



SOCIETY OF ACTUARIES

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statement to see if it appropriately supports these criteria. It is also looking at various ways that companies assess and manage risks to determine what, if any, place DFCA may have in their future efforts. The Society of Actuaries Financial Reporting Section initial response includes consideration of an internal management "viability analysis."

SOA Big Tent Concept

Howard Bolnick's "Big Tent" concept of actuaries "as the leading professionals in the global financial services industry" is built on broadly defined financial risk analysis and management. Arguably, rigorous risk management is becoming increasingly essential for financial enterprises to be successful. DFCA supports his concept and this need. In fact, a number of companies are already using this analysis as part of their capital allocation and other business decisions.

SOA Research

The SOA Website describes the results of recent studies, many of which could be quite useful for DFCA. These studies are summarized as part of the DFCA presentation at the last Valuation Actuary Symposium. You may contact Syed Ali at the Society office for specific needs or to determine what is "in the works" to be released soon.

Handbook

Copies of the Dynamic Financial Condition Analysis Handbook published in a loose-leaf binder format for easy addition of periodic updates are available through Beverly Haynes in the SOA Books Department (Phone 847/706-3526; Fax 847/706-3599). The cost is \$40 for the complete handbook. Updates are \$15.

An order form for the Handbook is also available through www.soa.org.

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Setting the X Factor Percentile— Commentary

by G. Thomas Mitchell

Alan Sturm raised a question on the Society of Actuaries Website on Larry Gorski's XXX Select Factor article in the May, 1999 issue of *The Financial Reporter*, which I believe is summarized as follows:

"In setting the X factor (a multiple of tabular mortality rates used in reserving), conservatism would indicate a percentile (in the distribution of claims) vs. expected claims at or less than 50%, not greater than 50% as indicated in the article."



I believe this involves a distinction between two processes:

1. Setting the X factor prospectively where there is significant relevant experience available. In the case of fully credible experience, one would want to use a percentile somewhat lower than 50% to reflect appropriate conservatism.
2. Reviewing a previously set X factor, to determine if it might be inadequate. Here the X factor would be rejected if actual experience is statistically significantly higher than the X factor. Hence a percentile greater than 50% would be used. The other view would require that in event of random higher claims, the factor would be reset annually to a level somewhat higher than actual claims indicate, even though evidence would point at this possibly (or probably) being by chance. This could lead to bizarre results on small blocks.