

## Are You Ready to Make a Difference?

**ENCOURAGE NORTH AMERICAN ACTUARIES** to lead the way in the assessment of insurer risks. Practice in the assessment of these risks for risk management, economic capital, solvency assessment, and financial reporting purposes is evolving rapidly on the global stage. The rapid pace of change is driven by a combination of factors:

- Globalization of financial markets, including insurance;
- Internationalization of insurance and the emergence of global giants in financial services;
- Development of global standards for insurer financial reporting, financial instruments, insurer supervision, actuarial standards, etc.;
- Fundamental reform of insurer solvency assessment frameworks in several major jurisdictions, converging on a “total balance sheet” approach.

A number of North American actuaries have been actively involved for years in the development of new thought and principles related to the assessment of insurer risks. Their contributions have been

immense in terms of impact and the effort expended on behalf of their employers, actuarial associations, and their own desire to “make a difference.” I salute these pioneers for helping to steer the global actuarial profession in the right direction for the public interest they serve.

However, like any captain of a ship, setting the course is only a start. Much challenging and exciting work lies ahead before ship and crew arrive safely at their destination. Similarly, there is much to be done in the assessment of insurer risks. The rapid growth in demand for increasingly sophisticated insurer risk modeling for risk management, economic capital, solvency assessment, and financial reporting presents the actuarial profession with tremendous opportunities to “make a difference.”

There is much work to be done in the following key risk areas:



- Underwriting (insurance) risk
- Credit risk
- Market risk
- Operational risk

What should constitute actuarial practice in these key risk areas? Some of the issues to be decided (each one a project by itself) are:

- How should risks be measured? Should we (for example) use a one-year time horizon with a high confidence level plus a terminal provision after one year for the remaining tail of cash flows? When should we use risk-neutral versus real-world valuation approaches? Is expected shortfall (or conditional tail expectation) better than confidence level (or value at risk)? What level of confi-

dence should be included in the terminal provision?

- How should advanced risk models be prepared for these risks? Should credit risk be modeled in the same way as for banks? Would market risk allow for hedgeable and non-hedgeable risks? How about asset/liability management risk? How would underwriting risk recognize insurer versus industry experience?

- How should standardized approaches be developed for small or mid-size insurers? Standardized approaches offer a more objective measure of risk that's easier to calculate than an advanced internal model approach, but they tend to use broader industry (rather than company-specific) experience in their calibration.

- How should risk diversification be allowed for? Within key risks (credit, market, underwriting)? Across key risks? Across lines of business? Across companies in a conglomerate group? Would the allowance for risk diversification differ between advanced and standardized approaches?

- How should the use of professional judgment be bal-

STUART F. WASON is senior actuary with Assuris in Toronto.

anced against the need for risk assessment? What requirements should there be for expert peer review, calibration, validation, and verification?

■ What risk governance practices should be expected? What links should there be between insurer risk management and risk models?

■ How should systemic risks be considered? How should insurers and supervisors assess the possible impact of systemic risks on an insurer's financial position? Should the solvency assessment framework use insurer financial-strength stress testing?

■ What types of risk disclosures are appropriate? Which disclosures are in the public interest, and which should remain confidential to the regulator?

The North American actuarial profession, which represents at least 40 percent of the global actuarial profession, can contribute greatly to these developments in

the assessment of insurer risks. I challenge North American actuaries (not just those who have been active leaders in these topics for several years) to find out how they, too, can make a difference.

Your reward is the challenge and satisfaction that come from working with your peers in North America on some exciting aspect of the assessment of insurer risks. You, too, can be a leader. The penalty for not participating is that the new techniques and methods will be developed elsewhere in the world and applied to North America without our input as a result of international standards (actuarial, accounting, regulatory).


Europe is currently very actively engaged in preparing for a fundamental change in its insurer solvency assessment framework as a result of "Solvency II" toward a "total balance sheet" approach. This is a massive project that has attracted

the involvement of all the key stakeholders in the European insurance market. Due to the precedent that Solvency II may set, many international insurance stakeholders (such as the International Actuarial Association and its member associations) have also been active participants in the Solvency II debate.

I would hope that the North American actuarial profession would champion appropriate practical research into one or more topics that would be of direct benefit to the publics we serve, as well as to the international efforts on these same topics.

Are you ready to make a difference? If so, notify your Academy staff liaison today.

This commentary is solely the opinion of its author. It does not express the official policy of the American Academy of Actuaries; nor does it necessarily reflect the opinions of the Academy's individual officers, members, or staff.




*Do you require assistance maintaining coverage during peak periods?*

*Do you desire veteran expertise for a special project?*

*Do you need support through a new initiative, conversion or implementation?*

## Actuarial Experience Delivered.

**Jacobson Solutions delivers actuarial subject matter experts on demand for your interim, project-based and consulting needs.** Our credentialed actuaries possess the functional and product line experience necessary for success on your specific assignments.


**JACOBSON**  
 SOLUTIONS

WWW.JACOBSONONLINE.COM ● TEL: (800) 466-1578