Leadership and Life Insurance Failures –

What can we learn about Financial Leadership?

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SECTION ONE: EXECUTIVE SUMMARY

1.1 Background:

Over the past 300 years, there have been many life insurance failures affecting policyholders and even more costly impairments for life insurance investors. This paper sets out to explore why life insurance companies fail. It identifies the core attributes of financial leadership for senior executives, and boards, and makes recommendations on how to avoid and resolve failures.

1.2 Definitions:

For the purposes of this paper, we define failure to include distress caused by significant and material impact on balance sheet and P&L. While the literature primarily identified definitions of financial leadership as relating to financial roles **(1),** we have defined it for the purposes of this paper as relating to executives and Boards. We have defined financial leadership as (a) delivering your numbers, and (b) going beyond the numbers**.**

1.3 Literature Review:

In the course of our research we came across almost 400 cases of life insurance failures and were able to get specific details of over 40 companies. We have seen 10 identified reasons for life insurance failures. The four major reasons most common through the literature review are policy guarantees, investment issues, fraud and external crises (e.g. war, depression).

Much of the discussions on reasons for life insurance failures identify external factors or internal technical problems and how they can be predicted. Yet similar failures continue to arise, in spite of increasing understanding and management of those risks. The failures often tend to recur after some time has elapsed since the last occurrence and institutional memories have faded. It is obvious that our industry isn't good enough at learning and preventing recurrences. Instead we keep forgetting and replaying the same scenarios.

More recently there has been a greater focus on root cause analysis and the need to distinguish trigger events from intermediary and underlying causes. This recent work highlights that a combination of factors causes failures and identifies management issues (in particular incompetence, lack of integrity, high levels of risk taking and pressure from bosses) as the underlying issues. In this paper we want to build on this analysis and highlight leadership deficiencies as lying at the heart of the matter.

1.4 Our Research Insights:

1.4.1 To supplement the literature review, we undertook an in-depth look at 6 case studies from our own combined experience of more than 50 years in the life insurance business in the UK, Japan, Malaysia, Singapore, Australia, Indonesia, Thailand, Philippines, India and Vietnam. As we went through these 6 cases, we saw a pattern that could be characterised as a life cycle of a failure; the 5 stages of which are as follows.

- A False Sense of Stability – innovations in the new environment begin;
- The Leadership Root Causes – the human factor: pressures, aspirations increase and impact on rational practices. Inappropriate practices and behaviours increase.
- The Emerging Issues – observable warning signs in industry practices;
- The Crisis – issues manifest in major impairments or failures;
- The Aftermath – the clean up, review and new practices in place;

We believe that reviewing the failures through a life cycle approach provides insight on the recurrence of similar failures. It is actually quite hard to link up the causal chain of events. Using this life cycle model makes it a little easier. It also provides another tool to break the cycle of recurring failures.

1.4.2 Many of the reasons identified in the literature review were also apparent in our case studies. But we also found that the root causes for failures in our case studies can usually be traced to leadership attributes. Over the period in which these impairments occurred, we have had discussions with a broad range of senior international industry leaders who were involved in other life insurance impairments or failures. Their responses backed up our findings.

1.4.3 From our case studies, we have identified what we believe are common root cause leadership issues (at Board or C-Suite level) that led ultimately to life insurer failures, distress and impairments:

Hubris	Extreme pride or arrogance: desire to be “the best” led to new risk and approaches outside of company expertise, an overestimation of one's own competence or capabilities, especially when the person exhibiting it is in a position of power.
Myopia	No real vision - Drinking the ‘Kool-Aid’: Blindly following market practice; Keeping up with the Joneses: Diverging from strategy so as to have the latest and best.
Abuse of power/ Lack of Courage	Using power and authority for personal interests at the cost of other stakeholders; Extreme pressure often led to poor decision making, and often less ethical practices.
Stuck in the past	Lack of desire to change or accept the need to change despite overwhelming evidence.
Cronyism	Blind trust – people put in senior roles and kept in roles even if wrong fit for the role or situation or their risk appetite was at odds with the organisation; no accountability.

Our hypothesis is that these 'de-railing' leadership attributes, which are the root causes of failure, are likely to extend well beyond our 6 case studies and industry discussions, and are likely to be root causes for many of the failures identified in the literature review.

1.4.4. Important questions emerge:

- What needs to happen to build resilient organisations?
- How can the industry, organisations, and individuals learn better from the past to avoid recurrences?
- What is necessary to overcome organisations' immunity to change or address these de-railing attributes, mindsets and behaviours?
- How do we distinguish positive and negative aspects of each leadership attribute?
- How do we better use risk management tools to assess and manage risk properly?

1.5 Conclusions and Lessons about Financial Leadership

Dealing with the 'de-railing' leadership root causes as they arise is essential in creating a resilient organisation.

We don't really study failures sufficiently. We believe that companies aren't learning from the past because most reviews pay attention to the areas that the reviewers are familiar with and areas that immediately precede the crisis; hence more attention is paid to technical issues than leadership root causes.

We define two key components of financial leadership – (a) delivering your numbers, and (b) going beyond the numbers. However for financial leadership to be effective, it must incorporate broader aspects of leadership.

We have proposed the following holistic leadership framework:

- **Financial Leadership** (Delivering your Numbers and Going Beyond the Numbers)
- **Self Leadership** (Executive Effectiveness - Getting things done in the right way)
- **People Leadership** (Hiring, Firing, Retention & Developing Culture)
- **Strategic Leadership** (Appreciating Future, External, and Holistic perspectives)
- **Change Leadership** (Driving planned change and handling unplanned change)

Organisations must consider the risk of de-railing behaviours when hiring the people it entrusts with executive leadership positions. If the organisation decides to hire a person with potential de-railing attributes, they must also put in place an effective development regime and accountability mechanisms for that person. And it must be prepared to act on these in the event that the de-railing behaviours occur.

To help develop leaders, we identified each leadership attribute that was implicated in the failures in a continuum or spectrum. Life insurance leaders need to consider where in this range they will contribute most to the health of the systems they are part of and how they can move to that sweet spot. The following illustrates the continuums for selected attributes:

Dimension	Restricted	Sweet Spot	Extreme
Financial leadership	Risk-Averse…….	**Beyond the Numbers**…….	Aggressive Risk Taking
Self-leadership:	Unsure…………	**Efficacy**………… …………………………	Hubris
People leadership:	Distrust………..	**Trust and discern**……….... …….	Mates & Cronies
Strategic Leadership	Myopia…………..	**Visionary**……………….………......	Future focused
Change leadership	Stuck in past…….	**Change adaptive**……..………...	Change obsessed

It terms of building resilience, it is crucial that we avoid standardised pro-forma assessments for risk assessments. We must fully explore the extremes of possibilities to really understand the risks we face and the opportunities they present. Any analyses need to focus on the business as usual scenarios or the minor disturbance scenarios and also consider the impact of the highly improbable – 'black swan' events. **(74)** Most importantly, the organisation must encourage diversity of thought to ensure the 'de-railing' leadership attributes don't overwhelm the risk assessments.

