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SOA 2013 LIFE & ANNUITY SYMPOSIUM UPDATE

By Frank Grossman & Ryan Stowe

ALBERT MOORE (L) PLAYING CHESS WITH CALEB BOUSU (R).

The late May weather that greeted actuaries attending the 2013 Life & Annuity Symposium in Toronto was particularly clement: sunny with temperatures in the mid-60s. Maple Leafs fans were gleefully walking on air, as their team returned to the Stanley Cup playoffs after a nine-year hiatus. Yet Mother Nature has a way of asserting herself when presented with anomalous phenomena. In the seventh game of their preliminary round series with the Leafs, the Beantown Bruins scored twice in the final 1:22 of regulation time to force overtime, and duly sent the Toronto side and their supporters packing in the extra frame—leaving the Ottawa Senators as the sole Canadian squad to advance to the quarter-finals. And the north wind delivered a frost warning to parts of southern Ontario during the week following the symposium, *after* most out-of-town attendees had safely returned home.

THOMAS C. BARHAM III SPEED CHESS TOURNAMENT (SESSION 01)

A dozen chess enthusiasts met on the Sunday afternoon prior to the meeting for the inaugural Thomas C. Barham III Speed Chess Tournament. This networking event is named for a prominent chess-playing member of the SOA, and was jointly sponsored by the Technology and Investment Sections as an opportunity for members to make new acquaintances, and have fun playing 10-minute speed chess too.

A local chess organizer, Ted Winick, and his colleagues at the Annex Chess Club were enlisted to run the event. Tournament directors Alex Ferreira, and Shabnam Abbarin, handled the pairings and myriad details with aplomb. Interestingly, Ted's day job as the president of the Chess Institute of Canada is devoted to establishing chess—as a teaching tool for fundamental concepts such as pattern recognition, abstract thinking, and problem solving—on the grade school mathematics curriculum.

Congratulations to Caleb Bousu who finished first after five rounds with a clean 5:0 record. And second place went to Eduard Nunes (all the way from Tokyo!) with a 4:1 score. Here is their game from round four:

Caleb Bousu v Eduard Nunes (Closed Sicilian) 1 e4 c5 2 Nc3 d6 3 f4 Nf6 4 Nf3 Nc6 5 Bb5 g6 6 O-O Bg7 7 d3 O-O 8 Bxc6 bxc6 9 Qe1 Rb8 10 Qh4 Ne8 11 e5 dxe5 12 fxe5 Rb4 13 Ne4 f5 14 exf6 exf6 15 c3 Rb5 16 a4 Rb7 17 Nxc5 Qb6 18 d4 Re7 19 Re1 Rxe1+ 20 Qxe1 Nd6 21 Bf4 Re8 22 Qd1 Nc4 23 b4 a5? 24 Qb3! Be6 25 Nxe6 Rxe6 26 Qxc4 Kf7 27 Re1 c5 28 Rxe6 Qxe6 29 Qxe6+ Kxe6 30 dxc5 Kd7 31 b5 f5 32 Be5 Bf8 33 Bd4 h6 … 1:0

Plans for the second speed chess networking tournament, to be held on the Tuesday evening of the upcoming 2013 Annual Meeting in San Diego, are already underway. [FG]

INVESTMENT SECTION HOT BREAKFAST (SESSION 04)

A good mix of both larks and owls turned out for this early Monday morning (7:00 am!) session. Section news and views were delivered by Ryan Stowe and Frank Grossman, including a look back to the March Investment Symposium in New York, and a look forward to the Investment Section-sponsored sessions at the 2013 Annual Meeting in San Diego. Nino Boezio arrived with perfect timing to share some observations about *Risk & Rewards* from his perspective as our long-standing co-editor, inviting those in attendance to consider becoming contributors. And the section's new staff partner, David Schraub, was briefly introduced.

Geoff Hancock then gave a short talk titled, "Economic Scenario Generators: All models are wrong—so now what?" in which he offered a pungent commentary for those actuaries able to smell the coffee at that early hour. During his engaging presentation, Geoff surveyed things that actuaries have done fairly well (e.g., increased facility with stochastic modeling), some things that haven't been done that well (e.g., over-reliance on point estimates when delivering results rather than ranges) and areas where we've really fouled-up (e.g., making the use of ESGs and

FROM LEFT TO RIGHT: TOURNAMENT CO-ORGANIZER ALBERT MOORE, AND TOURNAMENT DIRECTORS SHABNAM ABBARIN AND ALEX FERREIRA, AWARD FIRST PLACE CERTIFICATE AND PRIZE TO CALEB BOUSU.


