

Management Uses of Cash Flow Testing

2002 Valuation Actuary Symposium

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Session #17

0

Top 5 Management Uses for Cash Flow Testing Results

1

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5. Basis for water cooler banter

2

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4. Scratch paper

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3. Reason to order a new file cabinet

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2. Allows for meaningful discussion of the importance of the present value of 30th year surplus to the future direction of the company and its correlation with the CEO's retirement age

5

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4. Scratch paper
3. Reason to order a new file cabinet
2. Allows for meaningful discussion of the importance of the present value of 30th year surplus to the future direction of the company and its correlation with the CEO's retirement age
1. Reason to talk to the Valuation Actuary

6

Why Doesn't Management Use It? Top 10 Reasons

7

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11

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12

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13

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14

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15

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16

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3. What's the significance of the pop up scenario
2. All I want to know is did we pass?
1. Tell me how this impacts the current year's GAAP earnings?

17

The Keys to Getting Management's Attention

- Make it real and relevant
- Compare and contrast – total company
- Focus on results and message vs model building
- Expand CFT framework to Risk Management framework
- Persistence and creativity

18

The Keys to Getting Management's Attention

- Make it real and relevant
 - Augment with real world assumptions and scenarios
 - Focus on near term revenue, expense and profits placing longer term results in context
 - Real world sensitivity testing of mortality, lapse, crediting strategy, reinvestment strategy, etc.
 - Focus on relevant risk and business issues
 - PRESENTATION, PRESENTATION, PRESENTATION!!!

If it's a once a year event make it real and memorable!

19

The Keys to Getting Management's Attention

- Compare and contrast
 - Total company results
 - Riskiness of each Line of Business vs total company
 - Analyze the impact of product or distribution diversification on the results
 - Relative year to year contribution to future profitability from various product lines
 - Relative earnings variance of various product lines

20

The Keys to Getting Management's Attention

- Focus on results and message vs model building
 - Create an effective process
 - Spend 80% of the time producing meaningful information and 20% building models = invest in infrastructure!
 - Make believe you're the CEO, CFO

21

The Keys to Getting Management's Attention

- Expand CFT framework to Risk Management framework
 - Leadership – Champion
 - Process – Organization
 - Total company
 - Restructure into real world platforms – best estimate assumptions
 - Model quality
 - Scenario analysis
 - Stochastic analysis
 - Periodic reporting
 - Seeking actions

