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Risk Management Newsletter

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The Risk Management Section Needs You!

by David Ingram

The Risk Management Task Force (RMTF) has set a new standard for volunteerism in our profession. Over a third of the 300 members of the RMTF have participated in committees and working groups. That standard needs to be carried over to the new Risk Management Section so that the actuarial profession, the risk management discipline and the individuals who participate in these developments will all reach their maximum potential.

One unique characteristic of actuaries is our long-term perspective. We start our careers by undertaking one of the longest educational and training processes of its kind. We regularly make long-term financial projections that run for decades. We believe both professionally and personally that there are dependable cause-and-effect relationships that hold over long periods of time. We believed that if we put in the work to complete our exams that we would be able to have challenging, interesting and well-paying careers, and our life experience has shown that to be true.

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That has been true especially in the traditional actuarial areas of product development rate making and valuation. Every year brings new challenges, but usually those challenges can be met by work that is an incremental extension of recent experience built upon the basic actuarial education.

Risk management is not such an incremental area. Risk management, as defined by financial economists and practiced by bankers, is a process for risk traders who only retain a small fraction of the risks that pass through their hands. Insurance companies are just the opposite: they consist of risk collectors who only lay off a small fraction of their risks. Some of the methods and models of banks and financial economists may produce incorrect signals when applied to insurance companies.

On the other hand, some of the fundamental ideas of risk management have tremendous appeal. Creating a control cycle for risk, attending to net risk after accounting for correlation and looking to the financial markets for information on risk are just a few of the powerful ideas that are fundamental to risk management.

However, the details of applying these ideas to insurance companies are far from easy or obvious. At the same time, these and other risk management ideas are only slowly becoming well known in the insurance community.

The process of building both theoretical and practical bridges between insurance company risk and banking risk management is a monumental undertaking. In two instances, I have participated in prolonged brainstorming sessions to identify manageable steps in that process. In both cases (at the time of the formation of the Risk Management Task Force in 2001 and a few months ago at the first meeting of the Risk Management Section Council) we developed lists of 20 to 30 projects that needed to be done.

From those extended lists, there are now 15 projects at various stages of completion. By the time those have been completed, 15 more will have started, but only if we get enough help. We need volunteers; not just a handful of volunteers, not a dozen, but hundreds! If you have never volunteered, then you are exactly who we need, because fresh perspectives and energy are in high demand.

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Volunteering is a long-term investment, but one with a high number of valuable payoffs. The following is a partial list of the benefits of volunteering:

1. The challenge of working on a problem of your own choosing.
2. Exposure to diverse perspectives from co-volunteers who work with different products and various jobs all over the world with company actuaries, regulators, consultants, analysts and others.
3. Learning new things as co-volunteers share thoughts from a new or classic paper on a subject that interests you.
4. Networking with other volunteers to greatly expand the list of people who you might be in contact with the next time you need help.
5. Learning broadly about the wide range of industry activities long before they are documented in formal meetings or publications.
6. The lowest-cost way to gain these benefits. Almost all meetings are by phone and the SOA even pays for the calls.
7. Leading-edge practices developed by the volunteer groups from combinations of the practices and ideas of the participants.
8. As this volunteer activity produces results that are recognized throughout the financial services industry, the value of the actuarial credentials will be greatly increased.
9. Learning to bring in and use resources from outside industry and to incorporate them into actuarial practices. Often, those resources were completely unknown to the volunteers before the project.

Volunteering forces participants into a different mode of interacting, a more collaborative mode. Improving skills to "play well with others" will pay career dividends. Successful volunteer efforts create recognition in the profession, a benefit in and of itself. And you never know when you will be grateful that having your name on a committee report opens a door that you didn't know existed when you did the work. As these volunteer committees complete different tasks, others will look upon their findings and methods and realize that there are applications far beyond the originators' dreams.

If you are feeling in even a little of a rut, volunteering can provide the satisfaction of accomplishment.

More than one of the RMTF volunteers has found new positions, whether within the same company or at a different firm, at least in part because of what they learned, who they met and their new skills and positive attitude gained from their volunteer accomplishments.

For over 20 years, I lived in an old neighbor-hood of stately Victorian houses. The cost of a typical house was quite modest, but the upkeep was very, very high. Most of the homeowners in the neighborhood paid their pittance for a slightly run down giant of a house and let it slide slowly at first, but more and more with time into further disrepair. Once in a while, someone would come into the neighborhood and take one of the worst houses, and with lots of sweat equity and not a small amount of cash, return it to a reasonable semblance of its former glory. They were always disappointed that the housing market did not support them. The top three factors in house valuation there as everywhere else are Location, Location and Location. To get the value out of their efforts, many, probably most, of the rest of the neighborhood would have to do likewise.

We all own (or want to own) houses in the actuarial and risk management neighborhood. Those houses will all be worth more if we all get out and paint the walls and fix the roofs. Or better yet, read about what is going on in the volunteer committees and join today!✦

Section Council Elections

DON'T FORGET TO VOTE IN THE SECTION COUNCIL ELECTIONS—JULY 12 THROUGH AUGUST 13!!

The following persons are candidates for the Risk Management Section Council:
Clifford W. Angstman, Berkshire Life Insurance Company of America, Pittsfield, Mass.
Douglas W. Brooks, Sun Life of Canada, Toronto, Ontario
Asutosh Chakrabarti, Actuarial Consortium LLC, Monmouth, NJ
S. Evaronda Chung, IntAct Consulting, Inc., Toronto, Ontario
Leonard Mangini, AXA CS Life Re, New York, NY
John W.C. Stark, Anthem Health Plans of Virginia, Inc., Richmond, Va.
Ken Seng Tan, University of Waterloo, Waterloo, Ontario
Fred Tavan, The Canada Life Assurance Company, Toronto, Ontario

For further information go to **www.soa.org** and click on the election information link.