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An Interview with Larry Moews, Chief Actuary & Chief Risk Officer of SCOR Americas

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Bradford: Larry, thanks for taking the time to speak with us today. Before we dive in to some of the hot risk topics of the day, we'd really like to hear a little about your background and experiences. To start, what are your responsibilities as the CRO of SCOR?

Larry: As a company, we are in the business to take risk, but we want to take the right risks, the right amount of these risks, and we want to get an appropriate return on these risks, so my role involves determining how we can best do that. That includes identifying risks, assuring that proper governance is in place, assuring that appropriate mitigation has occurred when necessary, proactively optimizing the value of our in force business including the use of retrocession, being as transparent as possible through risk dashboards so that senior leadership can make the best business decisions possible, dealing with regulators in the United States and Europe on risk and solvency issues, etc. Risk dashboards must be useful to help focus attention on the most important risk challenges. The worst thing you can have is a 50-75 page document in 6-point type with no margins, which may have "everything in the world" in it, but it doesn't crisply communicate key risk messages effectively in order that we can focus on taking corrective action where needed.

Bradford: That sounds like quite a challenging job. Can you discuss what your career path has been like and what experiences you've had that have led you to your current position?

Larry: I think my background is probably ideal because I believe that the most effective risk person is someone that has an extremely broad background. In my career, I've been able to do so many things that it's allowed me to really see the business from so many different perspectives. I would recommend to anybody who really wants to get into risk to get as much exposure as they can—jump around to as many different product lines (individual & group life, health, disability income, long-term care, auto, homeowners, commercial lines—ideally from a primary and reinsurer perspective) and disciplines (actuarial, finance, ALM, strategy, distribution, investor relations, underwriting, I.T., operations, M&A, etc.) as possible. Depending upon the culture of the company, it is sometimes quite difficult to get some experience outside of the actuarial arena, but go for it if the opportunity is there. I would also say that I can't imagine being a chief risk officer in an insurance company—particularly a life insurance or reinsurance company—without an actuarial background. I just rely so much on these skills. I'm not saying that a non-actuary can't perform the CRO role, but I personally would find it quite difficult to be effective if I didn't have that broad and deep base of knowledge.

Evan: I can see how it could take a diverse background to really lead an effective risk management practice. You mentioned earlier that one of the challenges you face is balancing risk and return. What kind of strategy do you take to be able to do that?

Larry: There are four key stages that companies and individuals go through when it comes to risk management maturity and effectiveness. Many people initially think that risk management means "thou shalt not do"; the risk management police are coming down the hallway; everybody hide! Getting beyond that is stage one of basic traditional risk management. Enterprise risk management is stage two, where you look holistically at risk throughout the enterprise and not through the lens of individual business divisions or functions. We've now covered the easy part.

Then you move to what I call ERRM—Enterprise Risk and Return Management. If you're going to take on risk, you better get a proper return, and if you're going to get a good return on something, you better find out what risks you are assuming to get that return; you can't talk about one without the other as there is no "free lunch." Then you get to the ultimate stage four, which I call ERRO—Enterprise Risk and Return Optimization. That's where you really get into determining the best mix of risks that provides the optimal rate of return to maximize the embedded value of the enterprise. This is easy to say but difficult to do, but ERRO is the "holy grail" or "efficient frontier" that we all should be striving to achieve. Do not think you ever fully reach this stage because you never do… always room for continuous improvement and further optimization!

Evan: What tools do you use to perform this analysis?

Larry: Our most important tool is our Group Internal Model that was developed for Solvency II. This model helps measure our various risk profiles on both a stand-alone basis and on a holistic basis reflecting the various correlations and dependencies among our various businesses.

Evan: It sounds like it's a very sophisticated level of risk optimization that you have at SCOR, but how do you get the culture at SCOR to embed that risk philosophy, and how do you influence senior management to be on board with that kind of a vision?

Larry: It happens at the top. Our CEO is very much in tune to risk and return optimization; we even call our three-year strategic plan, "Optimal Dynamics" and our CEO personally chairs our Group ERM Committee. When he came to the company about 12 years ago, SCOR had some difficult financial issues to address in order to get the company back on track. This was the beginning of our very strong risk and return culture that clearly continues to this day. In our public disclosures, we state that we have only two corporate goals—a return goal and a solvency target. There's no revenue goal although we certainly want to grow profitably with a high degree of discipline. Management is not forced into a situation where we have to write a particular piece of business to get rewarded. We're a public company, so we want to see the stock price grow, our shareholders get rewarded, and all other stakeholder interests addressed, but it all starts with a strong risk & return mindset. In summary, there's two overriding goals that shape the whole company—return and solvency—and that's it!

