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INVESTMENT SECTION ORGANIZATIONAL MEETING

Moderator: GREGORY J. CARNEY
Panelists: PETER J. BONDY
HAROLD G. INGRAHAM, JR.
HOWARD H. KAYTON
RICHARD S. ROBERTSON
Recorder: WILLIAM CARROLL

- o Business session to state:
 - Purpose of section
 - Scope of activities

MR. GREGORY J. CARNEY: Our purpose is going to be to update you as to how we've gotten here, and what we've done, and have a discussion with you on what your wants and needs of this section are. In talking about how we got here, the idea of an Investment Section has probably been in a number of people's minds over the past few years. But since specific plans for formulating a section were discussed at last October's annual meeting, from those initial conversations, I asked some people to join an organizing committee. And one thing that I'm very pleased about is that all of the individuals that we asked enthusiastically agreed to join, and that's why we have such a strong group as an organizing committee. The organizing committee wrote the bylaws and purpose statement for the section and then petitioned the Society for approval to form the section. At the January board meeting of the Society, we received approval to determine if there was enough interest among the Society's membership. In order to proceed, we needed to have at least 200 people demonstrate an interest. So far, we have received approximately 800 responses. One of the items we need to talk about today is the purpose statement. I'd like to read it to you. It is not the most clearly written, but it's what the organizing committee felt was the goal of the section, and it's going to be something that we need to talk about later.

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The purpose of the section shall be to encourage and facilitate the professional development of its members through activities such as meetings, seminars, research studies, interchange of information and publication of literature pertaining to investment of insurance company and pension fund assets and of other institutional funds; the management and measurement of those assets in relation to the liabilities of these entities and any other subjects relating to investments as may seem pertinent, advantageous and beneficial to the members of the section.

The organizing committee met this morning and discussed a number of topics. The topics that we discussed included the annual dues, the formation of a nominating committee and a program committee, and goals and objectives of the section. We will bring you up-to-date on all of those topics today, with primary emphasis on the goals and objectives. Before we start, it's probably appropriate to note that the major goal of the organizing committee is to disband. Because when we disband that means that the section council is now in place. The organizing committee has probably set a record for time in the formation of a section and in establishing programs for that section; and that's really due to the dedication, the support and the efforts of all of the members of the committee; and I think that needs to be recognized. I also, in particular, would like to mention the strong support of Dick Robertson and Harold Ingraham and the other members of our committee who were on the board because that helped dramatically to make this meeting a reality today. In addition, I think the efforts of Pete Bondy, which you will all hear about later, need special recognition. I'd now like to ask Mark Doherty of the Society to briefly tell you about the next step in the formation process, and to break the news about the dues.

MR. MARK G. DOHERTY: The section has been authorized by the Board of Governors. It passed the first hurdle, as Greg mentioned, that is, showing significant interest. The next hurdle, to see that the section officially gets off the ground and becomes a functional section, is to collect dues from 200 members of the Society of Actuaries. The dues are to be set at \$5.00. As you will probably recall from other sections, the dues range from \$5.00 to \$8.00, so this is a fairly nominal sum. When the new dues notices come out in November/December of this year and this section has been formed, these dues will automatically be included.

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MR. CARNEY: The next topic that we want to briefly discuss is the nominating committee for the section council. At the meeting today, there was a hotly contested election for chairman of the nominating committee, and it's my pleasure to announce that Harold Ingraham has been elected.

MR. HAROLD G. INGRAHAM, JR.: Not elected, Greg -- dragooned! To be a member of the nominating committee requires that you be a member of the organizing committee who is ineligible to stand for election. Let me read the names of those on the nominating committee as of this date: Walter N. Miller, Barnet N. Berin, Donald D. Cody, Richard S. Robertson, Walter S. Rugland, James MacGinnitie and M. David R. Brown. Mark Doherty is going to supply a list of the individuals who had expressed interest in joining this section, and that will give us a pool from which we will come up with at least for the first slate. Thereafter, we will move to elections like all the other sections have. We would have a slate of nine individuals on the council with three for three-year terms, three for two-year terms and three for one-year terms; and, therefore, over a period of three years, we would turn over the council. I would hope that sometime in June, we will have an operating council ready to start doing business.

