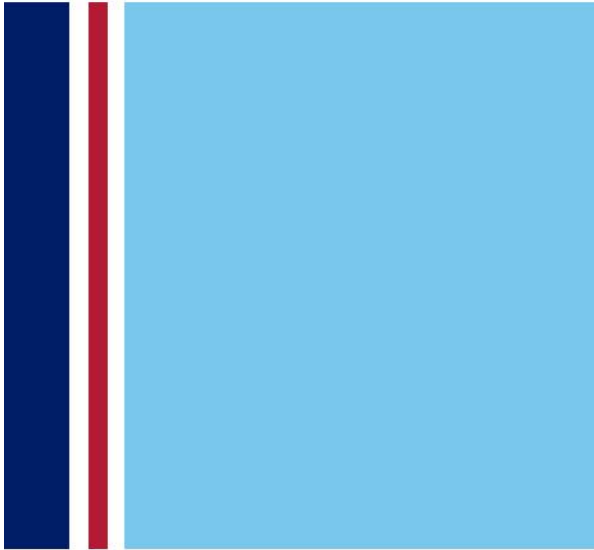


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ERM and the Financial Crisis: A Failure of Theory or Practice?

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**Actuaries Club of the Southwest, Fall Meeting
November 20, 2009**

Agenda

- Defining ERM and scoring the banking sector
- Preventing a future crisis

ERM defining criteria

- [] Enterprise-wide – all areas in scope
- [] Strategic – only key risks
- [] Holistic – not just mitigation ; not just financial risks
- [] Integrated – 2+ risks interacting
- [] Aggregated – measures enterprise risk exposure
- [] Value-based – fully quantifies risks by primary metric
- [] Transparent – disclosures consistent with ERM info

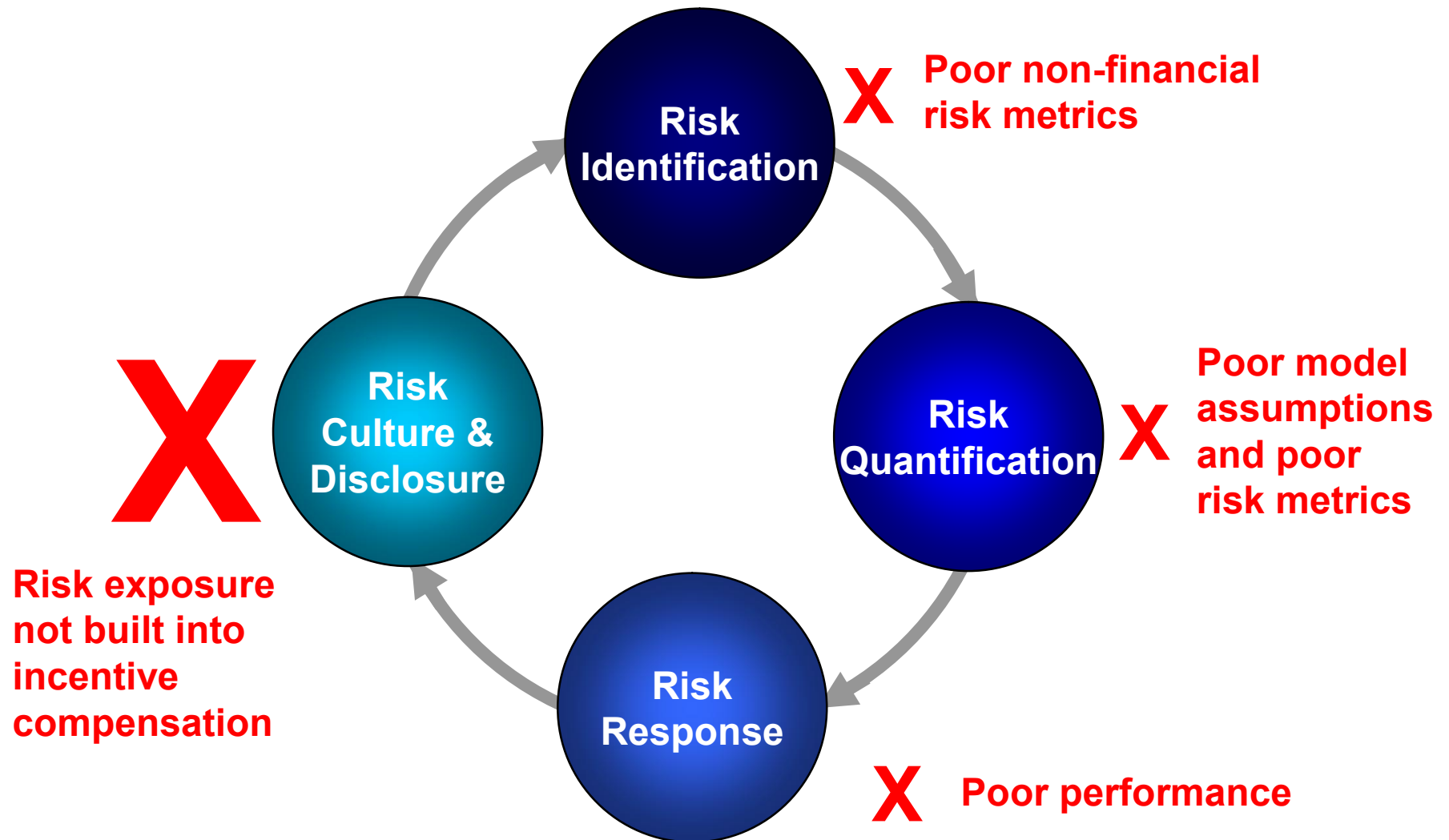
ERM defining criteria – banking scorecard

