SOCIETY OF ACTUARIES

Article from

Risks & Rewards

June 2020

Chairperson's Corner

By Hal Pedersen

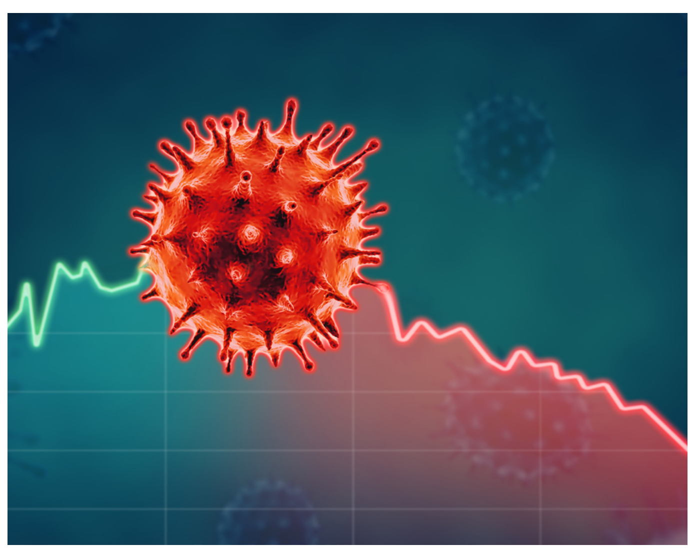
A career as an investment professional is one that I have found fascinating ever since my first experience as a summer student at an insurance company in 1987. At the time, stochastic interest rate models were relatively new, derivatives markets were rapidly developing and Black Monday (Oct. 19, 1987) was just around the corner. The early 1990s brought the brisk expansion of the variable annuity (VA) businesses for many U.S. insurers and it was an exciting time for financial innovation in insurance. Opportunities for the application of financial economics to insurance practice were everywhere. The catastrophic problems some insurers would face with their VA businesses were still a long way in the future. Most practitioners believed they had a pretty good handle on financial risk and as the technology advanced the situation could only improve. Of course, a collapse like what would occur during the financial crisis 25 years later was acknowledged as a remote possibility; but it had to be considered, given what had happened during the Great Depression. The early 1990s was also the beginning of the conquest of inflation,[1] as major central banks around the globe began a disciplined approach to inflation targeting. But we did not then know inflation was dead because the targeting approach had just begun. One thing we knew for sure though, interest rates must always be non-negative since investors could always stuff cash in their mattresses.

The financial crisis and its aftermath have led to global market conditions with few parallels in the historical record. We are all acutely aware that ultra-low long-term interest rates have placed tremendous stress on life insurers and made it very difficult to generate yield on investment portfolios while maintaining an acceptable risk profile. Until recently, it seemed that markets were primed to return to more normal conditions and there was a focus on what that normalization process might look like. Suddenly, we have found ourselves in the early innings of what might be called the first "planned recession"; to paraphrase the words of the venerable Art Cashin.[2]

In response, the Federal Reserve has set the Fed funds rate back to zero, the 30-year U.S. treasury bond is yielding a little better than one percent, and the Federal Reserve is back in aggressive quantitative easing mode. The April 29, 2020 Fed Press release stated: "… the Committee decided to maintain the target range for the federal funds rate at 0 to 1/4 percent. The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals." It would appear that we are now locked into zero interest rates for quite some time. Even so, U.S. bond yields are higher than those of most major economies. It is a challenging time to be an investment professional!

The natural state of affairs in investment practice is uncertainty wherein the sources and level of uncertainty vary over time but for which uncertainty predominantly comes from the fluctuation of known variables. We are now confronted with a new source of uncertainty in the form of the coronavirus pandemic and it is one that is outside the expertise of most investment professionals. The Investment Section organized and jointly sponsored a town hall on COVID-19 and its implications for capital markets. It was delivered on April 19 to help summarize what we know so far, explore plausible outcomes for capital markets and insurance operations, and provide a discussion forum for our section members.

Perhaps it is the ever-changing landscape we operate in that makes the career of an investment professional so interesting.