MR. CARNEY: I would also suggest that anyone here who would like to be considered should contact Harold at his yearbook address. The next topic is on the work that Pete Bondy has done with regard to the program committee and some of the activities that we intend to sponsor.

MR. PETER. J. BONDY: Let me tell you a little bit about what has been going on. We had a few open slots in Montreal and we took them. We will have two panel discussion (PD) sessions and one follow-up workshop in Montreal. One panel discussion will be on a subject that has been discussed before, Asset/Liability Matching; the other panel discussion session will be on Investment Functions. In integrating the two functions, making them work together, and we will have a follow-up workshop. We'll also have a section meeting.

On February 19, the program committee will meet and we will be setting topics for the three spring meetings. Our section will participate rather extensively at Boca Raton -- June 9 and 10. We will have 20% of the meeting which means anywhere from zero to one panel discussion or open forum per time slot, and one

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to two workshops. That means that if we have five time slots at the meeting, we could have about five panel discussions, and anywhere from five to ten workshops. I'd like to get thoughts on topics from those here present. I've got some initial thoughts, and input from you would be appreciated. One thought is a seminar format. The seminar format is a new type of session that was first tried in Colorado Springs and was well received. It can be a half day or one full day -- call it a mini seminar without an additional charge. It seems to me that we will be able to try one at the spring Boca Raton meeting next year. Of course, there are the standard topics: Securities; New Securities; Regulation 126 for New York type companies or other states if they are adopting similar regulations; Investment/Actuarial Coordination (a repeat of Montreal); Asset/Liability Matching (another repeat); Non-Traditional Securities; and Asset Projections, e.g., Projections of Collateralized Mortgage Obligations (CMOs) under different interest rates. For workshops possibilities would be open discussion without the Liability Matching/Regulation 126 experiences and what companies have been through, and Regulatory Developments.

MR. CARNEY: This really brings us to a discussion of the goals and objectives of the section. I'd like to ask Howard Kayton to summarize some of our conversation this morning and then ask Dick Robertson to lead the discussion on the goals. We would like to get your input because this section is your section, and the direction we go needs to be the direction you want us to take, if we're going to be successful.

MR. HOWARD H. KAYTON: Before I do go into that, I want to mention one thing. Greg was too modest to point out that the motivation behind the entire Investment Section was really his idea, and I think it's incredible because several years ago Greg was the motivation behind forming the Life Product Development Section. So of the six sections that we will now have, Greg has been behind two of them. After his first year in office as President, we gave him a departing gift, a bull whip, and I think, Greg, that we were probably clairvoyant, because now we can probably give you, for this section, a live bull which would probably be appropriate.

This morning at 7:15, we started out with an eye-opening meeting. There were several subjects which were discussed. I don't think any of these are necessarily conclusive. Greg just asked that we tell you the ideas that came about and

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maybe it will be food for thought, but we have not, at this point, concluded what we're going to be doing. First, on the subject of an organ for communication to the membership, two possibilities were discussed. One is the traditional newsletter concept, and the other one was a networking type letter, where basically the members would submit items. Then as soon as we collected enough items, they would be sent out -- and nobody has to do an editing job. But it was pointed out that sometimes, unless there's real cooperation by the membership, that has a way of falling flat on its face.

The second area was education. Here, we talked about continuing education requirements, say bibliographies and/or reviews of articles that are available on subjects involving investments. We were told that one of this section's major responsibilities will be to help develop the investment track for the Fellowship exam under the flexible examination system. We also have to provide a liaison with the Education and Examination Committee (E&E). Finally another idea would be to have seminars.

