Biz Titans Roundtable Notes

Note: These notes follow the Chatham House Rule. Participants are free to use the information received, but neither the identity nor the affiliation of any speakers (other than references to the published work of Nobel laureate, Professor Robert C. Merton) may be revealed.

Opening and Context

The inaugural Biz Titans Roundtable convened senior leaders across business and finance to exchange views on pressing global and regional issues.

The discussion followed the Chatham House Rule to encourage openness: the ideas may be used, but the identity or affiliation of speakers is not to be disclosed.

The event was framed as a dialogue rather than a lecture. Participants were encouraged to raise questions and debate issues collectively, with Professor Robert C. Merton's body of work providing an anchor for discussions on retirement, pensions, financial systems, central banking operations, and innovation.

Robert Merton's Contributions to Finance

Robert Merton's pioneering research reshaped modern finance.

He was awarded the 1997 Nobel Prize in Economics for co-developing the Black-Scholes-Merton option pricing model, a foundation of today's derivatives markets and financial risk management practices.

Beyond derivatives, he introduced continuous-time finance to the field, which enabled dynamic modeling of consumption, savings, and investment over the lifecycle.

He also advanced the Intertemporal Capital Asset Pricing Model (ICAPM), showing how investors must consider multiple sources of risk when in a dynamic, lifecycle context – and the hedging demands that result as a consequence, over and beyond a single (CAPM) beta.

Prof. Merton's "Functional Finance" perspective emphasized that financial systems should be analyzed and designed around their core functions – such as risk sharing, payments, intergenerational transfers, and savings – rather than the institutional form themselves.

This approach has influenced financial policy globally, particularly in emerging markets where institutional forms may vary, but the financial functions remain constant and universal.

Theory to Practice: Industry Applications

Participants emphasized that Prof. Merton's work illustrates how theory and practice reinforce one another.

Academic models – such as multi-factor modeling and the continuous-time approach – have been applied directly to the management of multi-billion-dollar investment, pension, and endowment funds.

These ***Mertonian Finance*** analytics and tools guide portfolio construction, risk management, interpretation of market signals, and a host of other financial functions. While models must be adapted to real-world contexts, their underlying principles remain central to effective decision-making. This underscores the enduring value of academic finance when grounded in industry application.

Functions vs Institutions

The discussion reinforced Prof. Merton's long-standing point that financial policy should focus on functions rather than institutions.

When essential functions – such as intermediation, long-term savings, and risk transfer – are fulfilled, institutions will evolve to deliver them.

By contrast, building policy around existing institutions risks fragility and short-termism.

This principle remains especially relevant in emerging economies, where institutional structures may differ, but the economic functions needed to support growth and stability are universal.

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Retirement and Pension Systems

Retirement security was a central theme.

Traditional pensions are increasingly inadequate, particularly for workers in the private sector, informal economy, and/or gig economy.

This creates systemic risks, as large segments of the population face uncertain retirement outcomes.

Prof. Merton's ideas have shaped policy debates in Asian pension systems, highlighting the need for accessible, inclusive, and resilient retirement solutions.

Systems must be simple enough for individuals with limited financial knowledge, yet robust enough to deliver long-term retirement security.

Retirement Security Bonds (RSBs) / SeLFIES

The Retirement Security Bond (RSB) – originally termed SeLFIES (Standard of Living Indexed, Forward-starting, Income-only Securities) – was presented as a practical innovation.

RSBs are structured to replicate pension-like income. They are government bonds that pay nothing initially but provide a predictable stream of retirement income once payments begin.

Distinctive features include:

- Indexation to consumption: Payments are linked to per capita consumption, protecting not only against inflation but also shifts in living standards.
- Simplicity: Individuals only need to track how many bonds they hold and multiply by the annual per-bond payment.
- Transparency: Each bond corresponds to a clearly defined income stream, allowing straightforward retirement planning without technical expertise.

The concept allows even those with minimal education or financial training to plan and secure their retirement income effectively.

Design Principles for Financial Products

The RSB illustrates a broader principle: financial innovations should build on concepts people already understand.

Rather than requiring new knowledge or complex education, the design should leverage familiar structures – like bonds – while embedding features that deliver new outcomes.

This reduces barriers to adoption and minimizes the risk of mis-selling or misunderstanding.

It also highlights the importance of designing for real human behavior, not for theoretical users.

Government Role and Stability

Governments play a critical role as issuers of RSBs.

