



## Developing a Proactive Investment Approach

Summer 2010

### Overview and Executive Summary

Having survived the last crisis, insurance companies are looking to the future. To assist insurers, WellsCanning has developed a process for contingency planning: ACTIVE ERM. As the name implies, ACTIVE ERM adds a proactive component to the already established Enterprise Risk Management (ERM). A key concept within ACTIVE ERM is the consideration of potential forward looking economic scenarios, what these scenarios imply for investment markets, and the development of triggers and resulting actions that the insurer would take.

As part of the process, the Board and appropriate Committees would be included in discussions about the scenarios, potential impact on investments, the triggers, and what actions management would take to protect the enterprise. Ideally, this discussion should lead to the authorization of a streamlined process so that management can react quickly when a triggering event occurs.

To develop an ACTIVE ERM plan, insurers should take the following steps in addition to the more traditional and static Enterprise Risk Management process:

1. Consider potential economic scenarios and the likelihood of occurrence.
2. Consider the potential impact on investment markets of each economic scenario.
3. Given each economic scenario and expected investment market impact, establish specific triggers for taking action.
4. Given the above and the current portfolio structure, develop specific action steps.
5. Acquire all necessary authorizations to enact the contingency plan.
6. Establish any additional relationships and / or accounts to quickly enact the contingency plan once a triggering event occurs.

Working with our economist, Professor Alexander Azarchs, WellsCanning developed and prioritized the economic scenarios. We then applied this information to establish forward looking investment expectations. By combining this forward looking information with enterprise based data; WellsCanning is helping our insurance clients prepare a more robust response to future market events.

WellsCanning is an independent consulting firm working primarily with insurance companies on investment related issues. Founded in 1995, we work with clients domiciled in the U.S. and offshore. For our insurance clients, WellsCanning works on general account assets and assists them in fulfilling their fiduciary responsibilities for both Defined Benefit and Defined Contribution pension plans.