# Vounó Borealis (Mountain Wind)

*by Jason B. Sears*

Sitting on my desk is a picture of my two best friends and me on the slopes of Glacier Peak in Washington state. In the background are the snow-capped Cascade Mountains, Seattle and the Puget Sound. Across the sound the Olympic Mountains cut the sky like a saw blade. The mountains in the Great Northwest are the most beautiful mountains I have ever seen. I know, first hand, that they are also deceiving. The relatively low summits mixed with breathtaking beauty attract myriad mountain climbers with varied skill levels. One wouldn't assume that these mountains take lives with disturbing regularity.

One spring several years ago, I attempted to summit White Horse Mountain with some friends. While we were scrambling up a gravelly gully, one of my partners above me accidentally kicked loose a 300-pound boulder. He called out, "Rock!" He paused, then yelled again, "Big rock!" The rock bounced down the gully, and, before I could move, it bounced off my leg. Needless to say, the climb was over; but I miraculously survived with only a massive bruise covering the entire left side of my left leg. I eventually made it down from the mountain alive because of a combination of experience, first-aid training, trustworthy partners and good luck.

Everything we do involves a level of risk. We are constantly performing a mental reckoning of the risk-reward payoff. For most climbers, the danger inherent in mountaineering is understood and accepted because the reward of the experience more than outweighs the risk. Similarly, as businesspeople, and more specifically as actuaries, we get paid for taking risks. Actuaries are the well-trained, skilled and respectful mountaineers of the business world. We understand that if we avoid risks we won't get paid, so we optimize risk-taking behavior instead of attempting to eliminate it.

As an actuary working in enterprise risk management (ERM), I believe that mountaineering and ERM are analogous. A chartered enterprise risk analyst (CERA) with specialized training in modern risk optimization is like a climber who has been through the rigors of the Mountaineers' training courses like Avalanche Awareness and First Aid. It is for this reason that I wholeheartedly support the National Association of Insurance Commissioners' (NAIC's) current approach to the Own Risk Solvency Assessment (ORSA). I see the ORSA as a checklist of minimum requirements for conducting business to ensure that the participant is fully aware of the inherent risks. At the same time, it allows the participant the degrees of freedom necessary to adapt and innovate. In this way, ORSA is like a mountaineer's checklist: reminding that it is necessary to carry an ice-axe and a rope with harnesses and trained partners on an expedition, even if it is possible that they won't be needed.

However, it is my opinion that the need for vital balance between parsimony and the tendency to be prescriptive is extant for regulators. Minimum requirements for an ORSA are undoubtedly good. There are countless stories of ignorant or overly exuberant people who thought they could summit a peak with pure willpower. The unwitting amateurs are everywhere, from hills to the most technical climbs. Often they either die or need to be rescued, at great expense to the taxpayer and at great risk to the lives of rescue climbers. A great many of these crises could be avoided by requiring a certification of a minimum level of training to be eligible for a rescue.

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Minimum requirements seem natural, but what about the other extreme? If to qualify for rescue a climber needed to adhere to strictly defined routes, movements, seasons, tools, partners, preventive measures, evasive tactics, et cetera, it quickly becomes obvious that the cure is worse than the disease. No two days of mountaineering are ever the same because there are simply too many variables. As a result, mountaineers make mistakes, and many of them. Avoiding all mistakes is impossible. The real skill comes from being able to adapt to a constantly changing situation and the ability to cope with mistakes. When taking risks it is imperative to be free to adapt and innovate. Regulators should keep in mind that being overly prescriptive eliminates the incentive to think. In ERM, it would be a shame to waste all of actuaries' years of rigorous training in a new way of thinking by turning their career into one where they fulfill the job requirements by checking boxes.

On the contrary, the ORSA is an evolutionary step in risk management. It allows the controls to fit the risks. Assuming risk management is the same regardless of the industry is recklessly dogmatic. Ice-climbing is not the same as glacier travel, and health insurance is not property-casualty insurance. This issue has been overlooked for far too long. The ORSA should work for a business, not against it. The success of the ORSA will hinge on whether the ORSA can be used, trusted and supported by senior management. For this to happen, the ORSA needs to be amenable to integration into an existing business model. In addition to being a tool for NAIC, it needs to be useful to the executive suite. The ORSA will be successful if it enables intelligent decisions by all involved parties.

The goal of the ORSA is to provide a tool that the NAIC can use to assure regulators and policyholders that an insurance company is considering the most important factors in order to ensure long-term stability. The ORSA should outline minimum risk assessment practices and reward best practices.

There is no magic to minimum requirements. They could be as simple as requiring documentation and an actuarial attestation to indicate that the appropriate risk factors have been considered. They should not prescribe any particular course of action. Business, like mountaineering, is never the same from one day to the next, so freedom to adapt and innovate is imperative.

All constituents will be better served by parsimonious minimum requirements coupled with the freedom to evolve. This is the current trajectory of the ORSA. It allows companies to differentiate on risk management talent and be rewarded for competitive advantages. The ORSA minimizes risk, but it still enables intelligent risk-taking and allows mistakes.

Like business, mountaineering is risky. I believe that in mountaineering, as in business, pay is commensurate with the risk assumed. One could eliminate the risk by staying home and watching TV. On White Horse Mountain, after suffering the injury, my team decided to find a safe place to camp for the night before attending to the business of descending the mountain. That night the sky was crystal clear, and there had been a massive solar flare. We witnessed aurora borealis (rarely seen so far south), a spectacular show that went on until the sun rose and painted the entire sky.

In many tragedies, ignorance and irrational optimism are obvious culprits. Regardless of the cause, the hazards of

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mountain climbing are constant and unforgiving. They can be diminished with the addition of trained, skilled and respectful climbing, but never eliminated. In spite of this, I know of no climbers who would wish away the hazards of mountaineering. The same is true for business. Any wise businessperson knows risk and reward are inextricably intertwined. Conducting business without taking risks is like mountaineering without the boulders: it is not natural, and one certainly won't get paid for it.

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