FAIR VALUE ACCOUNTING
Are you a critic or a proponent?

SOA CPD REQUIREMENT
Dispelling the myths and moving toward compliance.

GETTING UP TO SPEED
ERM IN THE LIFE INSURANCE INDUSTRY

HEALTH CARE
Competitors and colleagues talk about their futures in this industry.
An Enterprising Approach to Risk.
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I LOVE MOVIES. I especially enjoy a movie that makes me laugh. Maybe that’s because there are not a lot of new things that we come across in actuarial science that are all that funny. But have you ever learned anything from watching a motion picture?

One movie that I did learn something from recently—and only because I was encouraged to watch it by a mentor of mine—is the comedy “So I Mantled an Axe Murderer.” The film features a talented cast including Nancy Travis, Alan Arkin, Amanda Plummer, Anthony LaPaglia and Mike Myers. But judging from how well it was received at the box office, I’d bet you haven’t seen it. I was encouraged to watch the film because it has a scene in it that captures, in a brief moment, the essence of managing people. Since October 16 is National Bosses Day, I thought I’d write about it for all those actuaries who are somebody’s boss, for those who have a boss that they just want to understand a little better, and for those who want to be a boss someday.

Arkin plays the role of police captain to Anthony LaPaglia’s character, homicide detective Tony Giardino. Giardino is unhybpid in his job, having become a detective expecting to live the dangerous and exciting life of Frank Serpico or Dirty Harry, but finding the reality more like that of Axe Murderer. He’s tired of defending the young detective’s axe murder antics to the commissioner, Arkin, though sympathetic, is powerless to do very much about the job. After all, paperwork is a very important part of police work and as it turns out, in this movie there is no commissioner to answer to anyway. In fact, the situation is much worse than that. A decidedly boring, nine-member committee of private citizens, “some of whom are elected and some of whom are appointed,” governs the police department by quorum.

Just a few frames later, Arkin very uncharacteristically bursts into LaPaglia’s office, slams his fist on the table and begins to bawl him out mercilessly about his efforts on an axe murder case. Shamed and enraged by the exchange, LaPaglia promotes the criminal with a renewed vigor, thanking Arkin profusely again and again as the story plays out.

First, a great boss has to understand that he or she is there for the employee and not the other way around. I recall from my own miserable, initial attempt at management that we often get into this backwards. In fact, when my first employee eventually resigned in frustration, I worried more about how his leaving would impact my own career than I did about anything else.

So what is it that employees need from me or from any boss, for that matter? For some, it’s as simple as showing genuine appreciation. Or it may be that they really want to be left to work independently, having you place your trust in them to complete a job. Others may want and need the structure of a task list, or a set of rules to follow. And yet, every one of them excelled at being an actuary. Apparently, what they liked most about the “best” people and what they detested most about the “worst” these things that they interpret as key boss qualities. Descriptions will differ greatly from employee to employee, so pay close attention and write the information down. Most important, don’t try to interpret them because your own bias will influence how you decode what you hear.

The truth be told, the expectations of employees are often not as high or unreasonable as we may believe. Ever since I became a supervisor, I have noticed that almost any effort on my part that meets with my employees’ expectations for me as their leader is received with much more enthusiasm than I would have ever expected.

Secondly, remember that people follow managers because we’ll tell them, if they don’t, they follow leaders because they want to. Leaders understand that people want to be successful and they want to contribute. Leaders set people up to succeed.

Very late in the movie, LaPaglia’s character, Detective Giardino, sticks his head into Arkin’s office to thank him for his extra efforts only to find Arkin sitting there fretting over this whole very unnatural act. The detective’s enthusiasm is all Arkin needs to reason with him that the risk he took to be a better leader was worth it. Anything now is easy, and you may have to overcome some discomfort to become a better leader, but it’s worth it. Every victory will bring much in the way of rewards—for you and for your employees.

Take someone to see a movie this month. Happy National Bosses Day! Ty Woolridge

Editorial

AXE MURDER MANAGEMENT

BY TY WOOLDRIDGE

Global Best Practices in ERM for Insurers and Reinsurers Webcast

DECEMBER 1, 2009

Learn about the new and emerging enterprise risk management (ERM) practices from international industry leaders around the world.

Join speakers from Europe, Asia/Pacific and the Americas as they share innovative risk-management practices across different geographical regions.

Register today at www.soa.org.
In a moment I will reflect on the strides we (note: we, not I) have made with those goals, but first I want to relate some thoughts on events over my two years as president-elect and president. The first event actually occurred around the time I found out that I was elected as president-elect. My oldest daughter, Andrea Christopherson, received her FSA at the FAC in Montreal in August 2007. It was a very proud moment for both my wife, Loree, and me. Ed Robbins, then SOA President, was gracious enough to invite me up to have my picture taken with him and my wife. I had originally hoped that I would be president at the time my daughter received her diploma, but Ed had beaten me in the election two years before that.

As we faced the upcoming initial three months of intravenous chemotherapy followed by two surgeries to remove the upper right lobe and the right adrenal gland, followed by another three months of intravenous chemotherapy, followed by a pill to be taken for two years (two months into that now), we discussed my upcoming presidency and the extra work and the travel involved. Knowing how much I had worked for this and looked forward to it, Loree indicated that she was fully supportive of me continuing on with the position. She said that she had a tiny tumor in her right adrenal gland. Biopsies showed that the lung tumor had metastasized to the adrenal gland. She had stage 4 lung cancer which is considered incurable. But her oncologist was very upbeat and said while it was stage 4, almost all of her other factors were very much in her favor. By the way, she has never smoked.

Jumping forward to the following August, a less happy event took place. Loree had been suffering from upper back pain for several months. She was going back in to see the doctor who was most likely going to send her for physical therapy assuming some type of muscle pull. We discussed at the breakfast table—a long tradition in our house—that perhaps it would be smart to have a CT scan. She mentioned that to the doctor, who happens to have passed three actuarial exams (that was his fallback in case he didn’t get into medical school). He decided that was a good suggestion. Two days later she got a call from the doctor who informed her that she had a tumor in the upper right lobe of her lung. Initially the course of action seemed to be surgery. Following 10 days of various tests, however, a PET scan showed that she had a tiny tumor in her right adrenal gland. Biopsies showed that the lung tumor had metastasized to the adrenal gland. She had stage 4 lung cancer which is considered incurable. But her oncologist was very upbeat and said while it was stage 4, almost all of her other factors were very much in her favor. By the way, she has never smoked.

In addition, she maintained her full-time college teaching responsibilities, including being chair of the Political Science Department, with just one exception—being relieved from one class in the fall semester. She was with me and our daughters’ families in Orlando in October for my installation. She was with me in Cyprus at the IAA meeting in November, coming back home by herself so that she could have a treatment. She was with me at the three NAAC meetings and the two spring SOA meetings that we have had during this time. Most recently, she was with me in Hong Kong and in Singapore for meetings with the insurance regulators, local actuarial schools and associations, the China Regional Committee, an FAC in Hong Kong, and the IAA meetings in Tallinn, Estonia in late May.

All this while, she has maintained an incredible attitude and encouraged me with respect to my SOA duties. At this point, she seems to be cancer free and the pills are a preventative. She still has some post surgical pain from the incisions, but she doesn’t really complain about that. I am writing this because I feel that Loree has gone above and beyond for the benefit of the Society of Actuaries. I dedicate my work as president to her.

In the background of all these events, we have had a global economic meltdown. Our personal plans for retirement, just like almost everyone else we know, have been impacted. The SOA has been impacted as well. We have had to hone our budget planning and pay particular attention to our meeting world. The cooperation between the five U.S. actuarial organizations has never been better. We continue to discuss ways to eliminate duplication while recognizing the unique roles of each organization. Promoting the SOA as a mover and shaker in North America is not an easy thing to accomplish. But I believe we have made progress through some of the other goals discussed above. As a leader in the risk management business, particularly in light of the global financial situation, the SOA has positioned itself well.

