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## Potential Banana Skins

The insurance industry has heavy exposure to complex and ill-understood risks, according to a survey by the think tank CSFI (Centre for the Study of Financial Innovation) of 403 insurance practitioners and observers from around the world.

The survey - Insurance Banana Skins 2009 - conducted in November and December 2008 asked respondents to describe their concerns for the insurance sector over the next three years. It highlighted risk management as an area of concern and raised questions about current modeling techniques, actuarial functions and reinsurance security.

The survey asked participants to rate a list of "potential banana skins" for the insurance industry, in terms of severity and whether they see the risk as increasing. Here are the top 10:

1. Investment performance
2. Equity markets
3. Capital availability
4. Macro-economic trends
5. Too much regulation
6. Risk management techniques
7. Reinsurance security
8. Complex instruments
9. Actuarial assumptions
10. Long-tail liabilities

## Hidden Pension Fiasco May Foment Another \$1 Trillion Bailout

Bloomberg just published an article (see link) that outlined the pension horrors facing government entities. Effectively, the public sector needs to curtail the costs of retirement benefits for current workers into the future. ARM is working as the actuarial solution provider to a large employee benefit team formed to help government entities manage these benefit costs through creative solutions, which help fund these obligations.

<http://www.bloomberg.com/apps/news?pid=20601014&sid=alwTE0Z5.1EA>

## Events

### March 9 – 11

CAS: 2009 Ratemaking  
& Product Mgmt. (RPM)  
Seminar  
Las Vegas, NV

### March 11 – 13

SIIA: 23<sup>rd</sup> Annual  
Legislative/Regulatory  
Conference  
Washington, DC

### March 11 – 13

NAIC: Spring 2009  
National Meeting  
San Diego, CA

### March 29 - April 1

2009 Enrolled Actuaries  
Meeting: Conference  
of Consulting Actuaries  
Washington, DC

### March 30 - April 1

LIMRA: The Retirement  
Industry Conference  
Lake Buena Vista, FL

### April 5 – 7

PCIAA: Joint Marketing  
& Underwriting Seminar  
Austin, TX

### April 19 – 23

RIMS: 2009 Annual  
Conference & Exhibition  
Orlando, FL



## ARM: Who We Are

Visit [www.actrisk.com](http://www.actrisk.com) for the comprehensive service listing.

Actuarial Risk Management (ARM) is an independent member of the BDO Seidman Alliance. ARM's staff, along with the expert actuaries from ARM Network, provides all necessary actuarial expertise and tools to ensure we can cover all actuarial disciplines, including the banking sector.

All ARM representatives must comply with strict ethics and standards. We have access to the latest technological tools, ranging from modeling software for our life clients to proprietary claims analysis tools for our health clients.

Our fees are aggressively competitive and our experienced actuaries provide you with objective, independent, and responsive actuarial consulting services.

### Actuarial services include:

- Valuation and Financial Reporting
- Predictive Modeling & Loss Forecasting
- Corporate Modeling
- Reinsurance Expertise
- Expense Allocations and Analysis
- Capital Management
- Mergers and Acquisitions, Due Diligence
- Statutory, Tax and GAAP Reviews of Actuarial Assets & Liabilities
- Data Management
- Product Development and Competitor Analysis
- Sarbanes-Oxley Assistance
- Retirement and Pension design and valuations
- Alternative risk management solutions, including captive and self-insurance
- Enterprise Risk Management Assessments
- Executive Compensation



**Discover what BDO Seidman knows,  
the next generation in actuarial delivery...**

## Around the Actuarial World in 2 Minutes...

### This month's highlights

#### **American Academy of Actuaries**

The ***Actuarial Update*** is a periodical providing Academy members with insight on the activity occurring within the Academy. This month's issue discussed:

#### **NCOIL Explores Credit Default Swap Regulation**

Academy Explains Benefits of Insurance Design

The American Academy of Actuaries' Risk Management and Solvency Committee in late January discussed necessary characteristics of any potential regulation to overhaul the credit default swap (CDS) market during a National Conference of Insurance Legislators (NCOIL) hearing in New York.

At the heart of the five-hour hearing was testimony from various parties on the pros and cons of regulating CDS as securities versus regulating them as insurance.