The bonds strengthen fiscal stability by aligning liabilities with predictable revenue streams, such as VAT or consumption taxes.

This provides a natural hedge for the government issuing RSBs: as domestic consumption grows, both the government revenues (via taxes) and RSB obligations adjust in tandem.

Widespread domestic ownership of such long-term bonds can deepen local bond markets, reduce reliance on foreign capital, and enhance resilience.

During crises, RSBs spread liabilities over decades, reducing rollover risk, and supporting financial stability.

Adoption and Country Examples (Brazil)

Brazil piloted a simplified version of RSBs in January 2023, becoming the first country to do so.

This illustrates how governments can begin with a base model, refine features over time, and tailor designs to local needs.

The lesson is to start practical, not perfect, and iterate through experience.

Applications for Pension Funds and Individuals

RSBs provide benefits at both the retail and institutional levels.

For individuals, they offer a clear and predictable way to accumulate retirement income without requiring financial advisors.

For pension funds, RSBs allow precise matching of liabilities to retirement payouts, reducing reinvestment and longevity risks.

This dual applicability enhances financial inclusion and strengthens institutional balance sheets simultaneously.

Concerns and Longevity Risk

A limitation of RSBs is longevity risk – the possibility of outliving the bond's payment period.

This risk can be managed by integrating RSBs with insurance markets. Individuals can exchange the RSB income stream for life annuities at retirement, converting fixed-term payouts into lifelong income.

Such integration ensures individuals do not face the uncertainty of outliving their savings, while insurers can diversify this risk across large pools.

Insurance Integration

Insurance companies can serve as natural partners in extending RSB functionality.

A well-designed swap mechanism ensures individuals retain value when converting RSBs into annuities.

This provides flexibility: those preferring fixed-term certainty may keep the bonds, while those seeking lifetime guarantees can opt for annuities.

The integration bridges public sector innovation with private sector expertise in risk pooling and longevity protection.

Trust, Informal Sector, and Gig Economy

Trust in pensions and financial systems remains fragile, particularly among young workers, informal sector participants, and gig economy earners. Many divert savings into speculative assets like cryptocurrency due to skepticism towards traditional schemes.

RSBs offer a credible, government-backed, risk-free alternative that complements, rather than competing with, private investment options.

For the self-employed and informal workers, RSBs represent an inclusive pathway to retirement security, helping rebuild trust in long-term savings.

Digital Currency and Stablecoins

The Roundtable also explored the rise of digital currencies. Key distinctions were drawn:

- Cryptocurrencies like Bitcoin lack intrinsic value, are volatile, and are rarely used as stable mediums of exchange.
- Stablecoins pegged to fiat currencies may provide payment innovations but do not change underlying monetary fundamentals.
- Central Bank Digital Currencies (CBDCs) represent an efficiency upgrade, improving transaction speed and reach without altering the essence of sovereign money.

For a currency to be viable, it must serve as a reliable store of value and be legally mandated for use in contracts and payments.

Cryptocurrencies do not meet these requirements, limiting their systemic role to speculative or niche applications.

Closing Reflections

The Roundtable closed with reflections on innovation and impact.

The consensus was that financial innovations succeed when they solve real problems, are intuitive to use, and are accessible to the public.

The RSB exemplifies these qualities: a simple, transparent, and cost-effective tool to address retirement insecurity.

The session underscored the importance of connecting theory and practice.

By translating research into usable financial products, leaders can strengthen resilience, foster inclusion, and create long-term prosperity across economies.

Ending Notes

1. Robert C. Merton shared the 1997 Nobel Prize in Economics with Myron S. Scholes for their work on the Black-Scholes-Merton option pricing model.
2. The Retirement Security Bond (RSB), also called SeLFIES, was developed by Robert C. Merton and Arun Muralidhar as a policy innovation to provide predictable retirement income.
3. Brazil issued a simplified version of RSBs in January 2023. This remains a pilot initiative and is not yet a full national program.
4. The fiscal stability and bond-market deepening benefits of RSBs are projections based on economic modeling and theory. Large-scale empirical validation is still pending.
5. Integration of RSBs with annuity markets to address longevity risk has been proposed by Merton and others, but practical implementation is still at a conceptual stage.
6. On digital currencies: Bitcoin and other cryptocurrencies are volatile and not considered legal tender. Stablecoins provide efficiency in payments but do not alter core monetary structures. Central Bank Digital Currencies (CBDCs) are under development globally and are generally framed as efficiency upgrades to sovereign money.