I am humbled to have been your president this past year. Truly enjoyed it and hope that my work will serve the SOA members well in the future. Earlier I mentioned what “we” have accomplished because the support I have been given by staff and volunteers has been tremendous. Little would have been accomplished without that support. Finally, I want to thank all our friends and associates who have been so supportive and caring regarding Loree and her illness. The outreach has been incredible. Thank you all so much.
Stepping Up

Health Actuaries—Opportunities, Challenges and Views

By Steve Glaeser
READ WHAT YOUR COMPETITORS AND COLLEAGUES ARE SAYING about the future role of actuaries in the health care industry.

Faced with the prospect of catastrophic changes in the health industry, the failure of a 150-year-old insurer and a financial system reeling from below-the-belt punches, health actuaries across North America paint the future as a brewing storm—one with a silver lining.

In the last several months, I’ve interviewed over 300 actuaries—mostly in the health and long-term care (LTC) industry—from practicing analysts to retiring, 30-year career FSA veterans. The careful and copious notes I’ve collected show that actuaries can take the lead in the health care and financial market challenges ahead.

The often conflicting thoughts presented here are your colleagues’. You might not see things the same way as they do, but at least you’ll have some idea about what your competitors are thinking.

My purpose is to share candid, off-the-record comments from actuaries. Least you’ll have some idea about what your colleagues’ are thinking. You might not see things the same way as they do, but at least you’ll have some idea about what your competitors are thinking.

NEW PROFESSIONAL SKILLS

There was general agreement that actuaries, once “pigeonholed” (as one veteran put it), are being asked to evaluate larger issues than have been used in the past and while so doing capitalize on up-to-date data sources than have been used in the past. New opportunities in LTC are obvious. The health care cloud is forming and along with it a wave of the United States’ economic and cultural changes ever seen. It is clear that actuaries must lead the charge.

One actuary cited a recent study that shows only 3 percent of people in an employer-sponsored plan use the plan correctly. With increasing sales and fueling profits, one forward-thinking product designer suggested that the consumers desire for choice and control conflicts with a national health care plan where there may be limited, if any, choice or control. (Herein may lie the reason why employers and consumers will continue to demand private plans.)

The Holy Grail of plan design, according to one active designer, is to construct a plan that elicits the desired consumer behavior, e.g., the use of preventative care in the plan that avoids the need for major interventions later. Whether plan designers can become behavior modification engineers or not remains to be seen. Meanwhile the demand for creative solutions is growing.

LTC OPPORTUNITIES

LTC plan design, too, offers some unique opportunities where plans are lagging, costs are escalating, and the cost of capital is increasing. Broader opportunities in LTC are obvious. The health care cloud is forming and along with it a wave of the United States’ economic and cultural changes ever seen. It is clear that actuaries must lead the charge.

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THE

WORD ON

FAIR VALUE ACCOUNTING

BY LARRY RUBIN, VICTOR SHI AND NADEZHDA TOSKOVA
FAIR VALUE ACCOUNTING has been the topic of many actuarial conversations lately. Here’s the latest on what’s being said about the subject.

Fair value accounting (also known as “mark-to-market” accounting) has been in the center of criticism in the recent financial earthquake. It was blamed for everything from the subprime crisis, the credit crunch, problems with credit-default swaps, failures of Freddie Mac and Fannie Mae, AIG’s liquidity crisis, bankruptcy of Lehman Brothers, multibillion dollar write-downs, equity market volatilities, concerns of variable annuities business issued by insurers and even, most extremely, the global economic slump.

This accounting measurement has certainly caused violent tremors in its financial epicenter. Fair value accounting and market conditions

Since 2007, fair value accounting in the United States has tied the value of assets to prevailing market prices. Fair value accounting originated partially due to the savings and loan crisis in the late 1980s and early 1990s in the United States, which lacked appropriate, adequate, and effective accounting rules to value the savings and loan business. Assets or liabilities, as defined under FASB 157 “Fair Value Measurements,” could be assigned into the following three categories:

- **Level 1 fair values**: observable market prices in liquid market.
- **Level 2 fair values**: comparable securities with observable market prices.
- **Level 3 fair values**: unobservable market inputs.

Critics say fair value accounting has led to an unnecessary downward spiral of asset value during the financial crisis and argue that repealing the requirement could allow financial institutions to set a market price for their distressed assets. Proponents of fair value accounting assert that it simply reflects reality, as determined by the marketplace. They contend that the notion that fair value accounting caused the financial meltdown is akin to blaming a doctor for making a diagnosis. This article reviews the arguments of both the opponents and proponents of fair value accounting.

**OPPONENTS OF FAIR VALUE ACCOUNTING**

The leading opposition to fair value accounting has come from broker/dealers, retail banks, insurance companies, specialty lend-ers, thrifts, mortgage writers, investment companies and hedge funds. These key sectors of the financial system found massive asset write-downs in this market meltdown.

In the past several months, especially after the AIG liquidity crisis and Lehman Brothers bankruptcy, financial service companies have vigorously called for the suspension or change in fair value accounting rules. Many of them claim fair value accounting is the primary driver of the financial crisis. For example, the following is one typical statement on the street report: “… probably 70 percent of the real crisis that we face today is caused by mark-to-market accounting in an illiquid market. What’s most fascinating is that the Treasury is selling its plan as a way to put a bottom in mortgage pool prices, tipping its hat to the problem of market-to-market accounting without acknowledging it. Is it a real shame that there is so little discussion of this reality.”

Criticism from well-known public figures or academic figures viewed as neutral in the debate or as “outsiders” has attracted broad attention. For example, many journalists seized on former FDIC Chair William Baar’s criticisms of fair value accounting. Writing for the New York Times, he noted: “Further, when discussing post-crisis banking reforms, there are voices touting that suspending fair value accounting will enable banks to reduce irrational decisions. For example, in one recent Wall Street Journal article, the author asked that “Dropping marks means more capital, but it would reduce the pressure on banks and regulators to make irrational choices about the disposition of questionable assets.”

In summary, those calling for suspension or change in fair value accounting have used some or all of the following arguments:

- When a company is in financial turmoil it has to sell its assets at distress prices that do not reflect anticipated cash flows. For example, IASB defines the condition of financial assets or liabilities as “measured at amortized costs.” In addition, it also rejected exit value in determining fair prices. Financial items valued under mark-to-market accounting should be improved, but not suspended. All this comes despite the fact that recently the same regulatory bodies have been encouraging companies to make their own judgment in determining fair values in distress situations. Similarly, recent proposals decreased companies’ capital due to distressed financial conditions, thus triggering credit downgrades and pulling companies’ stock prices down.

**FAIR VALUE ACCOUNTING**

There are also critics from the academic world. Richard Epstein, professor from the University of Chicago, also wrote about the fair value accounting and credit crunch. He noted that “… Unfortunately, there is no working market to mark this paper down. To meet their bond covenants and their capital requirements, these firms have to sell their paper at distress prices that don’t reflect the upfront fact that the anticipated income streams from this paper might well keep the firm afloat.” An article penned in The Economist did not explicitly criticize fair value accounting, but cited the practical problems of the fair value accounting rules (i.e., the circuit between stock prices and bank’s capital adequacy; problems valuing level 3 securities; and inconsistencies treating assets and liabilities).

Further, when discussing post-crisis banking reforms, there are voices touting that suspending fair value accounting will enable banks to reduce irrational decisions. For example, in one recent Wall Street Journal article, the author asked that “Dropping marks means more capital, but it would reduce the pressure on banks and regulators to make irrational choices about the disposition of questionable assets.”

