerging risks that the RMPC is considering, Meera, what are your thoughts on these?**
Meera Sardana:	There are many current issues facing the financial services industry, Liz, and certainly 2020 has been a very busy year, but perhaps not in the way that we had initially expected. It would be remiss of me not to mention COVID-19, which has caused widespread economic and operational disruption since it was declared a global pandemic in March. As a result, we saw Australia enter into its first recession in almost 30 years.
Meera Sardana:	A consequence of the pandemic has been a shift in the short to medium-term focus of the supervision activities of regulators. We saw APRA in particular has increased its focus on capital management and understanding the business and operational resilience of entities. For life insurance entities, COVID-19 has not had a material negative impact on claims experience to-date. There are some concerns around disability income claims

experience, however this is expected to be linked to the recovery of the economy.

Meera Sardana: General insurance entities, on the other hand, have been more impacted by the pandemic, including through potential exposure from business interruption claims. Business interruption policies routinely include a blanket exclusion for pandemic diseases. Mostly, they tend to define the extent of the exclusion by reference to laws under which pandemics are declared by public health authorities.

Meera Sardana: In Australia, that law was previously the Quarantine Act, which was first legislated in 1908. After that time, it was amended many times, until it was subsequently repealed in 2016 and replaced at that time by the modernised Biosecurity Act. It was under this Biosecurity Act that COVID-19 was declared in January 2020 to be a listed human disease. The issue, Liz, that we're seeing for some insurers is that the old standard policy wording was not updated to refer to the new Biosecurity Act.

Meera Sardana: In November, we saw a decision by the New South Wales Court of Appeal in the Industry Test Case. This case's outcome means that any policy whose exclusion clause references the old Quarantine Act can't use the exclusion to refuse to pay out claims arising from COVID-19. So, while the cause of this incident is more operational in nature and relates to updating contract wordings, it may have a material financial impact on the industry, again highlighting the importance of managing non-financial risks.

Liz Baker: **Yes, non-financial risks continue to be a key risk management topic and a key area of focus by regulators. Previously, we saw this in the Royal Commission, but it's continued certainly during this year, and these types of risks cover a broad range of things. So, they're non-financial, but they may lead to very significant financial losses.**

Liz Baker: **What are non-financial risks? They are things like operational risks, technology risks and conduct and compliance risks. So APRA and ASIC, they're looking at these and they continue to focus on the importance of governance, remuneration, accountability and culture, or 'GRAC', and the need for actuarial risk managers across the three lines of defence and the CRO to effectively manage non-financial risks.**

Liz Baker: **In November, APRA has just released its revised draft of CPS 511 on remuneration. A key revision for significant financial institutions, so that's large banks and insurers, is a requirement that a material weight be placed on non-financial risks when determining variable remuneration or what senior people get paid, and that this can be potentially reduced to**

nothing, or pretty close to nothing, in response to adverse risk and conduct incidents.

Liz Baker: **What else are we doing in terms of risk management? When you look at non-financial risks, you need to do stress testing. For those who keep up with that, the European Insurance and Occupational Pensions Authority has recently issued a draft consultation paper on the use of climate risk scenarios in the ORSA. The ORSA is a Solvency II equivalent of our ICAAP. It's quite possible that our local regulator APRA may do the same for insurers in Australia.**

Liz Baker: **We saw in October APRA did a COVID-19 related stress test across the life insurance entities, so it'll be interesting to see what insights comes from this. We can likely expect some more stress and scenario testing on climate change across financial institutions. Also, you can keep up-to-date with what's going on the climate in terms of the Actuaries Institute's Climate Index.**

Liz Baker: **Then, of course, there continues to be a constant threat of cyber-attacks, including ransomware attacks, particularly in 2020, where we saw more threats due to more people working from home and, therefore, there was more ways to get into companies' technology systems. These cyber events, you may have seen a few of them in the paper, can lead major business interruptions, financial costs and reputational risks with systems outages or loss of customer privacy data.**

Liz Baker: **Financial institutions have formalized their focus on the management of these types of risks, and there's CPS 234 on Information Security. With all these things going on, we think it's even more important for actuaries to keep up with their risk education and keep up with all things ERM.**

Liz Baker: **Meera, perhaps you can share with us a few of the things that are going on in this education space.**

Meera Sardana: As you said, there's increased focus on risk management and an increased need for risk management education. The Institute does provide a few avenues to increase risk management education, and members of the RMPC are actively contributing to these.

