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INTEREST RATES, RISK SCENARIOS (AND NEW OPPORTUNITIES)

BY R. DALE HALL



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Solvency developments involving financial services and insurers. Financial reporting for insurance contracts. The impact of low interest rates and transition to high rates. These are just some of the topics in the current conversations involving the actuarial profession. The financial services practice area continues to be filled with many challenges and opportunities.

In the past two years, there has been an increased volume of financial service-related discussions, continuing education and research efforts involving the Society of Actuaries (SOA). In fact, you may have joined a webinar, read an article or participated in a session on financial topics. For example, the 2015 SOA Annual Meeting & Exhibit recently had sessions covering global capital standards, low interest rate impact on asset adequacy and insights on economic scenario generators in a low interest rate environment. This area is one in which actuaries have outstanding expertise and many new ideas, with the overall goal of enabling the profession to address major issues affecting businesses and the public.

As noted in the SOA research study “Transition to a High Interest Rate Environment: Preparing for Uncertainty,” authored by Max Rudolph, FSA, CERA, CFA, MAAA; Andy Jorgensen, Ph.D., CFA; and Karen Rudolph, FSA, MAAA: “A new era is at hand, where investment professionals work with actuaries and strategic planners to understand Asset Liability Management (ALM) issues driven by risk exposures in different environments. This collaboration will move insurers closer to meeting their goals and objectives.”

This study looks at the implications of interest rate changes for the life insurance industry, stress testing practices and how to proactively prepare for an uncertain future. It notes that a risk manager’s time can be most effective by describing and testing potential scenarios and their impact. This helps insurers better understand the specific risk exposures and create strategies to address the potential problems that may emerge.

While there are several different scenarios involving interest rates, this research provides key learnings on the path forward, such as understanding product cycles, drivers of volatility, stress testing, regulatory impact, product risks and the outlook of nominal interest rates, in addition to the scenarios.

We continue to pursue additional research efforts in this space. For example, the SOA’s Committee on Finance Research (CFR) is seeking research proposals to produce information, data, theoretical models and empirical tools useful to actuaries practicing in investment and other finance-related areas. Look for more research updates and opportunities at *SOA.org* under Research At-A-Glance. ■

R. Dale Hall, FSA, CERA, MAAA, is managing director of Research at the Society of Actuaries.

dhall@soa.org

action

GOOD RESEARCH READS

REGULATORY STRUCTURES STUDY

The SOA Committee on Finance Research sponsored an update to a research report authored by PricewaterhouseCoopers LLP. The report explores the main differences between the regulatory approaches in the United States and the European Union. The report describes differences stemming from the historical contexts and environmental influences that exist in each of these territories, as well as the objectives of the regulators.

bit.ly/RegStructures

JOINT STUDY FOCUSES ON ORSA PROCESS IMPLEMENTATION

The Joint Risk Management Section (JRMS) released findings from a benchmark survey to help companies address the needs of internal stakeholders with the Own Risk and Solvency Assessment (ORSA) implementation process. This study examines stress tests and scenarios, incentives, governance, behavioral aspects, evaluation of ORSA impact and organizational buy-in, implementation, challenges, and involvement of boards of directors.

bit.ly/ORSAProcess