In summary, those calling for suspension or change in fair value accounting have used some or all of the following arguments:

- **When a company is in financial turmoil it has to sell its assets at distress prices that do not reflect anticipated cash flows.**
- **Mark-to-market prices of many intricate financial derivatives (level 3) are highly reliant on complex computer models, which in turn are highly subjective to model risk, thus distorting the ‘real’ fair value.**
- **Fair value accounting does not provide a true view of long-term value. Financial items valued under mark-to-market rules have distorted the companies’ balance sheets.**
- **Mark-to-market has triggered the margin calls for many mortgage-backed securities (MBS), thus exacerbating the financial crisis.**
- **Fair value accounting has caused market volatility to increase dramatically.**
- **Fair value accounting has prompted huge asset write-downs and has increased companies’ capital due to distressed financial conditions, thus triggering credit downgrades and pulling companies’ stock prices down.**

**FAIR VALUE ACCOUNTING**

There are also supporters of fair value accounting or at least those against suspending it. Defenders of fair value accounting—largely within the regulatory community—worry that suspending the rules will sacrifice the U.S. financial system’s long-term equilibrium path. For example, Arthur Levitte, former chairman of SEC, wrote in The Wall Street Journal that: “… to ask for a suspension in fair value accounting is to ask the market to suspend its judgment … it is accounting智能手机化 that hid the true risk of assets and liabilities these firms (banks) were carrying, distorting the markets, and have caused the investors to lose the confidence for our markets to function properly. Fair value does not make markets more volatile; it just makes the risk

RESTORING CONFIDENCE IS THE KEY TO UNFREEZING THE CREDIT MARKETS THAT MAKE THE WHOLE ECONOMY GO. …

The standard setters, SEC (who has the authority to relax the accounting rule) and FASB (who issued the FAS 157 standard), both defend fair value accounting when facing calls to suspend rules blamed for exacerbating the global financial crisis. In December 2008, the SEC issued a report on the results of its mandated study of mark-to-market accounting. This report recommends that fair value accounting be improved, but not suspended. All this comes despite the fact that recently the same regulatory bodies have been encouraging companies to make their own judgment in determining fair values in distress situations. Similarly, recent proposals...
There are also worriers that, in removing fair-value accounting, investor confidence would go back to “darkness” again. Federal Reserve Chairman Ben S. Bernanke expressed simi-
lar concerns. He said that, according to Bloomberg News, removing the rule would emasculate confidence that firms would own up to their mistakes and lower standards don’t restore confidence.

As such, there are some sponsors supporting the trade/asset managers. For example, according to the same issue of Bloomberg News cited above, one investment strategy manager who owns $300 billion in assets has commented that “Suspending the mark-to-market prices is the most irresponsible thing to do… Accounting does not make corporate views more transparent.”

There are also proponents of fair-value accounting from major accounting firms. Beth Brooke, global vice chair of Ernst & Young, was quoted by The Wall Street Journal expressing the opinion that “Suspending market-to-market accounting, in essence, sus-
PENDS reality.”12 Similar remarks were made by Sam DiPiazza, chief executive officer of PricewaterhouseCoopers, during an inter-
view with Financial Times. “To suggest you don’t track and report fair values means you end up in a world where management still knows the real prices, as do market counter-
Parties, but not the investors.”13

Some market analysts hold similar opinions. An analyst from JPMorgan recently wrote, being cited in the Bloomberg News article referenced earlier, that “Blaming fair-value accounting for the credit crisis is a lot like going to a doctor for a diagnosis and then blaming him for telling you that you are sick.”

The following points summarize the arguments of proponents:

- Fair value accounting has not caused the financial crisis but has been tell-
ing the truth.
- While market-to-market reporting early warnings, the problems of credit-
default swaps could have hurt the financial sector even more.
- Fair value does not increase volatility; it only unveils the problems.
- Short write-downs in fact help to re-
establish stability.
- Suspending fair value accounting is suspending the market judgment.
- Suspending fair value reporting would not restore market confidence.
- On the contrary, without fair value, the already low transparency will dimin-
ish even further, sentencing investors to financial darkness.

Regardless of suspending or keeping fair value accounting, market players and regula-
tors have to join efforts in securing both the investors’ rights to gather comparable and reli-
able information, and the regulators’ needs to understand the risks posed to the financial system. Accounting in itself should not serve as a tool to conceal financial problems, nor mislead with unreliable information.

If an accounting or financial reporting frame-
work serves to maximize investors’ benefits, it must evolve in that information being pro-
vided is as transparent and objective as possi-
ble, no matter whether this information is based on fair value or book value. Certainly, like any other accounting rules, current fair-value accounting rules are a product of compromise of theoretical corrections and practicality that reflect the needs of and perceived benefits to different types of business and enterprises. If fair value accounting were to be abandoned, one must find an alterna-
tive that, for sure, better serves investors’ interests. It is serves to provide information to regulatory authorities it must provide both information that is a reliable estimate of future obligations and the resources needed to meet those obligations.

FOOTNOTES:

1 The S&L crisis in late 1980s and early 1990s resulted in failures of 1100 thrifts and banks associations in the United States.
3 William M. Isaac, “How to Save the Financial System,” Financial Times, Oct. 30, 2008, saying that “when an active market for a security does not exist, the cost of management estimates that incorporate current market prices-good-faith estimates of future cash flows, and include appropriate risk premi-
ums, is acceptable.”
THE SOA CPD REQUIREMENT:

MOVING FORWARD

BY EMILY KESSLER
IF YOU HAVE ANY QUESTIONS about the SOA’s CPD requirements, you’ve turned to the right page. This article looks to dispel many of the CPD myths and get you moving toward compliance.

We’re almost halfway through the first CPD cycle, so we thought it was time to check in and clear up some common questions and concerns about the SOA CPD Requirement.

This article will discuss some of the common misunderstandings that have occurred around the SOA CPD Standard. We’ve also brought back a few of the frequently asked questions (FAQs) from the exposure draft to remind us why the standard looks like it does. And, if you’ve ever wondered why the SOA CPD Standard (and the U.S. Qualification Standard and the CIA Qualification Standard) look the way they do, be sure to read the sidebar on page 26 that discusses the influence of the Morris Review.

First, some abbreviations that will be used throughout the article:

- U.S. Qualification Standard: Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States (sometimes also called the Academy Qualification Standard).
- CIA Qualification Standard: Canadian Institute of Actuaries Qualification Standard—Continuing Professional Development.
- UKAP CPD Scheme: CPD Scheme of Faculty of Actuaries & Institute of Actuaries.

Meeting the provisions of an alternative compliance standard fulfills the SOA CPD Requirement. The only difference between the SOA CPD Requirement and some of the alternative compliance standards is that all SOA members must notify the SOA annually of compliance, no matter what path they use to meet the SOA CPD Requirement by fulfilling Section B. In fact, we know most members will never use those provisions, and that’s fine; Section B exists for those members for whom an applicable alternative compliance standard does not exist.

**MYTH: ALTERNATIVE COMPLIANCE “DOESN’T COUNT”**

The chart on page 23 shows how most SOA members will meet the SOA CPD Requirement. The chart shows that we expect most members will meet the SOA CPD Requirement by meeting one of the alternative compliance standards (found in Section C of the SOA CPD Requirement). Which brings us to the first misunderstanding.

Misunderstanding No. 1: Meeting the CPD requirements of one of the alternative compliance standards is not compliance in full.

