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Chairperson's Corner Sanity in an Insane World

By Christopher H. Hause

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Risk.

Leverage.

Vertical Integration.

Sophisticated Financial Arrangements.

Do you remember when these were not dirty words? It was not that long ago. But just like anything that is good, excess can be devastating. You may have heard a while back about a woman who died of drinking too much water, which is the essence of life.

Our financial system has failed. I do not mean to say that it is bankrupt, but it has strayed from its mission, and in doing so has betrayed the public trust and lost credibility.

One of the reasons for the existence of a financial system is to help provide financial security to our clients and the public in general. In our zeal to compete with the high-risk, HIGH REWARD sectors of the financial industry, we appear to have indiscriminately shifted risk to our policyholders and clients.

I remember learning as a young actuarial student the concept that insurance is "reverse gambling." That is to say, insuring is not gambling, but failing to insure against loss is gambling. Protecting against the loss by paying a small premium and

shifting (or pooling) the risk is generally the safe and prudent course of action.

The insurance industry has always been correct to emphasize its unique guarantees. But, what of the situation where an important element of the risk (premium adequacy vis-à-vis an adequate investment return) is shifted to the policy owner? Does the client really understand the effect on policy values of changes in account performance?

Every time we ask employees to allocate their 401(k) among available funds, we are asking them to be their own investment advisors. And, the same thing is true when we ask policyholders to allocate (or rebalance) their subaccounts, or ask them to choose between fixed and variable products.

On the other hand, small companies by their nature and by necessity are simple and focused. Generally speaking, they have a limited market that is served by appropriate products (even tailor-made ones) that maximize the security part of financial security.

We are not too big to fail. We do not double down on our success by vertical integration. We do not take immeasurably disastrous risks, but we stay focused on our clients and their needs. We manage our risks, and we stick to what we are good at.

That is our role and that is how we bring sanity to an insane world. ●