Move Beyond the Compliance and Annual Event Mindset

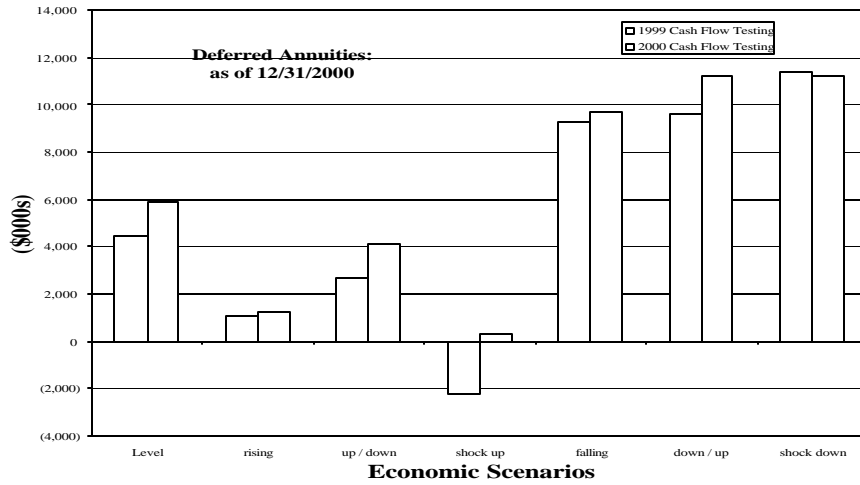
22

Presentation is Key

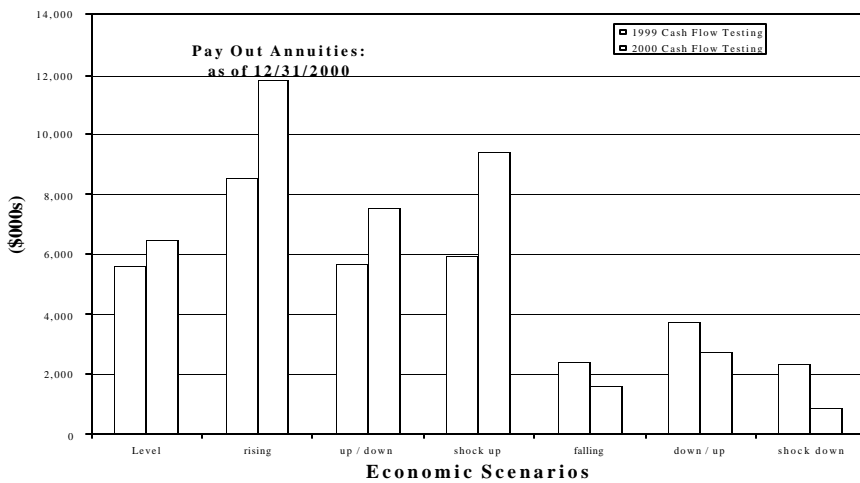
- Management doesn't relate to:
 - Present values of anything
 - 30 year horizons
 - Duration & convexity
- Management does relate to:
 - Concise effectively presented information
 - Short term horizons
 - Earnings

23

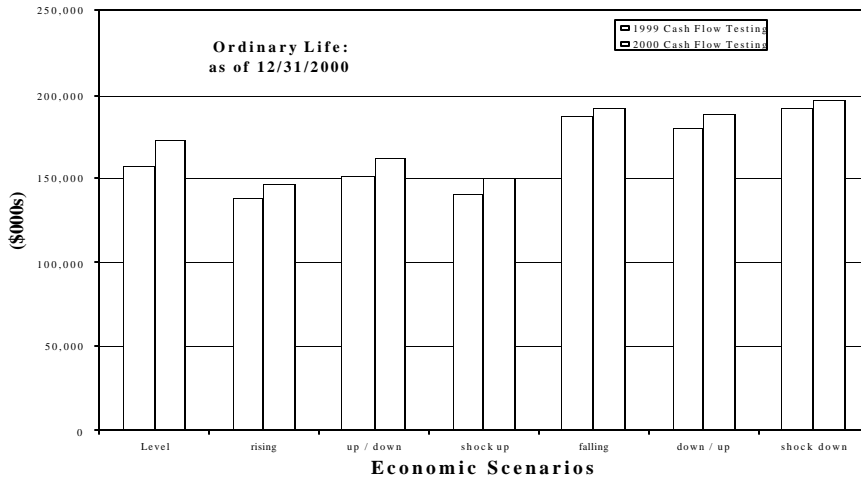
Cash Flow Testing Analysis Discounted Book Surplus



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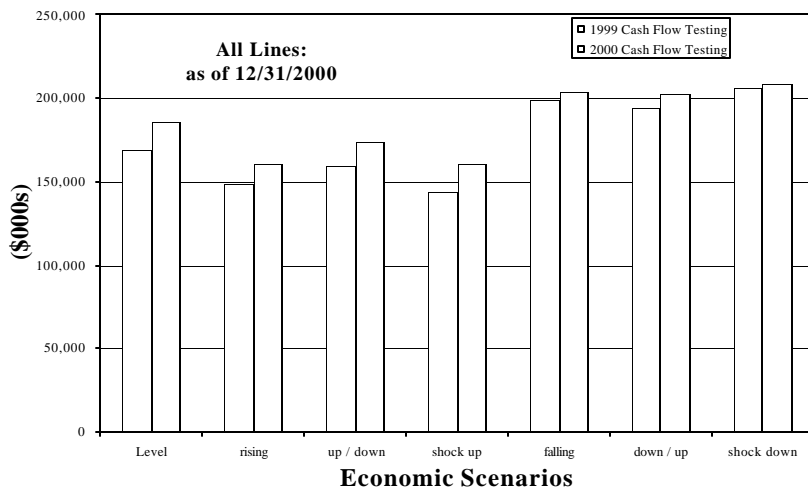