Meera Sardana: During 2020, we have continued to manage the CERA accreditation process for the Actuaries Institute. We've contributed to both the review and endorsement of the draft syllabus for the new Part III Actuaries Institute course on risk management. This course is planned for release in 2022, and we are working towards gaining CERA accreditation for it.

Meera Sardana: As well as all of that work on education, we have contributed to and have run several sessions at the recent Actuaries Summit. In terms of things that we covered at the summit, we did a presentation on non-financial risks and how these can be both identified and better managed. This presentation highlighted some practical steps than actuaries can take to contribute to effective management of non-financial risks.

Meera Sardana: We also contributed to another paper on anti-discrimination and the important role that actuaries have to play here. The paper covered how discrimination may occur, be it directly or indirectly, through the design of insurance products around underwriting, pricing and claims. The paper highlighted practical considerations for actuaries, such as judging whether data is reliable and whether discrimination is reasonable in the context of insurance exemptions.

Meera Sardana: In addition to all of that work, we've contributed to a presentation on the use of risk-based scenario analysis to develop an internal risk-based capital position for superannuation funds. So that was the summit.

Meera Sardana: We've also held a CRO forum in October of this year where CROs working in the industry came together to discuss the impacts of COVID-19 under Chatham House Rules. Some of the key areas of discussion and key themes were around the impacts of COVID-19 on people, including return-to-office plans, the impacts on businesses, so both operation, supplies and payments and the impacts on financials, given the current low interest rate environment and challenges with capital management. You can read more about this particular session in the Actuaries Digital article.

Meera Sardana: In addition, we will be publishing our first edition of the Annual Risk Management Newsletter during December. This newsletter is targeted at senior risk professionals and senior actuaries in the industry, and it will cover topical risk issues.

Meera Sardana: Another very exciting thing that we've been doing this year is developing our strategy to engage with young actuaries and promote risk opportunities. In December,, we held an insight session for young actuaries. The session was a panel discussion with experienced risk professionals, who shared their career highlights, their views on risk issues and gave practical thoughts on how young actuaries can contribute to these.

Meera Sardana: So, considering that we're a very small practice committee, Liz, it has been a very, very busy year, and 2021 is looking to be the same way. Liz, perhaps you could share with us what we have planned for the year ahead.

Liz Baker: Thanks very much, Meera. Yes, looking ahead to what's in store for 2021, the RMPC will be continuing to support the development of the Actuaries Institute Part III Risk Management Course, its accreditation to get the CERA part of it and the development of the exam for the course.

Liz Baker: In addition, there's going to be a cross-practice working group to do a practice guide on capital management. That's going to have target capital approaches in it, and it's going to cover capital management principles. That's set up in something called the ISAP 6, which is the International Standard of Actuarial Practice on Enterprise Risk Management.

Liz Baker: We're also going to leverage and build on the capital management guidance that was done by the COVID-19 Working Group of the Institute.

Liz Baker: We're also doing an update of our information note on risk management into a practice guide. That's going to have some more information on non-financial risks and cover some risk management basics, like risk and control self-assessments.

Liz Baker: I don't want to go too much on about 2021 because we're still planning through it, and it's been a pretty busy year. But as Meera said, we're a small practice committee, and we've achieved and can achieve a great deal. All of this would not be possible without all the great members of the RMPC and everybody who helps to volunteer with us.

Liz Baker: We're always looking for more volunteers. Even if you don't work in risk management, if you've got an interest in it, that'd be terrific. Anyone interested in getting involved, we'd love to hear from you. So we're especially calling out to actuaries with an interest in risk management in any area or younger actuaries who might want to increase their knowledge and more experienced actuaries who want to find out a bit more because we really think that risk management is a growth area for actuaries, certainly in terms of careers.

Liz Baker: So, if you're interested, please contact me or Meera or any of our committee members. You can find us on the risk management microsite on the Actuaries Institute, which is getting updated just at the moment.

Liz Baker: In conclusion, I'd just like to say thank you all so much for all the volunteers that have done so much work this year, and we hope to continue the next year and get bigger and better.

Liz Baker: **We hope that you've enjoyed this update from the RMPC. With that, thank you from myself, Liz Baker, and Meera Sardana. Bye for now.**