1.6 Recommendations

A. Failure as a learning tool: Understanding Life insurance failures, their life cycle, root cause analysis, de-railing leadership attributes, the best mitigations for the risks of failures and appropriate ways to deal with the consequences of failures should be part of the curriculum of training programmes for life insurance executives, boards and regulators

B. Selecting, developing and managing leaders: We believe that a few de-railing leadership attributes are the root causes of many failures. The implications for selection, development and accountability of leaders need to be considered carefully. Using a holistic leadership model like the one we have discussed which covers financial and other aspects, companies can assess current leadership capability, desired capability and potential gap based on the current context of the organisation.

C. Resilience: The opportunity for financial leadership is to take a more pro-active approach to assess and manage risks before they emerge; enhancing the resilience (2) and the anti-fragility (3) of financial systems. Almost all failures are due in part to external circumstances that expose weaknesses and vulnerabilities in current practices. An antidote to this must necessarily involve developing capacities to respond better to significant changes each time.

Actuaries have a very deep appreciation of uncertainty. The profession has the opportunity to take a key position in an increasingly changing world. This requires continually adapting our own models, assumptions and methodologies to the emerging future and to understand the impact of de-railing leadership attributes on reducing the efficacy of these models. It also means contributing a diversity of thinking to improve the quality of strategic conversations with boards and the C Suite.

SECTION 2 – DEFINING FAILURES AND FINANCIAL LEADERSHIP

2.1 What do we mean by failures?

According to APRA **(6):** financial difficulty is an event or situation where a regulated entity

- experiences a sudden material deterioration in financial condition such that it is, or is likely to become, unable to meet liabilities; or
- faces a material risk to the security of its assets; or
- is, or is likely to, cause or promote instability in the financial system**.**

For the purposes of this paper, we define failure to include APRA's definition of financial difficulty, but also extend it to include distress caused by significant and material impact on balance sheet and P&L.

2.2 What do we mean by leadership?

While there are many definitions of leadership, we believe that the essence of leadership is choice, capacity and action. Leading is about making choices and taking action that moves the group, system or situation towards greater health. Many leadership books describe this aspect of leadership as acting in the greater good **(7).**

2.3 What do we mean by financial leadership?

Our research has found that the term financial leadership is primarily used to for people in financial functions. We believe that the definition of financial leadership extends beyond financial professionals, to all people with major carriage of the organisations – the Board and the senior executives.

If leadership is about making choices and taking actions that moves a group or system towards greater health, then financial leadership is necessarily about the financial choices and actions that move an organisation towards greater financial health and that builds financial resilience. Three common elements of financial leadership are (a) excellence in financial transactions, reporting & analysis, (b) value creation and (c) going beyond the numbers. (1) For simplicity we have defined financial leadership as (a) delivering your numbers, and (b) going beyond the numbers**.**

Regulators and professional bodies, such as the Actuaries Institute, also have an important role to pla. This is in both demonstrating financial leadership, and putting structures and processes in place that reinforce its importance. However, the focus of this paper is on the responsibility of organisations, directors and executives to develop financial leadership. As such, we do not explicitly consider the role of regulators and professional bodies.

SECTION 3: LITERATURE REVIEW: A POTTED HISTORY OF LIFE INSURANCE FAILURES

3.1 Historical overview of failures

Table I

Year	**Country**	**Companies**	**Reasons**
1787-1837	USA	26 new life insurers started but few survived	Start up competition
1857	USA	Ohio Life Insurance and Trust Company	Investments/Fraud
1869	UK	Albert Life Assurance Company European Assurance Society	High Expenses/Bonuses
1871-80	USA	46 life insurers	Depression/Competition
1920-30s	Australia	8 life insurance companies	Depression
1930 -1939	USA	19 life companies failed with losses over of $1 million.	Depression
1945-50	Japan	Decimation of entire industry	War
	Korea	In 1945, Japanese companies returned home, leaving inadequate compensation to Korean policy owners.	War
1972	Taiwan	Guoguang Life	Investments
1990	Australia	Regal Life and Occidental Life	Fraud
1991	USA	Guarantee Security Life Insurance	Fraud
1988-94	USA	42 companies entered liquidation including Executive Benefit, Mutual Benefit, Equitable US	Investments/product guarantees
1994	USA	National Heritage Life Insurance	Fraud
1992-1994	Canada	Les Cooperants , Sovereign Life, Confederation Life	Investments
1996-99	JAMAICA	Life of Jamaica, Island Life, Jamaica Mutual Life Assurance, Dyoll Life, Crown Eagle Life,	Investments/product guarantees
1997-2000	Japan	Nissan Mutual, Toho Life, Kyoei Life, Daihyaku Life, Tokyo Life, Chiyoda Life, Nippon Dantai	Investments/product guarantees
1998-2002	Korea	First Life, Korea Life, Handuk Life, Kookmin Life, Dongah Life,Chosun Life, Pacific Life, Doowon Life, Kukje Life, BYC Life, Taeyang Life, Coryo Life	Bad loans/Liquidity
2000	UK	Equitable Life	Negative Spread
2001	USA	companies of Metropolitan Mortgage & Securities and Summit Securities Inc. Old Standard Life Insurance, Old West Life & Annuity and Western United Life Assurance	Annuities
2002	Germany	Mannheimer	Investments
2003-04	USA	7 life insurance failures including London Pacific Life & Annuity Company	
2007	Japan	Yamato Life	Investments
2008	USA	AIG	GFC/Investments
		Federal capital infusions were required for Prudential, Principal Life, Hartford, and Lincoln,	GFC/Investments
	Netherland	Aegon, Fortis, ING	GFC/Investments
	Belgium	Ethias	GFC/Investments
	USA	Standard Life Insurance of Indiana	
2009	Greece	Aspis Pronia	Fraud
	USA	Shenandoah Life Insurance Company	
	USA	Golden State Mutual Life Insurance	
2012	Taiwan	Kuo Hua Life	Investments
	USA	InterAmerican Insurance	Fraud/Investments

The Early Years – 1600s to 1800s

The first English life insurance company was founded in 1696 but the first that was marketed to the general public seems to have been established in 1699 **(8)**. In the early years of the life insurance industry, failures were frequent as the industry came to grips with managing the nascent business in increasingly competitive circumstances. 285 pure life insurance companies were formed by 1870 but only 111 had survived **(9).** The collapse of both the Albert Life Assurance Company and the European Assurance Society in 1869 prompted legislation to be introduced in the form of the Life Assurance Companies Act 1870. The Albert and the European failures were primarily because their expenses and policyholder bonuses were out of control and they were not required to establish proper reserves. What made things worse was that in that period small, struggling (and distressed) companies were merged with larger ones. The Albert and the European between them comprised fifty-seven companies in 1869 **(10)**.