The third area we discussed was research. It was suggested that we take on a much more research-oriented role here because there is an absence of material on this subject. The *Transactions* is one way to encourage research into areas where there are gaps. Another would be presentations of papers at meetings. The example given was the Casualty Actuarial Society (CAS), as they have a call for papers. The papers that are submitted are not really edited or do not go through the review process that's necessary for the *Transactions*; but everybody who attends the meeting is then expected to have read the paper and be prepared to discuss it. And often as a result of that, the paper finds its way into the proceedings of the CAS. Another idea is basically to find, I guess to search out, sources of papers. Obviously all of the papers on investments are not going to be in the *Transactions*; and a huge research project would just be to bring together material in some form that would be useful to the Society.

Finally, the last item we discussed was research into nonactuarial investment areas. The specific example mentioned was an international group that is forming, where one of the quotes given was that in France some 50% of the actuaries involved in investments are not involved in insurance or pension areas. I think a similar situation exists in England.

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MR. RICHARD S. ROBERTSON: My mission here is primarily to try and get some discussion going as to what the rest of you think would be valuable services the section could provide for its members; the kind of things that we should do. Before I do that, let me start by giving you some of my perspectives on it. I see this section as having certain characteristics that are very different from any other section. For one thing, most of the actuaries in, let's say pension sections, are pension actuaries. Most of the actuaries in the health insurance section work primarily in health insurance or group insurance or some area that is directly relevant to the work of the section. And the same thing applies to the Product Development, Reinsurance, and perhaps to a lesser extent, the Financial Reporting Section. But in the Investment Section, while we have a few people who work primarily in the investment area, it appears that the vast majority of the people that indicated an interest are interested primarily in how the investment function affects some other priority area of responsibility, whether it is product development or financial reporting or pensions or whatever. We are not primarily investment actuaries; and a corollary of that is that we have very few investment experts among our membership. So, given that, I see the most important function as providing a mechanism for allowing such members that wish to upgrade their knowledge and expertise in the investment area the ability to do so. It's one of trying to improve our access to the knowledge and skills of the investment function. To some extent, I think we need to provide that same service to the profession as a whole, not just to the people that are part of the section. Howard mentioned the need to try to develop education examination material. That's one example. I think we need to be a more outward looking section than maybe some of the others might be.

I made a list of the things I saw that we ought to get involved in: programs, seminars and research. In the research area, it seems to me that a lot of very good research on investments is being done outside the actuarial profession these days, and always has been. And what we need is access to that. And, of course, there are particular contributions that we as actuaries can make to that investment research, and we should look for ways to do so.

I mentioned international and as we started forming this, I realized that the Chief Investment Officer of our London affiliate is an actuary and a member of the Society. I quickly invited him to indicate an interest in joining, which he did. I think we should make a real effort to try to bring a stronger

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international influence to our section than might be appropriate for some of the others. We've got a lot we can learn from the British actuaries and actuaries in other countries that spend more time in the investment function than we.

We've also got to be sure that we coordinate with the other sections. Many of the things we work on involve multidiscipline activities; life insurance product development, for example. I think we all realize the close tie between investments and product management with many of the products that are being developed. Pensions are the same thing. Much of the new and exciting things that are going on in the pension area do involve coordinating investment activities with the other pension services. One of the things that the Financial Accounting Standards Board is dealing with right now is the accounting for investments. And I think we need to try and explore ways in which we have joint interests with other sections, Futurism and Reinsurance. I think one of our biggest problems in the near future is going to be establishing priorities and trying to get people in place to do the things that are important to us. I agree that our No. 1 priority ought to be to do the things in the program area that need to be done in order to put on good programs during the next year. When I think in terms of getting the section to do what it ought to do, we also ought to spend some time getting people to think about the things we can be doing in some of these other areas and developing mechanisms to get it done. With that, I'd like to ask the rest of you to give us your thoughts as to the kinds of things that you think we ought to be doing, what you'd like to see coming out of the section, contributions that you can make or that you see others making to our effort.

MR. FRANK J. LONGO: I'd just like to make a couple of comments, none of which will be earth-shattering, but maybe what they'll do is just spur some additional thoughts on other people's parts. I guess when I think about what I would like the Investment Section to do, I first have to ask myself, am I looking at the subject of investments generally? Or am I looking at the subject of investments as it relates to life insurance companies or other types of employers of Society members? Or am I looking at the relationship between the investment subject and actuarial science? And I don't have a clear answer yet. Do the members of the organizing committee have any particular thoughts on those items?

