

December 2012

TO: Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in Risk Treatment in Enterprise Risk Management

FROM: Actuarial Standards Board (ASB)

SUBJ: Actuarial Standard of Practice (ASOP) No. 47

This document contains the final version of ASOP No. 47, *Risk Treatment in Enterprise Risk Management*.

Background

Enterprise Risk Management (ERM) has been defined by the Casualty Actuarial Society in 2003 as follows:

The discipline by which an organization in any industry assesses, controls, exploits, finances and monitors risks from all sources for the purpose of increasing the organization's short- and long-term value to its stakeholders.

This definition was also adopted by the Society of Actuaries in 2005.

Enterprise Risk Management is a rapidly emerging specialty within the actuarial community and with the new CERA risk management educational certification, could well become an area of practice for actuaries with no tie to traditional actuarial work. The CERA is a globally-recognized ERM designation supported by actuarial organizations in 12 countries with rigorous educational programs.

The ERM Task Force was formed in the fall of 2009 to revisit the need for ERM standards that were previously addressed by an earlier task force in 2007. In June 2010, the Task Force presented findings to the ASB and was then asked to go forward with the development of standards for two broad topics relating to ERM, Risk Evaluation and Risk Treatment.

In March of 2011, discussion drafts for two topics were posted to the ASB website on risk evaluation and risk treatment. The ERM Task Force reviewed the comments received and based on those comments, began work on the development of exposure drafts of standards on risk evaluation and risk treatment for presentation to the ASB.

This ASOP considers the topic of risk treatment. The process of risk treatment is a fundamental part of risk management systems that are found in organizations. In this context, risk is intended to mean the potential of future losses or shortfalls from expectations due to deviation of actual results from expected results.

This standard applies to enterprise risk treatment activities performed by actuaries. Some organizations will face requirements and requests for assessment of the risk treatment part of the risk management system in order to evaluate whether their risk management systems are operating at a level that meets or exceeds professional standards. Regulators in some industries may want similar evaluations.

This standard, along with ASOP No. 46, *Risk Evaluation in Enterprise Risk Management*, is intended to cover the risk evaluation and risk treatment activities within enterprise risk management work but does not cover other ERM practices that are performed by insurers, pension plans, other financial service firms, and other businesses or organizations. These two topics were chosen because they cover the most common actuarial services performed within enterprise risk management systems of organizations. In the future, other standards may provide guidance for other aspects of actuarial professional services in ERM.

These standards, as with all standards of practice, apply to the actions of individual actuaries and not to their organizations, employers or clients.

Exposure Draft

The exposure draft of this ASOP was approved for exposure in June 2012 with a comment deadline of September 10, 2012. Eight comment letters were received and considered in developing modifications that were reflected in this final ASOP. For a summary of the issues contained in these comment letters, please see appendix 2. In general, the suggestions helped improve the clarity of the standard and did not result in substantive changes to the standard.

The ASB thanks everyone who took the time to contribute comments and suggestions on the exposure draft.

The ASB voted in December 2012 to adopt this standard.

Enterprise Risk Management Task Force

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The ASB establishes and improves standards of actuarial practice. These ASOPs identify what the actuary should consider, document, and disclose when performing an actuarial assignment. The ASB's goal is to set standards for appropriate practice for the U.S.