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Letter from the Editor

By Ross Bowen

WELCOME TO THE SEPTEMBER ISSUE OF *RISK MANAGEMENT*!

We have a number of interesting articles for you.

Amit Ayer has contributed the article, "Risk Appetite for Variable Annuity Writers." Companies need to learn to balance competing objectives—reducing GAAP earnings volatility, controlling required statutory capital and reserves, and maintaining economic profitability—the "three-headed monster" challenging variable annuity writers.

Stephen Heimstra follows up his well received article in our last newsletter with "Responding to Systemic Risk." He makes the analogy that financial deregulation has forced formerly separated business to compete in the same field of play. Because businesses are increasingly international, regulators are dealing with an open-ended system, sharing oversight with overseas regulators. No one regulator is completely in charge and this open system can create instabilities.

We also have a timely article on financial regulation. The financial reform bill just passed, and Max Rudolph has ideas on how it should be implemented. Sometimes unexpected consequences can emerge from a new regulatory environment, and Max's article gives us some things to watch for as the new rules take effect.

We've found an interesting blogger in Steve Steinberg. Although not an actuary, he's written an interesting article on risk compensation—where improved safety features actually leads to an increase in risk taking, known as risk compensation or risk homeostasis.

Stuart Silverman has written an article on economic capital from a unique perspective. It is accepted practice these days to reflect asset volatility in our stochastic models, but we do not usually model volatility associated with our many liability assumptions. To introduce this idea he uses as a case study a block of SPIAs, for which the mortality cannot be known for certain.

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Dave Ingram and Alice Underwood present their thoughts on risk management in "Rational Adaptability." They believe there are four general risk perspectives: profit maximization, conservation, risk reward and pragmatism. The current ERM paradigm is a risk-reward approach, which means it might not align with managers with different viewpoints. They recommend that companies be agile enough to modify their risk management practices as the external environment changes.

Enjoy this issue! Thanks to all the contributors! ■