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DEGREE, DEPTH, AND FREQUENCY OF ACTUARIAL REPORTS TO COMPANY MANAGEMENT

1. Chronicle and/or interpretations of the past. Scope and frequency of reports.

2. Forecast of the future:
   a) Under current corporate policy.
   b) Recommendations for changes in response to probable inside/outside influences.

3. Alert on early warning basis to emerging trends,
   a) within industry (competition) and/or allied money markets
   b) within regulatory climate (federal, state)
   c) within socioeconomic climate

   which will affect the growth, solvency, planning, etc., of the company.

MR. DAVID A. WEBSTER: As a preface to my remarks this morning, I would like to quote from the 1974 annual report of USLIFE.

> "USLIFE is a life insurance based financial service company. The major portion of its revenues is derived from seven subsidiary life insurance companies located in the nations most highly concentrated market regions. Growth oriented, USLIFE is also engaged in financial services that complement the life insurance operations. They are title insurance, savings and loan, consumer credit, realty investment, mutual funds, casualty insurance and corporate services."

Each subsidiary has a chief executive officer (C.E.O.) who is responsible for the development of a profit plan and the guidance of his company to achieve that profit plan. The parent company provides these CEO's with several services including major legal services, major actuarial services, assistance in marketing, and overall planning (including taxes). Additionally, the parent company has formed subsidiaries for the purpose of delivering computer services to the other subsidiaries and for the purpose of advising the life insurance subsidiaries with respect to their investments.

A primary function of the parent company staff is to act in a consulting capacity to the subsidiary on request. The staff is also responsible for monitoring each subsidiary's attention to the profit plan.

Within this basic structure then, we have a CEO of a life insurance subsidiary responsible for developing a set of objectives and their related financial impact for a given calendar year, incorporating the parent company services available to him and directing his company towards the orderly

achievements of these objectives.

The planning process begins during the late summer when each subsidiary prepares a marketing plan for the following calendar year. Early in the fall, each subsidiary's controller, assisted by the actuary, prepares a profit and loss (P.&L.) statement for the following calendar year based on the expenses associated with the marketing plan. The subsidiary's CEO then reviews that P.&L. and its attendant project plans with all officers, revises them and submits them as a profit plan to the corporate headquarters in New York.

At headquarters, a group executive, assisted by the technical staff, reviews the profit plans of the companies assigned to him. The profit plans of each subsidiary are then combined into a total corporate plan. The total corporate plan is reviewed by the parent company staff and then submitted to the Chairman of the Board for his review. After this review, a subsidiary might be asked to develop additional sales programs or to reduce expenses by deferring planned projects, etc.

Final plans are then submitted to the parent company. These plans are combined into a final corporate plan and approved by mid-January. Each subsidiary's CEO commits to the anticipated results contained in his profit plan and is measured by their orderly achievement throughout the year.

The key to successful achievement of the anticipated results is the ability of the parent company to monitor each subsidiary's progress towards these results and to react quickly in correcting any deviations so that the anticipated results can be achieved.

For optimum use of the subsidiaries' personnel, information needed for monitoring the subsidiaries' progress should be readily available in convenient format and useful to them in evaluating their own company's reports. The proper presentation of the items to be tracked is vital when several different subsidiaries are being monitored. Revision of the forms to keep pace with the structural organization, the economic environment, and the market peculiarities is also very important.

At USLIFE we currently use four major types of monitoring/communicative tools.

1. The Monthly Key Indicator Report
2. The Quarterly Profit and Loss Statements
3. The Project Quarterback Reports, and
4. The Project Status Report to Subsidiaries

The monthly key indicator reports are designed to be an indicator of probable profit plan deviation resulting from deviations of important items from planned levels. The most critical items included on the indicator reports are sales indicators. For individual insurance, we review submitted business by number, amount and premium, broken down between permanent and term, par and non-par, annuity business, and term conversions. These items are presented on a monthly and year-to-date basis and compared with the prior year's results and the levels anticipated in the profit plans. Additional key items which are reviewed on a monthly basis for individual insurance are the gain or loss on surrender, the impact on profit of the new business, and death claims. For group insurance, the monthly key indicator report contains data relating to premiums, death claims, A&H reserves, and, for credit insurance, the report

contains premium and claims information. For an overview of the subsidiary, the report will also include other information such as the number of home office employees and general insurance expenses.