The first US life insurer was established in 1759.Some 26 new life insurers opened for business from 1787-1837 but most failed in a year or two. By 1840 there were only 15 American life insurance companies remaining **(11)**. In 1857 after the New York City offices of Ohio Life Insurance and Trust Company ceased operations due to bad investments (although fraud has also been cited as the cause), news spread quickly via the telegraph and caused financial panic **(12)** resulting in an economic depression lasting until 1859. At the start of the American Civil War in 1861 there were 43 life insurers, but between 1865 and 1870, another 107 companies were established on the back of demand and growth in sales and profits as the war most effectively convinced families of the benefits of life insurance. However increased competition during the 1860s then led to over-supply and market saturation. At the same time there was a general economic down-turn from 1871 to 1874.The start-ups of the 1860s were hit badly and 98 life insurance companies failed between 1868 and 1877**(13) (14) (15)**.

The Great Depression and the War

The 1929 crash and depression led to many life insurance failures around the world. *'In Australia, eight life insurance companies entered liquidation during the late 1920s and early 1930s'* **(16)**. In 1920, over 50 life insurers were in business in Japan but this reduced to 20 by end of war. The Ministry of Commerce and Industry, which regulated Japanese life insurance, spent great efforts post 1929 in assisting and restructuring companies. From 1930 to1939, 19 US life companies failed in the Great Depression, with initial losses of over $1 million **(17)**.

At the end of WW2 all Japanese life insurers suffered great losses on investments they were forced to make in Japanese munitions factories, and on overseas assets that were forfeited. Furthermore inflation not only devalued insurance contracts but also inhibited new sales. They had no alternative but to liquidate, to reorganise and continue their business by establishing new companies **(18)**. This is one example an entire industry failing. The war also impacted Korea where Japanese insurers had dominated after the 1910 Japanese occupation. In 1945, Japanese companies returned home leaving many Korean policy owners high and dry. **(19)**.

Post War

Over the subsequent 40 years after the war, we found fewer examples of life insurance failures. There was one failure in Australia in 1954 **(20)** and in Taiwan in 1972 Guoguang Life, which had operated for a decade, was declared bankrupt due to poor financial management with over 15,000 policyholders affected **(21)**.

The Eighties and Nineties

From the mid 1980s failures increased. *'Between 1988 and 1994, 42 US life insurers' collapsed* ***(22)****.* Many U.S. life insurers had invested in real estate and junk bonds; and sold Guaranteed Investment Contracts (GICs); 5-year term products with guaranteed rates of return. The fall of both the mortgage market and junk bond prices in the late 1980s hurt the insurers' ability to meet their liabilities. In the early 1990s Mutual Benefit Life, Executive Life, First Capital Life, Monarch Life, Executive Life of NY, Fidelity Bankers Life and Guarantee Security Life (fraud related) all failed. *'Regulatory measures varied across state but in the main, the bankrupt insurers were forced to stop operations and their policies were taken over by other financial companies'* ***(23)****.*

3 Canadian life insurance companies failed in the early 1990s: Les Coopérants 1992; Sovereign Life 1993; Confederation Life 1994. Assuris the Canadian policyholder protection organisation stepped in to protect almost three million people. Similar to the U.S. insurers mentioned above, Confederation marketed annuity and GIC products. A decline in real estate investment values meant Confederation Life struggled to pay GICs that matured and was running out of liquidity. The regulator intervened in 1994 to place the company in liquidation but it took nine years, to pay all policyholder liabilities and return a good portion of its shareholders investments **(24)**.

In 1990 in Australia**,** *'Occidental Life and Regal Life were unable to meet their obligations due to the improper use of $65 million from statutory funds. Payments by the Bank of Melbourne to remedy the problems that occurred in the settlement process during the aborted sale substantially eliminated any shortfall in assets. The insurance companies were subsequently taken over by Mercantile Mutual Life Insurance Company Limited. The worst affected policyholders lost less than 10 per cent of their policy value and up to one year's uncredited interest on their savings'* ***(25).***

National Heritage Life Insurance of the USA went under due to a complex fraud in 1994 which led to twelve people going to gaol and USD420 million paid to policy and annuity holders in 1996 **(26).**

During the early 1990s when Jamaica liberalised its financial sector, regulatory arbitrage and intense competition followed which led to banks and insurers being closely inter-connected. *'Life insurance policies with guaranteed returns were marketed. But tightening of monetary policy made insurers unable to pay the guaranteed rates of return. From 1996-1999, 5 insurers failed due to negative spread issues: Life of Jamaica, Island Life, Jamaica Mutual Life Assurance, Dyoll Life and Crown Eagle Life. Financial problems then spread from insurers to the banking sector'* ***(27) (28) (29).***

Around the same time, Japanese life insurers also suffered from negative spread issues post the big bang financial deregulation. An interesting exchange at a Society of Actuaries meeting in 1996 with an actuary working in Japan shed some light into the regulation in Japan prior to the deregulation.

*"Insurance regulation occurs at the Insurance Department of the MOF. They are notoriously understaffed at the MOF…Keep in mind that this is a $500-billion life insurance industry, the largest life insurance industry in the world, and it has very strict product regulation, price regulation, strict solvency requirements, and requirements for cash-flow testing. There are no actuaries at the MOF. The MOF does not hire any experienced professionals, so everyone is homegrown." **(31)**.*

Between 1997 and 2000, Nissan Mutual, Toho Life, Kyoei Life, Daihyaku Life, Tokyo Life, Chiyoda Life, Nippon Dantai all ran into major difficulties. The regulator provided financial assistance to some trouble insurers through the Policyholders Protection Fund and when that was exhausted, the Life Insurance Policy-Holders Protection Corporation **(30)** Apart from Tokyo Mutual Life, policies of troubled insurers were transferred to foreign insurers.

