



SOCIETY OF ACTUARIES

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Update on Continuing Education (CE) Activities

by Hubert B. Mueller

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The Risk Management Section Council has been involved in a number of continuing education activities, including:

- Sponsoring or co-sponsoring a total of seven sessions and events at the upcoming SOA Annual Meeting (November 13-16) in New York.
- Participation in the planning committee for the 2006 ERM Symposium, to be held April 23-25, 2006 in Chicago.
- Co-sponsoring the Canadian Institute of Actuaries' Stochastic Modeling Symposium to be held April 3-4, 2006 in Toronto.
- Sponsoring an ALM seminar conducted by *Institutional Investor* magazine in New York (June 2005).

In addition, we will be involved in a number of other seminars, webcasts and meetings, as further described below.

SOA Annual Meeting

We have been busy with planning a slate of sessions and half-day seminars for the upcoming Annual Meeting. Many of these sessions are co-sponsored with other sections. Highlights from the sessions, section breakfast and luncheon are provided below.

1. Enterprise Risk Management Seminar (November 14)

(Co-sponsored with Investment and Financial Reporting Sections)

Insurance companies are dedicating significant resources and budgets to developing enterprise risk management (ERM) capabilities. Business processes, management procedures and information systems are being retooled to comply with emerging regulations and standards of practice. Nevertheless, there is much to be done in developing both the theory and practice of ERM. This half-day seminar takes a detailed look at ERM from two perspectives—the outside-in and the inside-out views.

Part 1 – An Outside-In Perspective (Session 15) – Panel Discussion

Moderator: Prakash Shimpi

Panelists: Prakash Shimpi, Michael Barry and Eric Berg

The Market Perspective (30 minutes)

ERM has developed significant momentum in the marketplace. The original impetus was to improve corporate governance and make management accountable for the risks that they undertake. In the insurance industry, there has been a shift away from the focus on compliance to a broader shareholder value creation objective. This segment highlights the market forces that are at play and the possible future directions that ERM may take.

The Rating Agency Perspective (30 minutes)

Rating agencies impose quite a number of requirements on insurance companies. A rating agency representative answers the following questions. How much weight do rating agencies give ERM in the overall rating? How do rating agencies assess the quality of a firm's ERM capabilities? Does ERM give them additional information on a company's credit worthiness?

The Shareholder Perspective (30 minutes)

Equity analysts provide shareholders with expert analysis on a firm's prospects. It can be argued that equity analysts already consider the risks of a firm in developing their recommendations. If so, do investors recognize that? One of the reasons cited for the need for ERM is the shareholders' desire for greater transparency. Does ERM fulfill that promise of greater transparency? Is there a danger of information overload? What ERM-related information do equity analysts utilize and how do they filter that to give investors the most useful information? In this segment we learn what weight an equity analyst puts on this new source of information.



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Part 2—An Inside-Out Perspective (Session 38) – Panel Discussion

Moderator: Prakash Shimpi

Panelists: Craig Raymond, Gideon Pell, Michael Slipowitz, John Hele

The ERM Business Environment (30 minutes)

One of the greatest challenges to implementing ERM is organizational inertia. ERM creates its own processes that can impose additional demands on the firm's resources. In order for ERM to deliver value, it must reside within a corporate environment that allows information to flow freely. In this segment we hear from a practitioner who has faced these issues and learn how they were addressed.

The ERM Analytical Framework (30 minutes)

ERM processes generate large amounts of data, which needs to be turned into knowledge through an analytical framework. Is there an overarching framework that applies to all risks and all business operations? How useful is economic capital? Does the analysis provide enough detail at the business unit level? Are there some risks that just cannot be included in the analysis? How does the analysis lead managers to make better decisions? This segment gives us the opportunity to learn from a practitioner who has had to implement such an ERM framework.

Case Study for ERM Implementation (30 minutes)

A company representative provides a case study of how their company implemented ERM, including suggestions for the quantification of both financial and operational risks.

