



Institute of Actuaries of Australia

Actuaries and Non-financial Business Risks: Operational, Project and Strategic Risk

Prepared by Melinda Howes, Paul Lindeberg and Adrian Johnstone

Presented to the Institute of Actuaries of Australia
Biennial Convention
10 - 13 April 2011
Sydney

This paper has been prepared for the Institute of Actuaries of Australia's (Institute) 2011 Biennial Convention. The Institute Council wishes it to be understood that opinions put forward herein are not necessarily those of the Institute and the Council is not responsible for those opinions.

© Melinda Howes, Paul Lindeberg and Adrian Johnstone

The Institute will ensure that all reproductions of the paper acknowledge the Author/s as the author/s, and include the above copyright statement:

The Institute of Actuaries of Australia
Level 7 Challis House 4 Martin Place
Sydney NSW Australia 2000
Telephone: +61 (0) 2 9233 3466 Facsimile: +61 (0) 2 9233 3446
Email: actuaries@actuaries.asn.au Website: www.actuaries.asn.au

Actuaries and Non-financial Business Risks: Operational, Project and Strategic Risk

Session 6a, Tuesday 12th April 2011

Melinda Howes

Actuaries are experts in financial risk management. But financial risks are only one of three major areas of risk for a business:



For actuaries to broaden their skills to become an Enterprise Risk Manager, we need a good understanding of risks around implementation of strategy, and operational / project risk.

Strategic Risk

92% of businesses have a formal annual strategic business planning process, however 68% do not achieve their planned objectives.

Key risks in strategy centre around:

- developing strategy
- implementing strategy, and
- translating strategy.

The culture of the organisation is key in the successful achievement of strategy.

A range of metrics now exist to measure an organisation's strategy readiness and propensity to deliver strategic outcomes.

Operational / Project Risk

Actuaries who have operational or line management experience are likely to have been exposed to some aspects of operational risk to do with things such as unit pricing, administration systems, underwriting etc. These are areas where the actuary's technical skills are directly applicable.

An increasing proportion of business is now done in a project structure as opposed to being carried out as BAU (Business As Usual).

As the percentage of time many businesses spend on "Business as Usual" continues to decline in favour of an increasing proportion of time spent undertaking "Projects", success in project delivery is vital to business success.

In fact most strategic initiatives (refer above) are delivered by undertaking projects.

But many, if not most, businesses do not have a good record of delivering successful projects. In fact only 2% of projects with budgets over \$10m succeed – that is, deliver on time, to budget and achieve the desired business benefit.

And only 32% of all projects succeed¹.

If we are to manage the risk of poor project success, many companies will have to dramatically change the way they approach projects. As an example, highly effective project-based organisations spend 40% of the project's budget on diagnostics before the project even commences!

Key Takeouts for Actuaries

We aim to give actuaries a taste of the issues and risks involved in strategy implementation and project delivery. This will be useful for actuaries working in general or line management roles, or who are involved in strategy development for their businesses.

However most importantly it will be vital for actuaries who are working in Enterprise Risk Management to understand these risks. Interestingly, whilst strategic risks and to an extent project management have been thought difficult to measure, there are now techniques and metrics available to quantify and measure the risks around these key business functions.

If you would like more information – contacts for the speakers are:

Paul Lindeberg (Strategy) 0419 233 441

Adrian Johnstone (Projects) 0418 676 039

Actuary Kent Griffin can be found online through Members Search.

¹ Statistics from 2009 Standish Group CHAOS report.