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DEVELOPMENT OF CORPORATE PHILOSOPHY, OBJECTIVES AND STRATEGY

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1. Statement of General Philosophy
   a) Content
   b) Personnel Involved in Creation and Distribution

2. Long Range and Short Range Objectives
   a) Time Frame
   b) Personnel Involved in Creation and Distribution
   c) Basis on which Quantitative Goals are set
   d) Resolution of Conflicting Objectives
   e) Tracking of Performance/Revision

3. External Forces
   a) Significance for Insurance Business
   b) Methods for Anticipating Their Impact

MR. DAVID R. CARPENTER: Playing the role of a skeptic, as actuaries are often accused of doing so well, it would seem appropriate to begin this discussion by examining whether or not there really is a need within a life insurance company for the development of corporate philosophy, objectives, and strategy. It reminds me of the story of the parents with the five year old son who had yet to speak his first word. They had taken him to a number of specialists and therapists to no avail. So you could imagine the mother's shock and dismay, as she was making breakfast one morning, to hear young John say, "Mom, the toast is burning!" She wheeled and looked at Johnny in total shock. "Johnny", she said, "You can talk! Why have you remained quiet all these years?" Johnny's response was, "Everything has been okay up until now."

How apropos of many in our industry, especially below the level of top management! Have you ever heard someone say something like this: "We've gotten along great for the last 60 years, why do we need a formal plan now?"

The last 30 years have certainly been good ones for most of our companies, but I submit that 90% of the responsibility for the favorable experience should be attributed to a favorable environment. That leaves only 10% for management, so I hope I have not alienated anyone up to this point. Surprisingly, however, my estimate may be closer to the truth than one might think. I have read studies done in the past with regard to the reasons for success of U.S. orporations in general, and at least one study attributed 80% of the success to the environment within which corporations have been operating, 20% to management.

Look at the facts:

- Mortality improved fairly consistently.
- Expenses were kept under quite reasonable control on a per unit basis.
- The U.S. population was growing handsomely.
- The family environment was fairly stable and the move toward urbanization probably helped us sell the concept of life insurance.

- The investment climate was certainly good to us for quite a few years.
- Regulation, overall, was reasonable.

But, where do we find ourselves now? We've all heard it so much that the identifying expressions now seem trite: the technological explosion, the age of complexity, the era of social revolution, and on and on and on.

- Mortality improvements in the future may continue to be a saving factor, although many of us have been expecting mortality to plateau.
- Expenses, for a variety of reasons, have gotten away from us and are becoming extremely difficult to control.
- Investment results are now being projected into premium rate calculations at levels as high as most of us would expect them to go. At the same time, the overall investment climate appears to leave something to be desired from the standpoint of stability.
- Competition for sales personnel appears to have reached the limits of diminishing returns.
- External forces seem to be running rampant.
  - Inflation, or the threat thereof, continues to plague us.
  - Changing attitudes of society are complex and many.
    - The institution of marriage, especially "Til death do us part" is undergoing significant change.
    - The psychology of entitlement appears to be spreading with the wind.
    - Then there is the Women's Liberation Movement.
    - Fewer children per family.
    - An over age 65 population approaching 20% of the total which has been unheard of in any other time or place.
    - Consumers are becoming smarter.
  - Consumerism is upon us.
  - Regulation is becoming stiffer.
  - And the Federal government haunts us with things like potential Federal regulation, national health care, and social insurance programs that make a mockery of the floor-of-coverage concept.
  - Technological change is geometric.
  - Our resources are limited -- just the other day, Dr. Harvey Wheeler told a group of us, "Gentlemen, supply is no longer elastic. Reexamine your theories of economics."
  - And, I have not even mentioned, yet, environmental impacts, EEOC, and unemployment.