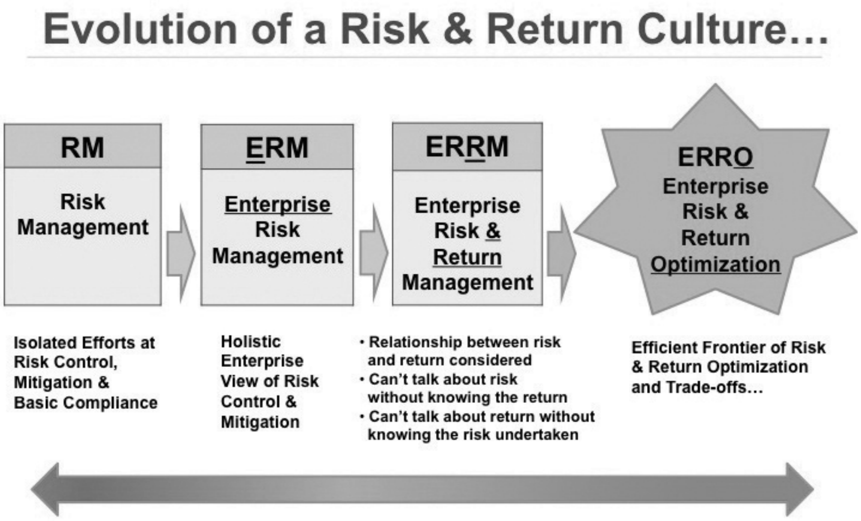
Larry Moews, FSA, CERA, MAAA, is SVP, chief actuary and chief risk officer at SCOR Global Life Americas in Charlotte. N.C. He can be reached at *lmoews@scor.com.*

Evan: You've brought up how even within the Americas company, there's a corporate role. How does the nature of SCOR, as a P&C and life company, as well as being such a global firm, affect your role as the CRO of the American unit?

Larry: I'm one of the few people in the company that actually has P&C and life experience and responsibility. When we acquired Transamerica Reinsurance and Generali U.S. to become the #1 player in life reinsurance in the U.S. and with growth on the P&C side as well, the chairman came to me and said he would like me to be the CRO of all the Americas from a holistic risk and return

ENTERPRISE RISK & RETURN OPTIMIZATION (ERRO) IS THE 'HOLY GRAIL' OR 'EFFICIENT FRONTIER' THAT WE ALL SHOULD BE STRIVING TO ACHIEVE.

CONTINUED ON **PAGE 8**



Evolution of a Risk & Return Culture…

RM
Risk Management

ERM
Enterprise Risk Management

ERRM
Enterprise Risk & Return Management

ERRO
Enterprise Risk & Return Optimization

Isolated Efforts at Risk Control, Mitigation & Basic Compliance

Holistic Enterprise View of Risk Control & Mitigation

- Relationship between risk and return considered
- Can't talk about risk without knowing the return
- Can't talk about return without knowing the risk undertaken

Efficient Frontier of Risk & Return Optimization and Trade-offs…

perspective now that over 40 percent of our global business is in the Americas.

It is not that unusual that the P&C and life sides do not talk to each other on a regular basis. The clients on the P&C side are different from the clients on the life side, and the P&C clients tend to be more global while the life business is more national in scope (within each country). The whole reason we believe so strongly in the global P&C and life reinsurance structure has to do with the diversification of risk. A pure life reinsurer might have a more difficult time being capital efficient without covariance credits from uncorrelated P&C risks… and vice versa.

Evan: Regarding the acquisitions of Generali U.S. very recently and TransAmerica a few years back, to what extent did they affect you, and did you have any sort of input into the analysis that went into the acquisition or the integration of the parts since then?

Larry: I lived and breathed the acquisitions when they were happening; I was on the sell side of the equation when I was part of Transamerica being acquired by SCOR, and I was on the buy side when SCOR was acquiring Generali U.S. last year. Risk plays a huge role in this because we run the business through our group internal model capital formulas to see how much capital we need to hold in the enterprise in total once we bring the acquired businesses and the corresponding set of risks into the company.

With acquisitions, we also evaluate their senior management very heavily as far as leadership, integrity, reputation, client relationships, technical skills and industry knowledge. We want them to remain with the team because the people are just as important as the ongoing business that's being purchased. We've been very fortunate in both cases that the senior team has for the most part stayed intact.

Evan: It seems that a lot of attention is being paid to the U.S. market; what effect does the market-consistent capital standard of Solvency II have on SCOR's ability to compete against other firms that are playing in the U.S. market?

Larry: The market consistent approach in Solvency II tends to penalize businesses with long-term guarantees… particularly long-term capital markets guarantees, whether it's fixed or variable annuities… but those are two product lines for which SCOR has no risk appetite. We're not looking for capital markets risk beyond what you would normally generate from cash flows in running the business. So for us, Solvency II hasn't been a game changer in the U.S.