Under what one might call "good economic conditions," a range of relatively conservative assets with positive real yields can be chosen from. In this world, an investor of moderate skill can make satisfactory returns and is not under any great pressure to reach for yield. In contrast, a deep understanding of asset classes and their characteristics is vital for survival in the economic environment of today, wherein the reach for extra yield is fraught with many entangled and mutating risks. The insights, skill and judgment of investment professionals is needed now more than ever; even as consolidation and automation have eliminated some jobs. Our global investment universe is becoming ever more complex and is impossible to navigate without the help of well-trained investment professionals. It is tempting to reflect on days gone by as a "golden age," but I think the truth is that the best time to be an investment professional is right now.

The mission statement of the Investment Section is: "… to provide section members and affiliates with the needed content and resources to incorporate the most up-to-date information and investment decision-making techniques into their actuarial, risk management, and investment management work for insurance companies, pension fund sponsors, and providers of investment products to the financial services industry." In recent years we have found that webinars are an increasingly effective method to create opportunities for our section members to expand their knowledge and meet professional development requirements.

This past February we offered a professionalism town hall. In June we will offer a three-part webinar series on economic scenario generation covering basic concepts and calibration issues, validation procedures and pricing applications, and model limitations and development considerations in the current economic environment. Later in the year we plan a webinar on what is needed for a robust next generation economic scenario generator, the development of discount rates and structures, and the challenges in moving beyond the American Academy of Actuaries economic scenario generator. We will also continue the popular Investment Boot Camp series. Your section Vice-Chair Greg Roemelt, and council member and Continuing Education committee Chair Nilesh Patel are actively planning additional webinars for delivery this year. Please stay tuned for other webinars of interest to you!

The provision of timely educational opportunities such as the COVID-19 town hall is one of the most important reasons for the existence of the investment section. Each year, your investment section coordinates sessions for various Society of Actuaries (SOA) meetings and organizes webinar series and podcasts. Our section members comprise a very broad cross-section of investment experience, practice areas and interests requiring many investment section members to participate in the planning, coordination, recruitment and delivery of these important events.

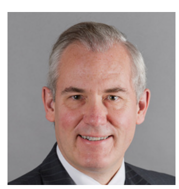
We have been fortunate in having the support of many dedicated section members in serving the gamut of investment section interests. The continued success of our section depends critically on getting as many members engaged and involved in our activities as possible. You do not have to be an elected council member to contribute. Please consider taking a small step to get involved today! Not only can you share your insights and vision, but you have a chance to make a mark on investment practice and improve our meeting sessions and webinar series. Please reach out to me, David Schraub *(dschraub@soa.org)* or any other Investment Section Council member to learn about these opportunities.

This year the Investment Section has made a significant commitment to the SOA Committee on Financial Research (CFR) for funding finance research of interest to our section. Investment Section Council members Walter Wang and Dan Schobel are working with the CFR to develop applied research of interest to our section.

Our asset allocation contest is now under way and it promises to be a most interesting contest this year given the extreme uncertainty we face in the markets. Good luck to all participants!

We have been working to add new ideas and features to the Investment Section webpage *https://www.soa.org/sections/investment/* and we would love to have your feedback and suggestions. Additionally, we ask that you share some of your insights on investment issues via our LinkedIn webpage *https://www.linkedin.com/groups/2768363/*. Any member of the SOA Investment Section LinkedIn group can post and those who are not already members of the group need only to request to join the group using the link just provided. Please contact me, David Schraub *(dschraub@soa.org)* or any other Investment Section Council member to share your suggestions on how we can better serve our section members.

I wish you health and happiness in the remainder of 2020 and beyond! ■



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ENDNOTES

1 I am borrowing the phrase from Tom Sargent's book, *The Conquest of American Inflation, Princeton University Press, 1999.*

2 The detailed comment is: "When you think about it, this is the first planned recession. This happened by government fiat, not because business went south. So millions of people are now out of work, as we see with the jobless claims. The market has had great difficulty adjusting to it, because the market is used to historical recessions. This wasn't caused by inflation, or asset bubbles, or bad investments, or anything else that has led to recessions in the past." *https://www.cnbc.com/2020/04/05/nyse-legend-art-cashin-gives-his-first-comments-on-the-coronavirus-sell-off-and-when-we-recover.html*