



## USING RISKS TO CREATE OPPORTUNITY

Changing social and economic environments are shifting actuaries' approach to risk management. Historically, in life insurance, the focus was largely on mortality and morbidity. Events over the past decade have added numerous risks to consider, including credit, interest rates, liquidity, exchange rates and equity markets. The growing number of risks challenges actuaries to look beyond the traditional methods in their work to estimate and manage major risks.

Sophisticated and carefully developed models have helped to manage risk, but actuaries must look beyond the predictable and consider the unexpected. The largest troubles do not result from lack of precision in a risk model; rather, they come from risk sources that are uncommon and missed completely. For example, while mortality is one of the better known risks in life insurance, very few companies considered the concentration of this risk until 9/11. The reinsurance business provides another example. Although reinsurers diversify by pooling risks from various insurers, it became apparent around 2000, with the economic decline, that pooling VA guarantees increased reinsurers' exposure to market risk. The lesson learned changed the reinsurance industry.

Current events in the global marketplace further show how suddenly an unexpected risk can occur and how quickly the results can impact financial stability. During the last year, over half a trillion dollars of losses were realized due to the sub-prime crisis and caused some of the strongest financial institutions to collapse. This "type-2 randomness event," a low-frequency, high-severity incident, persists and some analysts forecast even higher future losses.

The combination of all events, local and global, past, current and future, persists in changing the landscape of financial institutions, including the insurance business. While some insurers' stock lost much value, Manulife, John Hancock's parent company, continues to be one of the largest insurers in North America despite the rapid change in the economic environment.

John Hancock actuaries continuously ask themselves: What are the overlooked risk factors or combinations of factors that could have a severe impact on the company's financial strength? The actuarial community considers the answers to this question and uses the constantly improving inter-departmental collaboration to understand, model, manage and mitigate these risks. John Hancock actuaries take advantage of the continually increasing and changing risks and use them as opportunities to create innovation in the actuarial field and to help John Hancock maintain its position as an industry leader.

## CAREER BUZZ

Actuaries play a central role in all of our businesses at John Hancock. We take the professional development of our actuaries very seriously, and they hold a variety of important roles within our organization. Actuaries can work in their area of interest, ranging from positions as financial actuaries to pricing actuaries to actuaries interested in general management, and they are found in departments including life insurance, long term care, wealth management and reinsurance. Many actuaries hold senior officer positions throughout the organization. John Hancock's success as a financial service provider depends on the actuarial areas to assure the financial stability of the company.

## SPOTLIGHT OPPORTUNITY

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## NOTES FROM SENIOR MANAGEMENT



*Actuary Connect interviewed Anthony Teta, F.S.A., M.A.A.A. Anthony is Senior Vice President & Chief Operating Officer of John Hancock Variable Annuities. In this role, Anthony assumes overall responsibility for the customer-service and administrative functions in addition to the management of all Variable Annuity IT initiatives. Anthony joined John Hancock's parent company, Manulife, in 1995.*

### **What makes John Hancock's Actuarial community successful in mitigating risk in the marketplace?**

The core of our risk management strategy is our enterprise risk management framework. This framework focuses on effectively measuring, limiting and monitoring our aggregate risk across all of Manulife. This framework starts in each geography and each individual business where we need to ensure that we understand and accurately measure each risk. Our enterprise risk management has been recognized by S&P and awarded with its highest possible rating.

### **How is John Hancock changing our approach to risk management in light of current market conditions?**

Our approach and philosophy has not changed - insurance companies are in the business of taking risk. Diversification continues to be a core part of our approach. Because we are diversified in our exposure to various risks, we can mitigate the impact on the company of risk challenges from any one geography or business unit. While strategy doesn't change, tactics can change. Our approach is always to adapt our risk mitigation tactics to emerging risk trends in our company.

### **How important is it that John Hancock's senior management is largely comprised of Actuaries?**

John Hancock is first and foremost a quantitatively driven company. A key advantage of having leaders who are Actuaries is that they understand the risks associated with these businesses. At least as important in their success as a leader, however, is the ability to develop a well-rounded management style and perspective.

### **What is the greatest professional risk you have taken?**

I was in a financial reporting role in annuities and given the opportunity to assist in starting up our 529 College Savings business. I consider this my greatest risk because there was no existing franchise and some regulatory constraints on a company being able to enter the College Savings business. As CFO of a small startup within this big company, I experienced aspects of the business that I would not have received exposure to in my financial reporting role; this included developing relationships with marketing and sales, as well as with our partner T. Rowe Price. By stepping out of my comfort zone, I was able to create a career path that gave me experience in all areas of the business, more so than following a traditional vertical path might have.

### **What advice would you give to new Actuaries?**

It is important to be flexible and open to a variety of experiences. Do not think there is only one way to get to where you want to go. Varied experiences help to develop a solid, well-rounded business acumen. The technical capabilities are still essential, but in order to be a leader, you must hone all of your skills to be ready for the next step.