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REVIEW OF UNCERTAIN TIMES: A CHIEF INVESTMENT OFFICER'S JOURNEY, BY ALTON R. COGERT, CFA, CPA, CAIA

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Actuaries have been active in the risk management field for many years, and recently added the CERA to our international stable of credentials. To manage risk holistically requires a firm to look at risk from many perspectives, both qualitatively and quantitatively. Alton Cogert has used his years of experience as an investment consultant for insurance companies to write a book detailing the levers available to manage investment risks. Using alternating fiction and technical discussions, a Chief Investment Officer at an insurer is fired and uses a teaching gig at the local university to keep himself occupied while he looks for a new job. Of course teaching investment policy requires him to come to grips with his own skill set and he emerges stronger from the experience.

The book is an easy read for someone who works at an insurer, and is especially valuable to someone interested in better understanding the perspective of an investment professional in that setting. It is interesting to see the many tools an investment pro has to work with. While admitting that actuaries can be a key ally to understand risks across the enterprise, the actuarial role is limited to providing liabilities as a single scenario best estimate. Better solutions are not developed. A broadly written book short on formulas and developing solutions focused on the interactions between investment and liability cash flows would be valuable.

The main character, Bob Short (perhaps Alton is a baseball fan who named his character for the owner who moved the Washington Senators to Texas? Or is this a reference to height or stature?), has taken the fall for GAAP income results that do not meet senior management expectations. The Army veteran with a young family now is unemployed. Many professionals have recently had a similar experience and this book will help them to cope and move forward to bigger and better opportunities.

Not surprisingly, the higher ups at Short's firm did not understand the nuances of insurance accounting and were caught by surprise when impairments were taken on the investment portfolio. Much like a political scenario, someone (else) had to take the fall or the CEO might be held accountable. Using book yield returns at purchase and meshing that with GAAP requirements for portfolio reporting led to inconsistency between expectations and results.

As the class develops, Short teaches his students about the investment process. Cogert's experience working with companies leads him to appropriately put emphasis on understanding risk appetite and how it changes based on the current environment. These discussions are highlights of the book. But then he states that alternative names for risk management are Enterprise Risk Management, Asset/Liability Management, or Dynamic Financial Analysis. While ALM and DFA are excellent tools to understand a part of a firm's risks, they do nothing to evaluate operational risk, strategic risks or the culture at an entity. He also assumes that actuaries provide the liability cash flow streams so the investment team can develop the strategic asset allocation when best practices would require an integrated process looking at a combined asset/liability portfolio. A detailed discussion of constraints typical to insurers, beyond how to abuse benchmarks, would add a lot of value.

The book warns of hidden dangers, or unintended consequences, of specific investment strategies. This good advice was shown to be true during the recent global financial crisis.

At one point Cogert shares a distribution of net investment income. As the only lever available to the investment silo this is useful, but better would be the resulting distributable earnings resulting from each

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strategy reflecting the interactions between assets and liabilities.

Where Uncertain Times is strongest is the book-long development of the process used by an insurance company to build an investment portfolio. By developing one lecture at a time as Short teaches the local class, various concepts are described and build toward the overall process. Especially useful is the discussion that boards and senior managers should feel comfortable challenging the investment manager for the relationship to work well. The portfolio manager should be able to explain what their actions are and why. This will lead to a successful two-way conversation that helps both groups make better decisions. Of course this is true for each member of the senior management team.

Cogert's book is useful as we try to understand how others think and provides a stepping stone to an ultimate solution. The reader with an actuarial background will find that it helps them to understand how their teammates in the investment department approach a problem. Ultimately this will help the team grow stronger and more productive.

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