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CANADIAN INSTITUTE ON CONTINUING EDUCATION

by Donald Fischer

At its October meeting in Winnipeg, the Canadian Institute of Actuaries held a session on how the C.I.A. can contribute to continuing education.

The members attending this session expressed concern that actuaries were in many cases restricting the roles they could play in the life insurance industry. It was felt that many actuaries were not expanding their knowledge once they had attained acceptance as an actuary through actuarial exam requirements.

Suggestions were made as to how the C.I.A. could encourage further education. One method was the use of reading lists. It was felt that these reading lists should include both actuarial and non-actuarial topics. It was considered necessary to include any information that would assist the actuary in his management role.

The biggest problem of the reading list is that it has a tendency to expand in length past the point where it is really useful. It appeared that it would be necessary that this list not be limited in topic, but that it definitely be limited to the highest quality articles. Any member of the C.I.A. who found a particularly interesting and useful article would submit it to be included on the reading list. The first suggestion was therefore to participate in establishing periodic lists of the highest quality and greatest breadth of subject material.

Another suggestion was the use of a periodic publication of the nature of *The Actuary*.

The opinion seemed to be that the actuary must recognize the changing nature of the insurance industry. It was felt the actuary must redefine his role;

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To All Our Readers,
A Happy New Year!

The Editors

THE STATE OF THE SOCIETY TODAY

by Gathings Stewart

Editor's note: President Moorhead had requested Gathings Stewart to close the Society's Denver meeting with a quick summary. Gath's lighthearted verse delivered in response to this request brought down the house. The Actuary reproduces excerpts below, but we cannot (alas) reproduce the sparkling delivery which delighted the audience.

Copies of the complete text may be obtained from the poet.

* * * *

It's Colorado—one thousand strong,
With a hundred new Fellows joining the throng!

A hundred new Fellows with charming spouses.

And baby sitters at their houses.

* * * *

The state of the Society? Now? Today?
The President asks and what do you say?
You answer him with some impressions
About our program and general sessions.

Expressing opinions and alternate routes,
And other things where some have doubts.

An annual budget in the black
To save the Treasurer's aching back.

About pollution and social roles,
Long range planning and ultimate goals.
Indexed products and adjusted earnings,
Product development and other yearnings.

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THE NEW WISCONSIN INSURANCE CODE

by George H. Davis

Proposed changes in certain important provisions of the Wisconsin Insurance Code should be of great interest and concern to actuaries working directly or indirectly for life insurance companies. These changes are contained in a recently released draft of one chapter of the new code.

The Wisconsin Legislature in 1965 created the Insurance Laws Revision Committee, to prepare a revision of the Wisconsin Insurance Code. The Committee is composed of members of both houses of the Legislature, the Commissioner of Insurance, and representatives of the public. The work of preparing the code has been delegated to a staff headed by Spencer L. Kimball, Dean of the School of Law of the University of Wisconsin, and Herbert S. Denenberg, Professor of Insurance at the University of Pennsylvania.

Public statements and articles by Professors Kimball and Denenberg indicate that the Committee regards its assignment as requiring a thoroughgoing revision of the Wisconsin Code and that it intends to retain provisions and approaches of the present code only when it is firmly convinced of their validity. Professors Kimball and Denenberg appear to feel that considerable portions of the existing insurance laws of Wisconsin and also of other states have been developed somewhat haphazardly and that those should now be regarded as obsolete. They indicate a clear intention to develop new provisions and approaches in many areas but only after thorough research.

The work of the code revision has proceeded by the preparation of drafts of

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Mutual Companies

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that of a purchaser of insurance. The interest of present and future policyholders is in the financial statement for the *insuring* public not the *investing* public. The statement form devised by regulatory authorities also serves to inform the insuring public, including policyholders of both mutual and stock companies—whether their policies be participating or non-participating.

Perhaps at this point an actuary might wish to consider two major statutory requirements that have been questioned as not in accordance with generally accepted accounting principles: statutory reserves are too conservative, and acquisition costs should not be charged against income when incurred.