As an SOA member, you are subject to the provisions of the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States. While it is more commonly known as the Academy Qualification Standard (because it was issued, on behalf of the U.S.-based actuarial organizations, by the Academy’s Committee on Qualifications), we typically refer to this as the U.S. Qualification Standard to remind us that any actuary who is a member of a U.S.-based actuarial organization (including the SOA) who issues Statements of Actuarial Opinion (SAOs) in the United States is subject to that standard. If you are an SOA member, and you work in the United States as an actuary, you probably issue SAOs and therefore are subject to the U.S. Qualification Standard.

Misunderstanding No. 2: OK, so I am subject to the U.S. Qualification Standard because I practice in the United States. But I know I don’t issue SAOs, so I still can’t use meeting the U.S. Qualification Standard to meet my SOA CPD Requirement.

If you’re an SOA member and practice in the United States you are potentially subject to the U.S. Qualification Standard and you can use that to meet the SOA CPD Requirement. It doesn’t matter (for purposes of the SOA CPD Requirement) if you issue no SAOs; you had a reasonable expectation of being an issuer simply by practicing in the United States.

Alternatives to the SOA Qualification Standard are called “Alternative Compliance” or the “U.S. Qualification Standard.” However, the chart on page 23 shows how most SOA members will meet the SOA CPD Requirement by meeting the alternative compliance standard. How do we know this? We know that many SOA members already must meet another qualification standard. That is why the SOA CPD Requirement allows you to meet the SOA CPD Requirement by meeting one of four international qualification standards (as applicable). The most important thing you can do is read the sidebar on page 26 that discusses the influence of the Morris Review.

What if you haven’t met the Basic Education Requirement of the U.S. Qualification Standard yet but you’re working on that right now (e.g., haven’t met the experience requirement)? Given that you may be issuing SAOs in the future, and will

How Most* SOA Members Will Meet the SOA CPD Requirement

<table>
<thead>
<tr>
<th>Practicing in the United States?</th>
<th>Practicing in Canada?</th>
<th>Member of the Faculty or Institute of Actuaries (UK) or the Institute of Actuaries of Australia?</th>
<th>Retired?</th>
</tr>
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<tbody>
<tr>
<td><strong>Yes</strong> then meet the <strong>U.S. Qualification Standard.</strong></td>
<td><strong>Yes</strong> then meet the <strong>CIA Qualification Standard.</strong></td>
<td><strong>Yes</strong> then meet the <strong>U.S. Qualification Standard</strong></td>
<td><strong>Yes</strong> then meet the <strong>CIA Qualification Standard</strong> (respectively).</td>
</tr>
<tr>
<td>Annually notify the SOA you fulfilled the SOA CPD Requirement by meeting the U.S. Qualification Standard, beginning Dec. 31, 2010.</td>
<td>Annually notify the SOA you fulfilled the SOA CPD Requirement by meeting the CIA Qualification Standard, beginning Dec. 31, 2010.</td>
<td>Annually notify the SOA you fulfilled the SOA CPD Requirement by meeting the U.K. or Australian CPD requirements, beginning Dec. 31, 2010.</td>
<td>You may voluntarily comply, and attest compliance, with your status as “Retired.”</td>
</tr>
<tr>
<td>If you, then the <strong>UKAP (Academy) Qualification Standard.</strong></td>
<td>If you, then the <strong>IAAust CPD Standard.</strong></td>
<td>If you, then the <strong>UKAP (Academy) Qualification Standard.</strong></td>
<td>If you, then the <strong>Retirement</strong> directory will show your status as “Retired.”</td>
</tr>
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</table>

*All SOA members may use Section B to comply, and individuals may have more than one entry available, based on their individual circumstances. Please see the SOA CPD Requirement document and the Frequently Asked Questions at soa.org for more information.

**How Most* SOA Members Will Meet the SOA CPD Requirement**

"DOesN’t cOuNt"
be issuing them as soon as you meet your experience requirement. It’s still reasonable to use the U.S. Qualification Standard to meet the SOA CPD Requirement.

What isn’t permitted is for someone who is practicing outside the United States who has no reasonable expectation of practicing in the United States in the future to use the U.S. Qualification Standard to meet his or her SOA CPD Requirement. This was a practice that has never lived in the United States, never practiced in the United States, works for a company with no U.S. offices, and who has no prospects in the immediate future to work in the United States.

Finally, if you are practicing in the United States, you may want to read the definition of SAO. The definition is broadly written—it’s more likely that you are issuing SAOs than not.

The chart above summarizes the provisions of the U.S. Qualification Standard. Please consult the full standard available at http://www.soa.org/qualstand.html for a complete understanding.

ALTERNATIVE COMPLIANCE: THE CIA QUALIFICATION STANDARD

Misunderstanding No. 4: I’m exempt from the CIA Qualification Standard. Again, we’ve not summarized the detail in the chart, so please consult the full standard which can be found on the CIA Web site at www.cia.org.

The chart on page 25 summarizes the provisions of the CIA Qualification Standard. Again, we’ve not summarized the detail in the chart, so please consult the full standard which can be found on the CIA Web site at www.cia.org.

OTAINING STRUCTURED CPD (ORGANIZED ACTIVITIES)

One of the greatest misunderstandings is how to attain structured credit—using the term generically (or more precisely, credit that’s not self-study—as in sitting at my desk and reading a report). It goes by slightly different names—structured credit in the SOA CPD Requirement (Section B) and the CIA Qualification Standard and organized activity credit under the U.S. Qualification Standard—but we’ll try to clean up some misunderstanding for all three standards.

Misunderstanding No. 6: I must attend an SOA meeting, seminar or participate in an SOA webinar to earn structured credit to meet the SOA CPD Requirement. Closely related: I must attend a meeting, seminar or webinar of a U.S. actuarial organization (SOA, Academy, CCA, CAS, APSSA) to earn organized activity credits under the U.S. Qualification Standard.

You are no longer required to attend a professional development event of the SOA or any other actuarial organization to earn structured credit (organized activity credit).

You can earn structured credit/organized activity credit from any source that you believe provides you with job relevant credit (known as relevant continuing education under the U.S. Qualification Standard or acceptable CPD activities under the CIA Qualification Standard).

Misunderstanding No. 7: My employer runs excellent in-house training sessions. Why is it that my colleagues speak at an external meeting?

The SOA CPD Requirement (Section B) includes a specific requirement for 7.5 hours per cycle of non-employer sponsored credit.

The U.S. Qualification Standard’s definition of organized activities specifically excludes in-house training that does not include any outside speakers. Why?

First, your colleagues’ wisdom is no less valuable at an in-house training session. The reason why these requirements occasionally ask you to hear outside speakers is you need to understand how your colleague’s wisdom compares to the rest of the profession.

The Morir Review (see sidebar on page 26) specifically noted that actuaries who only receive in-house education from their employer tended to become insular; they were in danger of not recognizing when their employer’s practices began to deviate in potentially unhealthy ways from those of other organizations. To have an open exchange of views—outside the forum of the employer—allows employees to understand where their employer’s common practice may be ahead of or out of step with emerging practice. This can strengthen both the profession and the employer.

The value of hearing your colleagues speak at an external meeting?

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The value of hearing your colleagues speak at an outside professional development event is first, most outside panels are constructed such that they represent points of view from multiple forms (not just your employer), so you get to hear what other speakers think of your colleague’s presentation. Second, you get to hear what the audience has to say in the question and answer period. Both of these provide valuable perspective that you cannot get at an in-house meeting.

Misunderstanding No. 8: Going to gradu- ate school to get my MBA earns me (virtu- ally) nothing under any CPD standard because it all counts as business skills credit.

Note: The CIA Qualification Standard does not distinguish between job-relevant and busi- ness and management skills, the SOA CPD Requirement and U.S. Qualification Standard do. This response will only consider the latter two standards.