After the currency and financial crisis in 1997/8, over a four year period covering 1998-2002 in Korea, bad loans and liquidity problems brought down First Life, Korea Life, Handuk Life, Kookmin Life, Dongah Life, Chosun Life, Pacific Life, Doowon Life, Kukje Life, BYC Life, Taeyang Life and Coryo Life. *'Korean Life and non-life insurers had operated like as banks. They had made significant amounts of loans (40-50 percent of total assets), and sold policyholders short-term savings products. With an interest rate peak of 30%, monthly surrenders of products similar to long-term savings accounts reached a maximum rate of 6.3%. A key feature was low or non-existent surrender charges on major product lines. Regulatory valuation principles that did not reflect market deviations from book value made the impact of the mass surrenders even worse. The regulator then extended the bank deposit guarantee to insurance liabilities to prevent further runs. Much of the industry was restructured and recapitalised by the government and sold.' **(32) (33)**.*

The New Millennium

In 1999 a huge hole was discovered in the finances of Equitable U.K. *'It had made inflated pension promises. It could no longer afford to keep these and the insurer teetered on the brink of collapse. It was closed to new business in December 2000 and reduced payouts to existing members. Lapse rates in Equitable Life following its closure to new business in 2000 also peaked at 15% per annum. The House of Lords ruled it had acted unlawfully. The then government first resisted calls to compensate victims but relented and admitted it was too lax in regulating Equitable. When a new government came to office in 2010, it promised £1.5 billion to those affected. Nearly 290,000 Equitable Life policyholders due compensation have received money from the Government. A total of £277 million has been paid out of a promised share of £1.5 billion. But more than 500,000 victims of the Equitable Life scandal are still waiting for redress. A large number of the Equitable customers are old and campaign groups say many will die before receiving compensation' **(34) (35) (36)**.*

'Between 2001 and 2004, 14 life and 3 composite insurers defaulted in the European Union. In Germany, in 2002, Protector took over the policies from the Mannheimer Life Insurance Company to avoid default of the company. Mannheimer Life had a small market share of 0.5%, which meant that Protector was able to secure all policies. Although all policies were transferred to a guarantee scheme with no loss of benefits to policyholders, the combined surrender and lapse rates reached 15% for two years, but then came quickly down again.' ***(37) (38)***.

In the same period three US annuity carriers (Old Standard Life Insurance Company, Old West Life & Annuity and Western United Life Assurance Company) linked to Metropolitan Mortgage & Securities and Summit Securities Inc failed. Old West Life & Annuity policies and Old Standard Life Insurance Company policies were fully assumed by Great American in 2006. Western United was acquired by a joint venture formed by Global Secured Capital and DLB Capital in 2008 and continues to operate *(39)* (40) (41) (42).

'London Pacific Life & Annuity Company *entered liquidation in 2004. An interpretation is that owners of London Pacific annuities will be 100% covered up to state guarantee fund limits, but that amounts over state guarantee fund limits will take an 8% or 9% hit to total annuity value.'* **(43)**

Post 2008 Global Financial Crisis (GFC)

The global financial crisis of 2007/8 triggered a number of failures. Japan's Yamato Life filed for bankruptcy in 2008 after the global financial crisis significantly devalued its assets, particularly US mortgages. Its assets were acquired by Prudential Financial **(44)**.

In 2008 the giant insurer AIG, was about to fail partly due to its financial insurance and credit default swaps business which an operating loss of $40.8 billion in 2008. But it was also because 'the other businesses of AIG had losses of $67.9 billion of which the "large and stable insurance companies" had losses of $43.2 billion. ***(45)***

The US government bailed-out AIG because it was afraid that *'an AIG collapse would exacerbate the financial crisis with far-reaching economic consequences because AIG was said to be too big as well as too interconnected to fail. The government's primary (though by no means only) concern with AIG appears to have been the solvency of its commercial and investment bank counterparties, not of AIG itself'.* ***(46)*** *'Other insurers also provide significant amounts of financial guarantees to banks and other financial institutions. Federal capital infusions for Prudential, Principal Life, Hartford, and Lincoln were given due to concerns that they were too interconnected to fail. Metropolitan Life, the biggest life insurer in terms of assets, withdrew its filing for a capital infusion but was close to requiring one'* ***(47).***

Also in 2008 in the Netherlands, Aegon, Fortis, and ING were hit by the GFC. *'There was a €3 billion (USD 3.7 billion) capital injection by the Dutch government following losses on investments in US mortgage-backed securities and the US financial sector. Aegon had been regarded as one of Europe's most vulnerable life insurers because two-thirds of its operations are in the United States, where it runs the insurer Transamerica. It is also well represented in Britain, the hardest hit among European economies. Fortis was nationalized while ING Groep and Aegon took state support'* ***(48)***.

'The European Commission approved, under EU state aid rules, a €1.5 billion recapitalisation provided by Belgium in the context of the restructuring of Ethias, a Belgian insurer that ran into severe difficulties in 2008, in the wake of the financial crisis. Ethias historically operated as a group of mutual companies. It was the third insurer (by market share) on the Belgian insurance market and had a total balance sheet of €28.6 billion at the end of 2008. At the outbreak of the financial crisis Ethias was hit by a loss of customer confidence and was confronted with a severe liquidity crisis due to a sudden surge in withdrawals of funds by its clients. A key feature was low or non-existent surrender charges on major product lines' ***(49)***.

The Standard Life Insurance Company of Indiana entered state control in 2008 operating on a normal basis but with no policy surrenders. *'Two years later agreements had been reached for the $1.7 billion in policies and financial obligations of Standard Life to be assumed by Guggenheim Life and Annuity Co. Policy owners will receive the full value of their policies and annuities'* ***(50)***.

'In 2009, there was a failure of five insurance undertakings of the Aspis Pronia group which held 16% of the Greek life market. This failure has affected an estimated number of 200,000 life insurance policyholders. The estimated loss for consumers and taxpayers is estimated to be higher than €200 million as a result of fraud and embezzlement.' ***(51)*** *'Pavlos Psomiadis president of the defunct Aspis Pronia life insurance firm has been charged with providing Aspis' creditors with a false 550-million-euro letter of guarantee from a British bank to keep the business afloat. Greek Ministry of Finance blocked 50 percent of Aspis assets'* ***(52).***

Shenandoah Life Insurance Company in the US entered receivership in 2009. *'All annuity withdrawals, surrenders and transfers were frozen, but death claims were paid. Annuity renewal rates were cut to contractual minimum rates'* ***(53)***. *Also in 2009 'the California Insurance Commissioner served Golden State Mutual Life Insurance Company with a conservation order and ordered it to cease selling products. In 2008 Golden State was active in 12 states with assets of $90 million. Golden State had been under scrutiny by California Department of Insurance since 2004 and posted operational losses for the last three years. In* March 2010, *Golden State Mutual Life Insurance Company has entered into a letter of intent with IA American Life Insurance Company to transfer all of its in-force insurance policies to IA American'.* ***(54)***.

More recently, in 2012**,** Taiwan's government paid Transglobe Life Insurance T$88.4 billion ($3 billion) to take over Kuo Hua Life. *'Taiwan's overcrowded life insurance industry had been hit by cut-throat competition and because of the low interest rates'* ***(55)***. It was the country's biggest bailout using public funds.