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But let me just say that, as already has been mentioned, there are other bodies that are performing research and are educating people about these subjects. For example, there's the Institute of Chartered Financial Analysts which is a professional group educating its members on the investment subjects, who become either investment analysts or portfolio managers. There might be something to be gained by forming a liaison with that group. I can say that I'm happy to be studying for their first exam, and I find the study material to be excellent. That might actually be a very good source for material which this section may recommend to the Society of Actuaries E&E Committee. Then, there's the ACLI which obviously is made up of life insurance companies. I don't know for sure, but I'm going to guess that the ACLI has some sort of investment committee or group and some relationship with that group might be worthwhile.

MR. WILLIAM CARROLL: I'd also like to respond to the comments about the ACLI. We do have an Investment Section, and we also have committees that deal with regulatory matters that are of an investment nature.

MR. LONGO: Could I just add to my comments? I asked that general question -- what should an Investment Section want to do or what would we want it to do?

MR. CARNEY: Yes. I wish you'd give us your point of view on that first question you raised as to what you think our emphasis should be.

MR. LONGO: I work for a life insurance company, so clearly I would be most interested in the subject of investments as it relates to life insurance companies. May I contrast that with the study material that is part of the Institute of Chartered Financial Analysts program which relates to investments in a more general sense? I can tell you that there's some material there that relates to life insurance companies and how they differ from other types of organizations and so on. But, I would be interested in activities that take the subject of investments and make the subject more specific to life insurance company-related activities because that's where my own interest is.

MR. CARNEY: I think that's good. And I agree that there's a lot we can learn from the Chartered Financial Analysts.

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MR. DAVID Y. ROGERS: I believe the direction of this section should be towards assimilating and gathering and dispelling information with respect to investments and, of course, be primarily associated with insurance of any type. And I do think that it would be a grievous error on the part of this section to not pay attention to other bodies which more than likely have greater expertise and are providing a lot of free research in that area. We ought to be able to get our hands on this research and at least let people know that it exists.

MR. CARNEY: I'm sure there are things that others outside can teach us that might well be worth one or two sessions at the Boca Raton meeting.

MR. SHRIRAM MULGUND: As an actuary with affiliates in the British Institute, I found that the actuaries in North America are not very much involved in investments, as you've already noted. Now in the British exams, they have a specialty for life insurance, pensions, investments and also for other insurance now in the last few years. So I think in addition to the basic knowledge of investments which every actuary would have in the U.K., some actuaries would be specializing in investments, and that's why they would probably be able to work as investment managers in the insurance companies. Personally, I would think that this new division which has been formed should attempt to persuade the Society to have some specialty exams in investments; that is, some actuaries would be able to become specialists in investments and might be able to manage investment departments of insurance companies or large pension plans.

MR. CARNEY: Did I hear you say that the Institute of Actuaries actually does have an investment specialty in their exam syllabus?

MR. MULGUND: That is correct. Some of the parts are at the general level, and the actuary is required to choose a specialty which could be one set of exams at the advanced level. The actuary can choose life insurance, pension plans or investments. These people, in addition to having the basic understanding of all the levels, all the fields, will have specialized knowledge of investments. So, I think, following the comment which the previous speaker made, maybe the Society will be able to pick up some portions of a special syllabus on special exams for investments.

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MR. CARNEY: Harold, you and I were discussing that a little earlier. Maybe you could give us your perspective on it?

MR. INGRAHAM: Let me start by saying the Society is already convinced that this is something that we should pursue also. Most of you in the room know that the flexible education system for Fellowship involves three tracks right now that have been established to go into effect in the fall of 1988. That was announced this morning. It will be an individual life insurance and annuity track, a group track and a pension track. They're also contemplating a health track in the next year or two. But they also contemplate the investment track to Fellowship down the road, three or four years from now. I see this as one of the most important things for the Society in the next few years that any group is going to achieve; the lion's share of the thrust toward that track of Fellowship could be provided by this new Section.