I rest my case. I think it is worth emphasizing that not only are we besieged with complexity, but our response time is shrinking. We no longer have 1, 2, or 5 years to adjust to many of these forces. Those of you involved with health insurance understand this so well. Also, some of the changes that may be necessary as we proceed may well take 1, 2, or more years in order to implement.

Now, let's talk a little bit about the process of planning. I do not know about you, but I get a little hung up on some of these terms at times, since each author seems to define them just a little bit differently in order to suit his own purposes. This is not a teaching session today, so I do not wish to get hung up on definitions of terms. We wish to speak loosely, but generally when we use the term "Corporate Philosophy" we are referring to a company's purpose of being. In general, strategy is concerned with objectives and with selecting an approach to running the business from a choice of alternatives that will allow us to achieve our stated objectives. Then, when we think of a tactical plan, we generally are talking about the best use of the resources available to us in order to reach the specified objectives.

I think we can all agree that, no matter how it is executed in detail, the first step is to examine the environment within which we have to operate. We have to look not only at our internal strengths and weaknesses, but we must pay particular attention these days to all of the external forces acting upon us. At this point we can begin to form our objectives, making sure that they are meaningful (especially in terms of our philosophy) and measurable.

Next, we enter the strategy formulation stage. In actuality, it is not necessary to wait for the completion of the first stage before moving on, for we can begin formulating our strategy as we are proceeding through the first phase. As we begin identifying alternatives, we will find it necessary to have a way of evaluating those alternatives. There is nothing new here. We are all familiar with many different ways to evaluate impacts on resources or product cost/benefit analyses.

After we have selected a specific strategy and allocated and measured resources available to us, we are prepared to move into the tactical action phase, which will require translating that strategy into policy changes, projects, and specific plans of action that will allow us to achieve our goals.

Although I have been talking here in terms of selecting a specific strategy, it makes sense to have a couple of contingent, strategic scenarios worked out ... just in case.

To complete the cycle, of course, we have to have some type of periodic review and update of the plan. Quite often performance measurement is combined with this step to a great extent.

But, enough of the theory, what we wish to identify and discuss today are the "Real-World" concerns:

- What I want to know is, "How do you make a plan actually work?"
- Does this really lead to meaningful decisions and actions?
- We want to discuss how you go about arriving at sound methods for assessing performance relative to the plan.
- I am sure we have all heard that all this takes an extensive data base. How big is this problem?
- Who should do this planning, and how do you keep the plan flexible and current? It always sounds great in theory, but can it actually be done in practice?
- And remember, no matter how many books you read on the planning process, any planning process has to be tailored to your specific situation.
- You need quantitative ways of evaluating the alternatives.
- And there are some real problems regarding the weighing of many of these interrelated factors. For instance, where does budgeting fit in? Which comes first -- planning, budgeting, or a combination?

Let's see what our highly respected panelists have to say about some of this.

Rob, does your company have a statement of philosophy?

MR. ROBERT C. DOWSETT: Yes, we have a "motherhood" type of statement of philosophy dealing with the company's role in society and our feelings of responsibilities to our employees, sales force, policyholders, and shareholders. It specifies, in part, "Crown Life strives to be of real and continuing value to society, serving the public interest by providing personal and financial security programs at competitive prices to fill the actual needs of people. Through the investment in securities and property, Crown Life stimulates the economy and provides jobs. The company practices equality in hiring, considering only ability, skill and experience. Crown Life contributes to the welfare of the community and encourages employees and the sales force to participate in public and community affairs..." It is difficult to relate to that philosophy in planning monthly, or even yearly, quantitative objectives of our corporate plan. Consequently, although our statement has been distributed throughout the company, our people refer to it infrequently.

MR. IAN M. ROLLAND: The development of our corporate plan required definition of the broad principles which guide our business activity. These broad principles reflect our philosophy in 6 different areas: integrity; financial strength; profitability; human resources; service; and social responsibility. These principles are static, and have been disseminated rather widely in our company to the managerial level, at least, to guide them in their daily business decisions.