The quarterly profit and loss statement is required for filing quarterly reports with the SEC. It is a primary indicator of the CEO's achievement of his objectives during the quarter just ended. It contains more detail such as detailed general insurance expenses. It also quantifies the reserve increases and other liability and asset values for the period. Since reserves are only run on a quarterly basis, the bottom line impact of the deviations referred to above in the monthly key indicator report are only estimates. The quarterly reports then not only give us a measure of the subsidiaries' achievement in relation to plan but also provide us with a value judgment of the estimates delivered through the use of the monthly key indicators.

The project quarterback reports are progress reports made by task force leaders at critical points during the implementation of major projects included in the profit plans. When a major project is assigned, a task force is recruited not only from the subsidiary for which the project is being completed but also from other subsidiaries and the parent company. A quarterback is designated to head the task force and it is his responsibility to outline the logical flow of the project from beginning to end with appropriate assignments to the various individuals on the task force. Each assignment is given a starting and ending target date. It is the quarterback's responsibility to see that these target dates are adhered to and, in the event slippage occurs, be sure that the rest of the task force is aware of that slippage, and reassign priorities with the necessary changes in the overall projection of completion dates.

Effective communications within any organization is difficult. It is very difficult in a company such as USLIFE with several quasi-independent subsidiaries. One tool which we have designed to improve those communications is a project status report. This report is sent to each subsidiary and shows the status of projects on which the parent company's staff is working and also the priority of projects which have been requested.

To summarize, the five reports discussed are the primary reports used for effective communications between the subsidiaries and the parent company. The profit plan is used to set each subsidiary's objectives for the next calendar year. The monthly key indicator insures adherence to the plan by providing information on a timely basis to allow for correction where deviations occur. The quarterly profit and loss statement provides the basis for the report to the SEC and provides assurance of adherence to objectives by each CEO. The project quarterback report measures progress on major projects and assists in the allocation of manpower within the corporation for synergistic purposes. The project status report to subsidiaries avoids duplication of effort and allows the CEO of each subsidiary to appreciate the total efforts of the parent staff and how each subsidiary's projects fit into total priorities.

MR. WILLIAM D. BALDWIN: Actuarial reports by consultants tend to be project oriented rather than as a functional part of the monitoring process. The types of projects may range from the profit-testing of a single product to a review of a company's entire operations. Since the consultant is virtually always removed from the premises and thus not readily available for the

informal chats that often serve to clarify a report, reports by consultants tend to be more formal and more detailed than might normally be prepared by an in-house actuary. This is especially true for companies without actuaries. While costly in terms of man-hours, we feel the additional effort and support are worthwhile.

Perhaps my favorite report topic is goal identification. Coming into a company "fresh," you can often see either a lack of direction in the planning of the company, or a lack of consistency in the direction of the various factions or departments within the company. Most often, this is noted in conflict between the objectives stated for and by the sales department as compared with the objectives for the sales department as perceived by the company management. Typically, a series of interviews are held with the management personnel, the home office agency personnel, and selected field personnel. The resulting report is presented to both corporate management and to sales management and considers:

a) Identification of the existing conflicts
b) A statement of what we see as the overriding goals of the company
c) Recommendations as to courses of action to help alleviate the conflicts, hopefully without creating new ones.

The delivery mechanism of this type of report or one of similar depth often has an important bearing on the usefulness and understanding of the report. An approach we have found effective is a verbal discussion of the report with the management group responsible for the decisions and/or implementation resulting from the information delivered. A few days prior to this meeting, we will send the written report to each person that will be attending. If the subject is of a particularly sensitive nature, a draft copy is usually reviewed with the project coordinator for the company.