#### **P/C Loss Reserve Practice Note, Law Manual Updated**

The Academy's Committee on Property and Liability Financial Reporting (COPLFR) recently issued an update of its 2007 practice note on statements of actuarial opinion (SAOs) on property and casualty loss reserves. The 2008 practice note provides non-binding guidance to practicing actuaries, describing commonly employed practices to communicate various reserving situations in their SAOs that the committee believes comply with the NAIC instructions.

#### **Webcast Introduces Health Care Reform Modeling Tool**

On Jan. 23, the Academy hosted a free webcast for RAND Health to demonstrate for health actuaries a new, publicly available micro simulation model. The webcast was co-sponsored by the Society of Actuaries and Conference of Consulting Actuaries.

RAND Health, a division of the nonprofit RAND Corp., developed the Comprehensive Assessment of Reform Efforts (COMPARE) model to examine the intended and unintended effects of different health care reform proposals. Instead of crafting a specific reform proposal, RAND created this model to allow users to compare policy options under different scenarios and assumptions.

#### **Other Academy News**

#### **U.S. Actuaries Support Global Framework to Prevent Future Financial Crises**

The American Academy of Actuaries (the Academy), on behalf of the U.S. actuarial profession, announced in early February its general support of the International Actuarial Association's (IAA) global risk management framework. The framework is the improvement of financial governance while helping prevent future financial crises.

The IAA's international risk management framework is outlined in a new whitepaper, *Dealing with Predictable Irrationality – Actuarial Ideas to Strengthen Global Financial Risk Management*. This framework urges a combination of "systemic level" initiatives, such as introducing counter-cyclical regulatory arrangements, and "entity level" initiatives, such as the application of risk management concepts and improved risk governance.



## Around The Society of Actuaries (SOA)

**The Actuary Magazine**, published every other month, provides in-depth and timely articles that focus on all actuarial practice areas. The most recent issue covered the following:

### **On The Current Financial Crisis: Did ERM Fail?**

As part of the series on The Evolution of Enterprise Risk Management, this article gleans thoughts, commentary and insight from the authors of the recently developed e-book titled, Risk Management: The Current Financial Crisis, Lessons Learned and Future Implications.

The current financial crisis has been called a "financial tsunami" by former Federal Reserve Chairman Alan Greenspan. Many are calling it the worst financial crisis since the Great Depression. Its ramifications are far-reaching and will question risk management practices for years.

The article provides some insight on what lessons have already been learned from this chaos. What additional thoughts, insights, suggestions and proactive solutions might help mitigate future problems?

### **The SOA Pension Section - Articles**

#### **Selecting Mortality Tables: A Credibility Approach**

The article outlined the difficulty and scrutiny that pension and health/welfare actuaries are under in their selection of plan assumptions. In the movement towards transparent valuations, these actuaries are under pressure by auditors, regulators, and stakeholders to justify all of their assumptions, including the demographic assumptions.

The article focuses on plan experience and specifically whether mortality rates can be determined from that actual experience. Actuaries are typically reluctant to reflect actual plan experience when setting mortality rates, usually because they feel that the plan is not large enough to provide a credible amount of experience data.

ARM believes plan experience, whether creditable or not, should at least be reviewed in some manner to gain a comfort level whether a standard table should incorporate a rating (up or down) to reflect actual experience.

#### **What is the Cost of a Pension Plan?**

A thought provoking article starts by making a tongue-in-cheek statement...if you ask five actuaries what is the cost of a pension plan you might get 10 answers. The author presents pros and cons of different definitions of pension cost. For those interested in reading this article please let us know.

### **The SOA Taxation Section - Articles**

A couple of interesting articles in the most recent publication discusses:

- *Assessing the Transfer of Risk: An Actuarial Perspective*
- *Selected Insurance and International Tax Considerations for Investors in Life Settlement Businesses*
- *A Practical Guide for Determining Whether a Section 338(h)(10) Election Should Be Made for a Target Insurance Company*

## Inter-Relationship of Discount Rates with Investment Strategy

Actuaries assess Other Post-Employment Benefits (OPEB) liability based on a number of factors, including employee and retiree census and regional health care costs. But one of the most important assumptions is the discount rate based on the projected performance of those investments.