MR. CARPENTER: It is noteworthy that many other factors, besides "profit", enter into a corporate philosophy.

MR. ROBERT N. HOUSER: In the past, people would ask if we had a corporate philosophy. We always said "yes", but had a hard time finding it. It was in a drawer somewhere, and we could "dig it out" to salute it, but obviously it was a waste of everyone's time. Over the past 3 years, we have developed a new statement of very broad objectives. We are beginning to develop subobjectives, programs and so on. Unlike our previous statement of purpose, this one was developed with much employee participation, not solely by the top management of the company. It's been distributed to each member of our home office staff and to our field force. We expect our agent councils and our home office people to provide valuable comments and suggestions.

As to specific long range objectives, we had a very formalized planning process. (By the way, if the audience thinks these panelists are experts, I'd like to disabuse them right away.) When I was more directly involved in the actuarial work, we could project anything in almost any direction. We had charts sticking out of our ears, and we wasted most of our time explaining why we missed our projections, either upwards or downwards. In our current effort, we have shied away from quantified 5 year or 10 year goals. But I do not intend to suggest that we lack direction. We are concentrating on where we want to go, how we will get there, and how we will measure our progress along the way.

MR. ROLLAND: Formal planning at Lincoln National is a relatively new activity, as is probably typical of the entire industry. Maybe Bankers Life has learned something that the rest of us will learn in a few years. In formulating a 5 year plan recently, we made a conscious decision that the work would not be undertaken by staff people who were divorced from the line management. We involved our line managers so that they would be committed to achievement of the plan. Our corporate planning committee includes representatives from all major LNC affiliates, including life insurance, property and casualty and title insurance operations. Someone once said that the process of planning is more valuable than the plan itself. By bringing together senior management people with many different backgrounds, we have learned much about each other's day-to-day activities.

Our plan concentrates on 7 "key result areas":

1) Market growth, with specific objectives for each line of business over the next 5 years.

2) Profitability, projecting our profit expectations over the next 5 years, then increasing them to represent a "stretch goal" that could result from special managerial efforts. Our projections are not simply extrapolations of recent results.

3) Financial resources, analyzing the surplus available in our corporation for capital investment and expansion in new businesses.

4) Human resources, detailed analysis of desired personnel policies.

5) Productivity, with very important specific goals. We have to learn to operate more efficiently. Because improved efficiency really comes from the "bottom up", we involve everyone in finding better ways to do their job.

6) Diversification, acquisition and divestiture.

7) Public responsibility, which must be exercised very carefully in several areas.

MR. DOWSETT: At this time, we do not have a 5 year plan like the one described by Ian. Our annual business plan for the following year is generated by 140 budget centers in the home office, 120 branch office forecasters, and sales forecasts from each of 150 sales offices in Canada and the Caribbean and (for general agencies in the United States) from our senior home office agency officers. With this information and forecasts of premium and investment income, our computer produces a 1977 year end statement in accordance with the plan, broken down by territory and by line of business. Of course the results of the first cut may not be acceptable to senior management, in which case we recycle to the bottom once or twice and start again, asking for different commitments. Some of our subsidiary operations (such as our computer services company and our pension company in England) have longer business plans, created much the same way. Hopefully our long range planning will be expanded to cover more of our operations.

Successful planning requires that people make specific commitments regarding what they believe they can accomplish in their area of responsibility. Frequent tracking of actual-to-plan results must be available at a detailed level.

MR. ROLLAND: We selected 5 years for our projection period because our property and casualty and title insurance businesses, particularly, are subject to cyclical fluctuations, (related to the real estate cycle, to inflation, and other characteristics of the economy) over which we have very little control. Hopefully the 5 year business cycle will temper the impact of these fluctuations, whereas yearly goals would experience wide discrepancies.