Much of what you learn in an MBA program would be considered to be job relevant structured CPD credit under the SOA CPD Requirement. Similarly, it could be con- sidered to be a relevant, organized activity under the U.S. Qualification Standard. Both the SOA CPD Requirement and U.S. Qualification Standard specifically allow
If you read the article in the last issue of The Actuary about the U.K. Actuarial Profession (‘A New Era in Regulation for the UK Actuarial Profession,’ Aug./Sept. 2009) you saw a quick reference to the Morris Review of the (U.K.) Actuarial Profession in the first sentence. While that report is now four years old, its impact on the profession—in the United Kingdom and beyond—has been tremendous. One key impact was on the CPD standards you are subject to today.

The Morris Review was undertaken by Sir Derek Morris on behalf of Her Majesty’s Treasury. The review of the actuarial profession in the United Kingdom was undertaken in response to concern about the profession raised in a report by Lord Penrose, initiated after the failure of Equitable Life. The 160-page Morris Review focused on the degree of competition and choice for employers of actuarial services, the regulation of the profession, and the role of the Government Actuary’s Department in the United Kingdom. The report came out with recommendations for significant changes in eight areas, including regulation (covered in last month’s article), education and continuing professional development.

The impact of the Morris Review on the U.S. and Canadian actuarial profession cannot be underestimated. In the United States, the Critical Review of the U.S. Actuarial Profession (CRUSAP) report considered the findings of the Morris Review in light of the U.S. actuarial profession and made many recommendations for self-regulation so that we might not see the regulation (or same degree of regulation) the UK Actuarial Profession has now found itself subject to as a result of the Morris Review. One key recommendation of CRUSAP was that all U.S.-based actuarial organizations should have a CPD requirement for their members (as a membership requirement, not just a qualification standard).

The Boards of the issuing organizations and the volunteers who wrote these CPD requirements and qualification standards looked carefully at the Morris Review’s criticism of the CPD structure in the United Kingdom. In both basic and continuing education, the Morris Review felt employers had too much influence (the review also sharply criticized the self-regularization of the profession, the content of the CPD programme is updated and reviewed at appropriate intervals, with sufficient input from relevant technical experts, including from the regulator; the right balance between formal and informal CPD requirements is achieved; the needs of actuaries working in non-traditional areas are adequately catered for; and need to accommodate the in-house provision of CPD and the danger of over-reliance on employers.

Many pieces of the qualification standards and the SOA CPD Requirement come directly from concerns raised by the Morris Review:

• specific requirements for professionalism education (the review also criticized the professionalism and self-regulation of the profession);
• a balance of self-study and structured (or organized) activities;
• an assurance that some organized activities were coming from a source other than the employer;
• flexibility in determining content to allow actuaries working in non-traditional areas of practice to use professional development content to meet their needs.

In addition, the SOA has developed a Competency Framework to help ensure that the SOA professional development offerings cover the range of skills deemed necessary (and include content from outside the profession).

The Morris Review continues to shape the profession today. We are truly thankful to Sir Derek Morris and his panel’s in-sights on the U.K. profession. They helped us to shed a light on our own profession and hopefully make it stronger for years to come.

To find out more about the Morris Review go to http://www. morrisreview.gov.uk/morris_review_actuarial_profession.htm.

For more information and to read more FAQs visit www.soa.org/cpdrequirement. Comments and questions on CPD can be sent to cpdquestions@soa.org.

Emily Kessler, FSA, EA, MAIA, FCA, is senior fellow, Intellectual Capital, at the Society of Actuaries. She can be contacted at ekessler@soa.org.

THE MORRIS REVIEW INFLUENCES CPD STANDARDS

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GETTING UP TO SPEED
ERM IN THE LIFE INSURANCE INDUSTRY
BY ROBERT WOLF
In this edition of the Evolution of Enterprise Risk Management series, our focus will be on the life insurance industry.

In the ongoing evolution of the ERM discipline, in what phase is the life insurance industry? What are some unique aspects, considerations, and risks that differ in this sector than in other sectors of the economy? How is the corporate risk culture evolving? These and several questions will be addressed in this roundtable discussion with three prominent advisors and experienced practitioners in the sector. They are Dale Hall, vice president and chief actuary at COUNTRY Financial; Max Rudolph, founder, Rudolph Financial Consulting; and Laura Mooney, formerly chief risk officer at Altitude Financial Group. Their bios appear at the end of this article. Robert (Bob) Wolf, staff fellow, Risk Management, SQA, moderated the discussion.

Bob: Gentlemen, thank you for participating in this discussion. Maybe we can start with this question. In part two of this article series, I categorized the evolution of ERM in three stages: Phase 1—Deterministic Risk Adjusted Discounting, Phase 2—Risk Analysis and Phase 3—Corporate Risk Analytics. Where do you see the life insurance industry today?

Dale: I would say on average, 2.5. Many companies at the very least are doing a lot of risk analysis. ERM control cycles seem to be finally getting in place at most companies where risks are analyzed on a consistent basis. Monitoring happens on a more consistent basis. It’s hard to be finally getting in place at most companies.

Laura: It seems the P&C companies tend to have a better handle on enterprise risk appetite. A lot of their risk tends to be catastrophe-related or coverage extension, whether it’s asbestos or D&O coverage, and so they’re most used to thinking in terms of appetite. We don’t want to risk more than 30 percent of the capital in a one-in-250-year event for example. Life companies, in my experience, tend to struggle with it a bit. They tend to evolve into more of a rating agency, or IRC conversation as opposed to a pure economic conversation. So I guess from an appetite perspective, I would put the life companies behind the P&C companies, but I certainly think they’re moving toward catching up to them.

Max: By improving our ERM practices, at the same time silo risks, such as pricing and credit, are also seeing benefits. We’re finally starting to look at how different risks interact on a quantitative basis. At the same time, the companies that have done it well have used a combination of resources, looking at it both from a quantitative standpoint as well as the contributions and skepticism looking at it from a common sense and qualitative standpoint.

Bob: What are some unique aspects and considerations of ERM in the life insurance industry that may differ from other insurance sectors, the broader financial sectors and perhaps the nonfinancial sectors of the economy?

Dale: Life insurance companies play a large community and marketplace role as institutions. We hold a large amount of assets. We invest those assets and in turn, that helps support the operations of municipalities, governments and other corporations. We really are an effective pass-through of dollars from the general world to the public world all around us. That puts us in a unique situation and differentiates us from maybe some of the other nonfinancial sectors where balance sheets don’t grow as dramatically. We have products that have recurring revenue every year and therefore build up a more exponential growth in our balance sheets rather than maintaining more of a static size. So the role that we play in our local, global and international economies adds another unique aspect or consideration to how we manage the risk of a life insurance company’s operations and balance sheet.

Laura: As a general rule, P&C companies, in contrast, basically did not get very excited about the investment arena. One of the big examples of that are Travelers and Chubb. They’ve had a heavy municipal bond portfolio, and very highly rated securities. They didn’t go into securitizing a lot of subprime loans and so forth. They don’t have a mega commercial mortgage portfolio. I mean, P&C companies think differently about this. I’ve always criticized them that type of consideration to thinking this way, but in this case it worked for them. They always think combined ratio and cash flow, and what you take in as premium. How much is paid in losses? And how much in expenses? We don’t take risk on the investment side. We only do it on the underwriting side. So, they tend to stay in extremely safe territory. In this particular scenario, it worked out well for them.

Max: I’m seeing the same thing from health and life insurance companies during some current project work. I agree that it’s a risk because they really haven’t optimized. They’ve just reduced their downside risk.

Laura: It’s interesting you say that because I used to say that about P&C companies, “You’re not optimizing the profile.” Of course I was saying this four or five years ago.

