20/20 All Actuaries Virtual Summit

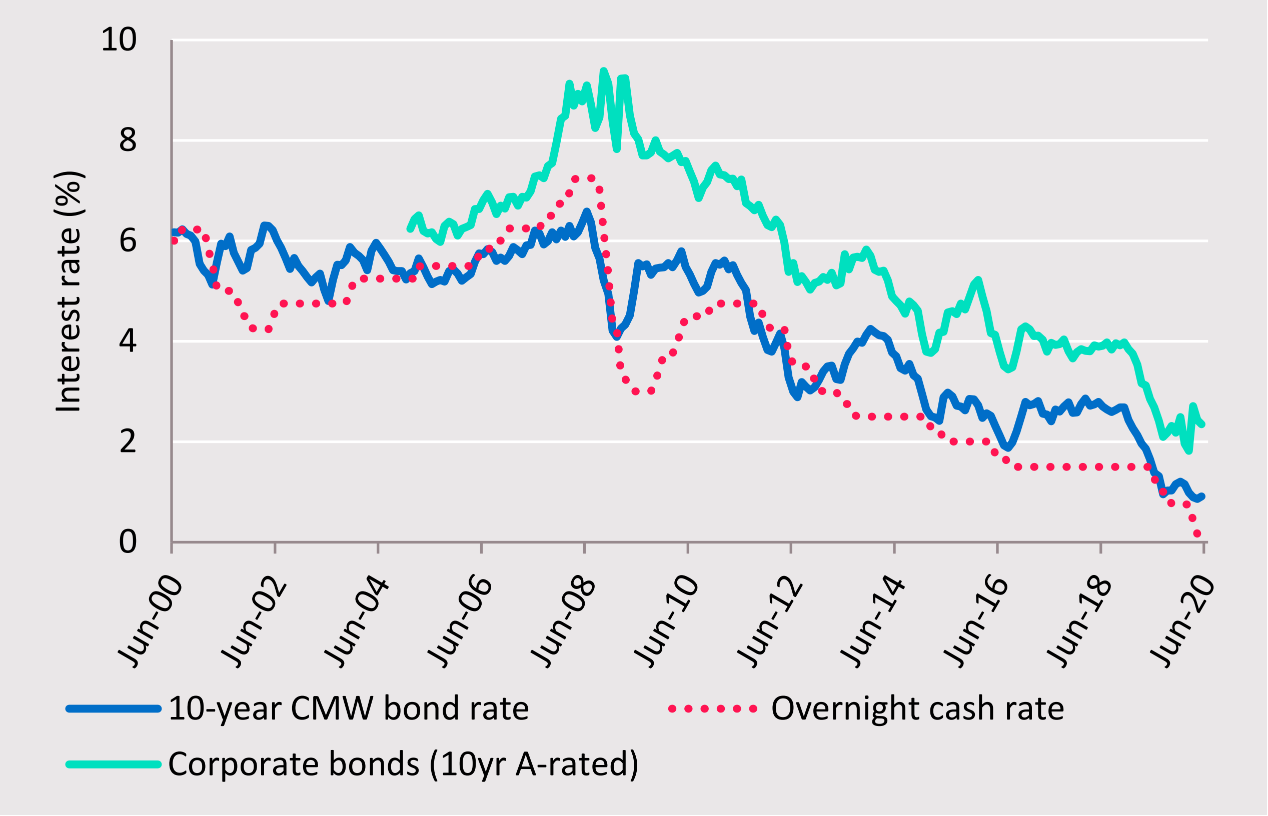
Through the consumer lens

3-28 August 2020

The conflict of (low) interest

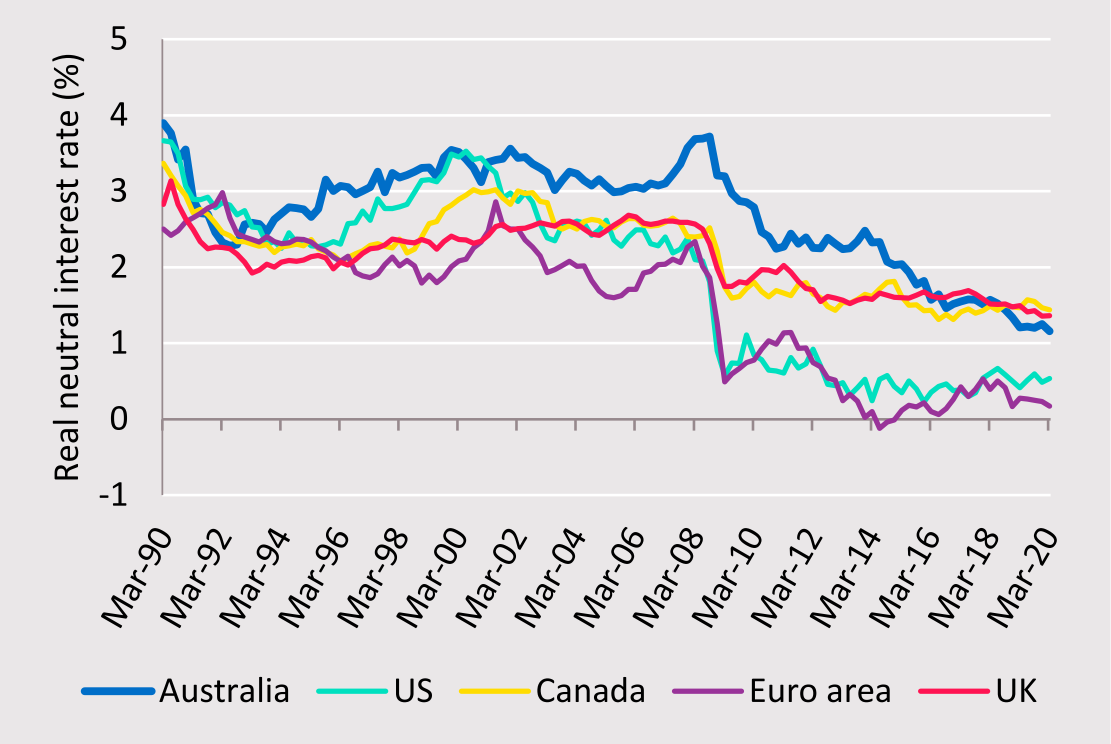
Hugh Miller

Why are we here?



Structural factors are here to stay

Estimates of real neutral interest rates



Holston-Laubach-Williams model. Australia by author, remainder from https://www.newyorkfed.org/research/policy/rstar

Structural factors

- Low inflation & low expectations, including the collapse of the Phillips curve
- Aging & demographics
- Saving and household debt
- Productivity growth
- Wages vs profit balance
- Wealth inequality
- Innovation & the digital economy

Cyclical & events

- Business investment & the mining boom
- GFC hangover
- COVID-19 Pandemic

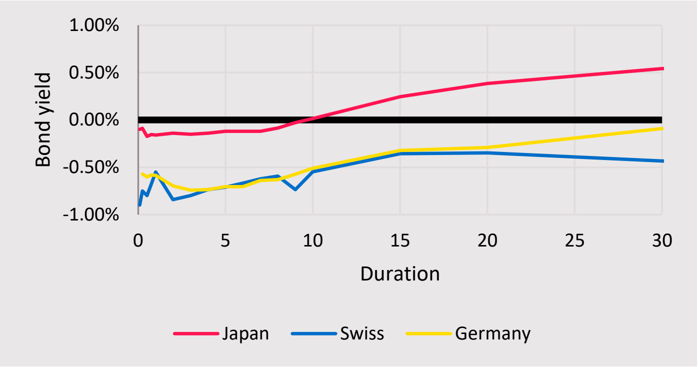
Unconventional monetary policy

A BIS report[1] talked to four main unconventional tools

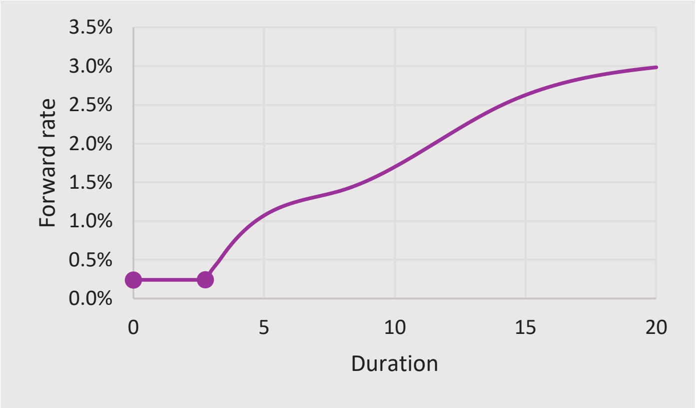
1. Negative interest rates
2. Quantitative easing
3. Liquidity operations
