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Correspondent's Report from the SOA 2016 Annual Meeting and Exhibit

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"A little bit of this town goes a very long way." Hunter S. Thompson was not referring to an actuarial convention when he said these words, but the 2016 SOA Annual Meeting at the Cosmopolitan in Las Vegas did manage to pack a lot of interesting material into just three and a half days. There were more than 180 different sessions, numerous section breakfasts and lunches, bootcamps, a mobile scavenger hunt, and plenty of opportunities to network. Every year R&R provides our readers with a synopsis of some of the more investment focused sessions for those of you who might not have been able to attend. This year's Correspondent's Report summarizes two sessions: Introduction to Alternative Investments, and Hand-to-Hand Risk Management: Lessons from the Casino Floor. [WM]

INTRODUCTION TO ALTERNATIVE INVESTMENTS (SESSION 17)

Panel Discussion: Seth Koppes (expert in insurance-owned insurance contracts), John Simone (Insurance Solutions at Voya Investment), Peter Sun (Consulting Actuary at Milliman) and Aimee Wight (Investor Relations at Monroe Capital)

This panel discussion presented current thinking about investments in "alternatives" at insurance companies. Alternative investments were defined broadly as anything other than publicly traded fixed income, so that, for example, private placement fixed income was included in the discussion. The key factor that made this a timely topic is that many insurance companies are broadening their investment horizons in a search for additional return/yield and are willing to take the risk that goes along with that.

Survey and anecdotal information indicates that large companies and those with ample surplus were more likely to invest in alternatives. Smaller, less well-capitalized companies may have little or no alternative investment because they lack the risk budget and the expert resources to manage them, even though consultants are available to help. Alternatives are typically allocated to surplus rather than to back liability for a particular product, though private credit would be an exception. The challenge of modeling alternative investments, which have less empirical data to support assumptions and more idiosyncratic risk, was mentioned.

Private credit was described as typically providing 125 additional spread over publicly traded corporate bonds. Private infrastructure investments are also becoming more common.

The most surprising part of the session was a discussion of the use of insurance-company-owned life insurance contracts as an approach that might provide good returns with low capital requirements. Insurance contracts on an insurance company's balance sheet have low minimum capital requirements associated with them, which create potential for a good return/capital requirement ratio. Both life insurance and annuity contracts purchased with insurance company employees as the beneficiary were described as having potential in this area. [EI]

HAND-TO-HAND RISK MANAGEMENT: LESSONS FROM THE CASINO FLOOR (INVESTMENT SECTION BREAKFAST)

Investing is an inherently risky activity and as investors we look to earn an acceptable rate of return while managing investment risks. Casino operations also require active management to optimize their risk and return trade-offs. Dr. David Schwartz is the director of the Centre for Gaming Research at the University of Nevada Las Vegas. He is fascinated with the history and current developments in gambling. He has extensively interviewed front line casino staff to understand how they manage risk and influence profitability for casinos. In his presentation, Hand-to-Hand Risk Management: Lessons from the Casino Floor, Dr. Schwartz shared his findings on how these day-to-day activities can help casinos make, or lose, big money.

Casinos are designed to make money over the long run by offering negative expectation games, but shorter term results can vary, particularly when high rollers are playing. Losses can also occur as a result of theft, cheating, bad decision-making by casino managers and slow dealing. Casino managers have the day-to-day discretion to make decisions on table limits, game rules, issuance of credit (to high rollers), authority to comp freebies to players, and settlement of disputes. Casinos also face a host of other existing and emerging risks from customer and employee satisfaction to lawsuit and regulatory risks (including AML). Dr. Schwartz's research has indicated that adherence to established policies can be one of the strongest ways to mitigate the many risks that casinos face. Mitigating both card counting and shot taking (players bending rules or claiming misunderstanding) require experience and discretion to optimize outcomes. In this way, casino managers have to have a firm handle on "the math" of the games, as well as when to let things slide or take actions to protect casino profitability.

After listening to Dr. Schwartz' presentation about the activities casinos take to manage risk and minimize losses for themselves, I think I will invest my money in the markets where I will have better odds of winning … over the long run. [KF] ■

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