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Section Highlights

INVESTMENT SECTION

BY CHAD HUEFFMEIER

Most investment professionals would describe the past few years as the most challenging of their careers. The challenges have been even greater for investment actuaries who have been responsible for asset-liability management (ALM). However, the challenges faced by investment actuaries vary greatly across industries.

The concept of ALM is the same for both insurers and pension sponsors but the motivations driving their strategies tend to be quite different. Pension investments are generally not tied to risk-based capital requirements. Furthermore, liberal accounting standards and funding requirements have somewhat protected pension sponsors from the asset-liability mismatch risks in their plans. Consequently, while insurance ALM is largely focused on risk-hedging, pension ALM is largely focused on risk-taking. For example, 100 basis points of tracking error between assets and liabilities may be typical for insurers while 1,000 basis points of tracking error have been typical for pensions.

Over the past decade, the combination of funding practices and investment performance has left most pension plans poorly funded. At the same time, accounting standards have changed and exposed much of the economic risk of pension plans. Consequently, many corporate pension sponsors have started to change their mindset and to develop strategies that will transition their pension investments to have lower asset-liability mismatches over time.

On the other hand, public pension sponsors have been focused on developing strategies they hope will help their assets grow in line with the expected returns (e.g., 8 percent) that are built into their liability measurements. Although more extreme, this challenge is similar to when options embedded in insurance products cannot be fully hedged without causing the product to be unprofitable. Consequently, it is more important than ever for product development/pricing actuaries and investment actuaries to work closely together.

In March, the "Long-Term Financial Planning Summit" was held in New York. There were 31 attendees who represented members from each of the sponsoring sections: Investment, Pension, Social Insurance & Public Finance, Long Term Care Insurance, and Forecasting and Futurism. Although there was not a consensus about the solution, there seemed to be wide acceptance that our profession may need to consider some fairly dramatic changes to avoid public scrutiny and to remain relevant. The Investment Section Council is developing two sessions for the 2012 Annual Meeting and a webcast to share perspectives with and to solicit feedback from a broader audience.

In addition, the council has been hard at work ensuring our members receive value through various forums. The 2012 Investment Symposium had its largest attendance and great reviews across the board, especially for the new pension track. The ALM Investment Seminars in Shanghai and Taipei were also very successful. The Council is working with presenters from each of these events to develop a few webcasts and a series of podcasts because section members have expressed the desire for more remote forums. A

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THE MARKETING AND DISTRIBUTION SECTION

BY DOUGLAS BENNETT

The Marketing and Distribution (MaD) Section is undertaking a comprehensive and unique look at the middle-income market for insurance. There is much research documenting the declining ownership of life insurance in this market as well as the ongoing shrinkage in the number of agents. Yet there is additional research that suggests households in this market understand the need for life insurance and have a desire to purchase it. In fact many that already own life insurance think they need more. Further, the research has found consumers are confused about life insurance. They do not understand the differences between products nor do they know how to determine how much they need. They want advice—just not from traditional life insurance agents.

To develop the in-depth understanding of the market that is needed to successfully link appropriate products and desired distribution channels with the needs of each of the various market sub-segments, MaD has initiated a staged research program. By focusing on specific sub-segments (the first one being households with young children), we will avoid generating the general solutions, such as "hire more agents," resulting from prior industry research. Staging the research lets us continually improve the research by constantly building on prior results while staying focused on the most valuable segments of the middle-income market.

As of the end of July, the survey questionnaire for the households with children segment was developed. The survey will soon be administered with initial results expected in time for the SOA annual meeting.

The longer-term nature of this research effort creates an ideal opportunity for MaD section members to become involved. We anticipate there will always be a stage about to get started or results about to be released while ongoing work will be developing and refining the overall direction of the effort. Don't hesitate to join MaD, if you are not already a member, to take priority advantage of our research findings. 🅰

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SMALLER INSURANCE COMPANY SECTION

BY JERRY ENOCH

The United States has experienced a low interest rate environment for several years, which affects virtually every aspect of our society. The council of the Smaller Insurance Company Section (SmallCo) decided that this issue is one of the most significant challenges to our members in many years. Its effects include the profitability of existing policies, the pricing of new policies, the adequacy of the reserves we hold, and the minimum reserves we hold on future issues. Our section's mission is to disseminate information to help actuaries at smaller insurance companies (and any others) keep current as we work with minimal resources. Consequently, the council of SmallCo created a Low Interest Rate Environment Team of council members and friends (including a non-actuary) to help our members address this issue.

The team gathered information, particularly about interest rate history, and sent blast emails to section members when important material was identified. Their research led them to conclude that the level interest rate scenario used in cash flow testing might be considered to be worse than moderately adverse, and provided support for such a position in a year-end webcast made in partnership with the Financial Reporting Section. They have disseminated information in every medium available: webcasts, blast emails, newsletter articles, and sessions at meetings. They have even addressed actuarial clubs.

The Low Interest Rate Environment Team has exemplified the concept of a grass roots group of actuaries working together to meet their needs. Now, if they could only figure out a way to make the interest rates increase gradually. … 🅰

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