

"UNCERTAINTY DOESN'T COME NATURALLY TO MANY PEOPLE. FOR ACTUARIES, IT IS A WAY OF LIFE."



COLIN WILSON

INVESTMENT AND RISK

RISK MANAGEMENT IN GOVERNMENT

"If a man will begin with certainties, he shall end in doubts; but if he will be content to begin with doubts, he shall end in certainties." Francis Bacon, *The Advancement of Learning* (1605).

Heard the one about the optimist, the pessimist and the realist?

To the optimist, the glass is half-full.

To the pessimist, it's half empty.

To the realist, he makes sure the glass doesn't shatter and drinks the contents.

Risk management is about the realist—avoid the bad and enjoy the rewards.

THE CABINET OFFICE REPORT, NOVEMBER 2002

The first major step towards the effective management of risk right across government occurred in 2002, when the Cabinet Office published the important report, '*Risk: Improving government's capability to handle risk and uncertainty*'.

As declared in the foreword:

"Risk management - getting the right balance between innovation and change on the one hand, and avoidance of shocks and crises on the other - is now central to the business of good government."

The report identified three main roles for government in managing risk:

- > As regulator, setting the rules of the game for others;
- > As steward, to provide protection or mitigation of consequences for major events like natural disasters or threats to economic stability;
- > As managers of the government's own business, including the provision of services to citizens.

Past problems were reviewed in the report, including:

- > The lack of preparation of alternatives to the exchange rate mechanism in the early 1990s.
- > Inadequate contingency plans in major change projects, often involving IT.
- > Passport delays in the summer of 1999.
- > Unsatisfactory aspects of the handling of the BSE crisis.

" RIGHT BALANCE BETWEEN INNOVATION AND CHANGE AND AVOIDANCE OF SHOCKS AND CRISES"

CONTINUING NEED FOR RISK-MANAGEMENT

Since 2002 there have been significant positive developments in risk management in government. These include:

- > The Green Book which gives guidance on appraisal and evaluation of project risk.
- > The Orange Book which gives guidance on operational risk.
- > The risk register held by the Cabinet Office for civil emergencies.
- > The risk register held by each Government Department under the mandate of the Department.
- > A cross Government Risk Improvement Group.

But problems still arise. There are regular reports of big IT projects facing major cost and time over-runs. The Government is investing billions as part of the banking bail-out. And these are just two examples.

WHAT ELSE CAN BE DONE?

All the work that actuaries do relates to uncertainty, risk and quantification. So here is what we are doing to assist, working in concert with others:

- > Assisting in co-ordination of risk initiatives round Government.
- > Chairing a cross Government group to see how to use a project risk methodology developed for the civil engineers. We are working with Chris Lewin, an expert actuary in this field.
- > Working with audit processes to assist on questions such as insurance, quantification of liabilities and managing/mitigating/financing risk.
- > Developing experience and skills on banking and investment/asset risk.

**"THE GOVERNMENT ACTUARY'S
DEPARTMENT HAS ACTUARIES
TRAINED IN THE USE OF
MATHEMATICAL TECHNIQUES TO
MODEL RISK."**

So if you would like to find out more of what we are doing, whether or not you have specific problems you would like to discuss, please contact Colin Wilson, who heads our investment and risk initiatives, on 020 7211 2672.