

Call for Papers: Research Studies on Behavioral Economics Applications to Life and Health Insurance Policyholder and Annuitant Behavior

Grantor: Society of Actuaries

Closes: 3/30/2012

Maximum: \$7,500.00

Call for Papers: Research Studies on Behavioral Economics Applications to Life and Health Insurance Policyholder and Annuitant Behavior

An actuary is a business professional who analyzes the financial consequences of risk. Actuaries use mathematics, statistics and financial theory to study uncertain future events, especially those of concern to insurance and pension programs. They evaluate the likelihood of those events, design creative ways to reduce the likelihood and decrease the impact of adverse events that actually do occur. Their work requires a combination of strong analytical skills, business knowledge and understanding of human behavior to design and manage programs that control risk.

In managing insurance, traditional actuarial methods use past policyholder experience in quantifying future liabilities and risks. In modeling future expectations, many assumptions need to be established that are influenced by policyholder behavior. For example, an individual's future utilization of policy benefits; when an individual might exercise an option; and when an individual might terminate the policy due to non-payment of premium or due to other reasons are just a few policyholder assumptions needed.

However, since human behavior is difficult to predict, the use of historical policyholder experience to model future policyholder behavior may not produce the most accurate results as future policyholders may not behave the same as past policyholders. For example, the historical experience used in the modeling may be under an economic environment which might be different from the future. An individual may behave quite differently under extreme conditions such as a financial crisis than the economic environment represented in the historical experience.

Behavioral economics use social and psychological factors to understand the economic decisions of individuals and can provide insights into the policyholder decision making process not available from traditional actuarial approaches. The theories might help actuaries better understand how individuals perceive value in relation to economic risk and the factors that influence a policyholder's or annuitant's decisions as well as help answer questions about how policyholders might behave under extreme economic conditions or under conditions not seen before. In addition, the theories might explain why policyholders may not select or exercise policy options that could provide them with higher benefits.

These insights can then be used to develop or refine actuarial assumptions or methodologies regarding policyholder behavior for actuarial modeling.

Case studies are provided to further illustrate some of the policyholder behavior issues that need addressing that would

help actuaries reflect policyholder behavior in actuarial models.

Deferred Annuity with a Guaranteed Minimum Income Benefit

Long Term Care Insurance

Universal Life Insurance with Secondary Guarantee

Content

To expand our understanding of the theory of behavioral economics and its application to life and health insurance policyholder and annuitant behavior, the Society of Actuaries' Committee on Knowledge Extension Research, Committee on Life Insurance Research and the Financial Reporting Section are issuing this Call for Papers, inviting actuaries, academics, economists, psychologists, sociologists, researchers and other professionals to explore this topic from a variety of perspectives. The organizers are seeking to compile papers that represent the latest in thinking about this topic. It is the goal of this effort that taken together, the selected papers will provide a multi-disciplinary, textured analysis of the topic.

Authors may submit either original research or expository papers. The papers have no required minimum or maximum length.

As the purpose of this Call For Papers is to provide a resource for actuaries to help incorporate policyholder behavior in actuarial modeling, the submitted papers should be written for an actuarial audience.

The following is a list of potential issues that authors may wish to consider. Please note these issues are only intended to serve as examples and are not meant to restrict potential ideas in any way.

Issues

Identify areas of actuarial practice where behavioral economics approaches are suitable (e.g. modeling variable annuity guaranteed living benefits (VAGLB) utilization) based on current needs of the actuarial profession.

Develop, recommend and/or illustrate behavioral economics approaches/methodologies which can be used to better understand policyholder or annuitant behavior (e.g. interviewing policyholder or agents to understand the process of VAGLB utilization) or an individual's behavioral aspects related to the marketing and sales of insurance and financial security products.

Provide advantages, disadvantages and limitations of each possible approach, considering factors such as legal, cultural, psychological and so on.

Develop and illustrate methods or approaches for incorporating policyholder or annuitant behavior in actuarial modeling.

Authors are also free to combine several issues when developing their abstracts.

Some examples of what we might like to see as results of a paper:

Identification of variables outside of the insurance or annuity contract that influence policyholder behavior such as: economic, social, cultural, sale process and other factors. A discussion of how these outside variables impact financial results and how their influences change as other factors change.

Factor analysis or other method/model to determine important parameters influencing embedded option exercise within an insurance or annuity contract such as universal life or variable annuity. A discussion of how the importance of a parameter varies in relationship to other parameters.

What is the impact of the proposed method/model for incorporating policyholder or annuitant behavior in relationship to traditional actuarial methods such as a comparison of the financial results/profit measures under both methodologies?

While the examples provided have had a life insurance policyholder and annuitant behavior focus, behavioral economics applications to disability, health and long term care insurance are also welcomed.

Procedure for Submission of Abstracts

Please submit an abstract or outline of your proposed paper by March 30, 2012 to:

Jan Schuh

Society of Actuaries

fax: 847-273-8556

email: jschuh@soa.org

At a minimum, the abstract submission should include a brief description of the subject of the paper, a list of key items to be covered and a brief biographical paragraph summarizing the author's experience, prior publications and presentations and contact information.

Procedure for Reviewing Abstracts

Submitted abstracts will be evaluated by a review group for their potential for presentation at an SOA-sponsored event. The exact dates and details will be decided at a later time.

Abstract submissions will be accepted, accepted subject to revision or declined. The review group is scheduled to complete its evaluation of the abstracts/outlines by May 1, 2012.

Submission of Papers

All papers must be based on accepted abstracts and submitted in a complete format no later than October 1, 2012.

The procedure for submission of papers includes the following specific guidelines:

Submissions with special publication requests should include them in the original submission.

Submissions should be made electronically to Jan Schuh at jschuh@soa.org.

Publication and Presentation

The review group, after receiving all submissions, will determine if a meeting event for presenting the papers is appropriate. Should this occur:

It is anticipated that travel and lodging expenses for authors selected to present at the event will be reimbursed, up to certain limits.

A final determination as to the number of papers invited to present will be made after all abstracts have been submitted and reviewed.

It is anticipated that all accepted papers will be published. The papers will appear in an on-line monograph and, where appropriate, in Society of Actuaries publications. Upon author request, accepted papers may also be submitted to peer—reviewed journals.

The Society of Actuaries prefers to publish all papers and to copyright all published papers without a previous copyright. However, it will work with authors as necessary for special publication situations.

The Society of Actuaries reserves the right to reject or not publish any papers not meeting the criteria and standards set by the review group.

Prizes

Monetary prizes will be awarded to the top 3 papers as judged by the review group.

First Prize - \$7,500

Second Prize - \$5,000

Third Prize - \$2,500

The SOA reserves the right to not award any prize money if submitted papers do not meet quality standards.

Questions

Please direct any questions regarding this Call for Papers to:

Ronora Stryker, Research Actuary

Society of Actuaries

ph: 847.706.3614

email: rstryker@soa.org

Link: <http://www.soa.org/research/research-ops/call-for-papers/behavioral-economics.aspx>