Typically, there will be a broad spectrum of technical knowledge represented by the management group. The terminology, particularly in the sections dealing with the conclusions and recommendations, must be understandable to those empowered to act on the information. The structure of the report can be fashioned to assist with meeting this objective. I prefer to begin the report with a brief summary of the conclusions and recommendations included in the report. For some(especially the chairman of the board), this is also the end of the report. Next, a discussion of the considerations involved and a detailed description of what was done. Then follows in more specific detail a presentation of the conclusions and recommendations. The highly technical aspects of the report and the complex supporting data are reserved for a special section or a series of appendices. Thus, the report is actually a series of separate sections, each encompassing a particular level of technical comprehension.

MR. JAMES J. CAREY: As a basis for my reports to management, I receive essentially the same kind of information from ITT subsidiaries as Dave Webster receives from USLIFE subsidiaries. However, the information is submitted in more detail and more frequently than at USLIFE. Dave, Bill Baldwin and I have a similar problem in reporting because we are geographically distant from the companies on which we might be reporting and thus cannot take advantage of the valuable insights which frequently can be gained through informal dis-

cussions.

However, there is an essential difference between the way in which I report to management and the way in which most other actuaries report. Most actuaries prepare reports for an audience which has had years of in-depth experience in the insurance industry. This is not the case at ITT. Accordingly, in reporting to management, it is necessary for me to avoid as much as possible the insurance or actuarial "jargon" which I might otherwise be tempted to use. During the period from 1970 through 1974, the Financial Service product line, comprised mainly of insurance but also including mutual funds and finance companies, contributed only 28% to ITT's net income. Thus insurance is by no means the major product line at ITT, as it probably is in your companies. Management attention is not only focused on insurance-related matters but rather is also concerned with telecommunications, manufacturing, etc. At ITT, if reports to management are to be effective, they cannot be filled with terminology that only experienced insurance managers would comprehend.

The purpose for which I prepare a report is also somewhat different from the purpose of a typical actuarial report. Actuarial reporting is usually done to either inform or convince. Only infrequently is a report by an actuary prepared for the purpose of eliciting immediate action. At ITT, the great majority of the reports I prepare are action oriented. In fact, this is the purpose of the great majority of all reports prepared at ITT.

I would like to briefly describe the function of Staff Operations at ITT. We report directly into the Office of the President and are responsible for reviewing and analyzing operating performance. An integral part of this analysis is a definition and clarification of major management problems in operational terms. "In operational terms" is a key phrase. If sales are down, I can't merely report, "sales are down." It is of prime importance to zero in on the real reasons for sales being down so that corrective action can be identified and implemented rapidly. In addition, Staff Operations has the responsibility of initiating action to resolve such problems and to maximize opportunities. In view of Staff Operations' responsibilities, it is incumbent upon us to prepare reports that elicit action. Following is a quote from a pamphlet called "Facts" which Mr. Geneen prepared. This quote describes precisely the type of reporting required at ITT.

> "Effective immediately, I want every report specifically, directly and bluntly to state at the beginning a summary containing the following facts in this order:
>
> a) A clear, short statement of the action recommended.
> b) A brief summary of what the problem really is.
> c) The reasoning, and the figures where necessary for clarity and perspective to understand the basis of the reasoning, and judgment areas leading to this recommendation.
> d) A brief, personal statement by the writer expressing any further personal opinions, his degree of confidence, and any other questions that he has in this respect."

Management of ITT subsidiaries is essentially a four-step process. First, objectives are agreed upon by the subsidiary and ITT. Second, detailed plans

are conceived to insure attainment of these objectives. Third, budgets are prepared to establish a method for measuring a subsidiary's progress towards attainment of these objectives. Fourth, the subsidiary's actual results are compared against the budgeted results, deviations are analyzed, and corrective action taken. The first three steps are a part of the formal business planning process which takes place from May through December. The fourth step is an ongoing process and is implemented via a weekly and monthly reporting system. During each step, Staff Operations has the responsibility for obtaining the facts, expressing its opinion, making recommendations and initiating action.

