Equity-Based Insurance Guarantees Conference

Nov. 11-12, 2019

Chicago, IL

Senior Executive Panel Discussion

Axel Andre
Sam Nandi
Frank Zhang

SOA Antitrust Compliance Guidelines
SOA Presentation Disclaimer

Sponsored by

EBIG Conference – Senior Executive Panel Discussion

AXEL ANDRE, FRANK ZHANG, SAM NANDI

Moderator – Rajeev Dutt

12 November 2019

SOCIETY OF ACTUARIES®

SOA Antitrust Compliance Guidelines

Active participation in the Society of Actuaries is an important aspect of membership. While the positive contributions of professional societies and associations are well-recognized and encouraged, association activities are vulnerable to close antitrust scrutiny. By their very nature, associations bring together industry competitors and other market participants.

The United States antitrust laws aim to protect consumers by preserving the free economy and prohibiting anti-competitive business practices; they promote competition. There are both state and federal antitrust laws, although state antitrust laws closely follow federal law. The Sherman Act, is the primary U.S. antitrust law pertaining to association activities. The Sherman Act prohibits every contract, combination or conspiracy that places an unreasonable restraint on trade. There are, however, some activities that are illegal under all circumstances, such as price fixing, market allocation and collusive bidding.

There is no safe harbor under the antitrust law for professional association activities. Therefore, association meeting participants should refrain from discussing any activity that could potentially be construed as having an anti-competitive effect. Discussions relating to product or service pricing, market allocations, membership restrictions, product standardization or other conditions on trade could arguably be perceived as a restraint on trade and may expose the SOA and its members to antitrust enforcement procedures.

While participating in all SOA in person meetings, webinars, teleconferences or side discussions, you should avoid discussing competitively sensitive information with competitors and follow these guidelines:

- -Do not discuss prices for services or products or anything else that might affect prices
- -Do not discuss what you or other entities plan to do in a particular geographic or product markets or with particular customers.
- -Do not speak on behalf of the SOA or any of its committees unless specifically authorized to do so.
- -Do leave a meeting where any anticompetitive pricing or market allocation discussion occurs.
- -Do alert SOA staff and/or legal counsel to any concerning discussions
- -Do consult with legal counsel before raising any matter or making a statement that may involve competitively sensitive information.

Adherence to these guidelines involves not only avoidance of antitrust violations, but avoidance of behavior which might be so construed. These guidelines only provide an overview of prohibited activities. SOA legal counsel reviews meeting agenda and materials as deemed appropriate and any discussion that departs from the formal agenda should be scrutinized carefully. Antitrust compliance is everyone’s responsibility; however, please seek legal counsel if you have any questions or concerns.

Presentation Disclaimer

Presentations are intended for educational purposes only and do not replace independent professional judgment. Statements of fact and opinions expressed are those of the participants individually and, unless expressly stated to the contrary, are not the opinion or position of the Society of Actuaries, its cosponsors or its committees. The Society of Actuaries does not endorse or approve, and assumes no responsibility for, the content, accuracy or completeness of the information presented. Attendees should note that the sessions are audio-recorded and may be published in various media, including print, audio and video formats without further notice.

Retirees will face the societal issue of inadequate savings with likely insufficient time to rectify the situation. They need immediate growth, but also the disciplines of risk management. They typically do not know how to engage with these two aspects in a harmonious manner on their own.

2016 GUARANTEED LIFETIME INCOME STUDY

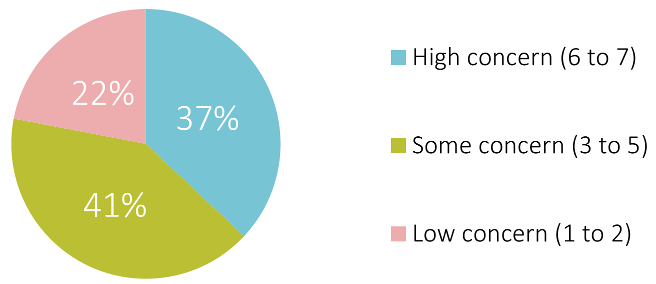
3rd annual GLI Study conducted by Greenwald & Associates and CANNEX that explores consumer familiarity with annuities, attitudes about the value of guaranteed lifetime income, and attitudes about the value of annuities that guarantee income for life

GLI - OBSTACLES TO USE

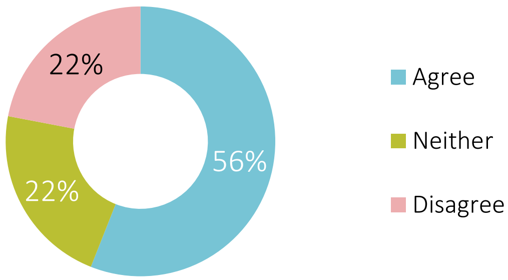
Despite the appeal, purchases of GLI annuities are fairly low

