

AN EXPERT SPEAKS:

GIA HAS INTRODUCED A NEW PAGE IN OUR NEWSLETTER – AN EXPERT SPEAKS – IN A BID TO CONTINUE ENHANCING THE KNOWLEDGE OF THE GENERAL INSURANCE COMMUNITY.

THIS PAGE IS DEDICATED TO GENERAL INSURANCE PRACTITIONERS TO WIDEN THEIR UNDERSTANDING IN FIELDS SUCH AS UNDERWRITING, ACTUARIAL, CLAIMS, AGENCY, AND BROKING, TO ALLOW INDUSTRY PROFESSIONALS FROM VARIOUS SECTORS TO SHARE THEIR INSIGHTS AND EXPERIENCES.

FOR THE PAGE'S INAUGURAL RUN, GIA IS HONOURED TO INVITE MR. RAYMOND CHEUNG, CHIEF RISK OFFICER, ASIA CAPITAL REINSURANCE, TO SHARE HIS OPINIONS ON ENTERPRISE RISK MANAGEMENT.

MR. CHEUNG, CAN YOU KINDLY SHARE WITH US YOUR INDUSTRY PROFILE?

I would summarise my industry profile into 3 major phases – actuarial, rating and risk:

I started my career in 2002 as an actuarial analyst with Watson Wyatt Insurance & Financial Services (now known as Towers Watson) in its non-life insurance practice. I moved on to join MSIG Holdings (Asia) in 2006 as its regional pricing actuarial manager and thereafter to Overseas Assurance Corporation (OAC) as the head of actuarial and pricing department for its non-life portfolio. My actuarial career provided me extensive training in pricing, reserving, capital modeling, product development, business strategy, reinsurance optimisation as well as mergers and acquisitions.

The second phase of my career began when I joined Standard & Poor's Financial Services Rating Group as an Associate Director. My responsibilities were to undertake credit risk analyses on insurance companies within Asia. The experience helped me gain further training in the fields of credit ratings and Enterprise Risk Management (ERM).

I subsequently embarked on a career in risk in 2011 when I joined Chartis Asia Pacific (now known as AIG APAC) as

responses to the MAS consultation papers in 2012 and 2013 respectively. I also pioneered the ERM Committee in SAS and started four working parties for Diversification Benefits, Operational Risk, Own Risk & Solvency Assessment (ORSA) and Risk Tolerance Statement, with the aim to provide industry researches and guidance around Risk Based Capital and ERM components.

Separately, I also lecture for an advance diploma module in Risk Management under the Insurance Executive Scholarship Programme (IESP) offered by the Singapore College of Insurance (SCI).

WHAT IS ERM (ENTERPRISE RISK MANAGEMENT) AND WHAT IS THE BENEFIT OF ERM TO THE INDUSTRY/ORGANISATION?

Many people think of Enterprise Risk Management as merely Risk Management. In fact, this is only half the picture. ERM deals not only with risks ("downside" – 危) but also opportunities ("upside" – 机) affecting value creation or value preservation.

For example, when we sell a product or an insurance policy or invest our money in a fund etc, value is created. However, that value can be lost or destroyed if we do not preserve it. ERM provides the framework and processes to try to balance between value creation and value preservation.

to mitigate risks faced by various departments of an organisation.

ERM must not be seen as a one-off "ticking the box" exercise, which, once completed, can be ignored. ERM should be treated as a dynamic process, which is regularly reviewed and updated in light of internal and external changes, that maximises the long-term values (in the form of risk-adjusted returns) of the organisation.

ERM will add value to business/industry by:

- 1) Having an integrated framework to manage risks, minimising nasty surprises
- 2) Providing a comprehensive process to assess the risk/return trade-offs more accurately, resulting in higher chances of meeting business objectives
- 3) Enabling senior management to be better informed when taking important decisions, increasing risk transparency and ensuring better decision making
- 4) Allowing economic capital to be computed and allocated that reflect inherent risks enabling efficient use of capital and maximising shareholders' value
- 5) Reducing the cost of capital thereby optimising operational efficiency
- 6) Improving business performance in the long run creating better reputation; and
- 7) Aligning rewards with long-term business success enhancing job security and retaining talents.

ORSA is more than just a compliance exercise. It is THE necessary process for ERM to be embedded in the business of any organisation. You can look upon ERM as the heart of the organisation, and ORSA as the circulation forces ensuring blood flow through every part of the body.

For ERM to be truly effective, the ORSA process needs to be tailor-made and customised for different companies. There is no one-size-fits-all ERM framework.

As companies develop and individual ORSA principles and processes are fine-tuned over time, companies will have better understanding of their businesses as well as the environments in which they operate. This should become a unique competitive advantage and will help managements to:

- 1) Set well-informed strategy;
- 2) Develop the process and infrastructure necessary to carry out the strategy;
- 3) Measure and allocate economic capital (given the limited resources);
- 4) Use capital to invest in areas that provide the highest value to the firm; and
- 5) Make important decisions for the long term benefits of the firm.