As Rob mentioned, any planning process requires revisions as information comes up from below. Recently we projected goals for growth in earnings per share. We then received sales expansion goals from the sales people. The cost of such sales expansion would have prevented the achievement of our profitability objectives. So we went back to the drawing board to reconcile those 2 aspects of the plan.

MR. CARPENTER: Where the general planning period is one year, do you supplement your plans by projecting individual projects or items beyond that, for instance in tax planning?

MR. HOUSER: Our new approach to the planning process has lengthened our outlook to 10-20 years from now. In extending beyond a 1 year plan, we encountered many imponderables which assure future variance from any quantitative goals we might set. Explaining variance from a plan can become an end unto itself. More than ever before, we discuss the environment in which we will operate. A 5 year plan can lull you into thinking that things are under control and that today's conditions will still be here in the future. Perhaps conditions will not change too much in 5 years, but that does not mean they will not have changed substantially in 10 or 20 years. So we put our emphasis on long range thinking without trying to set specific quantitative goals.

MR. DOWSETT: Such long range thinking is going on in our company too, but it has not crystalized into a formal plan. We communicate with opinion leaders, trade associations, governments, and the sales force, gathering information about changes in direction in marketing, corporative developments, and diversification.

Even our 1 year business plan is a new thing, stimulated by the new pressures and reducing profits margins which Dave mentioned in his introductory speech. We are concerned both with next year's earnings and with our long run future. This morning, Dr. Gregg argued passionately about the positive future of our business. I agree that we have a tremendous future, but we will need effective short range and long range planning to realize that future.

MR. ROLLAND: I would like to ask Bob Houser how long range planning is translated into day-to-day operations and what evidence he has that long term thinking contributes to current operations.

MR. HOUSER: It is difficult to prove a direct connection between the two. Let me describe briefly what we did as a company. Three years ago, feeling that we needed a better sense of direction, we opted for decentralized rather than topdown planning. For about six months, a group of 10 or so senior management people representing all operational areas, personnel, legal, individual, group, including sales representatives in each area, met weekly for about half an afternoon. They discussed the environment, consumer moods, changes in the role of the government, and other factors that we could not control. Similar to the Trend Analysis Program of the ACLI, we attempted to detect significant indicators that are beginning to surface today and that portend changes down the road. We brought in mind-joggling outside speakers. Members accepted specific assignments to report on the possible future significance of a particular problem or development in the consumer area. Such background work probably was the key. We culminated our effort with a retreat to a place where there were no golf courses or other distractions. For 3 days, morning, noon, and night, we talked about the long range future - generally where we were heading and what was going to impact our chances of success. Having put together our statement of objectives and sub-objectives, the next step is to design programs to move in the desired direction. We are also trying to come up with measures to indicate whether we are making progress. It is not easy, however, to measure such things as social responsibility.

It is hard to point to a specific result of such planning, but our recent development of an adjustable life policy resulted at least indirectly from such long range planning. We thought we were inventing the wheel with this completely flexible policy, but we found that the Minnesota Mutual already had created one. This product is appropriate for the future which lies ahead for our industry, where family formation changes, where people change occupations and locations, and where the life span may be extended to 150 years. Stop to think about all of the things that give rise to the need for extremely flexible policies such as these life cycle policies which the industry has been talking about for at least 10-15 years. We decided to quit talking, so we spent 2 years developing such a product. I cannot categorically state that our life cycle, adjustable life policy results from this thinking process, but I do not think it would have occurred without such planning. The links between such planning and specific product developments are tenuous, yet real.

MR. DOWSETT: In creating strategy, we continually encounter conflicting goals. Do you slow your sales growth so as to maximize the dividends to existing policyholders and shareholders? As an extreme, you could stop writing new business to do a wonderful job for the existing policyholders. On the other hand, do you speed up sales growth to expand the enterprise, to provide challenging, rewarding, and secure employment opportunities for employees and field representatives, and to produce a growing stock value for shareholders? Another pair of conflicting goals involves providing a better service to policyholders through well staffed branch offices, good group sales representatives and service representatives, and liberal benefits administration as opposed to minimizing the net cost of the basic coverage for your policyholders. Do you lower premiums to provide competitive products with minimal investment segments or do you raise the premiums to provide adequate remuneration to the field force and large savings elements?