The split of material in all of these tests for Fellowship is: 40% of the material is core; another 35% or so are subjects in your particular specialty, in this case, investment subjects; and then there are unrestricted electives for the balance. I see here a great opportunity to take advantage of what the CFAs have already produced. I see alternate credit being given for CFA exams, subject to appropriate standards of rigor. I even see something else which has been a source of interest to some of us. It's a chance to expand our universe of potential candidates to be actuaries. One of the competitions which siphon off the best of the brightest from our ranks are business schools. It is perceived in some quarters that if you get an MBA, you're on a fast track and it's faster than having to take all of our examinations. But think of the possibilities in a business school where you do have specialties in your second year, leading to an MBA, if perhaps a kind of actuarial science specialty could be introduced. These people could particularly focus on an investment track to Fellowship. It could be that we'll enrich the profession by a new stream of people we're not reaching now, and we'd get them because we have this investment track to Fellowship. So, I think, there are some interesting and exciting possibilities in the educational area that we're just beginning to scratch the surface on.

MR. BONDY: Harold, what happens to people who are currently at mid-career? How can they achieve the investment track right now? Are we providing anything?

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MR. INGRAHAM: I think that would fall under the category of Continuing Professional Education (CPE), and that's something else we could help define. What about the actuary who in mid-career would like to get a much more profound knowledge of the sort of material that might emerge in the Investment track? I think this is where the Society could also enhance this CPE activity.

MR. PYAR DOSSAL: I think the first speaker who spoke from the audience (and if I misunderstood him, I apologize), almost tried to draw a distinction between investment work and actuarial work. And I always found that to be incongruous because if you are going to set premium rates, especially for long-term contracts, I don't know how an actuary can really divest himself from knowledge of investments. I think this is the difference in training on the two sides of the Atlantic, and I would request that this committee that we are forming today (or that has been formed) pay particular attention to making sure that that distinction between the actuarial discipline and the investment discipline is eradicated from the minds of actuaries. I think we have suffered a lot as a result of that. And the other observation I would like to make is in response to Mr. Mulgund. He remarked that the British Institute has a specialized subject in investments, but that is not in line with CFL, what other similar organizations in this country are offering. I think the kind of education we should impart to the new actuaries, or existing actuaries for that matter, is the manipulation of assets and the manipulation of investments that really meet the needs of a life company, which often are much longer term in nature than any of the financial institutions that I'm aware of.

MR. LONGO: I just want to say that I'm glad those points were raised because it triggers in my mind the need to maybe amplify a couple of things that I said previously. The subject of investments is very broad; and somebody even mentioned that there's a lot of organizations that are already doing a lot of research, and that's exactly the case. What I am studying actually leads me to understand that a person who is involved in the investment area performs that task in relation to whoever his client happens to be. The client could be a pension fund, a trust, an insurance company, a bank, or certain other types of entities. I certainly don't want to imply, and I hope I didn't, that actuarial science, which I think of as being related obviously to life insurance and pension liabilities, is in any way divorced from or unrelated to the investment function. There is a close correlation. I guess there should be a close

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relationship. What I was trying to point out before is that the investment subject area is a very broad one. I guess I'm thinking that a subset of that is the portion of the investment subject area that relates to the types of businesses that we typically work with: life insurance and employee benefit related businesses. In fact, that leaves me to say that there is so much material that's published on an ongoing basis by investment banks, for example, or is available in textbooks, that are part of the syllabus of exams of some of these other organizations. We must help the reader or the Society member determine from that body of research which are the most pertinent articles and books that an actuary may find useful. And, because the investment subject area is so broad, much of the textbooks and articles that you see do not relate specifically to our types of businesses; and one needs to read some of the research that's being done and kind of translate it in your mind and say well, this particular article is being directed towards mortgage bankers; and let me pretend that I'm going to take out the word mortgage and put in the words GIC contract in certain cases and interpret it in my own frame of reference. My own frame of reference is, again, those areas where actuaries typically work -- life insurance and pension related liabilities.

