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# Embracing Change

By Bill Sayre

In just a few weeks—as we approach Jan. 1, 2014—we will celebrate the New Year. Around the world, folks celebrate in different ways. In Japan, people enjoy Osechi Ryori, the traditional foods eaten on New Year's Day. For the Spanish, the custom is to eat 12 grapes over the course of the striking of the clock at midnight. Closer to home for me, people gather in Times Square of New York City and watch the lowering of a brightly colored, LED ball. At the SOA, we celebrated our New Year a few months back at the Annual Meeting, when our leadership transitioned. We also have our own traditions to celebrate this New Year, specifically in the Financial Reporting Section where we pass on an infrequently dry-cleaned, yet highly regarded, green jacket!



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It is with the spirit of New Year's in mind that I write this column. First, we "ring out the old" (figuratively, not literally!). I have had the privilege of serving with Matt Clark, Dan Harris and Mark Yu for the last two years. The three of them have worked tirelessly on behalf of our section and we have benefited immensely! They will be tremendously missed but, knowing their commitment to our section, I am confident we will continue to profit from their contributions as Friends of the Council.

Matt has served as chair over the last year and we have come a long way under his leadership. We have undertaken key research initiatives in IASB/FASB Insurance Contracts Exposure Drafts, Volatility of Fair Value Accounting, Actuarial Modeling Controls, PBA Implementation and Setting Dynamic Policyholder Behavior, to name a few. At the same time, our section has completed or scheduled 11 webcasts and developed a multitude of sessions for the Life and Annuity Seminar, the Valuation Actuary Symposium and the Annual Meeting. We have moved forward in outreach to other sections and internationally. The purpose of the Financial Reporting Section is to encourage and facilitate the professional development of its members through activities such as meetings, seminars, research studies, and the generation and dissemination of literature in the field of life insurance company financial reporting. Matt has capably led us in fulfilling our mission.

We also "ring in the new." I am happy to welcome Mike McDonald, Michael Schmuker and David Weinsier as new members to the council. I am looking forward to working with them over the next year and am excited about the new ideas and energy they will bring to our section!

We have many initiatives we are considering as a section. I would like to focus on one—our research proposal to investigate rising interest rates. There has been a tremendous amount of discussion and concern about the currently low—and possibly sustained—low interest rate environment. However, we have not been as focused on the increasing risk of rising interest rates, especially if the change occurs rapidly. With the influx of money to stimulate the economy, the possibility for inflation is high. Once the economy gets moving, rising inflation could push financial governance to increase interest rates to combat it. This escalating interest risk could pose more of a financial threat to insurance companies than the sustained low interest rate environment.

I am eager to see the results of this new research as our team considers the potential circumstances for a rapid rise in interest rates and the implications to life insurance and annuity companies, including how the spike would impact current assets, investment strategy and policyholder behavior for major lines of insurance. This study will serve as a resource for companies to help them evaluate and enhance their current risk management strategies.

I look forward to serving you as chair in the upcoming year. Working with the council and all our committed Friends of the Council, I am optimistic that this New Year will be filled with promise. In conclusion, I hope all of you enjoy the upcoming holidays and wish you a Merry Christmas, a Happy Hanukkah and a very promising New Year! ■

## JUST RELEASED—PAPER ON LIFE INSURANCE REGULATORY STRUCTURES AND STRATEGY: EUROPEAN UNION COMPARED WITH UNITED STATES

This paper discusses some of the global, wider financial services and insurance specific activities underway that are influencing solvency developments for life insurers and provides an overview of the differences in the current U.S. and E.U. regimes and the regulatory changes underway. The purpose of this paper is to provide a discussion of the emerging developments, the historical contexts or drivers of each and potential implications for insurers. The paper also identifies key valuation implications, the impact on pricing and product design and risk management implications. The paper can be found at: <http://www.soa.org/files/research/projects/research-2013-life-ins-reg-structures.pdf>. ■