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## Chairperson's Corner

# What a Difference a Year Makes!

By Christopher H. Hause



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The following are some news headlines from August 2008 and one year later:

- 2008: "Wal-Mart Suggests Obama Victory Would Lead to Unionization"

2009: Wal-Mart, along with Andrew Stern, President of the Service Employees International Union, sends a letter to President Obama in support of an employer mandate for health insurance

- 2008: "Unemployment Rate Jumps to 5.7%; GM Loses \$15 Billion."

2009: Unemployment is 9.5% and rising; GM is bankrupt.

- 2008: "Black Activists to Obama: 'What about the Black Community?'"

2009: Obama arranges a "Beer Summit" at the White House to defuse national tension over what might have morphed into a "Black vs. White" incident in Cambridge, Massachusetts.

- A year ago, the Dow was at about 11,500. It bottomed out at about 6,500 and has since bounced back to about 9,000 (August 2009).

Every once in awhile, it is both entertaining and informative to look back and see where we started, the path we took and where we are now.

Most of us in our personal and business lives make goals and formulate plans to reach those goals. Success in reaching goals usually takes equal parts of the following:

- 1) Vision,
- 2) Hard work, and
- 3) Honest self-assessment.

While not the focus of this article, I believe that the Society of Actuaries' (SOA) leadership and staff have done an outstanding job of setting their goals and tracking their progress toward them. As busy individuals and employees, we do not always have the health and perception of our profession in the front of our minds. For that reason, we need and are indeed fortunate to have the SOA leadership and staff that we have, and I call on every one of us to support their valiant efforts.

More locally, about one year ago, the Smaller Insurance Company (SIC) Section had its first ever (I think) annual face-to-face planning meeting. The theme of the meeting was primarily self-evaluation. For instance, are we doing everything we should to support SOA meetings and symposia? Are our publications timely and effective? Are we providing maximum value to our members?

Several new directions came about because of this evaluation and brainstorming.

Due to the sizable contributions from Alice Fontaine and Norm Hill (friends of the council), and Robert Hrischenko (*Small Talk* editor) we have supplemented the biannual newsletter with a more timely blast e-mail containing valuable information about regulatory happenings.

The SIC Council has also focused on Principle-Based Reserves (PBR) and the impact on small companies. Thanks to Bill Sayre (friend of the council), and Joeff Williams and Karen Rudolph (council members), we are assisting and promoting studies on the Stochastic Exclusion Test and the expenses of compliance with PBR for smaller companies.

Consistent with SOA direction and the emphasis on risk management, we are sponsoring annual meeting sessions on Enterprise Risk Management (ERM) for the smaller company. After all, the “big boys” are not the only ones with complex and interacting risks.

So in some ways, it seems like a year is a long time, but it can easily slip by. I have enjoyed my stint as chairman and I look forward to staying on as a friend of the council in the future.

What I want to ask of you is to support the efforts of your section council in at least one of the elements of successful strategies:

- 1) Provide vision. Let us know what challenges you see and how we can help address them.
- 2) Help with the hard work that it takes to put on meetings and symposia. Volunteer your services.
- 3) Be brutally honest. If your section falls short of your expectations, do let the leadership know.

I invite you all to come to the Smaller Insurance Company Section breakfast on Monday at the SOA 09 Annual Meeting and see what your council is planning in the coming year, and I invite you all to contribute to our future success. ●

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Enterprise Risk Management (ERM) ... | Continued from page 1

and communication. This is especially important for senior management and boards.

5. Projections included in actuarial opinions and asset adequacy studies should serve as the bases for ERM projections.
6. These projections may be expanded for ERM, to show more alternatives and ranges.
7. Implications of these projections must be thoroughly conveyed to senior management and boards. The worst end of ranges of results should often be considered as the point of maximum risk the company is willing to bear. From inspection and analysis, some range among various alternatives may represent the company’s “maximum appetite for risk.”

In some cases, the worst end of projections has been called an identification of tail risk or material tail risk. This label seems to have arisen with variable products providing minimum guaranteed benefits. At the unfavorable or tail end of projections, at some point, massive amounts of liabilities for the general account will suddenly be generated.

For other products, given a reasonable amount of projections, worsening results should appear gradually.

8. Often, the worst and best results of ranges of projections can be described with terms such as “stretch” and “remote.” If worst-case projections are sufficiently severe, they may deserve a label similar to “nuclear holocaust.” For many companies, this degree of severity would not be useful.
9. In some companies, recipients may ask for assigned probabilities of occurrence of these results. If actual policy reserves have a 70 percent Conditional Tail Expectation (CTE) and risk-based capital plus reserves have a 90 percent CTE, these may be used for assigned probabilities. Confidence levels are similar to CTE and may be preferred by some actuaries. The exact meaning of CTE would usually have to be explained.

Some years ago, an actuary for a very large company told me that one board member demanded that policy reserves have a 99.999 percent confidence level. While this hardly seems realistic, actuaries should be able to express various degrees of confidence in their projections. These statements may be qualitative, quantitative or a combination of both.

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