Seminar attendees receive an understanding of ERM and its use in managing, controlling and creating value from risks inherent in life insurance businesses.

2. Annuity Risk Management Seminar (November 15)

(Co-sponsored with Investment, Product Development and Financial Report Sections)

Annuity products present unique risk management challenges, which are a function of the guarantees, crediting strategies, policyholder behavior and ultimately the investment strategy. Risk management becomes a blend of product design, product management, reinsurance and strategic investing, including implementing hedging programs. This half-day seminar presents case studies illustrating how different risk management techniques can mitigate exposure to risk.

Part 1: Overview of Annuity Risk Management

(Session 63) – Panel Discussion

Moderator: Hubert Mueller

Presenters: Hubert Mueller, Denis Tauscheck

This part presents the key concepts to this topic. The panelists present the implications of recent regulatory changes on product design, pricing and risk management. An overview of best practices for annuity risk management in a changing and dynamic economic environment is provided. Each major type of annuity product (variable, fixed and equity indexed), is discussed, with a focus on how companies apply these risk management techniques to their overall product management strategy today.

Part 2: Stochastic Modeling for Annuity Risk Management

(Session 101) – Panel Discussion

Moderator: Hubert Mueller

Presenters: Pritesh Modi, Andy Rallis

The use of stochastic modeling has increasingly been applied to the unique challenges of annuity product and risk management. The presenters cover various subjects and present case



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studies regarding stochastic modeling of variable annuities (VA), including guaranteed minimum death benefits, guaranteed living benefits, dynamic hedging of derivative benefits, and the application and significance of VA risk-based capital and reserves.

Seminar attendees receive an understanding of current market practices and recent trends for the risk management of fixed and variable annuities.

3. Credit Risk Management Seminar (November 14)

(Co-sponsored with the Investment Section)



Credit risk management practices are evolving with new and more sophisticated approaches being adopted by insurance companies. This half-day seminar describes current practices within the insurance industry and takes a closer look at the various techniques being used to measure and manage credit risk exposure.

Credit Risk Management Practices (Session 16) – Panel Discussion

Moderator: Frank Sabatini

Panelists: George Holt and Adam Girling

Review of Credit Risk Management Practices (45 minutes)

This part begins with a review of the evolution of credit risk management approaches used by insurance companies and examines the various techniques.

Yield Enhancement Strategies and Credit Risk (45 minutes)

This session illustrates a number of yield enhancement strategies including the use of credit derivatives and the impact on the overall credit risk exposure.

4. Corporate Governance and Enterprise Risk Management – (November 16, Session 127) – Interactive Forum

(Co-sponsored with Investment and Financial Reporting Sections)

Moderator: David Ingram

Panelists: Doug Brooks, Larry Rubin, Mike Moriarty

Risk management is more than just a set of algorithms and assumptions for calculating value-at-risk or economic capital. To be effective, risk management must have the proper place within the governance system of an enterprise. For actuaries to be effective in the risk management arena, they must have the ability to apply their professional skills and judgment to advise senior management on the nature and extent of risks and liabilities. Company governance issues that relate to risk management and actuarial roles include:

- Reporting relationships of CRO.
- Board and CEO involvement in risk management.
- Internal distribution of risk position reports.
- External disclosure of risk positions and risk management processes.
- Independence of actuarial opinions on liabilities and risk.
- Coordination of liability and risk measurement.
- Audit and risk management committee roles.
- Sarbanes-Oxley compliance / Impact of Risk Management.

Attendees learn how the success of an ERM program can be helped or hindered by the corporate governance approach of an enterprise.

5. Operational Risk: Recent Trends (November 16, Session 140) – Panel Discussion

Moderator: Samir Shah

Panelists: Joel Aronchick, Raj Mittal

Operational risk management continues to receive increased attention as companies struggle to develop the appropriate tools and techniques. This session focuses on recent trends in operational risk management including qualitative and quantitative assessment methods. We learn from companies who have made progress in managing their operational risks, as well as from external solutions providers who continue to develop new tools and methods.