During the business planning process, the first three steps in the management process, Staff Operations' responsibilities are carried out by first analyzing the objectives and plans and then preparing detailed critiques. These critiques must contain a clear statement of our recommendation: should the plan be accepted; should the plan be rejected; should the plan be accepted with reservations. We may recommend that a particular product line be closed or a new marketing area be investigated. As a part of the business plan, we work with the subsidiary in identifying Major Programs and Critical Milestones. Major Programs are several key programs which must be effectively implemented in a timely manner if objectives are to be achieved. The Critical Milestones are indicators which will tell us whether the Major Programs are in fact being implemented on schedule.

In order to implement the fourth step in the management process, ITT subsidiaries are required to follow a highly structured reporting procedure. Information about the subsidiaries' performance is submitted frequently and in great detail. The president of each subsidiary is required to send a weekly report including key performance statistics, a summary of major problems and any other items which he may want to bring to headquarters' attention. In addition, the following reports must be submitted on a monthly basis:

- A detailed G.A.A.P. profit and loss statement(P&L)for each major product line showing deviations from budget for the month and year to date.
- A report from the president commenting on the performance of the company which caused the results shown in the P&L.
- A report from the comptroller summarizing the results and commenting on any major deviations from the budget.
- A forecast from the president and comptroller containing a projection of sales and net income for each of the months remaining in the year.
- A Major Program/Critical Milestone status report.

To supplement these reports, monthly operating reviews are held with senior management on the scene at each subsidiary. A team from headquarters, usually consisting of the group executive who has P&L responsibility for the subsidiary at the headquarters level, a headquarters comptroller and myself, meets with the subsidiary's management to review the monthly P&L and to

discuss problems and opportunities facing the subsidiary.

The information contained in the reports and meetings summarized above serve as input to the reports which I must regularly submit to management. I prepare a weekly report which concentrates on major problems and opportunities summarizing what is being done about them or recommending what should be done. Also, I prepare a monthly status report for the General Management Meeting at which Mr. Geneen and the Office of the President review the performance of all subsidiaries. In this report, the net income forecast made by the subsidiary for the remainder of the year is compared with the budget prepared at the beginning of the year. The subsidiary's forecast is evaluated and I must state whether staff agrees with the subsidiary's forecast. If there is disagreement, the reasons must be stated and quantified. Finally, the monthly status report contains any comments or assessments I have about the subsidiary which I feel should be brought to ITT management's attention. The weekly report and monthly status report deals with the total operations of the subsidiary and not just the actuarial aspects. For example, a legal problem, a personnel problem,or a marketing opportunity may be covered. These reports are widely circulated at headquarters level. In addition, if a situation arises where it would not be appropriate to have wide circulation, I would prepare a special report.

In summary, the type of reporting I do is somewhat different from typical actuarial reporting in that my audience does not have in-depth experience in the insurance industry and the primary purpose for my reports is to initiate action. However, there is a basic similarity in the reports which all actuaries prepare. The reports we prepare must be based on facts. The motto of the society is "The work of science is to substitute facts for appearances and demonstrations for impressions." Following is another quote from the pamphlet Mr. Geneen prepared:

> "The highest art of professional management requires the literal ability to smell real fact from all the others and moreover to have temerity, intellectual curiosity, guts and/or plain impoliteness, if necessary, to be sure that what you do have is indeed what we will call an unshakeable fact."

MR. FRANK ZARET: The actuary's role in the company with respect to reporting on personal life insurance operations has traditionally been associated with the reporting of financial information, that is to say, the condition of the assets, facts about the reserve liabilities, the trend of investment income and interest rates, projections of surplus, taxes, margins, etc. A great many of the results covered in these reports flow from decisions made some time in the past and, in some cases, in the rather distant past. By the same token, the outcome of many decisions made today, based on results in the latest reports, will be seen years from now.

Because of the long-term consequences of many of his decisions, the actuary is generally careful in coming to conclusions. Characteristically, he does not rush into decisions and he tries to get all the information possible on which to base judgments. If he must wait a reasonable period of time to obtain additional information which may prove valuable or improve accuracy, he will usually do so. Aside from legally-prescribed time pressures such as

that connected with annual statement work, the urgency of formal reports is not great. The actuary may get involved with reports indicating how well the company is adhering to short and long range plans and to what extent objectives are being met. Toward this end, there is greater urgency to turn out reports because of the greater potential for immediate remedial action. For the most part, however, time is not as critical a factor, nor is there the same need for the actuary to make fast decisions as in other areas of the company that may be directly on the firing lines, such as the sales organization.