We believe our compensation scales are appropriate, although perhaps higher than the New York scale. We develop professional sales representatives instead of advertising. I contend that the management of a life insurance company is being pushed daily by the people in the field, who sell or do not sell what we offer. In our marketing strategy, we try to respond to our field force's needs so as to have the right product at the right time. We cannot succeed by having a small number of us seal ourselves off to think of our future.

MR. ROLLAND: First of all, you must decide what kind of a company you want to be, what is your market, how you distribute your product, and so forth. Those decisions are necessary to choose between the conflicting goals that Rob has pointed out.

MR. DOWSETT: You must be able to change. To sit down at one time and decide that you will be in the carriage whip business is not adequate.

MR. HOUSER: I agree that such fundamental questions must be asked. For example, do your surplus goals conflict with your growth goals? You can be a high surplus company or a high growth company, but you cannot be both. To want to be a low surplus company does not mean to intend to lose money, but it does affect other company actions. When you have good business that you can write, it is difficult to curtail growth to avoid missing your surplus objective.

MR. CARPENTER: We have talked about such things as retreats and planning from the bottom up, but when conflicts occur between goals of different lines, whose responsibility is it to resolve the conflict at the corporate level? Who determines whether the company will be a high surplus company or a high growth company? Does the Chief Executive Officer (CEO) make the final decision?

MR. ROLLAND: Certainly the CEO is the main arbitrator for such disputes. As we are a stock company, the Board of Directors is also involved, particularly for broad policy objectives. Of course, the Board is heavily influenced by management recommendations.

MR. HOUSER: In our case, the surplus goals were set by the same top management planning group, with considerable input from people in the line organizations, and were accepted by the group. In other words, at times reluctantly and after much homework, the group sales, the individual sales, the group department, and the individual department have all accepted these goals as valid and worthwhile. When surplus goals conflict with growth, we have found that the CEO has not had to ram down the decision. Of course, if conflict continues, the CEO has to resolve it.

MR. DOWSETT: In a mixed stock company, both non-participating and participating business exist. That adds other problems for senior management, whether you should concentrate on participating business or non-participating business and balancing your goals for policyholders with those for shareholders.

We do business in Canada, in the United States, in the West Indies and Great Britain. We have group and individual, life, health, and pension business. The 7 or 8 top management people in the company have to work frequently to resolve allocation of resources requests from various segments of the business.

MR. CARPENTER: Please comment regarding the degree of formal or informal attention you pay to external forces such as economic conditions, societal patterns, competition, technology. Does most of your input come from the individuals on your management team, or do you use formalized approaches to gather data from the outside or possibly from your own policyholder data bank?

MR: ROLLAND: Our title insurance business, as I said before, is impacted by the real estate markets and by housing starts. Inflation is very important as it pertains to our property and casualty business and also our group health insurance. We are concerned about the increase in utilization of medical facilities which is, in some way, related to the economy. So our staff of two full time economists periodically reports in detail as to the development of the economy over the next one to two years and on the housing industry and real estate activities, in particular. We hope to anticipate economic trends so we can take steps to minimize the adverse fluctuation of our earnings.

Our field force is a pretty good source for information on competition. We analyze and verify their tips on a regular basis. In both direct marketing and reinsurance, we know where we stand competitively.

We do not have a specific individual assigned to monitor consumerism, but that is an integral part of the job of the chief executive officer and of senior management, at least. It is important to recognize consumerist concerns and the opinions and ideas of regulators. I try to keep up-to-date on the TAP reports which Bob mentioned and also the MAP reports which are published by ACLI. This interesting reading is more long term in nature, so it is very difficult to detect how it relates to day to day work.

