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Letter from the Editors

By Robert He and Ben Neff

IN THIS NEW ISSUE OF RISK MANAGEMENT, the editors are pleased to offer readers a few thought-provoking articles on a variety of different topics.

In this installment of our "Talk with a risk management guru" series, Larry Moews, Chief Actuary & CRO of SCOR Americas. Larry shares his views on effective risk management under an evolving regulatory and economic environment with us and provides some advice to actuarial students on career development. We want to thank Bradford Conners and Evan Borisenko for their time interviewing Larry and putting this article together.

"Actuarial Behavior Risks" by Timothy Paris lays out a sketch of a new tool to help life actuaries answer the challenge posed by policyholder behavior risk—it starts with understanding the risk profile of the business, how policyholder behavior risks and stress scenarios affect that, and how this contrasts with the industry.

We continue to work with major banks on the series of "Insights from Wall Street." For this issue, we worked with Credit Suisse on two interesting articles. "Tail, You Lose: Making Sense of Tail-Hedging Indexes" walks us through the thought process of designing hedging strategies to better manage a challenging task for risk managers: managing tail risks. Edward Tom, Stanislas Bourgois, and Grace Koo illustrated their innovative work by leveraging Credit Suisse's strength in the equity derivative area. In "Downside of Prudential Regulation: Lower Liquidity," Ira Jersey shares his insight on a potential issue of the rate market due to regulation. This issue will have an impact on many fronts ranging from bond trading to rates hedging.

In "Down but Not Out: A Cost of Capital Approach to Fair Value Risk Margins," John Manistre presents a concept on the cost of capital method for calculating risk margins. This is an introduction section from his full paper discussing a number of reasonable simplifying assumptions that allow the risk loaded parameters to be calculated.

In "Risks of Measuring Risk: Dodd-Frank Stress Testing May Give False Security," Patrick Richard explores several risks and possible unintended consequence of reliance on the stress testing under Dodd-Frank. A healthy skepticism of stress tests should be the better lesson learned from the recent financial crises.

A group of risk managers share their thoughts about current and future risks in "Seventh Risk Manager Survey of Emerging Risks." While financial volatility continues to be the top risk (59%), while risks surrounding greater regulatory focus and cyber security are trending up.

Last, we provide a list of recent articles and papers that may be of interest to the members. These pieces can provide further information on a broad range of topics. We would like to give a special thank you to David Schraub, Kathryn Baker, and Cheryl Liu for helping us pull together this August newsletter.

Enjoy reading!

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