Attendees receive an understanding of current practices for measuring and managing operational risk.

6. Risk Management Section Continental Breakfast (November 16, Session 115)

Chairpersons: Frank Sabatini and Dave Ingram

Members of the Risk Management Section Council discuss current issues of interest and section activities over breakfast.

This session is open to all section members. If you plan to attend, please register in advance.

7. Luncheon: Enterprise Risk Management (ERM) – The Reinsurers' Perspective (November 14, Session 21)

(Co-Sponsored with Reinsurance Section)

Moderator: Frank P. Sabatini

Panelists: Doug Brooks, Mike Pado, Prakash Shimpi and John E. Tiller Jr.

As ERM becomes the mantra for today's insurance organizations, companies can fail to assess the real impact of reinsurance in the ERM integration process. Reinsurance has historically been an effective risk mitigation tool and should

be an integral part of any ERM process. The luncheon speakers draw on their experience as ERM and reinsurance professionals to discuss the role of reinsurance solutions in the ERM framework, and the role risk management plays inside a reinsurer.

Attendees learn the following:

- Perspectives on the role of reinsurance in an ERM framework.
- Reinsurers' alternative approaches to managing enterprise risk.

This luncheon is open to all meeting attendees. There is a nonrefundable charge of \$25 per person. Please include the additional fee with your registration.

We hope to see many of you at the meeting!

I) ERM Symposium – 2006

We have begun planning for the 2006 ERM Symposium, to be held from April 23-25, 2006 in Chicago. The challenge will be to do better than this year's ERM Symposium, which attracted a record audience of almost 500 participants, including many attendees from outside the United States.

We are still looking for speakers and volunteers to help with the planning of this event. Please contact the author (*Hubert.Mueller@towersper-rin.com*) or Julie Young at the SOA (*JYoung@soa.org*) if you would like to help or are interested in speaking.

II) Stochastic Modeling Symposium – April 3-4, 2006

The Risk Management Section is also co-sponsoring the Stochastic Modeling Symposium organized by Canadian Institute of Actuaries. The overall theme for this symposium will be "Practical Actuarial Applications of Stochastic Models." The symposium and the Call for Papers will focus on the following three main topics as they apply to the world of insurance:

1. Use of stochastic models in valuation of assets and liabilities;

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2. Use of stochastic models in enterprise risk management; and
3. Use of stochastic models in credit risk management.

Timely submission of papers is critical to the success of the symposium. Authors are advised to communicate their intentions to submit a paper as soon as possible to Gilbert Lacoste, chair of the organizing committee at *Gilbert.Lacoste@sunlife.com* or to section council member Ken Seng Tan at *kstan@uwaterloo.ca*. All papers should then be submitted by Nov. 30, 2005 via e-mail to *stochastic@actuaries.ca*.

For more information on the symposium or the Call for Papers, please visit www.actuaries.ca/publications/2005/205022e.pdf.

III) ALM Seminar

In June of this year, we co-sponsored a seminar on ALM organized by *Institutional Investor* magazine, which was held in NY.

IV) Other CE Activities

We are planning a joint seminar with the Professional Development Section, which will be held later this fall. We will also be sponsoring the Basel Summit, a global risk management conference scheduled to take place in December, 2005 in Basel, Switzerland. Also, we will assist Harry Panjer with providing input on behalf of the SOA for the upcoming 2006 International Congress of Actuaries (ICA) in Paris.

Also, an ERM webcast was held in October. Materials from the webcast, plus other relevant materials on ERM (e.g., from this year's ERM Symposium) will form the base of an ERM online training tool, which is scheduled to be rolled out next year.

Right now, we are working on developing risk management sessions for the 2006 Spring Meeting. We are also in the process of soliciting feedback from section members on what other

CE activities you would like to see, including regional section meetings, seminars and webcasts. We will update you on the feedback we receive in the next RM Newsletter.

Please contact Hubert Mueller if you are interested in speaking or are willing to help with any of these activities. ♦

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