



SOCIETY OF ACTUARIES

Article from:

# The Actuary

May 1995– Volume 29, No. 5

# Handbook for DFCA available in May

by Judy Strachan

SOA Education Actuary

**F**ailures of several major insurance companies during the past decade have helped focus public and regulatory attention on the financial strength of the insurance industry. These failures have highlighted the need for new techniques to evaluate the risk assumed by management due to business decisions. "Dynamic Financial Condition Analysis" ("Dynamic Solvency Testing" in Canada) is one new tool for analyzing these risks.

Dynamic Financial Condition Analysis (DFCA) focuses on analysis and on sensitivity testing of potential future events that may financially affect the insurer. This analysis looks at risks that emerge from current business and new business based on the company's business plan. It can be one or a combination of the following:

- Analysis of projected statutory surplus
- Projected GAAP earnings

- Risk-based capital (RBC) ratios
- Value-added analysis
- Projected cash flows
- Gross premium valuation

For both current and future business, the relationships of reserves and the asset backing them are analyzed under a broad range of economic scenarios.

The Dynamic Financial Condition Analysis Task Force was charged with developing educational materials to assist the actuary in performing DFCA. The task force has developed a handbook on this topic, which is now available. The handbook is designed to guide the actuary on the contribution he or she can make to enhance management's understanding of the risks that it has assumed. Techniques, methodology, means of developing assumptions, possible ranges of experience and economic conditions, tools available to the actuary, and communication of the analysis are discussed. The

handbook is written from the perspective that the end product will be a confidential, internal report to top management on the financial condition of the company. An order form is included in this mailing.

The article by J. Helmut Engels on page 1 discusses Dynamic Solvency Testing in Canada and analyzes the difference between the Canadian and U.S. regulatory environments. John Hardy's article in the March/April issue of *Contingencies* discusses the current Academy of Actuaries' position on Dynamic Financial Condition Analysis in the United States. Educational opportunities include sessions at SOA spring meetings and seminars in October and November. Meeting sessions and seminars will use case studies to train actuaries on the techniques and tools of DFCA.

**RETIREE**

## CORNER

### Retirees surveyed

Melvin J. Feinberg, a member of the Annual Meeting Program Committee, reports on a survey completed by retirees. The committee wrote to more than 1,000 retirees to survey interest in attending the annual meeting. The committee wanted to determine if the meeting planners were overlooking a significant and

growing portion of its membership. It wanted to find out if there was a feasible way to capitalize on the wealth of information and experience that retirees offer, not only in technical knowledge but also in managerial knowledge.

About 100 retirees responded to the survey. In general, the survey revealed little interest among retirees in attending spring or annual meetings. The main reasons given were that retirees have developed new interests after retirement and that meeting-related travel and registration expenses were too high. Retirees are charged a nominal \$50 registration

fee for any SOA meeting. Many who expressed some interest in attending an annual meeting suggested a social function for retirees, and the committee is considering this idea.

If any retirees have more thoughts on this subject, please write to Mel Feinberg at his *Directory* address.

### Corner needs retiree news

If you are retired from active practice as an actuary and have interesting activities that now fill your time, *The Actuary* would like to share your experiences through this column. Just address your letters to Retiree Column, *The Actuary*, at the Society of Actuaries office.