It has been my good fortune to have had an opportunity to see the other side of the picture by becoming a part of the personal insurance marketing organization for several years. One of my responsibilities involved the development of reporting systems to management in the marketing area. The needs, the urgencies, the uses of information in that environment are somewhat different from those dictated within the actuary's usual sphere. What I will cover here are some of my experiences as an actuary in the marketing organization and point up some of the differences between the two worlds.

It was an eye-opener to me when I first became involved with field reporting to find the great differences in approaches and attitudes from those to which I had become accustomed. As a start, it was necessary to gain a familiarity with the many reports that were currently being generated by our marketing people -- and there were many duplicate and overlapping ones. There were out-dated reports that had been started years ago which were being turned out perfunctorily because no one had said stop; there were pet reports of rather limited use; reports that were overly detailed and others that were overly general; reports that were too frequent and others too infrequent; reports that were inconsistent with each other, etc. A myriad of reports existed that had grown over many years. With a limited amount of culling,the ultimate result was a tangled and uncoordinated web of information being disseminated.

Difficulty existed with respect to several reports originating in different departments covering similar topics because of a lack of consistency in the information. This was especially true for production and other performance data. Questions constantly arose as to why one answer was given here and another answer there. Reconciliations were continually being made to explain differences. It got to the point where it was possible to predict the questions top management would ask with respect to differences in the reports. As might be imagined, a certain lack of credibility developed on a good number of reports published. Recognizing the problem,a special unit in the marketing department was formed to improve the gathering of performance information and to better organize the reports being distributed.

Perhaps the most important initial action taken to bring order into the reports and establish a greater degree of credibility was to obtain agreement between the actuarial and marketing departments on several very basic points. As might be suspected, both departments have certain views of how information should be gathered consistent with how they see their operations. Not always do their views coincide. For example, simple items such as the definition of when a record year should begin, or how long a month should run, differed. At one point the marketing and actuarial years were two weeks out of phase for reporting life insurance results. A transition year with special recording procedures was needed to line up the reports of different departments. Strangely enough,we found that one particular line of business differed by as much as

four weeks from other lines as to when a year would start and was tending to drift further apart with time. Those handling this line of business apparently did not recognize that 53-week years occasionally occurred. In this rather odd situation, a 56-week transition year was required to catch up with other lines of business.

What might also be thought of as a simple concept,but caused problems, involved the definition of what constitutes a month. The marketing organization works in full weeks and in some years a given month would have 5 weeks and in other years, 4 weeks, making monthly comparisons between years difficult. To add to the confusion, the actuarial use of a constant 4-1/3 weeks each month would never match the marketing definition. We finally got agreement in the various departments on how to universally define the spans of time covered in each report which helped immensely in bringing consistency into the figures. A very big help in overcoming many long-established attitudes and making changes was the fact that an actuary was located right in the marketing organization. From the marketing standpoint, it was one of their own people close to the problem who was making recommendations for various actions and not an outsider. From the actuarial standpoint, it was an actuary making proposals and, of course, a colleague, no matter where located, deserved to be heard. Being able to cut across both lines and travel easily in either circle resulted in people being more inclined to listen with open minds and to consider new ideas -- which was more than half the battle. The ability to make desirable changes was markedly improved under these circumstances.

There are a number of distinct differences in the reporting needs of personal insurance marketing,as compared to actuarial,that I would like to mention. One significant difference is that timing is more critical in reporting to marketing than it is to actuarial. Marketing must know quickly what is happening in the field since their operations are highly susceptible to immediate corrective action. Waiting for long periods of time to see the results of decisions can be damaging. Up-to-date knowledge of what is transpiring is constantly needed. Low production in certain areas, unusual changes in selling patterns, manpower turnover problems, increased expenses, are items which must be closely monitored. A good example of the differences between actuarial and marketing needs for timely reports can be seen with respect to keeping track of lapse rates. True actuarial lapse rates are used to develop asset shares, premium rates, etc. Getting a true actuarial first-year lapse rate for a full year's issue requires waiting considerably more than a year after the last policy is issued to obtain a complete picture. This time lag is not critical for most actuarial assignments because of the nature of the work which deals with long-term trends and with changes which are more or less gradual over periods of years. Lapse rates determined on this basis are quite sufficient for most purposes.