- low familiarity
- belief that GLI products do not provide the return available from other products
- lack of understanding of how a GLI product can add to the effectiveness of an overall portfolio
- perceptions that GLI products are high cost, too complex and reduce access to principal
- a lack of understanding of the value of a stream of income guaranteed for life

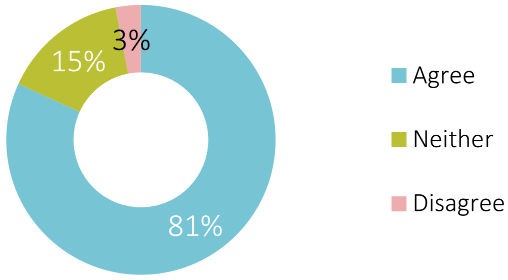
CONCERN OVER HAVING ENOUGH MONEY TO LIVE COMFORTABLY THROUGHOUT RETIREMENT (7-PT SCALE)



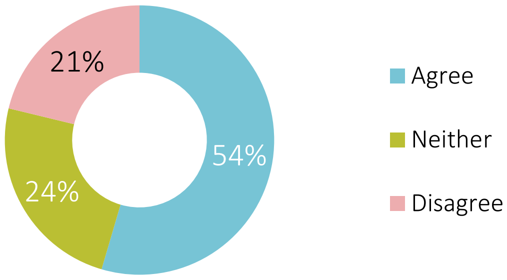
"I HAVE TO BE WILLING TO TAKE INVESTMENT RISKS IF I WANT TO BE FINANCIALLY COMFORTABLE THROUGHOUT RETIREMENT"



"IT IS ESPECIALLY IMPORTANT FOR PEOPLE OVER AGE 50 TO HAVE A STRATEGY TO PROTECT THEIR PORTFOLIO AGAINST SIGNIFICANT INVESTMENT LOSS"



"I WOULD PREFER TO TAKE A LOWER BUT CERTAIN RETURN THAN SEEK A HIGHER RETURN WITH A GREATER POSSIBILITY OF LOSS"



Insurance companies are in the business of providing the solution but regulators have been clamping down in favor of simpler and more transparent products.

In addition, the market reality over the last decade has been that insurers have stock betas at a multiple to the general markets with PE ratios well below.

DISTINGUISHED INSURANCE PANEL

- AXEL ANDRE: CFO, INDIVIDUAL RETIREMENT
- FRANK ZHANG: LEAD ACTUARY, ANNUITY VALUATION
- SAM NANDI: PARTNER, CONSULTING ACTUARY

Regulatory

- Prior changes with the DOL on distribution put emphasis on fiduciary responsibilities. Several years later, do you see any changes with the business being written?

- With Statutory VM-21 implementation approaching in the next few months, how will this new regulation affect the insurance company outlook in the next few years? How about with the changes under GAAP LDTI scheduled for 2022/2024?

Do you feel that the Variable Annuity/GLWB, responsible for enormous sales from 2004-2015 or so, is fading away? Do recent regulatory actions and new capital requirements make the product less feasible? If so, what will replace it – both from the perspective of consumers needing retirement security products, and the perspective of insurers needing products to sell?

Are companies with significant VA exposure on their balance sheet prepared for the next financial crisis? If 2008 happened again right now, would things play out differently than last time?

Market

- With interest rates quite low, but with volatility, how do you see products being modified? How about with stock markets hitting ongoing highs?

- With the ongoing spin-off/consolidation activity, how do you see expectations of PE ratios changing?

In theory, if an insurer is well hedged to equity market risk, and the market understands how hedging works, then the stock price shouldn't exhibit such a strong beta. Do you feel the market fully understands the business models of life insurers, particularly those that have been writing retirement guarantees?

If not, what can companies do to make their business model more transparent or better understood by the investor community? Or is it the case that insurers have plenty of equity market exposure after hedging and the observed betas actually make sense?

What are your thoughts about recent entrants funded by Private Equity and their activities in retirement and annuity space? Do you feel a private company, not having US GAAP reporting requirements, might have advantages in offering and managing the types of long-term retirement guarantees that are valuable to solving the retirement crisis? Might Legacy (VA) liabilities be managed better from a private balance sheet rather than one of a publicly traded company?

Underwriting and Product

- Do you feel products are out of the “race to the bottom” cycle of price reductions and in a period of providing value for a fair price?

- How important is it to have company rating (with commensurate price) vs new product features (with marginal pricing)?

Insurtech-based entrants are attempting to ultimately take on a bigger role in the retirement and annuity market.

A few things the new startups seem to focus on that traditional insurers don’t include: (1) customer experience; (2) using technology to connect with customers and drive sales; (3) using data to better understand customers, their preferences and behavior. Will some of the challenges facing the industry today ultimately be solved by such new entrants?

Bonus Round

- General prediction of where interest rates might go
- What kinds of design innovations do you expect to see coming into the retirement market place?
- Hedging Economics vs GAAP vs Stat… with regulatory changes coming, is this age-old question still a concern?
- How do you see fund offerings evolving from the current managed volatility funds?

SOCIETY OF
ACTUARIES ®