MR. CARNEY: Mark, we might find some work for you to do for us here.

MR. MICHAEL E. MATEJA: I expressed an interest in the section for the simple reason that I had a self-perceived need to have a deeper understanding of the investment side of the insurance company operations. There's been a lot of work done on risk analysis and such in recent years; and the focus of a lot of that has been on the interrelationship of insurance operations and investment operations. Much of that work, I think on the investment side, has been perhaps scratching the surface. It gets to the first level, maybe of understanding what you need to do the job. Somehow, an objective of this section ought to be to get more at the practical level. I'm not sure how you obtain that, short of doing investment kind of work; but ultimately, we need to start thinking about some of the things that are of concern to people who are on the investment side of our business. So I would suggest that if you look at programs for people that are dealing with those problems, they're the sort of things that ultimately ought to be of concern to us. Obviously, we're going to have to start with baby steps and go slow before we get into the more sophisticated side of the house, so that the orchestration of all this would probably be the key part of it.

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But the ultimate goal is to have a better understanding of the practical side of the investment operations.

DR. V. MICHAEL SHANTE: I would like to share how I went about learning the investment side, so then we can probably decide what is best for the section to do. When I became an actuary, I felt there was not enough study material or reference material to look at for the investment side, so I wanted an MBA just to pick up investments. I then felt I did not know enough about the practical side so I came to Northern Bank to learn the practical side. And I would hope this section itself could add some more study material to the exam syllabus, something that could be easier than the path I took. And I would hope that there will be some research seminars and publications so we can talk about current products, current issues, keeping in mind that the insurance industry is not something that's totally diverted from the investment side. Indeed, we are major players on the investment side. The world's largest individual investor is the insurance company. So what is important to insurance companies is fundamentally important to all investment bankers and all of the investment community, not the other way around. And it's important for us to understand what they do and how to do it. Therefore, the syllabus and the seminars and all the research output we can adapt from the investment world is also important; but the adaptation should be geared to the actuarial side. As to the issue of having an investment track in the Society, I do second that. It would be with reservation that we should not get totally divested from the product side.

MR. CARNEY: How many people in this room work primarily in the investment area? (About 20%.) That's actually more than I would have thought, but I think you people will be especially important resources to us as we develop this section.

MR. PETER BONDY: What do they mean by investment-oriented?

MR. CARNEY: I guess that's the point. Are you making investments? Are you in research? Are you managing investment operations?

MR. KENNETH W. STEWART: Perhaps, I can give you an example. I'm director of investment planning in our firm, and am basically responsible for our asset/liability management program. I direct the strategic and tactical planning

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of our investment function. I've segmented the organization, in addition to my overall responsibilities, for all policyholder and shareholder segments. I also personally manage all portfolios which support our spread products, from daily interest savings through GICs to long-term annuities. In addition, my area, provides direct consulting support to our corporate finance area, our private placement operation and to our mortgage operation. I think the fact that we're meeting here today and talking about the formation of this section is an indication that the work of actuaries is changing and changing more rapidly than we might have guessed a few years ago. If anyone had asked me as an actuary ten years ago if I would be working in the investment field today, I would have been very surprised. It wouldn't have occurred to me. Yet, there are an increasing number of us, as your unofficial poll indicated, working in the field. I'd just point out for the record there's also an Investment Section of the Canadian Life and Health Insurance Association (CLHIA), so we can't forget the Canadian minority within the Society. In fact, I came to this meeting directly from the annual meeting of the Investment Section of the CLHIA in Toronto. There were at least half a dozen of the investment executives there at the meeting who are actuaries and Fellows of this Society and also of the CIA. I'd say that I look to this section as providing among the very excellent things that have been mentioned already, a forum for actuaries actually practicing in the investment field, to network, to exchange information, and to discuss problems and mutual interests. Perhaps they will come to possible solutions to those problems.

MR. CARNEY: Thank you. That's very useful. One of the orders that Harold has been given is to be sure that we have good representation on the council from all of the various branches, including our Canadian associates. It also includes people that are working full-time in the investment areas as well as those of us that are not.