On the other hand, a time lag of one-and-a-half to two-and-a-half years between the action and the result cannot be lived with in the field. Control has to be exercised as close to the time of action as possible. Telling a field representative that his first-year lapse rate on policies issued two years ago could stand improvement will evoke the inevitable response, "Ah, but you should see how I'm doing now." Of course, it will take two years into the future to see how he's doing now. Speed in communicating results is more essential in the sales organization than in actuarial. Therefore, other means

must be devised to obtain the necessary information in timely fashion. Approximation methods may be necessary such as using the LIMRA first-year lapse formula which takes account of whatever data is available on lapses as early as possible. It is not an exact actuarial formula but it does provide sufficiently accurate answers at a much earlier date, which is a most important tradeoff for the marketing organization.

Accuracy of information will also have a different meaning in an actuarial context than in a marketing one. The usual procedure is for actuaries to work with overall company figures which tend to be very large. It is not uncommon to drop three to six figures before the decimal and still be accurate enough for many actuarial purposes. There can be irregularities in the data which do not cause great concern because of their relative insignificance in relation to the total magnitude. Small offsetting or compensating errors will also generally act to keep the overall totals within the realm of necessary actuarial precision.

Reports on field operations do not have the same leeway for inaccuracies as do many actuarial reports. Integrated marketing information systems will deliver reports to various levels of the organization and as these go to lower and lower levels they are more apt to be checked by those about whom the reports are being made. An individual agent is in the best position to know whether he has been credited or charged accurately with policies issued or lapsed and most assuredly he will validate the facts given to him. There is an automatic self-checking procedure here. Similarly, the total of all the individual agents' performances in an agency can be used by a manager to verify the summarized figures he usually receives. There is a building-block approach to field reports in our company with thousands of people interested in and scrutinizing the pieces. To some extent we depend on this procedure to maintain the integrity of the reporting system; the less complaints, the more reliable the system. Taking the pieces at each level of the organization and summing them gives the record of the next higher level of organization, up to the total company figure. By this approach all results become tightly tied together with little room for inaccuracy.

For some time previous to the installation of our present system, a number of production reports were generated by the actuarial department on a total company basis and, where possible, then separated to lower levels of the organization by approximate methods. As can be imagined, this method of working from the top down did not turn out too well with many justifiable complaints coming from those who were being measured. One of the significant alterations in our information system was a change in direction of composing reports so as to start from the bottom up. Both actuarial and marketing now accept the same figures coming from a common source which have been handled in an agreed-on manner. Greater consistency of reports generated throughout the company has resulted and there has been a marked drop in the degree of discontent with the information disseminated. One thing we can now say is that *if* any reports distributed should be wrong, at least they will be consistently wrong throughout the company.

Another area where the actuary may have to operate somewhat differently when working with the marketing organization than may be his custom is in providing details. While the actuary normally provides broad groupings and summaries in his reports, much greater item-by-item facts are needed in marketing reports. The bottom-up system of constructing reports to a great

extent requires back-up detail to be available, though not necessarily shown in the reports themselves. Each level about whom a report is being made usually receives summaries of their results, such as totals of amounts of insurance, premiums or commissions on policies issued. In the case of the production in an agency, for example, we have found it necessary to make provision for the manager, if he so requests, to see facts about the individual policies issued or lapsed that enter into the summarized totals of his agency's production. Disagreements over figures can too often only be resolved by getting into the smallest detail. Here is an area which the actuary may find foreign -- someone questioning the accuracy of his figures. However, at any level of the organization, it is management's right to see exactly what enters into his record. Having the means to provide the necessary details is the best way to gain credibility. A system to spill out the details must be ready, but this should be on a demand basis only.