Also in 2012, 'InterAmerican was expected to be the biggest life insurance failure in Illinois history, with a gap of more than $30 million between assets and liabilities. The Illinois Insurance Department obtained a court order to liquidate the company. Court papers showed a balance sheet crowded with overvalued real estate and questionable intercompany transactions and reinsurance arrangements' ***(56)***.

3.2 Types of Failures

Failures can be grouped into "one-offs", 'clusters' and systemic failures. One-off failures are clearly part and parcel of competitive business and can't be eliminated entirely; these have occurred throughout history. Clustering is also surprisingly frequent but fortunately contagion (across financial services), although it is the greatest concern, has only occasionally reared its head with AIG in the GFC being the prime example.

3.3 Causes of failure

3.3.1. An Australian paper **(20)** observed that Insurance failures generally are associated with random catastrophic events, prolonged investment market downturns and/or long-term risks in matching current premium revenues with future liabilities. Many papers have been written trying to come up with technical early warning indicators of failures in these circumstances.

3.3.2. As part of a European Union study in 2001/2002 **(57),** a cause-effect methodology was used to understand the risks faced by European insurance companies from a detailed review of 21 supervisory cases of firms that had either breached their solvency requirement or came close to doing so. The study put forward a root case analysis template to aid identifying underlying causes as opposed to trigger events and intermediary causes. It stated that multiple inter-related rather than a single cause led to the failures they studied; and it put the root causes of life insurance failures firmly at the feet of management. In particular it pointed to incompetence, lack of integrity, taking on high levels of risk and decision-making under pressure as the main management failings.

3.3.3. We have summarised our observations from the broad literature review in to 10 types of reasons/triggers. We have further categorised these into the 4 most common causes and an additional 6 causes.

The most common reasons are:

a. Long term guarantees based on short term and current conditions e.g. Declaring high guaranteed bonus rates even though interest rates are declining: Selling annuity products with implied mortality improvement rates based on historical improvement rather than current conditions. These lead to ALM and negative spread problems **(58).**

b. Investment issues e.g. Asset allocation and concentration: Investment in related group assets / loans to related parties and/or in lower credit grade assets to increase yield to maturity: Unit pricing allowed retrospectively. Distressed insurers carried significantly larger holdings of their assets in real estate than non-distressed insurers. There is a higher propensity for failure the greater the financial leverage of a company. **(59)**

c. Fraud

d. Major catastrophes e.g. Depressions: Wars.

The other reasons are:

e. Acting in isolation / ignoring risk management requirements e.g. Non-disclosure to Board or risk management areas about particular risks or losses: Disregarding due processes (Making decisions independently that should require approval of Board, risk management committees etc)

f. Deregulation and Dysfunctional regulatory systems e.g. Scope for regulatory arbitrage: Prescriptive requirements that increase risk of insolvency (including minimum guaranteed returns above government bond rates) Regulations in Japan, Korea and Taiwan: Insolvencies of life insurers in Europe have been virtually nonexistent before 2000. The deregulation of the European insurance market altered that situation **(59):**

g. Lack of understanding of industry e.g. Non insurance companies purchasing insurance companies: Domestic insurance companies acquiring off shore businesses: Entering new segment of market and offering products they didn't understand risks of: Outsource part of business to provider who didn't understand insurance (e.g. asset management to a bank).

h. Irrational competition e.g. competitive pressures leading to focus on sales and growth at the expense of financial condition (short term measures such as profit and long term measures such as capital adequacy).**(60)**

i. Misalignment of incentives for different stakeholders (shareholders, advisers, customers) e.g. commissions greater than 100% of first year premium, vanishing premium products **(61).**

j. Cross border management e.g. Insurers that are more geographically diversified are more likely to fail due to incapacity to deal with the increased complexity **(59).** Aggressive central office push to subsidiaries; undercutting pricing, accepting poor risks etc: Cultural differences in leadership and management (see Centre for Creative Leadership (CCL) research on managing across boundaries **(62):** Complexity of different regimes with different regulations, products and industry practices

3.4 After the Failure

There is considerable variance in international regulatory practices when dealing with a life insurance failure. But in general, the process in a failure is either via a receivership process or acquisition by another insurer. In either of these cases, the aftermath of a life insurance failure can be quite complex, protracted and traumatic. 'The nature of failure will differ according to the type of institution involved and its relative business mix. Each instance of failure will be different and affect stakeholders in different ways…. The final cost of a given failure can be difficult to predict and can vary widely in each case. Differences in financial structures and legal arrangements across sectors make comparisons difficult. The accounting value of an institution's assets and liabilities prior to failure will not necessarily be an accurate indicator of the likely shortfall or cost of resolution ... 'discrepancies' may not materialise until after the failure of the institution. In addition, the value of remaining assets of a failed institution may deteriorate as resolution is taking place. This makes determining the level of potential exposure to failure problematic **(20).**' Furthermore failed insurers may take years to pay all of their liabilities. Their policyholders face potential delays, incomplete or disputed claim payments, and possible difficulties in finding replacement coverage. **(63)**

Having said this, and while significant losses do occur, regulatory arrangements have been broadly successful in dealing with the problems raised. 'Insurance is not usually systemically significant and even large failing insurers can be unwound in an orderly manner. This is because, 'In addition to capital requirements, existing insurance regulatory frameworks include a variety of measures designed to protect policyholders, including the requirement for insurance companies to hold specific assets, subject to investment restrictions, covering policyholders' claims and the decisive and timely orderly unwinding of insolvent insurers'. **(64)**

USA is the ultimate repository of knowledge of dealing with insurance failures. They have the largest number of companies and failures and their 'play book' is practiced and experienced and successful. Compare this to Japan where they wrote the playbook as they went along in the late 1990s and early 2000s. The other comparison is with the UK and the case of Equitable U.K. which was distressed but not still, failed. The Government launched two investigations – Penrose Report & Parliamentary and Health Service Ombudsman report; and set up an Independent Advisor to determine the compensation entitlement of respective policyholders. An act was enacted in the Parliament of UK that gives the HM Treasury the power to compensate more than a million policyholders adversely affected by the collapse of The Equitable Life Assurance Society in 1999 (Equitable Life (Payments) Act 2010) **(65)**

'A feature of past financial disturbances and institutional failures is that they have often served as a catalyst to significant subsequent policy and regulatory reforms; one such innovation is the policyholder protection scheme (PPS). Many PPS were introduced following a major default of one or more insurance undertakings or have been triggered by insurers that experienced serious financial difficulties. Where no PPS exists, this is normally due to the absence to date of major defaults.' (20)