Dale: I believe most life insurance companies in general would agree that the major risk that companies assume is capital markets risk. I’ve had many split debates with the investment folks who tend to like to use most recent experience in terms of credit spreads, in terms of volatility and so forth. They tend to ignore what happened in the early ’80s or what happened back during the Depression and say, “Hey, we’re in a different world now. We have different types of regulation. There are more controls and this and that.” Obviously these comments and discussions went on before what’s happened in the last year and a half or so. A lot of them, at least based on my experience, don’t take risk in the credit, mortgage, real estate, or anything like using a lot of history. So the particular decisions they’re making today are based mostly on what’s happening now in the marketplace. A lot of life companies got fooled and totally underestimated their capital market risk a year and a half ago up to two years ago.

Max: Another group that is susceptible to this type of investment risk is the smaller life insurance companies, where they don’t have a lot of people in their investment department. They outsource that risk and have people outside of their organization managing it. If they think that they really don’t have anybody inside who knows enough to challenge the assumptions that are being used. So you end up getting a little bit of double speak sometimes from the outsourced investment guys. They want to do one thing and they really don’t want to see those benchmarks tied to the actual liabilities of the insurance company.

Laura: Life companies, particularly the inter- national firms, seem to do a lot of risk-neutral analysis and so forth. One of the things I really struggle with is when you’re discounting your liabilities at a risk-free rate or spot rate, you’re doing an economic balance sheet under Solvency II. I expect credit spreads of all sudden widen dramatically. A lot of times when you’re doing your balance sheet under this risk-neutral approach, your assets can collapse but yet your liabilities don’t move at all. I think we’ve really got to come to grips with that whole issue.

Max: We’ve certainly seen some real experi- ence in those types of metrics lately. As an example, some liability features use proxies for various assumptions. A credited rate might even Treasury plus the spread. All of a sudden Treasuries drop and spreads widen by about the same amount. The nominal rate stays about the same, and so the credited rate stays about the same. But you’re actually reducing your overall balance sheet.

Dale: The basic concept is, they tend to stay in extremely safe territory. In this particular scenario, it worked out well for them.

Max: I believe that’s the prudent ERM time horizon. It’s probably hard to discern for the industry as a whole. I think it’s pretty much a function of what your company’s reaction is.
time to risk is. Just as a quick example. Your distribution may be independent of the time your loss is realized and there are a lot of other opportunities to sell through other partners. Your senior management may be very reactive. It only takes a one or two days to respond to situations, so maybe a shorter time frame is appropriate in those instances when contemplating ERM because you know things are going to be reacted to and the risks are going to be attended to. On the other hand, your board or your senior management may desire a broader examination of the issues. They may discuss them, but the decisions come a little more down the road, the responses to situations may be more apt to say, “Well, we’ll research this more thoroughly and come to a conclusion when the board meets next quarter.” So if that’s the case, then the reaction by your agents and the policyholder behavior may not be occurring until well over six months, 12 months, 18 months or 24 months from now. Therefore, in this case, I think you need to have a broader, longer horizon on your ERM measurements to really see what decisions you’re making and how they impact the monitoring that you do.

Max: Personally I think you should look at sev- eral different time horizons, not just one. Any time you’re saying you have a distribution out to the seventh decimal place from a one-year estimate, I think it’s a little bit more attention, and then the widening of a distribution, the cross-domain issues, that’s the case, then the reaction by your agents and the policyholder behavior may not be occurring until well over six months, 12 months, 18 months or 24 months from now. Therefore, in this case, I think you need to have a broader, longer horizon on your ERM measurements to really see what decisions you’re making and how they impact the monitoring that you do.

Larry: Although I mentioned that casualty risks appear more event-based than momentum-based, there are some event-based risks that are really critical in the life industry. The obvious one is a pandemic. I know many companies have done a lot of work in this area. We have not yet modeled that because we haven’t had a 1918 event again. We may have one this fall; we don’t know. Let’s hope not. But that would be a big one, particularly for the life reinsurers and for the life companies—especially the ones that aren’t necessarily in the upper-income or senior-citizen market—which may have antibodies—but more so that are in the middle market and lower age distribution. I think there are some real key issues there.

Dale: That kind of touches on one of your previous articles, Bob, on what determines ERM successes and failures. One can argue that the HIPN scare was a potential success downturn. You try to even that out, and if it’s not doing some event-based or momentum-based, we plan to look at those risk situations in terms of game preparation.

Larry: I think ultimately we want to get to Utopia where you literally can sit down with the board and the CEO and have a conversation on risk appetite. Some firms want volatility in hopes of getting longer-term ROEs that are higher and therefore are willing to take that volatility. Some compa- nies just can’t handle volatility and extensive uncertainty for whatever reason and so when you’re less willing to take risk as a risk appetite, then you’re going to have to figure out from an operational excellence perspective how you are going to get your margins so you can make appropriate returns. Risk appetite has always been a difficult discussion with the top guys. It’s not so much that they don’t understand it, but more so they struggle to put a nail in the coffin and say this is how we’re going to do it. My point has always been: If you can’t pick a risk appetite, indirectly, you already have one. The profile of your business already has a certain appetite that you may or may not like. No decision is a decision—and senior management has to realize that.

Max: Going forward we need to see more risk-adjusted measures used to incenti- er procurement and compensation motivate individual behavior and ultimate performance. ERM is really ERM—enterprise risk and return management. How do we balance and integrate the two?

Bob: It has been argued that one of the great- est challenges in developing an ERM culture within a firm is in budgetary control and incentive compensation. Incentive com- pensation motivates individual behavior and ultimate performance. ERM is really ERM—enterprise risk and return management. How do we balance and integrate the two?

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Dale: I contemplate this question at times trying to draw again on the analogy of the per- sonal finances. Picture the situation where you have one extra dollar to play with. It gets you thinking about: OK, we looked at that from a pension standpoint. Well, what are some other emerging risks where we could try to have a similar game plan?

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LARRY: I see the whole purpose of ERM to be a holistic process that provides insight on the risk the organization is taking and it’s a methodology to provide transparency on those risks with the ultimate outcome to make better decisions. You want the board to make better decisions. You also want senior management to be able to do so. There should be an open transparency within the organization. You want a culture that’s open, such that one can freely talk about various risks. People shouldn’t come to meetings, particularly senior level meetings, with a fear management hat. They’re wearing enterprise hats and looking for the betterment of the organization. The key is: Can you get there? And that’s tough to do. Everybody likes to protect their own turf. Nobody likes to show warts in their organization—this isn’t about trying to make people look bad. This is about trying to figure out what’s best for the organization. It gets to your example, Dale, of a family. It’s based on the notion that “Hey, we have limited finances in the family. How can we best utilize that? How can we optimize our asset and liability mix and so forth?” Same thing within an enterprise.

DALE: Two key adjectives come to mind that make a good culture. One, is that it’s “informed,” at least at a basic level across the organization. How does ERM factor into our operations, our ratings, our stability and our financial strength, those types of things. Information is key. Larry used the word transparency. I think that’s the second key adjective. Trying to make sure that the end goal is not to promote someone’s pet project or to point a finger in saying that the division or this silo is doing things incorrectly. But rather the end goal should be that there is a transparent flow of information at the end, and probably most importantly in a company of any size, is to have someone champion it from a high level within the organization. That gets attention. It then promotes a culture where everyone is coming to the table with a risk management hat on. I think we’ve seen several examples, at least internally here, where marketing programs or advertisements or policyholder communications all stem from a reasonable and transparent risk management approach, and people are performing their jobs as they’ve been trained and educated to do. What also comes from that is the knowledge that risk management is also a goal of the organization, and that comes from someone championing it from a high level at the start.

