

The Society Of Actuaries (SOA) has brought together several leading enterprise risk management (ERM) actuaries to identify the top 11 concentrated areas of risk of 2011 and provide insight on how ERM programs can be used to hedge against those systemic risks. With rigorous training in identifying, managing and mitigating risk, actuaries are well-equipped to discuss the areas of risk that need attention as we work to rebuild the financial system post-crisis.

### **GLOBAL EMERGING RISK: CHINA'S INFLATION**

While executives are becoming increasingly worried about emerging risks, many companies still do not have the necessary risk management programs in place to incorporate emerging risks, such as the impact of inflation in China, into their decision making process. The 2010 Emerging Risks Survey by the Society of Actuaries (SOA) found 73 percent of respondents believe an emerging economic risk in China, including oil price shock, fall in the value of the U.S. dollar, and Chinese recovery from the financial crisis, would be most likely to lead to major changes in China's financial relationship with the rest of the world.

As China becomes unable to absorb price increases and remain competitive with the rest of the world, actuaries emphasize the importance of diversification in helping to protect companies against inflation or currency changes.

Recent inflation in China has many people thinking about the effect it could have on the recovering global economy. Several actuarial experts in risk management have shared thoughts on what companies need to consider when thinking about emerging inflationary risks coming out of China, noted below:

- If China continues to lose its ability to produce goods at a significant cost advantage to western economies, inflationary pressures may begin to spread across the globe
- Market participants may see a reduction in interest rates in the U.S. and Europe as investors look for safer investments or a rise in interest rates if inflations spreads or if global investors seek higher yields in emerging Asia
- China will begin to look for a new relative advantage as the rest of the world closes in on their ability to produce goods at a lower cost

#### **About Actuaries**

Actuaries bring a complex future into focus by applying unique insight to risk and opportunity. Known for their comprehensive approach, actuaries enable smart, more confident decisions.

#### **About the Society of Actuaries**

The Society of Actuaries is an educational, research and professional organization dedicated to serving the public, its members and its candidates. The SOA's mission is to advance actuarial knowledge and to enhance the ability of actuaries to provide expert advice and relevant solutions for financial, business and societal problems. The SOA's vision is for actuaries to be the leading professionals in the measurement and management of risk. To learn more, visit [www.soa.org](http://www.soa.org).

### **CHINA'S LARGEST EXPORTS**



### **QUESTIONS FOR CONSIDERATION**

- Would high inflation in China lead to lower interest rates from investors seeking safety or would rates rise as worldwide inflation leads to higher U.S. rates?
- Will inflation in China lead to a resetting of the RMB and lead to a drop in the value of the U.S. dollar?
- Will basic food and commodity prices drive inflation much higher worldwide increasing wage pressures and thus higher expenses for business?
- Will higher inflation from China spread worldwide leading to a sharp decline in equity markets worldwide?

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