MR. DOWSETT: One aspect of competition is how much the buyer pays for advice that the agent gives him. You can compete on the amount of service as well as on premium, and if the general agents and the brokers are providing good service, they should be rewarded. In Canada we sell through branch offices, so our training of agents is part of our competitive stance relative to some other life insurance enterprises.

In trying to keep abreast of current thought, we participate in the Canadian Life Insurance Association Government Relations Program. We invite government leaders to our home office from time to time, and we encourage people to work on government advisory committees.

MR. HOUSER: You cannot just sit down on Friday afternoon to do your consumer research. You have to try to work at it. We have supported the ACLI Businessman in Residence Program. I happen to be one of four company employees who have spent from two weeks to four weeks on campus with the students. Some things they tell you can be very disturbing, but it sensitizes you to a different viewpoint than you normally hear. We have one officer who is responsible for finding gadfly, stimulating, challenging information to our business. She has quite a wide list of reading material. When she finds something striking, she puts a digest of it together for senior management. These digests are then discussed. (By the way, we are still having senior management meetings at regular intervals and annual retreats. They are not something we did three years ago and have forgotten about.) We are 90% behind the consumer movement, but against some of the lunatic fringes. We are inclined to join them rather than to fight them. Our advertising involves such things as putting together a set of consumer information booklets. Last year we did a customer service survey to find out what our customers thought about the service we gave them. Our agents tell us they are doing a great servicing job, but we do not always know what our customers want in the way of service. Our idea of service might be to have someone call to offer to do things for them. Their idea of good service might be to be left alone. We learned some interesting things as a result of this survey, and the responses were not entirely complimentary.

MR. CARPENTER: I often find keeping track of competition to be very difficult. Information from the field force can be incomplete or inaccurate.

MR. DOWSETT: Your sales figures reflect whether you are competitive or not. Competitive comparisons are not as easy as one might think; service, as well as premiums, should be considered.

MR. ROLLAND: As competition accelerates, you begin to hear more complaints. Specific instances of a competitor's offer cause more concern than general grumbles. Typically, there is a group of companies that is considered to be the principal competition, so those 10 to 12 companies are monitored rather than all 1800 insurance companies. If those companies make a change, industry publications provide information, and field comments will pour in. There will always be some companies with lower rates, but that may not bother you.

MR. CARPENTER: In addition to tracking external factors, have quantitative scenarios concerning the impact of national health care or double digit inflation on your business been studied?

MR. HOUSER: We have done much work on national health care, ranging from the impact of complete government take-over to maintaining the status quo. But, with that exception, we have not spent much time on "what if" scenarios. I expect we will do more of this in the future, however. For example, what if the life span should double? What would that do to our business? Might our life insurance market disappear? What about pension business? The idea is not impossible; some people think it may occur within the next two generations.

MR. DOWSETT: We have used our own life insurance corporate model set of programs to chart different futures only for parts of Crown Life. For instance, the governments of Trinidad and Jamica are becoming very nationalistic. This has forced us to look at some different ways of developing our future in those countries. We also are looking at different ways of developing in the United Kingdom, and we will do more "what if" work in the future.

MR. ROLLAND: We have been involved primarily in trying to figure out what is most likely, but one of the comments we heard from our board when we took our plans before them was that they would like to see "what if" scenarios. Even without running elaborate mathematical models, health lines are managed to minimize investment in new business because of the national health care threat. You may cut the first year commission rate or adopt a more conservative underwriting philosophy. We have broadened the market for our group sales representatives to include pension business.

MR. HOUSER: Ian, have you ever considered that taking those steps may be part of a self-completing prophecy? By taking those steps you may enhance the day when national health insurance will come because the industry will be seen as unwilling to assume such risks.