MAX: I would agree with Dale’s comments and add communication. Transparency leads to a need for honest peer review. Without that honest peer review, you can have all the controls you want, but you’re still going to have people afraid to say anything negative about a project. If you’re going to optimize your results in the long run, you really need to have people with contrarian views that are encouraged to give that honest feedback even if it’s negative.

LARRY: And that becomes tough. I know in the organization I was in, the CEO was rather opinionated and people would always try to come to meetings trying to figure out what the CEO wanted and to support his position as opposed to coming in and providing insight to the CEO to try to steer him in the right direction. This is the process of playing politics and simply trying to figure out what people want to hear. That is not what ERM or an ERM culture is about.

BOB: Gentlemen, we talk about communica- tion, peer review and transparency keys to a prudent ERM culture and that it has to come from the top. This is a good point to dis- cuss to whom you feel the CEO should report. Should he or she report directly to the board, the CFO, the CEO or someone else?

LARRY: In Europe, most CROs in insurance companies and banks report to the CEO, that’s just how it’s evolved culturally. In the United States, for the most part, CROs report to the CFO. One company just made a signifi- cant decision and moved the CRO out from under the CFO, the CEO or someone else? That’s Manulife. I think CROs ought to report to the CEO. That way he or she has a seat at the table when all the important risk and strategy decisions are being made. I think what happens when CROs report to the CFO, no matter how hard you try to make it work, stuff gets filtered down and many times decisions are made when the CFO isn’t fully up to speed on all the risks. Sometimes it is too late when the CFO comes around and says, “Well, wait a minute, when you guys made this decision, did you think it ought to be the CFO reports he be to the board also. The board may delegate that to the audit committee and that’s OK. I think the audit committee ought to have some private con- versations with the CFO and say, “Hey, Larry, is there anything you want to tell us? What’s really happening? What are you really see- ing?” There are a couple companies I know of that actually happens. I think that’s a great practice.

MAX: I agree with that for the larger companies. For smaller companies, I’m not sure they have the expense structure to support that. Then it becomes more dependent on the actual culture. If the CEO has bought into ERM, then the CRO is going to have a seat at the strategic plan- ning table and everything else feeds off of that. If they haven’t bought into it, then the person is likely to report to the CFO and get buried in even a small company bureaucracy and not get any face time.

That’s not very effective. At smaller compa- nies, relative to bigger firms, the culture is really driven by the CEO.

LARRY: In small companies you may see the chief actuary or even the CFO fulfill the CRO role. There won’t necessarily be a separate CRO.

MAX: It is a peer-review advantage at a life insurance company when you have two distinct people serving as chief actuary and CFO. They can act as peer reviewers of each other. This makes it less important where the CFO role ends up. If multiple people who are financially savvy within the organization. If you go to a nonfinancial services company where you have a CFO and really nobody else who’s a numbers person in those C level chairs at the table, it becomes much harder.

DALE: You both hit on major topics that I agree with. I see a lot of value in the chief risk officer having a direct reporting relationship to the CEO or to the board. I think a lot of information and ideas could get watered down if there were others who might have a tendency to filter the thoughts and pro- cesses. I think it’s important as well to have several ERM champions within the organiza- tion—people who can ask good questions and ensure that we’re viewing the same analysis from many different angles so that nothing gets missed along the way.

BOB: Gentlemen, thank you again for your time and thoughtful provoking discussion.

It appears from this discussion that although we have some way to go, we are beginning to see the ERM success stories develop in the industry. Not that we can pin success of ERM as a number, or a score, or a rating, but rather, we are beginning to see it in the development of ERM control cycles and in the development of appropriate discussions in Board Rooms as regards risk tolerance and appetite. In saying what’s needed in a prudent ERM culture—communication, transparency, and peer review, we have identified our continued opportunity to lead the change. We’re getting there.

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WHY FILLING THE FE GAP IS IMPORTANT

There are many financial experts who understand investments for the asset side of the balance sheet, and others who focus on the liabilities. The actuarial profession trains actuaries to understand the interaction of assets and liabilities. This requires actuaries to be experts in each separately as well, and offers a communications role interpreting discussions between investors, accounting and actuarial personnel. Often, actuaries are the first to have that “Aha!” moment when the solution appears.

WHY FILLING THE FE GAP IS IMPORTANT

Regardless of your area of specialization, financial economics is important. Actuaries have the knowledge and skills to integrate financial economics into practice and apply findings to maximize value. With an increased focus on financial economics, the next generation of actuaries will be well-served to have mastered this important intellectual discipline.

This information is excerpted from the current Financial Economics e-Learning module required for candidates pursuing the FSA in the Finance/ERM, Investment, Individual Life & Annuity and Retirement Benefits tracks. Members interested in learning more about financial economics can register for the Financial Economics module and receive CPD credit. 

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WHADDAYA MEAN,
THREE FELLOWSHIP MODULES?

BY PETER HAYES

THE RATHER BLUNT MESSAGE was phrased this way: “The SOA has kindly added another fellowship module for you to do if you don’t fully finish by July 1, 2010.” It was part of an e-mail sent by the coordinator of a company’s actuarial program to students on the cusp of finishing their exams. Its tone was likely replicated in dozens of similar messages in response to the SOA’s announce

ment earlier this year that they were adding an additional e-Learning module as part of the requirements for completing fellowship. Ironically, the response of students has mostly been a fairly passive shrug—sort of a “suck-it-up, let’s get this thing done”—response to a small list of adversity that many of them don’t see as a big deal.

It is a big deal, though, not because of the extra hurdle it places between students and their fellowship. In fact, the fellowship e-Learning modules for the vast majority are a continuation of the e-Learning initiatives they went through as part of FAP (Fundamentals of Actuarial Practice), which students have embraced with enthusiasm. Furthermore, the additional module will not, for most, delay their travel time, so it has largely been taken in stride by students. The decision to introduce the extra module was not taken lightly, however, and it is a big deal to the SOA because it addresses a couple of fundamental problems that had emerged within the fellowship exam structure.

The treatment of Financial Economics (FE) was particularly troublesome. Candidates on the Investment and Finance/ERM tracks found this material to be redundant with regard to their examination content; candidates on the Individual Life and Annuity and Retirement Benefits tracks did not see how this material related to their specialty; and those on the Group and Health track had no exposure at all.

A little background might be useful as to how all of this came about. In its original incarnation, the fellowship e-Learning component, as conceived in the 2005 redesign, was to have comprised four trackspecific modules, not two. Implementation, however, was a different story, driven largely by resource issues (i.e., not enough people!), the expectation was supposed to be that the bulk of the “left out” material would find its way onto the exams, in exchange for there being only two modules per track. As any fellowship candidate will tell you, however, the exams are already overflowing with material, and adding on the module leftovers did not come to pass.

The biggest hole was FE, but this was much more so for tracks other than Finance and Investment. The solution—including insightful direction from the SOA Board—was on the one hand elegant and on the other still a work in progress: the introduction of a third module.

Creating a third module for the other tracks ultimately paved the way to a fairly convenient means of resolving the Financial Economics quandary described above, while at the same time restoring parity across all tracks in terms of the number of modules. The third module on the Group and Health track, for instance, provides an opportunity to introduce Financial Economics and Health Economics without eliminating other important material. For other tracks it is an opportunity to move material from the (rather large) exam syllabus to e-Learning. For example, some of the Pension Finance material currently being tested could be moved to a Financial Economics module that is specifically designed for those on the Retirement Benefits track.

Knowledge of Financial Economics is fundamental to the work of the future actuary, and the Board’s direction mandated that all fellowship tracks have a fellowship-level working knowledge. The elegance of the solution is in tailoring each of the Financial Economics modules to be track specific, thereby reflecting legitimate differences in the way FE is applied in practice, the work-in-progress part refers to the fact that imple-
mentation of the Board’s directive is still being tackled by the Education Committee, and in particular the e-Learning General Officers responsible for the respective fellowship tracks.

