



To Our Subscribers

We want to thank our new subscribers and welcome everyone to the fifth issue of the ARM quarterly newsletter! We hope you find this publication valuable. With a few short articles meant to provide unique insights, we present ideas about how to address specific problems and introduce potential risks that may not yet be on your radar.

The primary authors are Dave Ingram and Max Rudolph. We have been active participants in the risk management, actuarial, investment and insurance spaces for many years.

Subscribers are encouraged to suggest topics for articles and ask questions of the authors during our follow-up webinars. Ever cognizant of regulatory requirements, leveraging them to add value to your company in practical ways, will be our focus.

Published by Actuarial Risk Management (ARM), the Strategic and Risk Solutions for Executives (SRSE) subscription is free to all.

A free webcast is also available and our podcasts covering these topics is called [Crossing Thin Ice](#). If you would like to further engage the authors as consultants or for continuing education purposes, please reach out. More info can be found throughout this newsletter. We hope to help you find a solution that meets your needs!

For more details
Visit actrisk.com

or

Contact Marc Altschull
maltschull@actrisk.com

We hope you will join us on our journey!

Sign-up to receive future newsletters automatically at
<https://www.surveymonkey.com/r/AMRSRSE>



Fear vs. Danger

In a Presidential Inauguration speech Franklin D. Roosevelt said: “Let me assert my firm belief that the only thing we have to fear is ... fear itself – nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance.”

Fear has been given a bad reputation, perhaps starting with FDR. Paralysis is certainly one of the reactions that fear causes, but there are at least two other more famous reactions: flight or fight. Fear is an emotional reaction to perceived nearness of danger. Psychologists have found that without emotions such as fear, humans are often frozen by analysis paralysis and unable to make decisions.

Fear is often contrasted with danger under the presumption that emotional fear is usually wrong and logical danger is correct. Maybe. But I would suggest that is a false choice. Oversimplified.

To address that question, let’s first look at what people fear. Just as we have studied the most dangerous risks facing insurers, Chapman University has been studying fears. Their 2022 survey of the most common fears of people in the U.S. finds the top fears are:

1. Corrupt Government Officials
2. People I love becoming seriously ill
3. Russia using nuclear weapons
4. People I love dying
5. The U.S. becoming involved in another world war

If you compare the list of fears to the list of dangerous risks, there are no overlaps for the top 5 but some of the difference may be due to the fact that the Chapman survey was about the fears of individuals and our survey was asking about risks to

Four Drivers of Risk Misperception

Voluntariness: Do we get to choose whether to take this risk?

Dread: Is there a potential for a highly repugnant outcome?

Knowledge: Do we know anything about this risk?

Controllability: Are we able to prevent or at least reduce the consequences?

insurers. But this could be an indication that fear results in bad risk assessment.

Paul Slovic, a professor at the University of Oregon’s Department of Psychology and author of “The Perception of Risk,” tells us that people’s judgement of riskiness is strongly influenced by four drivers of risk misperception: “Voluntariness, dread, knowledge and controllability” none of which are actually directly tied to the level of danger. The expected level of reward for risk taking is an offsetting factor, but not as strong as our fear that is enhanced by some or all of the four aspects.

Let’s look at what happens when our fears don’t match the actual level of danger?

There are four possibilities related to risk taking:



Fear vs. Danger (cont'd)

		Fear	
		LOW	HIGH
Danger	LOW	Realistic	Take too little risk
	HIGH	Take too much risk	Realistic

If our fear is low and danger is low, we will have a realistic assessment of risk and our risk taking will more likely end up being appropriate. But if our fear is high because of one or another of Slovic’s four aspects, while actual risk is low, we will tend to avoid risk taking that might actually benefit us, especially in the risk business of insurance. This is a sin of omission and we may well never know about our missed opportunity. On the other hand, when our fear is low and danger is high, we may end up taking on much too much risk. That sin of commission was the situation with the subprime mortgage securities before the 2009 Financial Crisis. Those securities were seen to have almost no risk but carried a slightly higher return than other “riskier” investment options.

Cyber Risk has appeared in the top 5 in all six years of our Dangerous Risks Survey. But year after year, other risks produce much greater losses for the insurance industry. Have we been very lucky or is the fact that Cyber Risk is involuntary, the adverse outcome of a Cyber-attack is loss of control of our computers and loss of face with our customers, we do not know much from our own personal or business experience about Cyber risk and the folks who we get to educate us often seem to be selling fear and finally we feel that Cyber risk is totally out of our control. It hits all four of the Drivers of Risk Misperception; we do not voluntarily take Cyber risk; being locked out of our computer files without warning is repugnant, we do not know how Cyber-attacks work and we feel helpless to prevent them. Cyber-attack was ranked as the 12th most common fear in the Chapman survey as well. We need to be aware that our fears may cause us to overreact to a danger even when we are trying to be analytical.