Cash Flow Testing Analysis Discounted Book Surplus



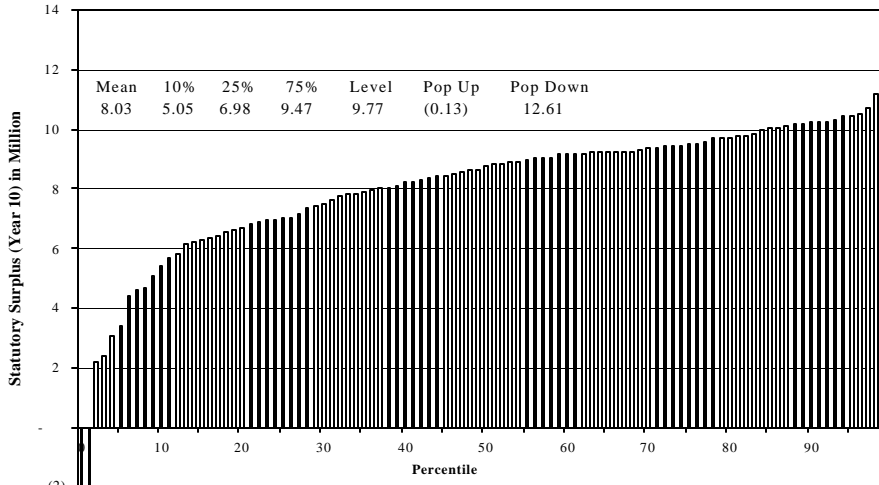
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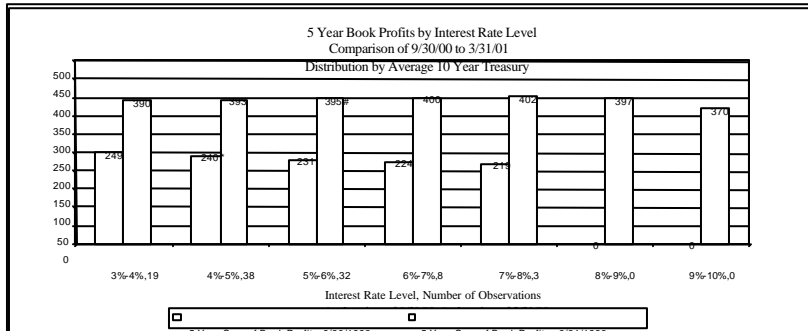


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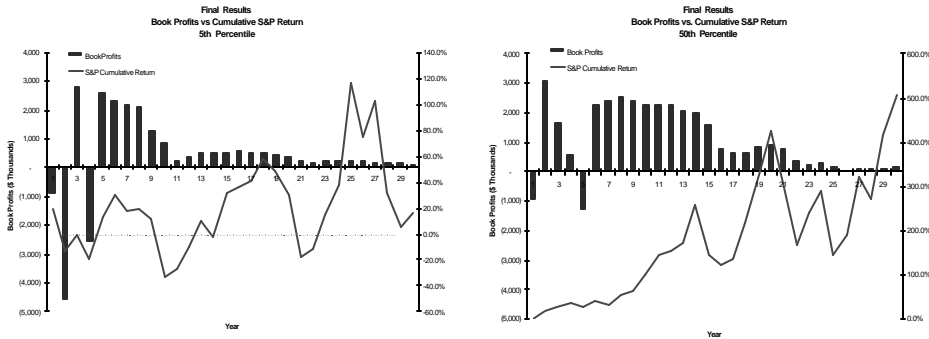
Risk Profile Curve



Rate Level Distribution



Scenario Analysis



30

Persistence & Creativity

- Don't give up
- Request action
- Be creative and proactive in analyzing current issues
- Be creative in presenting results

If You Build It They Will Come

31