



SOCIETY OF ACTUARIES

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The Low Interest Environment Team of the Smaller Insurance Company Section

By Jim Thompson and Mark Rowley

As Jerry Enoch points out in the Chairperson's Corner in this edition of *smalltalk*, the Smaller Insurance Company Section (SmallCo) was formed "to distill information that our members can use." Rather than defining what a small company is, we have let each actuary decide if they feel like they work for a small company or a consulting firm with small company clients.

Last year, as the third quarter approached, we noticed the Treasury curve was getting lower and remaining low. Since this is the starting point of our asset-adequacy projections, we were wondering how our projections would turn out. We also knew that the usual sources of information—seminars, webinars and public literature—were lacking. This situation affects all companies. Perhaps larger companies were using privately funded studies not available to others. We knew we had to make assumptions to do our projections. If you have low interest to start with, there is little room for the pop-down scenario.

This set of circumstances was an opportunity for SmallCo to make a difference. We decided to focus on this one main issue for 2012, so we formed the Low Interest Rate Environment Team.

SmallCo publishes a section newsletter twice a year. This article will appear in October but was written before the end of May. To supplement this schedule, the council addresses breaking news via blast emails to our members. Several of these blast emails are reprinted in this edition of *smalltalk*.

We disseminated information on a number of important topics, primarily through blast emails but also through presentation at various actuarial club meetings:

- Websites with interest rate information
- Asset adequacy testing and whether extra reserves need

to be established

- Insurance department views on asset adequacy testing
- How to do mean reversion when interest rates are low
- Impact on valuation and nonforfeiture rates
- Impact on product development and pricing
- How the Federal Reserve manages interest rates

In keeping with our use of the best technology available, our team worked with Society of Actuaries' staff to set up a blog on the SOA website with comments on why we formed and what we are doing. See

<http://blog.soa.org/2012/03/12/the-low-interest-rate-environment-a-roundtable-discussion-with-members-of-the-soas-smaller-insurance-company-section-part-1/>.

<http://blog.soa.org/2012/03/13/the-low-interest-rate-environment-a-roundtable-discussion-with-members-of-the-soas-smaller-insurance-company-section-part-2/>

In addition to the blog, remember that our section newsletters are on the SOA website at <http://www.soa.org/news-and-publications/newsletters/smaller-insurance-company/smaller-detail.aspx>.

Other projects planned or delivered include: presentations to the Michigan Actuarial Society and the Fraternal Actuaries. Other opportunities to speak will be sought out. Additionally, SOA meeting sessions sponsored by the Smaller Insurance Company Section support the needs of actuaries in this low interest rate environment:

- "Hot Topics for the Smaller Insurance Company," at the Life & Annuity Symposium, held in May 2012 in Los Angeles;
- "The Challenge of Low Interest Rates," also at the Life & Annuity Symposium;

Continued on page 30

- “Complying with ASOPs for Cash Flow Testing in a Small Company,” an Aug. 28, 2012 webcast;
 - Smaller Company Issues Buzz Group at the Valuation Actuary Symposium, Sept. 10-11, 2012 in Los Angeles;
 - “How Can Smaller Companies Respond to the Low Interest Rate Environment?” ValAct session;
 - “Low Interest Rates: Financial and Product Implications” session at the SOA Annual Meeting, Oct. 14-17, 2012 in National Harbor, Md.; and
 - “Financial Reporting Issues and Considerations for Year-End 2012,” a Dec. 11 webcast.
- We encourage public discussion of the situation and feedback, and welcome others to join! ●



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