The PPS provide continued protection for small policyholders and an orderly resolution of the company as last resort if other protection mechanisms fail. PPS typically cooperate with regulators and the receiver to liquidate assets, transfer policies to financially sound insurers and wind up the failed insurer. Importantly, PPS do not provide rescue or "bailout" financing for financially troubled insurers, nor do they protect the general creditors of such companies These schemes compensate policyholders for losses by paying claims that would otherwise have been paid by the insurance company had it not become insolvent. In most cases, however, only certain types of claims are eligible for coverage by insurance guarantee funds, and compensation is subject to certain limits and/or deductibles By providing consumer protection and confidence, PPS promote consumer demand for insurance protection and contribute to stability. However, since PPS, 'redistribute costs from solvent insurers and their policyholders to the policyholders of insolvent insurers' they may have adverse effects for incentives and the behavior of market players, i.e. moral hazard. This concern has re-emerged during 2012-13 in the USA. **(66)** PPS should therefore be designed to minimize excessive risk-taking or other distortions of incentives. But in the main, the debate between moral hazard & policyholder protection schemes seems to have been won by the latter. **(67) (68) (69)**.

3.5 Having reviewed the reasons for failure identified in the literature review, we further explored what action was taken, what lessons were learned and what the consequences were for the industry. In many instances, practices (such as fraud) have not recurred significantly, with regulatory changes adopted to limit the risk of re-occurrence.

To some degree, we have progressed! However, there are several areas where despite regulatory changes or increased industry awareness, inappropriate practices continue to resurface. What stands out across the literature review is how many of these failures and impairments were avoidable and recurring. *Why, when the risks were known, did companies continue to misjudge?*

SECTION 4 SIX CASE STUDIES AND INDUSTRY INSIGHTS

4.1 Case Studies Summary

In addition to the major published research on historical life Insurance failures, we have supplemented this with case studies from our own combined experience of more than 50 years in the life insurance business in the UK, Japan, Malaysia, Singapore, Australia, Indonesia, Thailand, Philippines, India and Vietnam.

Through these case studies we have explored why avoidable failures and impairments recur.

What we have observed is that many cases follow a life cycle:

- **False sense of stability**; boundaries relax, people find innovative ways to create profit and things gradually begin to heat up
- **The Leadership Root Cause**; the human factor: pressures, aspirations increase and impact on rational practices. Inappropriate practices and behaviours increase.
- **Emerging issues**; observable warning signs abound – unusual asset selection (e.g. investment in sports teams), pricing below historical levels, competition for the low quality business increases
- **The Crisis**; typically triggered by an external event, the increased vulnerability of an organisation plays out with major impairments or failures of the vulnerable and weak. Anxiety abounds.
- **The Aftermath**; reviews occur, regulations revised, balance sheets restructured. Objectivity returns and market players act responsibly. Reviews often focus on external event as the cause, and recognise the contribution by emerging issues; root causes rarely addressed.

Most of the research we have seen focuses on the event immediately preceding the crisis, and more often than not the technical aspects of the event. Using the life cycle model, we will assess what the root causes in each case may have been. While these are hypotheses, we have ‘road-tested’ them with other people who were closely involved. The following case studies have been constructed through starting at the aftermath, understanding the preceding crisis and delving beneath the surface to the emerging issues and root causes.

Case Study 1 - A national life insurance company

Aftermath	As a consequence of a weak capital position coupled with strengthening industry wide capital standards, a national life insurance company becomes majority owned by a global insurer, through a significant capital injection
Crisis	Industry wide issues caused by low product margins and high guarantees through pricing competition, high agency costs through competition for advisers. Insurers recognising significant losses from overseas exposure. Short term capital measures put in place by insurers who are worst affected
Emerging issues	High guarantee products backed by aggressive asset mixes Expansion into new markets with limited knowledge of these markets Rapid innovation across many lines of business
Root Cause	Hubris – belief that success in a bull market meant they were a superior management team. Pride – desire to be the number one in the market regardless of consequences
False sense stability	Large surpluses built up over long periods of time gave false sense of invincibility

Case Study 2 – Major Global Insurer

Aftermath	Restructured and largely government owned due to huge capital injection from government. Took four years to pay back.
Crisis	Hedge fund activities of Life insurer realise significant losses. Occurring at the height of GFC, this triggers major panic / anxiety. In at least one country, lines of policyholders waiting outside offices of insurer to surrender policies.
Emerging issues	Growth forecasts that underpin share price and market expectations. A large proportion of business growth occurs through the hedge fund business
Root Cause	Long standing dominating CEO stepped down. Lack of understanding by board and succeeding senior executives of the risks in the credit default swap business. Weak supervision: insurer chose weakest regulator
False sense of stability	Substantial profits generated over long periods of time gave false sense that these would continue to grow unabated

Case Study 3 – Large Insurer

Aftermath	Major insurer overhauls investment processes across region, increased governance structures and oversight by regional office
Crisis	Large single market insurer in Asia, which during Asian financial meltdown sold out of equities. When equity markets recovered, company had lost significant value for its shareholders and customers compared to competitor companies. CEO made the decision, overriding the Investment mandates.
Emerging issues	Dominance of local CEO was well known Concerns of effective governance on behalf of Investment Committee were known.
Root Cause	Blind trust of the Regional head towards CEO Cross border management challenges
False sense of stability	Sales and profits continue to grow, business left to its own devices

Case Study 4 – Small Insurer

Aftermath	Small insurer restructures balance sheet, strengthens governance processes, and recruits key personnel with risk appetite aligned to shareholders'
Crisis	In the wake of the dot com crisis, a small life company with seemingly significant excess capital becomes insolvent within a very short time of reporting substantial capital reserves in excess of the statutory minimum. Becomes subject to increased regulatory supervision.
Emerging issues	Product proliferation, with high guarantees and low charges. Significant increase in expense base to fund growth, but with much smaller increase in expense recoveries from new revenue streams. Increasingly aggressive investment policy and appropriateness to liabilities
Root Cause	Inappropriate selection of key financial executives – they demonstrated insufficient understanding of the asset risks, over-reliance on external parties and their risk appetite was greater than the risk appetite of the shareholders Integrity – lack of regard for equity between different classes of policyholders / shareholders
False sense of stability	Large surpluses built up in the participating fund over long periods of time gave false sense of invincibility

Case Study 5 – Hybrid Company (composite example of several companies)

Aftermath	Major re-pricing and re-design of products Change in investment policy Strengthening regional practices (learn from one country apply in another)
Crisis	Small subsidiary of global company issued products with high guarantees, backed by local government issued USD denominated bonds. Local policyholders invested heavily based on financial strength of global company. As government credit rating fell and risk of default increased, company held additional capital and changed asset mix realising losses.
Emerging issues	Drinking the Kool-Aid - following market practice Complacency - sense from local market that if government fails then whole industry will fail so it will become a regulatory issue (not my problem)
Root Cause	Lack of awareness / understanding of credit risk Significant pressure to compete and grow
False sense of stability	Interest rates high for long periods of time with very few government failures.

