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Country Risk Officer

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A couple of years ago it became popular to discuss a concept where each country (or smaller government entity) would have its own Chief Risk Officer. This idea seems to have fallen out of favor lately but I gave it a lot of thought and even suggested it as a sponsored research project. There was limited interest but I want to document my thoughts now in case the topic comes up again so the idea can build from a base rather than start from scratch.

What follows was written as an RFP for the Society of Actuaries. It has been mildly edited since it was submitted in fall 2015. If anyone is interested in sponsoring such a research project I would be interested in having the discussion.

I am very interested in developing a paper about the feasibility, potential and challenges surrounding a Country Risk Officer position for a large, geographically diverse country like the United States. It is a topic I have thought about quite a bit since it was a hot topic at the 2012 ERM Symposium. While always open to suggestions from the oversight group (hopefully with members from multiple countries), I would plan to include a literature search to share how other countries have implemented this type of position. In addition to my own ideas I would also reach out to review and understand views and recommendations of others. I would then compare and contrast these methods with an idea I have been thinking about for several years, to set up an organization with characteristics similar to the U.S. Federal Reserve system and the U.S. Congressional Budget Office, with branches geographically dispersed for regional risk expertise. Its goal would be to operate as a nonpartisan provider of unbiased information, with a long enough time horizon to overcome the cognitive biases associated with short-term thinking. I believe this would enhance a country's proactive risk management practices and allow a more resilient response. The paper would show how such a system could be developed in a non-bureaucratic way that would stay away from partisan politics. Unfortunately that is a tall order, as we have seen in the U.S. with many governmental bodies charged with public safety.

While the paper would focus on a framework for the Country Risk Officer function, some sub-topics would include the topics referred to in the RFP such as defining the role, typical risks to consider, interactions, positive culture, risk assessment and key risk indicators (which could lead to a dashboard). The willingness to proactively seek to mitigate risk, or set up charges appropriately for accepting it, would be discussed but not in detail as specific risk experts would be better able to create a separate paper dealing

with a specific silo. Using the UN or a similar network to coordinate risk on a broader context can be dealt with but not interactively throughout the paper as that would greatly expand this paper.

Separate sections would detail how such an organization might be utilized in the United States (some thought has been made as to how such a concept would be implemented in Canada as well). Differences would include culture, previous risks dealt with, risk maturity and the types of risks anticipated in the future.

In particular this paper would build off my experience with emerging risks and ERM in general, with a focus on practical methods and less on theoretical responses.

I favor a resilient approach over one focused on quantitative methods. It could be referred to as bend but don't break. I have concerns about the ability of a quantitative model to be useful when looking at risk at the country level. While models within a single silo can be very useful, the wide variation of possible results leads me to favor scenario planning and stress testing to better capture the interactions between risks. A series of table top exercises would be more useful than a stochastic model that applies imprecise correlations to a copula. The success of a country risk officer will be driven by culture, not mathematical models. Understanding those models and being able to qualitatively understand how risks interact is where actuaries could have a role. If you focus too much on models, the actuarial role will be supportive rather than leading the effort.

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