Thinking of this as simply introducing an FE module to those tracks that didn’t have one takes away from the most important element of the solution: the FE modules will indeed differ from track to track. For the Finance tracks it will be Advanced Financial Economics, the basic material being learned and tested via the traditional exam route. That’s not to say that other tracks may not have some level of exposure to more advanced FE, but the emphasis will be different, reflecting the trackspecific mandate.

So, while each track will have to do a Financial Economics module, what’s inside each one could vary substantially. The thinking at the moment is that each will have a Financial Economics overview and a Health Economics overview that will be relatively homogeneous across tracks. Sitting on top will be a more advanced FE component for the Finance, ILA and Retirement tracks, and these will not be homogeneous but rather will be track-oriented (for instance, AFE-for-pensions in the case of the Retirement track). The Group Life and Health track will be developing a higher-level Health Economics component, parallel to the AFE in the other tracks, and all tracks will also have a (non-homogeneous, track-specific) Corporate Finance component.

This is the work-in-progress part. The teams to develop the modules are coming together, and the readings, case studies and exercises are being identified and sketched out. One of the guiding principles, reflected well in the work done to date, is that every major topic area should be covered in each of the track modules, but that the depth of coverage of the components can vary greatly. Getting it right is important: financial economics was identified years ago as a key component of the educational experience with which we wanted to endow future actuaries, and its coverage at an advanced level was not where it needed to be. Adding the third module will fill that gap.

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The SOA at Work

FINANCIAL CRISIS STUDY: RETIREEs LESS SECURE

THIS MONTH’S SOA AT WORK column covers several important items—both in areas critical to the SOA’s mission. The first highlights recent research released by the SOA, LIMRA and InFRE, providing a snapshot view of how the financial crisis has changed many retirees’ views of their retirement security. This study was first conducted in early 2008, before the primary effects of the financial crisis had begun to hit the public and before the collapse of major financial institutions and massive investments by the government in rescuing the financial sector.

Given these events, the original study participants were contacted again in early 2009 and asked to assess how their views had changed. While it is no surprise that their views had changed and they feel significantly less secure, this is one of the first studies that has quantified this change in outlook, particularly with such a timely “before and after” assessment. The SOA is a research institution and the actuarial profession has much to offer by way of new knowledge and insight into some of the most vexing issues facing us today. I urge you to please review the findings of this study.

The column also describes recent improvements we’ve made to our e-Learning management system that significantly sped up the registration process for e-Learning materials and allow a member or candidate to use the same password login for a variety of products they purchase. These changes will save waiting time and make the registration process easier. As an added benefit, these changes have already reduced the need for system users to call the SOA’s Customer Service Department for help. We love helping our candidates and members, but know they prefer to move through our various processes without needing to reach out for that assistance.

Finally, in our ongoing efforts at expanding professional development offerings, the SOA conducted its first non-English webcast in July, with great success. (See page 42 for more information.)

I have almost immediate access to e-Learning management system and gain module access. Candidates now have almost immediate access to e-Learning materials regardless of where they work or live. The column also describes recent improvements we’ve made to our e-Learning management system that significantly speed up the registration process for e-Learning materials and allow a member or candidate to use the same password login for a variety of products they purchase. These changes will save waiting time and make the registration process easier. As an added benefit, these changes have already reduced the need for system users to call the SOA’s Customer Service Department for help. We love helping our candidates and members, but know they prefer to move through our various processes without needing to reach out for that assistance.

The SOA is giving members an opportunity to access and use these learning materials regardless of where they work or live.

NEW REPORT SHOWS RETIREEs LESS SECURE, LESS WILLING TO TAKE RISKS POST FINANCIAL DOWNTURN

Retirees are less confident following the recent financial downturn, findings from a new research report by the Society of Actuaries’ Committee on Retirement Needs and Risks, LIMRA and InFRE revealed. The report gauges the impact of the financial downturn on retirees and is a supplement to the 2008 study, Why Retirement Assets Last a Lifetime? Participants of the original 2008 study were reconctacted in April 2009 and posed a subset of the original questions. This follow-up report contains results from 2003 versus 2008. Several major themes are apparent from the 2008 results. Overall, it is evident that the financial crisis has impacted aspects of the current mindset and financial outlook of these retirees. Retirees now:

• feel less secure after the crisis,
• are less confident that they have saved enough for retirement,
• have become more conservative and less willing to take risk,
• are trying to control spending, and
• are more likely to have personal financial advisors.


SOA ANNOUNCES CREATION OF NEW PROFESSIONAL DEVELOPMENT E-COURSES

The Society of Actuaries is now offering professional development e-courses. These courses will allow members additional opportunities to grow their knowledge on a variety of important and valuable subjects, while earning continuing professional development credits from the SOA at Work, the fundamentals of actuarial practice and the SOA’s mission.

NEW TECHNOLOGY OFFERS MEMBERS EASY ACCESS TO E-LEARNING REGISTRATION

The Society of Actuaries recently integrated its e-Learning Management System and main member and candidate database. Previously, when a candidate registered for an e-Learning module there was a delay of up to several days to process the registration and gain module access. Candidates now have almost immediate access to e-Learning products after registration. Additionally new e-Learning registrants can login to the SOA online store and e-Learning modules with the same set of login credentials, simplifying access to SOA products. The most visible benefit integration brings to candidates and members is reflected in online transcripts. Upon successful completion of a module or assessment, credit is now reflected to a candidate’s online transcript the same day a passing grade is issued.

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THE ACTUARIAL PROFESSION IN THE NEWS

MSN Quotes FSA A writer interviewed Max Rudolph for an article about what precautions businesses can take to ready themselves for swine flu.

IRS Names FSA to Advisory Committee The IRS selected Kathryn Kennedy to join its Advisory Committee on Tax Exempt and Government Entities.

FoxBusiness Posts Article Citing SOA Research The MarketWatch article, on how retirees can fight inflation, featured retirement research results.

Treasury & Risk Quotes Fellows The magazine quoted Dale Hall and Sim Segal in a piece on how S&P is boosting ERM.

Insurance Networking News Article Features FSA The Web site interviewed Max Rudolph for a piece on managing business risk related to possible pandemics.

To view all of these articles, visit www.imageoftheactuary.org and click on Actuaries in the News.

SOA FIRST NON-ENGLISH WEBCAST A SUCCESS

Close to 60 people from four countries took part in the Practical Issues and Implementation of the New Chinese Insurance Law Webcast in late July, conducted entirely in Mandarin. Sponsored by the Chinese Region Committee, the webcast was created to educate actuaries in China, as well as those who work with Chinese insurers, on changes in Chinese insurance law that went into effect on Oct. 1, 2009. The webcast included four presenters and one moderator from China. Participants sent in a large number of questions and gave the webcast very high ratings.

The new e-course topics include:
- decision making and communication,
- enterprise risk management,
- financial economics,
- financial reporting and operational risk,
- fundamentals of actuarial practice,
- health systems overview,
- investment strategy,
- pricing, reserving and forecasting,
- regulation and taxation and social insurance.

Learn more and register today at WWW.SOA.ORG.
Equity-Based Insurance Guarantees Conference

October 12–13, 2009
Boston, MA

This seminar is designed to give professionals with limited-to-moderate experience an understanding of how to better quantify, monitor and manage the risks underlying the VA and EIA products.

For professionals well versed in intricacies associated with managing such risks, the seminar provides an overview on what is being done by other experts in the field via case studies, the current state of affairs in the industry and how the market is expected to change in the future. Additionally, participants can expect to meet fellow professionals in this area so as to network and exchange ideas.

This seminar has been nearly sold out in every North American venue for the past four years.

Learn more at www.soa.org.