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The long term asset-liability problem

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How to meet the needs of accident victims needing long term care AND stay solvent?

- Back to the non-GI roots of the profession and the public interest perspective
- What are the right assets? And how should assets and liabilities be assessed given the long term perspective?

Why the concern

- Accident victim
- Insurer’s other policyholders
- Insurer’s shareholders
- Think about the assets! Apply long term perspective to the assets too
- Regulatory environment and philosophy (incl. accounting and tax)
- Need for radical thinking that includes multiple disciplines and perspectives, and across the actuarial profession too.
- Thought leadership – awful term, but we need a bit of it!

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Look ahead: environment can change

- Politics: the 5 year perspective versus the length of PPO liabilities
- Wish for magic solutions to today's problems
- We should not be constrained in our thinking by today's environment
- Do the thinking asap – even though we don't know when (or whether) the ideas will be accepted widely enough
- Things can change quickly : new Government is challenging the operation of capitalism; executive pay, under-investment…

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Meeting PPOs with confidence… but

- This is not a solvency 2 one year perspective; it's many decades
- We haven't a clue what the financial future will look like
- Need masses of shareholder capital.
- But this conflicts with the worship of return on equity as a target: ROE has to go!
- Why ROE: some logic
- Shareholders funds in UK insurers attract tax on unrealised gains. Which is death for long term returns for shareholders.

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Learning from life and pensions experience

- Equitable life
- Morris review already mentioned in an earlier plenary
- Bring life and pensions actuaries into our discussions on stewarding for PPOs (and other perspectives as well)
- Link to Iqbal paper: https://sias.org.uk/wp-content/uploads/2016/08/FUTURE-OF-THE-ACTUARIAL-PROFESSION-.FINAL-1-3.pdf

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Claimant's perspective

- Ogden factors: assume lump sum recipient will achieve +2.5% real return – net of inflation, net of expenses and net of tax.
- Contrast with companies' reserving assumptions: suggestions that this coming year-end will see between -1% and -2% as common.
- Booked cost to companies of PPOs: at least double the lump sums and possibly more then three times.
- Treating claimants fairly? Professional responsibilities, risks to the profession, and encouragement of whistleblowing,
- Ogden consultation; suggestion that claimants use equities so higher return assumption is OK

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Investment choice for the individual

- Portfolio A: Cash and bonds, including index-linked
- Portfolio B: Mostly equities, but some cash and bonds to cover say the first 10 years of cash flow

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No more than a guess but

- Portfolio A: Cash and bonds, including index-linked
- Portfolio B: Mostly equities, but some cash and bonds to cover say the first 10 years of cash flow

- Portfolio B against A; annual returns over 50 years plus
  - 1% or more?
  - 2%?   3?   4?

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Investment strategy for insurers with PPOs?

- Long term perspective, given risks and uncertainties: at least some equities may be a better strategy than none!
- Actuarial discussions: perspectives vary enormously
- As GI actuaries we are not used to having to think deeply about the assets.
- Are short term (solvency, volatility) constraints preventing a sensible long term strategy?
- Who wants to join in the thinking?

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Questions

Comments

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