AN EXPERT SPEAKS...

ENTERPRISE RISK MANAGEMENT

the Regional Head of ERM in Insurance Portfolio & Aggregation Risk. I led catastrophe exposure & aggregation risk projects and co-drove the strategic roll-out of the AIG ERM Framework for the APAC region. In 2012, I took on the role of Chief Risk Officer for AIG Singapore where I managed the full scope of risks and implemented the ERM Framework within the local office.

In my current role as Chief Risk Officer at Asia Capital Reinsurance Group (Asia Capital Re), which I joined in December 2013, I am responsible for leading the company's ERM programme and Compliance function.

In my personal capacity, I have been the Honorary Secretary of the Singapore Actuarial Society (SAS) for the last two and a half years. I led the society's RBC2 taskforce and ERM taskforce in providing

The ultimate objective of managing risks is to maximise the likelihood of meeting strategic objectives. Strategic objectives are realised through a coordinated management of profit, growth and risks, and value is maximised when there is an optimal balance among these three elements.

ERM therefore consists of two parts: Risk Management + Return Maximisation.

ERM applies the principles of risk management across the whole of a company in a structured and consistent manner. This ensures that all material risks faced by an enterprise are identified and assessed, and the links between risks from different parts of the business will be considered when deciding on the most appropriate and effective risk treatments. For example, one technique may be able

HOW TO DESIGN AND DEVELOP AN EFFECTIVE ERM/ORSA FRAMEWORK IN AN ORGANISATION TO BETTER MANAGE RISKS AND SEIZE OPPORTUNITY?

In an integrated ERM framework, the ERM and Finance/Capital Management functions will collaborate in a joint effort to ensure that strategic goals and risk appetite are met.

Activities led by ERM will need to be balanced with activities led by finance/capital management function. For example, while ERM monitors and reports exposures, limits, risk concentration and emerging risks, scenario analyses and stress testing on the business plans are performed by capital/actuarial functions.

Strategic plans need to flow through the ERM processes for risk assessment and measurement, to be reviewed and fine-tuned. The revised plans in turn feed into the ERM processes again for monitoring and reporting against the actual performance.

This continuous iteration process is known as Own Risk & Solvency Assessment, or ORSA. ORSA acts as the bridge between the business strategy (the objective) and the desired risk profile (the outcome) with the different levels of feedback loops integrated into the key functions and operations of an organisation.

WHAT ARE THE NECESSARY SKILLS THAT ARE REQUIRED IN ERM?

In my opinion, there are five important skills necessary to do well in ERM:

- a) Strategic skills – A long-term vision is essential in developing sustainable ERM goals and priorities
- b) People skills – As ERM is linked with many functions across an organisation, the ability to develop solid relationships with staff from all levels is key
- c) Implementation skills – it is important to be able not only to develop policies but also to implement them, and drive and monitor ERM plans, in order to add value to business performance
- d) Management skills – Due to the multi-faceted nature of the responsibility, it is important to be able to manage multiple projects and ERM initiatives to effect changes
- e) Technical skills – Having the relevant risk management techniques and problem solving skills, together with strong business knowledge and experience, will be key in effectively assessing and managing all scopes of risks

In short, ERM is:

- **Exciting;**
- **Rewarding &**
- **Multi-faceted**

It is my hope to inspire more insurance practitioners and graduates to make ERM as their preferred career choice.



Mr. Raymond Cheung is the Chief Risk Officer for Asia Capital Reinsurance Group (ACR). He is responsible to provide supervision and management of the Enterprise Risk Management (ERM) function as well as the Group Compliance function within ACR.

Raymond has over 12 years' experience in the insurance industry, and has worked in consulting firm, General Insurance companies as well as rating agency. He was previously the Chief Risk Officer for AIG Asia Pacific Insurance based in Singapore. Raymond began his career as an actuarial analyst and has accumulated extensive experience in actuarial pricing & reserving, capital modeling, product development, business strategy, reinsurance optimisation, merger and acquisition, credit ratings and ERM.

Raymond is also the Honorary Secretary of the Singapore Actuarial Society (SAS) as well as the Chairman of the SAS ERM Committee, RBC2 taskforce and the Own Risk & Solvency Assessment (ORSA) Working Party. He is also the Chairman of the ERM Asia Pacific Webinar Committee with the Society of Actuaries in US.

Raymond holds the Bachelor of Business degree, majoring in actuarial science, from Nanyang Technological University in Singapore. He is an associate member of the Institute & Faculty of Actuaries, UK and the Singapore Actuarial Society. He is also the lecturer for the advance diploma module in Risk Management with the Singapore College of Insurance.