- [✓] Enterprise-wide
- [✓] Strategic
- [X] Holistic – poor non-financial risk metrics
- [X] Integrated – silo management; silo measurement
- [X] Aggregated – lack of enterprise metrics
- [X] Value-based – only a capital focus
- [X] Transparent – poor disclosures even post-event

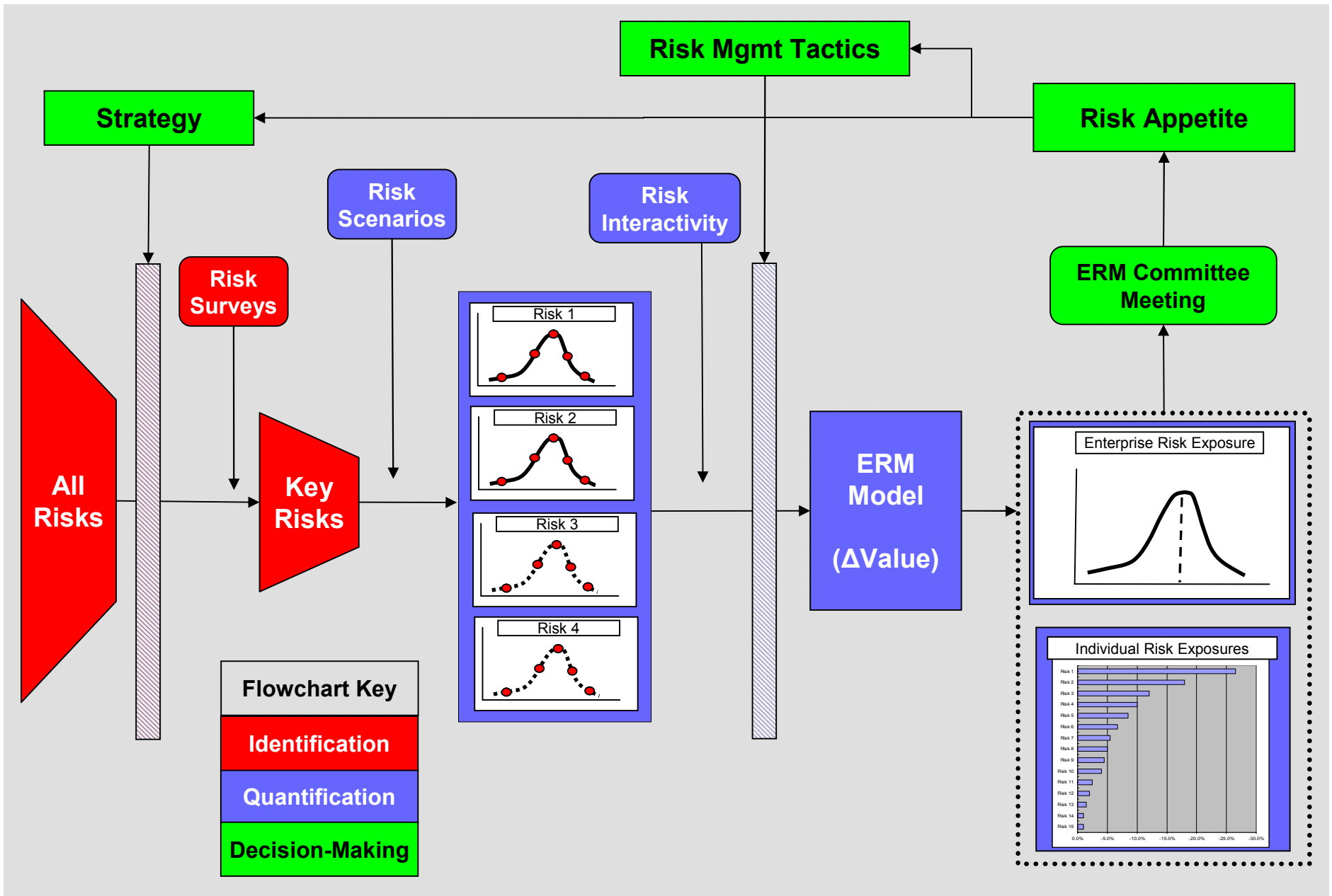
ERM process cycle



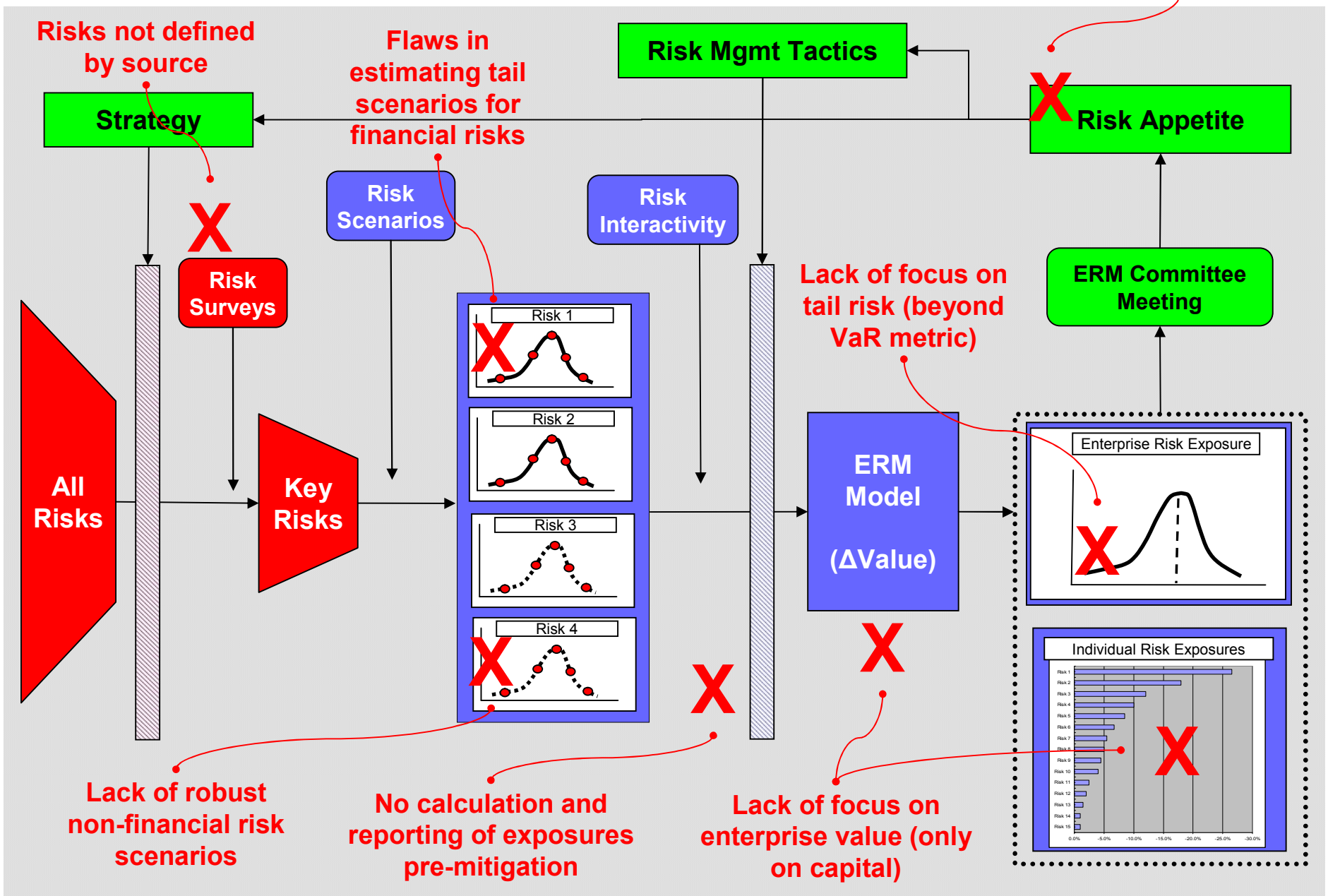
ERM process cycle – banking scorecard



Value-based ERM framework



Value-based ERM framework – banking scorecard



Some actions to prevent another crisis

- Require companies to implement ERM (as defined above)
- Require incentive comp plans to incorporate risk exposure
- Require enhanced risk disclosures: multi-year FCF projection
 - 1) Baseline, based on execution of strategic plan
 - 2) Key risk scenarios, defined by management
 - 3) Standard risk scenarios, defined by regulators
 - Investors apply their own discount rates to FCFs
 - Markets assess company's scenarios v. competitors'
- Provide gov't guarantee during rehab period to rebuild capital
- Country "ERM," e.g., concentration risks:
 - 1) Firms "too large to fail" (e.g., banks, auto companies)
 - 2) Supplier concentration (e.g., energy, capital)
 - 3) Oligopolies (e.g., rating agencies, monolines)
- Retail "ERM"
 - Holistic view of risks and solutions for individuals/families

Contact information



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