MR. ROLLAND: That does enter our thinking. But there is a limit to which the company can assume losses to protect against that event. We are taking steps that will enable us to write the business soundly, which should benefit everyone in the long run.

MR. CARPENTER: Getting back to your short range plans, in general, how do you qualify those goals? For instance, do you look at GAAP, statutory, cash flow, return on investments,...?

MR. ROLLAND: In the area of earnings, we are mainly concerned with GAAP, which is our basis for reporting to our stockholders. Our only concern in relation to statutory earnings revolves around the fact that the dividends Lincoln National Life can pay to the holding company are limited to statutory earnings. In the area of surplus though, statutory surplus is the important measure. As we attract more assets in the pension area, we have a growing concern about the proper minimum surplus level as opposed to our rather general rules of thumb such as X per cent of assets.

MR. DOWSETT: We study both statutory and adjusted earnings. We, in Canada, are looking forward to pending Federal legislation in Ottawa which will result in a new statutory form. Within such a statutory statement, we will be able to see a form of adjusted earnings, reflecting the investment in new business. Currently, we compare actual statutory results to our statutory plan.

Month by month, we monitor statutory earnings at the home office. We calculate adjustments to restate those statutory earnings to something like GAAP earnings twice a year. Management has learned to think in the back of their minds about the adjustments that would be made to monthly statutory earnings by line and by territory to move to adjusted earnings. Hopefully in the next few years we will have better information on an adjusted basis.

MR. HOUSER: We like to consider ourselves a nonprofit company, different from Rob's company or Ian's company. We do not have GAAP, but we have felt that statutory figures are as meaningless to us as they are to stock companies. Our planning is done in conjunction with what we call realistic reserves and realistic surplus rather than with statement items. Our quarterly "realistic" statement still includes pieces that are not as refined as we would like, but we are working hard to improve this.

Our one year plan is developed in conjunction with our budget process, similar to Rob's earlier comments. We determine the results that we hope to obtain with that budget and look at unit costs closely, because we are very concerned about our competitive standing on a cost basis. We do not want growth to impact our unit cost picture adversely.

MR. CARPENTER: This morning, J. C. H. Anderson suggested that companies are going to wake up and find that they are selling new products at a loss, while their profits are coming from old business. Do you have a direct tie-in between your product pricing and your corporate objectives to ensure that they mesh?

MR. DOWSETT: When 60% of your premium income comes from group forms, there is a much more immediate reflection of current expenses and an ability to adjust to current expenses. For our company, at least, I do not think C. H.'s comments were valid.

MR. ROLLAND: It is difficult to draw a direct tie. As E. J. Moorhead indicated, competition is a very important factor. Our five year plan really assumes certain pricing levels and competitive positions in the market. We may not be able to get the profit margins that we initially set as a goal because we have to maintain a competitive posture. Rates are calculated to balance between profitability and competition, and sale projections are based on those rates.

MR. HOUSER: When we price our group health, for instance, we aim for our surplus objectives for group health. Sometimes our field force tells us we are the highest priced company in the business. We may be, but we have not been swayed. When we were not making our surplus objectives in group pensions, we changed our pricing accordingly. If surplus goals have too much impact on your sales, you have to reconsider, but so far we have been able to let surplus objectives take precedence over sales objectives.

MR. DOWSETT: There is a special challenge for actuaries in interpreting the comparison of actual results to planned results. Mortality and morbidity fluctuations do occur which cause wide variations of actual results from those planned. In a long term business, the ups and downs must be smoothed out. But many people work very hard in the administrative end of the company to save nickels and dimes and to get along without hiring those extra clerks. When they meet their own expense objectives and are blithely told that a $4,000,000 extra loss in morbidity costs was suffered, they may not understand why a few extra clerks should not be hired. The actuary has a special role in motivating home office staff by explaining that the $4,000,000 morbidity loss will be made up in a future year or that this year's $5,000,000 extra mortality profit will be reversed in a future year of unfavorable mortality results.