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KEYNOTE PRESENTATION

Speaker: CHARLES MICHAEL O'BRIEN*

MR. CHARLES MICHAEL O'BRIEN: In a speech in the late 1920s, a predecessor of mine, Mr. Paul William Penman, as President of the Institute of Actuaries, complimented North America on the growth in its life assurance business. He said the rate of new business was quite surprising and very high. But he spoiled things when he went on to say that this increase was all the more surprising because, in North America, the product offered was inferior to the one in the U.K. Mr. Penman based his criticism of North American policies on the grounds that 10 percent more of premiums was spent on expenses than in the U.K., and while earnings were at a little bit higher rate of interest, it was only a little higher, and not enough to offset the higher expenses. That would have been all right, of course, except that he got some newspaper headlines, and apparently wasn't received very kindly over here. Mr. Moyer, an emigre Scotsman (I guess he was one of these people who, if he'd come to England would have raised the average I.Q. in both Scotland and England) was offended by this remark of Mr. Penman. He wrote a paper in response, very restrained actually, titled "Divergence of Life Business Between North America and England." In this paper, Mr. Moyer pointed out that expense ratios are difficult to compare between one company and another. Mr. Penman, apparently, had taken his U.K. figures from a group of six companies, which Mr. Moyer described as class companies just touching the fringe of the population, leaving the smaller shopkeepers, the skilled artisans--the greater part of the rank and file of clerical workers and the whole of the laboring classes to the industrial offices. In other words, they were six up-market offices. All of you actuaries know that expense ratios depend on so many things, not least the type of business sold whether it's high premium or low premium.

An interesting point that Mr. Moyer made had to do with dividend accounting. In North America in those days when cash dividends were used by the policyholder effectively to rebate his premium, the accounts showed only the premium net of the cash dividend, whereas in the U.K. if it was used that way, the whole of the premium was shown on one side of a ledger and the cash dividend on the other side. But this practice reduced the apparent premiums and so increased the expense ratio.

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Mr. Moyer was fairly restrained, I thought, in what he said up to that point, but then he went on to the attack. "Would it be ungenerous," he wrote, "to say that North American companies have adhered more closely to the fundamental purpose of life assurance than the British?" That was in 1928 or 1929, and I think he could well make the same remark today. It is clear to me that the death coverage provided by the North American life assurance industry is far higher than in the U.K., where most of the insurance contracts tend to be savings or investment contracts, rather than pure life coverage. So I think that 1928 criticism still stands.

Additionally Mr. Moyer commented on underwriting, questioning whether it is better to have strict underwriting and thereby limit your market to a small part of the population or to underwrite more generously and thereby accept heavy mortality rates but provide a wider range of market. He also commented on a situation in Massachusetts, a state which had just passed a net premium valuation law. There was an English company, the International of London, which the Massachusetts Commissioner of Insurance claimed was not solvent. The International had carried out a gross premium valuation and, it was reported, that the U.K. experts who came to testify (it came to court) for the International had not allowed sufficiently for expenses when doing the gross premium valuation. The lesson in all this is "Don't throw stones across an ocean unless you are extremely sure of your aim."

I have been fortunate enough to be talking to actuaries in several locations in the United States over the last couple of weeks. What has been repeatedly impressed on me is that conditions here differ in detail. Your backgrounds of legislation, of custom, of the environment in which you do business differ very substantially from the U.K. But underneath it all, the problems you have are substantially the same as in the U.K., because underlying all of these are what I would call the "actuarial verities," and they do not change. You approach them from a different angle. I am quite fascinated to listen to actuaries in the United States and Canada to see the different points from which the three countries are approaching the same problems.

I get to this point because I had intended to deliver a long and erudite dissertation on the valuation actuary. However, I will not give this dissertation due to the time constraints and because it's quite clear to me from my conversations with American actuaries that this is a subject you are all very familiar with. But since it's a matter of lively interest to you all, and of great importance to the profession, I will make just one comment. Freedom is very addictive.

In the U.K., up until 1973, the actuary of a life assurance company had more or less complete freedom in determining premium rates, valuation bases, asset valuations, almost everything. All the actuary had to do was to say what he did. The U.K. has moved, since 1973, towards some regulation. Meanwhile, sometime in the 1970s, Canada moved from having very restrictive valuation regulations to a more relaxed regime. The U.K. is approaching Canada, or Canada is approaching it. The United States still operates under strict rules, which dramatically changing financial circumstances and ways of doing business are calling into question. So all three countries are approaching this problem from different angles. The U.K. actuary has been accustomed to freedom and fought very hard to limit or to restrict, as far as possible, the limitations on that freedom. We in the U.K. like having the responsibility of deciding proper answers to questions. The Canadians are somewhat along that line. Actuaries in the United States, as I understand it, are just starting to experience that. But freedom is addictive. Once you get some, you want to keep it. If you've got it, you don't want it taken away, and you want it expanded. And I would say to American actuaries, do not be frightened of it. No life assurance business can be controlled. No one can control the future. However, if a life assurance company is going to be steered properly, so far as solvency is concerned, the only person who can do it is an actuary. And to do it properly, we in the U.K. would say, you need freedom to exercise your judgment.