HANS AVERY (L) PLAYING CHESS WITH RYAN STOWE (R).

stochastic models "too academic" and opaque for senior management to trust). The breakfast session concluded with a book-draw, and Leonard Mangini won a copy of Dan Areily's *Predictably Irrational*. [FG]

PERSPECTIVES ON LIFE INSURANCE AND ANNUITIES IN THE MIDDLE MARKET (SESSION PD-25)

This session was a panel discussion delivered by Douglas Bennett, Robert Buckingham, and Walter Zultowski, moderated by Ryan Stowe, and co-sponsored with the Marketing and Distribution Section. The life insurance portion of this session focused on recent research from the second half of 2012. The life insurance middle market (defined as "Young Families" age 25–40 with annual household income between $35,000–$125,000, and at least one dependent in the household) was segmented into three groups, each having different attitudes and beliefs about their need for life insurance, as well as different motivations for purchasing (or not purchasing) life insurance. "Protectors" buy life insurance to meet a need rather than based on a strong belief in the product. "Planners" most likely perceive and appreciate the long-term value of life insurance. "Opportunistic buyers" have less belief (e.g., perceived value) in the product, and typically purchase less coverage than other segments. They also tend to buy most products at their place of employment. The presentation provided insight into the different methods that companies can use to segment their target markets through data mining and predictive modeling, all with a view to making their marketing efforts more effective by targeting their customers' preferred buying style.

The annuity portion of the session offered a different perspective on the middle market. The majority of the people who purchase annuities are age 50 or older. In fact, 26 percent of Americans are baby boomers, and each day 10,000 of them turn 65. What does this mean? That the pre-retiree and retired population need the guaranteed benefits that annuities can deliver. By definition, the middle market has fewer assets (on a per client basis; the middle market itself is quite large) than the affluent and mass affluent markets, and this is one of the challenges of serving the middle market. The panelists focused on the challenges advisors face in allocating assets of the middle market to maximize the retirement income outcome dilemma through a concept similar to the efficient frontier in the investment world. [RS]

DISCOUNT RATES FOR FINANCIAL REPORTING PURPOSES: ISSUES AND APPROACHES (SESSION PD-32)

This session, presented in conjunction with the Financial Reporting Section, dealt with the International Actuarial Association's (IAA) recent work developing an educational monograph on discount rates for financial reporting purposes. David Congram lead off with some background about the project and its sponsors, as well as the IAA's broader educational mandate. Andy Dalton then provided an overview of the monograph itself, followed by some comments contrasting risk free rates in theory and in practice—accompanied by the session's most memorable slide. Next, Derek Wright spoke about setting discount rates for pass-through products. David returned to the lectern to discuss the evolving influence of sovereign and political risk, and Frank Grossman concluded the session with some brief comments about replicating portfolios. [FG]

DO LONG-TERM GUARANTEES IN INSURANCE PRODUCTS MAKE SENSE? (SESSION D-69)

The format of this well attended session was unique; a "facilitated debate" between four panelists, moderated by Emile Elefteriadis. Jeff Adams and David Harris offered a Canadian perspective, while Michael Downing and Michael LeBoeuf delivered their comments from an American vantage point. The panelists addressed various questions posed, and attendees were also invited to share their views through the use of handheld interactive voting devices.

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THOMAS C. BARHARM III (R) WAS A MEMBER OF THE SOA AND PRESIDENT OF THE MANHATTAN CHESS CLUB, AS WELL AS THE SPEED CHESS TOURNAMENT'S NAMESAKE.

The following question was posed to the audience at both the beginning and the end of the session: "Do you believe long-term guarantees in insurance products make sense?" At the outset, 71 percent of the audience answered, "Yes, but only if the guarantees and risks are costed for appropriately." Even after substantial discussion regarding Canadian and American insurance and annuity products and the different long-term guarantees that they can provide, the audience response was virtually unchanged at the end of the session. A large majority of those in attendance still believed that long-term guarantees make sense if priced appropriately.

Key stakeholders' perception of the transparency of long-term guarantees was also broached, and the audience was polled on the following question: "Do you believe long term guarantees are transparent for management and other stakeholders?" The overwhelming response (again, 71 percent) was, "No, transparency is lacking for management and stakeholders." This presents an interesting conundrum for actuaries; the responsibility to conservatively price the promises and guarantees that are embedded in insurance products, while also effectively communicating the financial implications of those same guarantees to senior management, who may not be actuaries. As economic times change, and product development evolves, this will continue to challenge our profession. [RS]

RESPONSES TO THE GLOBAL FINANCIAL CRISIS: A TRANSNATIONAL PERSPECTIVE (SESSION L-80)

Christine Lagarde, head of the IMF, was recently asked whether enough has been done to reform the financial system so as to avoid another crisis. Her response, in part, was:

> … if you turn to over-the-counter derivative markets, for instance, it hasn't been done. It's still very obscure and not transparent at all. Plenty of work has been done, but international cooperation is going to be critically important, because otherwise you'll have people having done what they think is their job in their respective corner but it will not be consistent with what others will have done. Bankers, traders, financiers are very smart and astute people; they will find out what is the right channel to optimize the system—which is fine, as long as risks are taken care of and as long as, at the end of the day, it's not the taxpayer who picks up the bill.[1]

Scott Colesanti, who is an associate professor at Hofstra University Law School, addressed this and related issues during his presentation about the regulation of financial markets which was co-sponsored with the Joint Risk Management Section. Please refer to a separate article elsewhere in this issue of *Risk & Rewards* which provides additional details about Scott's session. [FG]

[1] "En Garde! As head of the IMF, Christine Lagarde must be ready for any financial crisis. What worries her now?" by David Wessel, *WSJ.Money*, page 14, May 18, 2013.

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