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Letter from the Editors

By Ross Bowen and Pierre Tournier

WELCOME TO THIS ISSUE OF *RISK MANAGEMENT!*

In this issue our submissions will discuss a variety of topics, from drivers of the financial crisis to the risks actuaries face when working in a consulting position.

We are proud to republish the top three papers from the most recent call for papers, "Risk Management: Part Two–Systemic Risk, Financial Reform, and Moving Forward from the Financial Crisis," which were originally published in January 2011. These papers are:

- First Prize: "The Financial Crisis: Why Won't We use the F-(raud) Word?" By Louise Francis
- Second Prize: "Perfect Sunrise – A Warning Before the Perfect Storm" By Max Rudolph
- Third Prize: "Who Dares Oppose a Boom?" By David Markel

Louise Francis' winning paper, "The Financial Crisis: Why Won't We Use the F-(raud) Word?" is about the role of moral hazard in the financial crisis. Incentives, culture and regulation of market participants are tied to behavior that contributed to the financial crisis.

"Perfect Sunrise: A Warning Before the Perfect Storm" by Max Rudolph comments on the cyclicality of booms and busts over the last 100 years. This paper first frames the discussion from a behavioral perspective, and then poses possible solutions to reduce these systemic drivers.

David Merkel's paper, "Who Dares Oppose a Boom?" was also recognized in the call for papers. It discusses the cause of the recent boom and bust, and why such events are endemic to human nature. He presents his thoughts to regulators for creating an early warning system to detect potential asset bubbles.

"Credit Crisis Lesson for Modelers" by Parr Schoolman discusses the challenges and pitfalls of modeling complex systems on sparse data. Specifically, the paper looks at the sub prime bubble and how both insufficient data and model simplification led to modeling error.

"Five Factors That Courts Consider When Deciding Whether to Enforce Limitation of Liability Provisions in Professional Service Agreements" by Joshua Maggard reviews some of the legal risks professional service firms face. This paper provides examples of how service agreements can be structured to mitigate future litigation.

"Insurance Companies' Highly Controlled Use of Derivatives Has Also Resulted in Protection from the Rogue Trader Problem" by Ed Toy is a fascinating commentary on how sound regulation has reduced insurers' exposure to rogue trading, while others in the financial services industry have suffered humiliating and crippling losses due to employee malfeasance. This paper reviews past banking trading scandals and compares them to the environment present in insurance companies.

Enjoy this issue.

Ross Bowen, FSA, CFA, MAAA, is vice president, profitability management at Allianz Life Insurance Co. of North America in Minneapolis, Minn. He can be reached at *Ross.Bowen@allianzlife.com.*

Pierre Tournier, FSA, CERA, is an assistant actuary in the profitability management area at Allianz Life Insurance Co. in Minn. He can be reached at *pierrectournier@hotmail.com.*