Case Study 6 – Hybrid Example {composite of several companies, several different areas}

Aftermath	Significant write down in embedded value of owner Combined insurance entities with one approach & shared philosophy
Crisis	As a result of heavy competition between internal subsidiaries, profit deteriorates over time and significant value is destroyed. Company consequently writes down embedded value
Emerging issues	Justification from two parties on why they should remain separate Management not prepared to “rein them in” despite evidence Reluctance to share practices – “our processes work fine…”
Root Cause	Pride - proving to owner who was “the best” Ego - acting from own interest rather than in best interests of the group
False sense of stability	Each entity successful in its own right – long periods of growing portfolio

4.2 Views of Industry Leaders

Over the period in which these impairments occurred, we have had discussions with a broad range of senior international industry leaders involved in other life insurance impairments, failures and significant write-downs. These included Directors, CEOs, CFOs, Chief Actuaries, Heads of Distribution, Heads of Operations and Heads of Marketing. The following is a brief summary of some responses that by and large support the hypotheses of the case studies.

Comment	Link to root cause
"We didn't think it could happen to us. We just got complacent"	Hubris
"New players were coming in to the industry with innovative products. We thought by offering higher guarantees we would retain market share in the short term. However, we never pulled the product until it was too late…."	Myopia
"The advisers placed tremendous pressure on senior management, and had a huge amount of power and authority. It was commonly accepted in the company that the most senior advisers were more powerful than the CEO."	Lack of Courage/Conviction/ Power
"We were determined to be number one in the market. At the time we had an abundance of capital and were riding a very strong economic tail-wind"	Hubris
"We felt that we would get much better returns by changing asset classes. While we were aware of mismatching, we under-estimated the risks."	Understanding the business. Failure to Manage beyond numbers
"The productivity of the new distributors was 3 times that of our existing distribution channel. We gave them everything, and in the short term they delivered. It was 18 months later that productivity started to tail off and we realised they might have been churning their previous client base."	Myopia
"The whole market had become irrational. We went along with it rather than losing market share and going out of business."	Myopia
"The pressure and the incentives from the global head office were tremendous. New business targets were extremely aspirational, and we chased any business we could get. Initial sales targets were met, but it went downhill from there"	Lack of Courage/Conviction/ Power

4.3 Life Insurance Failures and Leadership Root Causes

From these case studies and discussions with industry leaders, we have identified what we believe are common root cause leadership issues (at Regulator, Board or C-Suite level) that led ultimately to life insurer failures, distress and impairments. The major causes are:

Hubris	Extreme pride or arrogance: desire to be “the best” led to new risk and approaches outside of company expertise, a loss of contact with reality and an overestimation of one's own competence or capabilities, especially when the person exhibiting it is in a position of power.
Myopia	No real vision - Drinking the ‘Kool-Aid’ – blindly following market practice; Keeping up with the Joneses – diverging from strategy so as to have latest and best;
Abuse of Power/ Lack of Courage	Using power and authority for personal interests at cost of other stakeholders; Extreme pressure often led to poor decision making, and often less ethical practices
Stuck in the past	Lack of desire to change or accept the need to change despite overwhelming evidence
Cronyism	Blind trust – people put in senior roles and kept in roles even if wrong fit for the role or situation or their risk appetite was at odds with the organisation; no accountability

Our hypothesis is that these root causes for leadership which we call de-railing attributes, probably extend well beyond our 6 case studies and industry discussions, and are likely to be root causes for many of the failures identified in the literature review.

It is not just life companies. Two Fortune 500 Magazine articles written eight years apart focused on why companies in general fail identified similar leadership issues to these **(71) (72).**

4.4 Implications and Insights

The above case studies helped to identify a common life cycle, with specific leadership root causes for failures. They also provide the following implications and insights:

- Failures and the abovementioned de-railing leadership attributes continue to be repeated. When it comes to human mindsets and behaviours, the more things change, the more they remain the same.

- Each de-railing leadership attribute which was a root cause that led to a failure was in some earlier context an attribute mindset or behavior that could have been perceived as strength. For example, Boards often seek strong senior executives with sufficient confidence to steer the organisation. However, when confidence is taken to an extreme, it becomes hubris. We can mistake hubris for confidence. While individuals must take accountability for their own leadership, organisations must also be responsible for identifying nuances in leadership attributes and continuing to allow these failures of leadership to occur.

- In the case studies, risk analysis, financial sensitivities or scenarios were prepared and presented to decision makers and boards. Our own experiences and those of our industry colleagues suggest that assumptions or scenarios can be chosen to achieve a particular perception of risk. This can lead to decisions being made without regard for the genuine risks and lead to unintended consequences and even failure **(74).** Our sense is that the de-railing leadership attributes above increase the chances of underestimating or ignoring risks.

- The de-railing leadership attributes that are root causes for failures appear to put in to play particular practices or behaviours that while seemingly adequate in isolation, can create greater longer term unintended risks and consequences. This in turn leads to greater fragility and lower resilience to shocks or crises. The declining resilience of the organisation often does not become apparent until an external event impacts the company to a greater degree than other rival organisations.

Important questions emerge from these insights:

- What needs to happen to build resilient organisations?
- How can the industry, organisations, and individuals learn better from the past to avoid recurrences?
- What is necessary to overcome organisations' immunity to change or address these de-railing attributes, mindsets and behaviours?
- How do we distinguish positive and negative aspects of each leadership attribute?
- How do we better use risk management tools to assess and manage risk properly?

These questions will be addressed in section 5 which also highlight lessons for financial leadership.

SECTION 5 CONCLUSIONS AND LESSONS ABOUT FINANCIAL LEADERSHIP

In this section, we bring together the lessons from throughout the paper and make proposals that we believe will enhance the capacity of organisations to survive and grow through challenges.

What needs to happen to build resilient organisations?

Resilience is an outworking of the all the following points – developing an holistic approach to leadership, developing leadership capacity that can both adapt and flex in new situations, having a deep appreciation of the external world and consequent risks and opportunities, and selecting, developing and holding accountable senior executives charged with the leadership of the organisation. Resilience is possibly the most important concept in this paper; each and every leadership intention or action must address the central question "Does this lead to a more resilient organisation"?

While the World Economic Forum's Global Risk Report 2013 **(2)** identified five factors in creating more resilient systems: robustness, redundancy, resourcefulness, response and recovery, we believe that the five de-railing factors (hubris, myopia etc) work to reduce the resilience of the system. Dealing with the leadership root causes as they arise is essential in creating a resilient organisation.