Did someone share this newsletter with you?
Sign-up to receive future newsletters for free at
<https://www.surveymonkey.com/r/AMRSRSE>



Fear vs. Danger (cont'd)

Risk Intelligence to the Rescue

Actuaries should be well positioned to provide good estimates of actual danger. See “Three Components of Risk Intelligence” <https://contingencies.org/three-components-of-risk-intelligence/> By applying Risk Education, Risk Experience and Risk Analysis to the risks that have significant amount of Involuntariness, dread outcomes, lack of knowledge and lack of controllability we can apply the best knowledge available from our risk education as well as the best analytical processes, but remember to include our experiences including our fears to be sure to produce the best assessment of the danger actually inherent in a risk. You can also look for the Four Drivers of Risk Misperception and if you find them, redouble the diligence of your risk analysis to root out situations where your fear might be exaggerating the danger. But also, you might want to look for situation where they are completely missing from a situation where your experience tells you one or more should be expected as an indication of possible danger is being ignored.

Communicating the results of the application of Risk Intelligence is a serious challenge, especially when the audience’s views are driven by fear. The experience of public health officials with communicating about COVID risks is a sobering example. Much of what they were communicating was long established science

What happens when our fears don’t match the actual level of danger?



related to a pandemic and solutions that were well known within the scientific community for fifty years or more. In this case, a large segment of society had little fear of something that was actually dangerous.

In the end, we will need to decide, whether to freeze, fight or flee in the face of our fears, without full knowledge of the actual danger.

Sign up for the associated March 15 webinar at https://us02web.zoom.us/meeting/register/tZcqcqurqjIsGtwt0S_npRysx0nXIbTZINip



Strategic Risk Focus for Insurance Company Board Members and Executives

Two-part training program on May 24 and June 7 at 2 pm ET leveraging CGAD requirements to demonstrate the importance of risk management processes and the most common current concerns. Register for free: [Part 1](#) and [Part 2](#)

Additionally for a fee, we offer a private session customizing Part 1 and/or Part 2 to incorporate specific information that reflects your company's unique ERM program, key risks and Board role for just your Board members and Executives.

Part 1 (May 24)

ERM & Board Role

- General introduction designed for new board members and executives and as a refresher for current board members and executives who have been less involved in ERM in the past
- Primary components of Insurer ERM Program
- Fundamental Board roles in ERM

[Free registration for Part 1 here](#)

Part 2 (June 7)

Current Focus of Insurer ERM Programs

- Provides broad perspective on risks most concerning to over 200 insurance executives for 2023 (identified in ARM's Dangerous Risks Survey) and the level of ERM practice by over 60 insurers (from ARM's ERM Practices Study)
- Essential background for board members to provide meaningful oversight to management in the area of ERM

[Free registration for Part 2 here](#)



While Enterprise Risk Management is a continuous process, Own Risk Solvency Assessment (ORSA) and NAIC Corporate Governance Annual Disclosure (CGAD) require insurance company leaders to annually report on their risk management program including direct Board involvement.

DAVID INGRAM | SENIOR ERM CONSULTING ACTUARY



ARM is the leading next generation actuarial and consulting firm and since 2006 continues to work with many Top 30 accounting firms, including BDO USA, LLP and members of the global BDO network.

Insurance companies continue to trust and rely on ARM. You can too. It's that simple.

maltschull@actrisk.com

1-512-345-5200

Visit us on LinkedIn

5914 West Courtyard Drive,
Suite 190. Austin, Texas 78730



Strategies & Risk Solutions for Executives

Now providing three ways for you to get insights, strategies and solutions from ARM consultants to help resolve your risk issues.

Newsletter

- 3 to 6 articles quarterly
- Written by Dave Ingram, Max Rudolph and other ARM consultants focusing on risks faced by insurers and risk management strategies
- Available on the ARM website

Webcast

- One-hour live webcast once each quarter following the newsletter publication
- Webcast includes brief presentations, interviews with authors and live Q&A with your questions answered regarding the newsletter topics

Podcasts

- Two per month
- Delivered by Dave Ingram & Max Rudolph
- Presenting material from the newsletters and webcasts in a totally audio format.
- Available wherever you usually download podcasts

* No charge to subscriptions to all three services

“

While insurers have been challenging by low interest rates and the pandemic, the next few years will see a radically changing environment for insurers. We will be using this provocative platform to identify emerging risks and delve into what we see as the drivers of future success.

DAVE INGRAM | SENIOR ERM CONSULTING ACTUARY

Sign-up to receive notices for all three automatically at <https://www.surveymonkey.com/r/AMRSRSE>

”