One of the problems we continually struggle with is to determine the frequency with which reports to the field should be turned out. The more frequently reports are turned out, the more paper circulates and the less likely are people to look at what is distributed. The volume of paper can be self-defeating.

Several criteria should be used to decide on a schedule of distribution. First, the ability to use the figures to control activity would be one of the reasons for increased frequency of reports. Nevertheless, ability to do something with the facts is not by itself a reason to put reports out more often. There must also be a degree of importance attached to the activity being watched. For example, because of the importance we attribute to field staffing, reports of this nature are turned out weekly on number of active sales staff, new appointments and terminees. Another area of vital concern is the writing of applications. Feeling it important enough, a daily reporting of such activities might be instituted. However, this becomes very expensive; if this is to be done, management must feel it of enough worth.

Another factor to consider is the degree to which the figures tend to change. Reports on items such as production results tend to be rather volatile and, thus, should be generated at more frequent intervals than say, running twelve-month lapse rates which exhibit more stability. A report on asset growth might not have to be turned out more than semiannually or even annually because of the rather slow rate of change of such figures.

Intangibles play a big part in determining how often reports are turned out. Where top management has a special interest in a feature of the business, a report covering this item will likely be turned out more frequently than may otherwise be needed. Another intangible is the composite portfolio of reports. Judgments on individual reports to be generated should be made in the context of what other material is to be distributed. Balance should be established as to what will be useful, important, and within the ability of those receiving the material to absorb and digest. And, not to be forgotten, are the costs of turning out reports; they should not be greater than the value derived from generating the reports.

Each level of management should be continually urged to accept broad summaries coincident with what they need to run their operations and to limit special requests for more detail in the reports to what they can handle. Highly itemized reports at each management level have a ripple effect and increase the

volume of reports all the way down the organizational line. They also create a suspicion that a lack of delegation of authority may exist. This problem is usually diminished when there is a general understanding that more detailed information than is shown in the summarized reports can be generated on a demand basis.

Publishing certain reports on the exception principle basis, that is, only reporting substantial deviations from plan, would cut down considerably on the amount of paper distributed. Before this can be done, however, there must be specific plans or objectives from which to measure deviations. The problem with exception reporting is that it is often seen as pointing a finger at particular areas of the operation by highlighting areas that are off course, which creates some unhappiness. To avoid this accusing kind of atmosphere, there is a tendency to stay with the standard reporting of absolute amounts on all aspects of the operation with, perhaps, an indication of percentage of objective achieved.

Reports published are only as valuable as the use to which they are put. If the information never generates any action, the report is essentially worthless. The actuary can bring much of his talent to bear in the marketing area by constructively offering his analytical ability. Reports by actuaries to actuaries do not necessarily need interpretive comments; the numbers speak for themselves. However, many marketing managers are not as adept at interpreting the data, and the actuary can serve an extremely useful purpose by putting past results and trends into proper focus. A good understanding of what the results mean can markedly aid the decision-making process. And, that is the name of the reports game -- decision making. Going one step further, an actuary's function should not simply be to report and interpret the facts. He should also recommend appropriate courses of action and get deeply involved in the decision-making process.

MR. BALDWIN: Our third topic area today concerns a type of reporting which is vital to the future success of the company. The long-term well-being of a company is subject to its ability to react in a positive and timely manner to the factors affecting the environment in which the company operates. In fact, our objectives should be not only to react but to anticipate events which will have significant effects on the operation of our company. To be able to take effective action, management should have comprehensive information as to the implications of the course being followed.

With his knowledge of and exposure to the many facets of a life insurance company, the actuary is perhaps in the best position to coordinate the production of such information. In many instances, perhaps most instances, reports concerning emerging trends within a particular sector can best be made as a joint report with other disciplines within the organization. For example, a report on interest rates should involve the investment department as well as the actuary. The investment department should be able to establish the anticipated short-term interest rates through an analysis of the current economic and monetary conditions, and, together with the actuary, generate the anticipated long-term interest rate forecast as it relates to the company's investments. The actuary should then provide an analysis of the impact of these rates on product structure, pricing, taxes, etc.