The plan's investment strategy is important to actuaries as they select the appropriate projected discount rate. Through prudent risk management and asset/liability programs, the actuary's selection can be made slightly easier.

In the end, plan valuation actuaries must present a cogent argument for their choice in discount rate. In this financial environment, ARM recommends paying attention to the choice of the discount rate.

## Actuarial Evolution

A quick update to provide insight on the general roles actuaries are playing today. While many actuaries are involved in "traditional" roles within insurance companies – analyzing mortality experience, for example – actuaries are increasingly involved in non-traditional work in a wide array of different industries and organizations.

Building on the profession's history of managing risk, actuaries are addressing some of the most complex issues facing businesses and society, helping to turn risk into opportunity.

Today's actuaries are involved in:

- Enterprise risk management – helping organizations address all potential risks
- Retirement and pensions – creating new retirement solutions for the 21st century
- Life insurance – creating predictive models and developing products to meet society's changing needs
- Healthcare and health insurance – lending expertise to manage this \$2 trillion issue for businesses and individuals

### Looking forward to hearing from You – How and where can we work together?

If you have comments or suggestions for this newsletter, or if you have questions about our business, do not hesitate to e-mail us at [newsletter@actrisk.com](mailto:newsletter@actrisk.com)

Also, visit our new website at [www.actrisk.com](http://www.actrisk.com)

## Our Services

2009 Actuarial Risk Management

*Risk Review* is published electronically by Actuarial Risk Management, an independent member of the BDO Seidman Alliance, to provide members the latest news and information about managing risk.

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If you have questions or comments about Risk Review, please send an email to

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Actuarial Risk Management offers a wide range of services. Some of our services include:

**Life & Annuity:**

- Financial Reporting Duties for Statutory, Tax, GAAP, and IFRS
- Audits of Actuarial Liabilities
- Principle Based Capital and Reserves
- Economic Capital
- Value Based Management
- Merger, Acquisitions and Restructuring
- Products, Markets and Distribution
- Risk Assessment
- Reinsurance
- Expert Witness
- Experience Studies
- Sarbanes-Oxley / Model Audit Implementation

**Who Are Our Clients?**

Insurance Companies  
Regulators  
Agencies  
Business Owners  
Hospitals  
Managed Care Providers  
Employers  
Hedge Funds  
Private Investors

**Employee Benefit:**

- Medicare Part D Assistance and Analysis
- Pricing of Group Medical, Dental, Disability, Life, Drug Plans
- Strategic Planning and Management Analysis
- Plan Funding (fully insured or self-insurance)
- Actuarial Plan Projections and Forecasts
- Self-Insurance Feasibility Studies
- Cost Containment Program (identification & evaluation)
- OPEB Valuations and Program Assessments (under FASB, GASB)

**Managed Care:**

- Valuation & Financial Reporting
- Provider Network Evaluations
- Benefit Plan Pricing & Premium Rate Filings
- Small & Large Group Underwriting
- IBNR Analysis
- Financial Reporting & Projections
- Predictive Risk Modeling
- HSAs & Consumer Driven Health Plans
- Actuarial Training Programs (Managed Care specific)
- Payor Drug Cost Reviews
- Expert Witness

**Property & Casualty:**

- Outstanding Claims Liability, IBNE, IBNR and Loss Reserve Analysis
- Product Profitability & Company Capital Management
- Excess Insurance Evaluations
- Loss Forecasts and Historical Profitability Analysis
- Models for Dynamic Financial & Cash Flow Analysis
- Cost Driver Analysis
- Reinsurance & Risk Transfer
- Relativity Factors
- Deductible Credits
- Regulatory Assistance
- Self-Ins. and Captive Prgms
- Audit Support
- Expert Witness

**Retirement:**

- Actuarial Funding Valuations
- Accounting Valuations and Disclosures (FASB 87, 88, 106, 112, 132, 158)
- Government Plan Valuations (GASB 25, 27, 43, 45)
- Claims Analysis
- Forecasts and Projections
- Plan Design, Evaluation and Re-Design
- Opinions / Recommendations on Assumptions