Evan: Are there any other regulatory developments—such as Own-Risk Solvency Assessments or reinsurance collateral regulation changes in the United States—that are on your risk dashboard?

Larry: Yes, there are a lot of things in the regulatory arena today that appear on the dashboard in addition to just regularly running the business. There is uncertainty today because the NAIC doesn't necessarily have agreement among all its commissioners on the approach it wants to take in many respects; for example, there's a question of when and if principle-based reserves will be implemented. Also, with outdated redundant statutory reserve requirements, the situation with life insurance captives is certainly a hot issue today. It's all reflected in our risk dashboard, and it's something that wouldn't have been there 10 years ago.

Evan: Is there anything that you're trying to do to either prepare or take some sort of preemptive measures in advance of impending regulations or events?

Larry: Absolutely. We're doing things so that no matter what scenario comes up, we'll be protected in the best way possible. We should be doing that on all risks—whether it's regulatory risk, economic risk, mortality risk, or even operational risk. For example, we have an office in New York on Water St., and I guess when the name is Water St., that should be a sign that there may be a significant risk there. And there certainly was—when Superstorm Sandy hit, we had seven feet of water in the lobby for a few weeks. That was an operational risk for us in that office; it was out of commission for a while, so it tested our remote capability to an extent we never expected, but we lived through it and further improved our business continuity plans.

Evan: What are some of the key elements to creating an effective risk dashboard, and what does SCOR do to accomplish them?

Larry: It's critical that dashboards are as transparent and measureable as possible. After all, being "chief transparency officer" might be the most critical part of being chief risk officer. You can put a whole bunch of subjective comments in there, but when you have the tangible measures that support why you feel a risk is a red, yellow or green, I think that helps a lot. I tell my dashboard folks that I want to be tangible, crisp, and measureable—whether its risk limits by individual or the amount of exposure we have in any one building or geographical area. We do utilize heat maps, which really helps communicate to management what's happening.

Evan: A topic that seems to be really prominent in reinsurance discussions today is the role of capital markets in alternative risk transfer mechanisms. From reading SCOR's annual report, it seems that the company is trying to not just view it as competition, but also to use it as a retrocession tool and to try to help clients structure some of these transactions. What is your role in that process, and what is your view on the future of capital markets activity?

Larry: I think it's here to stay. Both P&C and life companies are looking at both capital markets and reinsurers to help provide certain solutions at a fair price. Some of them are using it to get economical rates, and some to spread out counterparty credit risk—both are valid reasons. We use cat bonds as innovative risk mitigation vehicles on both the life and P&C side. But you're right—on the other side of it, capital markets become a competitor for us in the traditional reinsurance market space, especially with P&C. There is clearly increasing convergence between reinsurance and capital markets which one could view as both a threat and an opportunity. I think this helps make us a better company overall.

Bradford: I've noticed that not as many actuarial students go right into reinsurance coming out of college as some of the other fields, but what advice would you give to actuaries who are new to the industry and want to work in reinsurance at some point in their career?

Larry: I think it's very beneficial for anyone to get experience in the reinsurance area. Not only is it kind of fun and you see the industry from a broader perspective, but you

CONTINUED ON **PAGE 10**

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also get to see things that different companies are doing. For example, companies that might have the exact same underwriting standards and the exact same target market can have vastly different mortality. That was an eye-opener for me. You wouldn't get that knowledge if you just stayed in a primary company. I was somewhat naïve about it before I moved over to reinsurance, but now I certainly see the industry from a different holistic perspective.

Bradford: What would you say is the future of actuaries in non-traditional roles such as enterprise risk management?

Larry: I would disagree that ERM is a non-traditional role; I think it's becoming the heart and soul of a lot of insurance and reinsurance companies. You'll always have product development and valuation actuaries, but I think risk is just as important as either one of those. Like I said before, if you go into risk and just stay there, it wouldn't give you a broad enough base of knowledge to really be effective. One of the biggest problems with risk is that you don't know what you don't know. You can be thinking things are really good—that you have a real good handle on everything—but then something will blow up, and you'll wonder why you didn't know about it earlier. But the more experience you have seeing different sides of the business, the somewhat more prepared you'll be for those "black swans" that just suddenly pop up from nowhere.

Evan: Larry, thanks so much again for speaking to us today. Your thoughts have been very insightful and we appreciate your willingness to share your knowledge and experience. Is there anything else you'd like to add before we wrap up?

Larry: It's important to make sure that risk is not considered as just a compliance function. Yes, there are certain compliance standards that you have to meet such as ORSA, but the whole reason you do enterprise risk and return is to make better business decisions to drive optimal business value. You're not doing it to look good or to put together fancy presentations; you're doing it to optimize the value of the business so everyone wins—clients, shareholders, employees, agency forces, regulators, rating agencies, society as a whole, etc. ☆