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Correspondents' Report

The 2017 SOA Annual Meeting & Exhibit was held at the Hynes Convention Center in Boston. There were more than 180 different sessions, numerous section breakfasts and lunches, boot camps, a mobile scavenger hunt, and plenty of opportunities to network. Every year *Risks & Rewards* seeks to provide 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 five sessions.

2017 Annual Meeting & Exhibit Opening General Session

By Kelly Featherstone

"I love data … No, I REALLY love data." Kenneth Cukier, while not an actuary, might well be a kindred spirit to actuaries everywhere in his appreciation of data. The Opening General Session of the 2017 SOA Annual Meeting & Exhibit did not have an investment focus, but throughout the session my mind kept jumping to market and investment implications. In this correspondent's report, I would like to focus on some of the themes of Cukier's presentation and postulate as to possible investment implications.

"It is generally better to have more data than a better algorithm and it is also generally better to use statistic (or actuarial) methods to make decisions than human judgement." The investment world tends to be polarized into camps—passive versus active management and, among active management, quantitative versus fundamental. Neither argument ever seems to win either debate, and the debates rage on. While I agree with Cukier on both his generalizations, I am still a firm believer that there is a place for active management and fundamental research in the investment world—particularly where data history and quality may be limited. But how will investment implementation styles change as data accessibility, quality and machine learning processes improve? (Note: If you are an avid believer in the efficient market hypothesis, please feel free to challenge myself or someone else to a battle of the essays in the Investment Section's 2018 Point-Counterpoint essay contest, "This Time It's Different.")

"In a world where data is becoming increasingly important, in ways and places we never thought possible, incumbent businesses have the data advantage." This is true … to the extent incumbent businesses can leverage their data advantage and evolve to continue to meet future market needs. How can we as investors identify which companies are able to harness their incumbent advantage and differentiate them from companies who fail to embrace change and will be left behind?

"Sometimes causality is important but other times correlation is good enough." The Investment world tends to rely heavily on correlations—the whole premise of mean variance portfolio optimization relies on the "magic" of diversification and stable correlations. This has quite often led to surprises and "black swan events." Where do I/we over-rely on correlations? And when is looking at correlations good enough in the investment and ALM spaces?

Cukier's presentation was engaging, thought provoking and a challenge to actuaries. While actuaries sometimes dismiss correlation in favor of looking for causation, with Big Data—and its emphasis on using correlation—we need to get on board or get left behind. ■

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