How can we (industry, organisations, and individuals) learn better from the past?

We need to be better at learning from failure and using failure as a tool. We don't really study failures sufficiently. Most reviews of "what went wrong" pay attention to the areas that the reviewers are familiar with and areas that immediately precede the crisis; hence more attention is typically paid to technical or management issues than de-railing leadership root causes. Therefore, the leadership root cause is often not addressed and re-emerges in the next cycle. Awareness of leadership is critical. However, we also believe it goes deeper than awareness. Even when the leadership failures and potential risks were well known (awareness), action was not necessarily taken.

What is necessary to overcome organisational immunity to changing these de-railing leadership attributes, mindsets and behaviours?

Financial leadership does not sit in isolation. Financial leadership is part of a holistic leadership model that must help prevent failures and deal with the consequences of failures.
Based on our literature review and own research, we propose a business leadership development model for boards, and the C-Suite that helps address this. Our model has five dimensions.

- **Financial Leadership** (Delivering your Numbers and Going Beyond the Numbers)
- **Self Leadership** (Executive Effectiveness - Getting things done in the right way)
- **People Leadership** (Hiring, Firing, Retention & Developing Culture)
- **Strategic Leadership** (Appreciating Future, External, and Holistic perspectives)
- **Change Leadership** (Driving planned change and handling unplanned change)

Using a holistic model for selection, assessment and development may sound obvious and many organisations have models of required leadership behaviours. Yet the de-railing factors continue. Organisations must consider the risk of de-railing behaviours when hiring the people it entrusts with executive leadership positions. If the organisation decides to hire a person with potential de-railing attributes, they must also put in place an effective development regime and accountability mechanisms for that person. And it must be prepared to act on these in the event that the de-railing behaviours occur.

In most instances identified in the case studies, the leadership root cause was not a financial leadership attribute. However, the root cause inevitably led to a failure of financial leadership at some stage. Hubris, for example, often led to making financial decisions based on own experiences or beliefs without objective consideration for the changing external environment and the associated risks and opportunities. In short, self leadership and people leadership are a foundation for effective financial leadership.

To be able to address these challenges senior executives and directors need to be sufficiently self reflective to be aware of how they and others are being influenced by immediate pressures, and be able to stand back objectively and choose how they respond.

How do we distinguish between the positive and negative aspects of each leadership attribute?

Leadership is partly contextual; the kind of leadership necessary at different stages of an organisation's or industry's development will be different. However, leadership also has universal attributes that hold regardless of the environment or context. We believe that any model of financial leadership needs to reflect the balance of universal attributes and contextual considerations – this suggest a range within which leadership behaviours would vary.

We believe that leadership behaviours occur on a continuum. Different styles of leadership will be appropriate at different times - effective financial leadership means adapting leadership to current market conditions and opportunities. However, the root causes of failure occur when leadership is at one extreme of the continuum, or when the leadership style fails to adapt to the changing environment.

We propose the following continuum as a way to reflect on the style and type of leadership necessary for the context of the organisation and individual executives or directors. Note this is only one attribute used to illustrate the point; there are others.

Dimension	Restricted	Sweet Spot	Extreme
Financial leadership	Risk-Averse…….	**Beyond the Numbers**…….	Aggressive Risk Taking
Self-leadership:	Unsure…………	**Efficacy**………… …………………………	Hubris
People leadership:	Distrust………..	**Trust and discern**…………..... ……	Mates & Cronies
Strategic Leadership	Myopia…………..	**Visionary**……………………..........	Future focused
Change leadership	Stuck in past…….	**Change adaptive**……..…………	Change obsessed

How do we better use risk management tools to assess and manage risk properly?

Financial Leadership is not just about delivering the numbers. Financial leadership requires a balance between meeting immediate financial targets and creating a viable future. If the immediate financial targets are not met, then the credibility of the organisation will be at risk, and the organisation will spend undue time justifying its existence rather than focus on strategy. If there is no emphasis on a viable future, the organisation will lose its way. Increasing resilience is core to going beyond the numbers for financial leadership.

One challenge with exploring viable futures is that the future is uncertain. For the executive and board directors to be truly open to uncertainty requires a mindset that risk is a part of everyday organisational life. Executives and directors in mature risk cultures see risk as both what you need to guard against and what will create your future revenue streams.**(77)**

Scenario planning, foresight thinking, and developing/prototyping safe fail tests – identifying possible projects with asymetric pay-offs (small down side with very large upside) can be valuable tools to learn about possible futures. But even when executives and boards accept that there are unknown and unknowable risks, it is crucial that we avoid standardised pro-forma assessments. We must fully explore the extremes of possibilities to really understand the risks we face and the opportunities they present. Any analyses need to focus on the business as usual scenarios or the minor disturbance scenarios and also consider the impact of the highly improbable – 'black swan' events. **(74)** Most importantly, the organisation must encourage diversity of thought to ensure the 'de-railing' leadership attributes don't overwhelm the risk assessments.

SECTION 6: RECOMMENDATIONS

A. Failure as a learning tool

Understanding Life insurance failures, their life cycle, root cause analysis, de-railing leadership attributes, the best mitigations for the risks of failures and appropriate ways to deal with the consequences of failures should be part of the curriculum of training programmes for life insurance executives, boards and regulators. "Those who cannot remember the past are condemned to repeat it (George Santayana)."

B. Selecting, developing and managing leaders

We believe that a few de-railing leadership attributes are the root causes of many failures. The implications for Boards, for senior leadership teams, for Human Resources in selection, development and accountability of leaders need to be considered carefully. Two important concepts that should be involved in these considerations are potential leadership de-railing mindsets/behaviours and the continuum of leadership.

Using a holistic leadership model like the one we have discussed which covers financial and other aspects, companies can assess current leadership capability, desired capability and potential gap based on the current context of the organisation. It should not just be about growing the business. It should be about how to avoid the common human causes of failure and how to deal with failure. What we pay attention to will determine the results we achieve.

C. Resilience

The opportunity for financial leadership is to take a more pro-active approach to assess and manage risks before they emerge; enhancing the resilience (2) and the anti-fragility (3) of financial systems. Almost all failures are due in part to external circumstances that expose weaknesses and vulnerabilities in current practices. An antidote to this must necessarily involve developing capacities to respond better to significant changes each time.

Actuaries have a very deep appreciation of uncertainty. The actuarial profession has the opportunity to take a key position in an increasingly changing world. This requires continually adapting our own models, assumptions and methodologies to the emerging future and to understand the impact of de-railing leadership attributes on reducing the efficacy of these models. It also means contributing a diversity of thinking to improve the quality of strategic conversations with boards and the C Suite.

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Andrew Brown and Bimal Balasingham May 2013

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