Reports on trends can be divided into two general categories. These cate-

gories are emerging trends within the company and those trends which are occurring outside of the company. Obviously, the company can exercise more direct control over the internal occurrences, and reporting would tend to be more frequent and more routine in nature. Trends of major importance are:

1. Actual expenses vs. expense margins. This area is of critical concern to the company and to the actuary in particular. The actuary has priced his products or developed his dividend scales under the assumption of expenses being incurred at a particular level. Deviations from the amount of expenses developed by these margins fall directly through to the bottom line. If expenses exceed margins(and that seems to be the usual case), development of the trends of the actual vs. expected will enable the actuary,and therefore management, to project when parity will be reached. Looking at it another way, it also will enable management to determine the amount of product required for the margins to generate sufficient levels of expense to cover those actually being incurred. If that level of production is unrealistic, the actuary should be prepared to recommend alternative courses of action which will enable the underlying profit objectives to be obtained. In the case where actual expenses are consistently below margins, the actuary has the opportunity to set forth the considerations on a reduction of the margins;and, therefore,possible pricing reductions may be in order.

2. Actual persistency vs. expected persistency. As with expense, we are concerned here with the trend in persistency. Frank Zaret has already described the need for frequent reports and also the need for consistency in the definition of the various persistency figures among all the departments of the company. Persistency is quite sensitive to the particular market being written, and a report on trends in persistency within the company should consider both the market being written and the national trends in persistency for that type of market.

3. Marketing Trends. It is quite possible for a company's sales to move from one segment of the market place to another without management being fully aware of the extent of such movement. While a swing from writing industrial business to ordinary business may be readily apparent even to the most uninformed management, a shift from writing, say, individual sales to an emphasis on business insurance may not be so readily apparent. The higher the turnover rate in the agency force, the more likely such a shift can happen over a short period of time. For this reason, a comparison of issues within a particular year to the most recent 2 or 3 prior years in terms of policy size, sex distribution, age distribution, etc., is quite informative. Working with the underwriting department, a profile of policyholders can be built and should be maintained. Products normally are, or should be, designed with a particular type of buyer in mind. If the company's goals are to be achieved, suitable matching must be obtained between products and buyers. Frequently, awareness of the emergence of a new market for the company will give rise to new product opportunities.

Trends emerging outside of the company probably have a more long-range influence than do some of the topics just discussed. The study of such trends also poses a greater challenge to the actuary since he will be unable to deal with them in terms as precise and with the same degree of assurance as he could with matters within the company. However, conditions such as the current economic climate, and inflation in particular, require thorough analysis by the actuary. In addition to the internal ramifications, the impact of such conditions on the company's particular market place and its product structure needs to be measured.

Regulatory and other governmental activities create both problems and opportunities for the life insurance company. For example, the well-known consumerism movements by the public and the response by state agencies should be dealt with positively by the company. Legislation such as the Employee Retirement Income Security Act (ERISA) has created new market opportunities for the life insurance company. Identification of these opportunities, along with consideration of competitive factors, appropriate product structure, etc., is essential for prudent decision making. Not to be forgotten is the impact of ERISA on your own company's pension plan. Other actions, such as the change in nonforfeiture laws, the more stringent regulation of accident and health insurance, premium regulation, and credit insurance, all call for analysis by the actuary.

A study of industry trends presents fertile ground for topics of actuarial reports. The actuary, and management, needs to stay constantly aware of product arrays being offered and their price levels. Without sufficient information regarding trends in commission structures, the company is at a disadvantage in both the recruitment and retention of manpower. A review of the success or failure of the diversification activities of other companies is useful in determining your company's own expansion plans.

There is one actuarial report in particular that, if it has not already been delivered to management, it should be. That concerns trends within the actuarial profession itself. I'm referring in particular to the more specific definitions as to how the actuary should conduct himself in his occupation. Management needs to be aware of the responsibilities to the profession that the guides and recommendations have placed upon you, and how those responsibilities affect your conduct within the company.

Regardless of the topic or topic areas selected for actuarial reports, I feel that to be complete they should include identification of the particular trend or trends being studied, the implications of this trend, both short-term and long-term, and recommended courses of action for your company to deal effectively with the changes.