4. Forward guidance

Much of the action explicitly or tacitly supports fiscal intervention too.

Int'l bond yields, 30-Jul-20



Australian forward rates, 30-Jun-20



[1] Committee on the Global Financial System (2019), 'Unconventional Monetary Policy Tools: a Cross-country Analysis', CGFS Papers No 63, Bank for International Settlements. Available at https://www.bis.org/publ/cgfs63.htm

Implications for financial services?

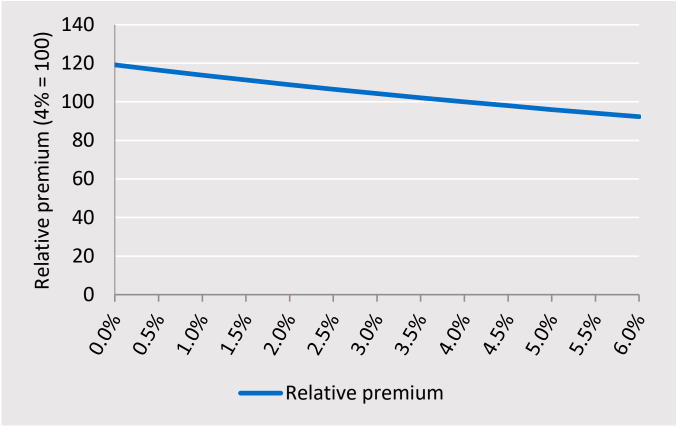
At a high level

- Interest rates will be lower for longer
- Lower future investment returns generally

Some specific issues

- **Retirement products:** Low-return annuity products, income adequacy concerns
- **Long-tailed Insurance:** Higher insurance premiums, higher liability valuations
- **Investments:** Challenge in equity valuations (risk premium)

Relative premium price, notional CTP policy



Using the premium model developed by Riley et al, GIS2014 https://www.actuaries.asn.au/Library/Events/GIS/2014/GIS2014RileyEtAlPricingPaper.pdf