The Equity Modeling Subgroup of the risk management task force has reached a point where the remaining participants feel their initial goals for the subgroup have been fulfilled. The work product to date is a reading list of topics, technical papers and books for the consideration of an actuary approaching the topic for the first time or needing to employ an equity model with little prior background.

The current subgroup has bandied about ideas for next steps for the current group or a future group working on the topic. Thoughts range from commissioning research papers on topics where there are perceived gaps in the literature to conducting hands-on projects to illustrate uses of equity models. When all is said and done, however, the final decision is to hand off the work of the group to whomever wishes to pick up the reins.

In one area, however, the group feels strongly that further discussion/work is warranted. In particular, there is much to be gained from considering what type of equity models are appropriate for different uses. Is a model that is appropriate for generating equity returns over the long-term also appropriate for generating deltas for estimating hedging costs? Is this discussion separate from determining whether a historical or arbitrage-free model is to be used? Do the answers to these questions as they apply to insurance products differ from answers to the same questions as applicable to the options and futures markets? Should there be differences?

The items mentioned above might be appropriate for another Task Force or as a potential SOA research initiative.

If you would like to get involved, please contact Valentina Isakina at the Society of Actuaries at visakina@soa.org