



SOCIETY OF ACTUARIES

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# Dynamic Solvency: Emerging field opens up nontraditional opportunities

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**D**ynamic financial analysis, also known as dynamic solvency testing, looms large on the emerging practice area horizon, according to U.S. and Canadian actuarial organizations. The Canadian Institute of Actuaries (CIA), the Society of Actuaries (SOA), and other actuarial groups have recently chosen to explore this relatively new field of practice. Spokespersons say they believe the area cries out for actuarial expertise.



Unlike valuation, which basically provides a "snapshot" of the company's potential liabilities and reserves at a fixed point in time, dynamic financial analysis requires the running of models based on assets, liabilities, and earnings under a variety of potential economic scenarios and company actions. The results give senior management a powerful tool in making strategic decisions.

## Professional groups see potential, offer guidance

Canadian law requires regular dynamic solvency testing of all insurance companies. But, a CIA task force has

found that this analysis has potential far beyond the regulatory applications. In the United States, where such testing is not a requirement, the SOA is nonetheless anticipating a need for actuaries who can perform dynamic financial analysis in both the insurance and the general marketplace. To prepare them, the SOA has produced *Dynamic Financial Condition Analysis*, a handbook explaining the when-tos and how-tos of this analysis.

James Reiskytl headed the task force that oversaw production of the handbook under the direction of the Committee on Financial & Investment Management Practice Education. He believes that current use of dynamic financial analysis is sporadic and varies widely among companies that use it, but he also thinks every insurance company should be doing some version of it. He hopes the handbook will encourage more actuaries to do such analysis and, where appropriate, make current efforts more rigorous.

## Experience already there

David Fishbaum, a chair of the CIA task force, is enthusiastic about the possibilities of applying this type of analysis to financial entities outside insurance. For example, he cites the recent bankruptcy of Orange County, California, as a situation in which dynamic financial analysis might have prevented a civic debacle. "Orange County was doing things that an actuary would have seen were risking the solvency of the entity," he said.

But does it take an actuary to see such risk or to perform the analysis? For non-insurance companies, the analysis is usually done by other financial professionals. "There will be competition for this type of work," said Fishbaum. "But we do it now for

insurance companies. That gives us a competitive advantage over the financial analysts and the accountants.

"Actuaries' working with contingencies does help," he said. "But our expertise is obviously on the liability side, so we need to stay up to speed in the asset area. I think we are doing a good job of that."

Allan Brender served as an editor of the SOA handbook and frequently performs the analysis for clients who use the tool for any of several reasons: they understand the value of getting a complete picture of the risks and possibilities facing every part of the company in a variety of situations, they want it for peer review, or they are in trouble with regulators and are required legally to do it.

The best thing about the work may be that it positions actuaries to know every aspect of a company and its operations. Brender said the trend creates new opportunities for actuaries. "It involves them in corporate planning and creates communication opportunities with those in the company they may not have worked with before."

*Dynamic Financial Condition Analysis* is available for \$40 from the SOA Department of Books and Publications. Call 847/706-3526. **Linda Heacox can be reached by e-mail at 102234.2544@compuserve.com**

## 1996 Speakers List available

The directory of volunteers who have offered to speak on actuarial and business topics at actuarial clubs and other meetings has been updated. The *Society of Actuaries 1996 Speakers List* is available at no cost. Call 847/706-3515 for your copy.