Reserve Questions

Are the reserves in a mutual company too conservative? In answering this question, an actuary would only consider the interests of the insuring public, since there is no investing public for mutual companies. Clearly the supervisory authorities should not consider the "legal reserve" to be too conservative for the insuring public if they feel that the reserve system has resulted in the industry being relatively free of insolvencies. It seems that the interest of the policyholder is the same as that of the supervisory authorities, and that is the ability of the company to carry out its lifetime guarantees.

Another question which might be raised is whether or not it is too conservative to hold reserves at least as large as surrender values plus settlement expenses. Even if the answer is yes for stock companies in reports for the *investing* public, an actuary would want to consider whether or not it would be proper to show in a report to policyholders a liability to policyholders that did not cover their own surrender values.

Acquisition Cost Questions

Clearly, the value of a life company share might well depend on the amortization of acquisition costs and the probability of receiving future premiums payable by policyholders. On the other hand, the interest of policyholders is in *distributable* earnings, which have nothing to do with future premiums. While the amortization of acquisition costs has

a material bearing on the financial position of a stock company for an investor, it might well confuse the financial position for a policyholder. The policyholder is looking for assurances that the company can carry out its policy obligations. A surplus that is increased by unamortized acquisition costs could be misleading to the insuring public.

Possible Conclusions

It would seem that the main interests of the insuring public—the ability of a company to carry out its guarantees, and the pricing of the insurance product—are also the main interests of the supervisory authorities, who have prescribed the form of the statutory statement.

An actuary might then conclude that the form of statement that best suits the supervisory authorities would best suit the insuring public. Indeed, some representatives of mutual companies have expressed the opinion that the end result should be the acceptance of the statutory statement by the accountants as being in accordance with generally accepted accounting principles for mutual companies. There are accountants, however, who feel that this is unacceptable, because there is no provision for matching of expenditures with revenue.

If the statutory statement is to be adjusted for mutual companies and for the participating business of stock companies, it would logically result in regarding most, perhaps all, of the surplus of such business as funds which should be recognized under generally accepted accounting principles as additional liabilities held for the benefit of policyholders and beneficiaries, over the above funds held as statutory reserves. □

Wisconsin Code

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one chapter at a time. These drafts have been released to insurance companies, trade associations, and other interested persons and organizations for review and comment, and hearings were held by the Committee before the drafts were submitted to the Legislature as bills for introduction. Six chapters covering areas of relatively minor importance to life insurance have already been enacted by the Legislature, one in 1967 and five in 1969.

Drafts of chapters now being released contain provisions of substantially more

importance to life insurance. Particularly important is Chapter 623, entitled *Accounting, Valuations and Reserves*, a first draft of which was released in July.

The covering memorandum released with Chapter 623 states that, for this chapter and for the chapters on Investments and Insurance Contracts, the various sections of the statutes have been written in general terms with authority delegated to the Commissioner to prescribe detailed provisions by means of rules and regulations. This practice will probably provoke different reactions from different persons, actuaries included. Lawyers, for example, may raise questions as to constitutionality. The ultimate regulatory effect of the practice would obviously depend to a significant degree on the details of the regulations promulgated by the Commissioner. In some areas, particularly those affecting valuation and nonforfeiture requirements, the proposed practice differs sharply from the pattern recommended by the National Association of Insurance Commissioners and now in effect in Wisconsin and in nearly all other states.

In addition to the general covering memorandum on Chapter 623, the release includes comments on the different sections of the chapter, and in an appendix are suggested rules recommended to the Commissioner for promulgation to implement the statutory provisions. There are also comments on the rules and suggestions as to how they might be modified at a later date to achieve the improvements the drafters believe to be desirable. One reason advanced for the desirability of the flexible approach of general statutory provisions with details to be prescribed by regulations, is that it is better adapted to the development of new ideas and new products such as variable life insurance.

The provisions of the more important sections of the draft of Chapter 623 relating to life insurance will now be briefly described. The chapter covers all lines of insurance, but some sections state specific requirements for life insurance.

Standards for Accounting Rules.

In prescribing accounting rules the Commissioner is directed to "consider recommendations made by the National Association of Insurance Commissioners, customary accounting practices, both in the insurance industry and outside it,

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Wisconsin Code

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the requirements of the law and the needs of regulation, and the information needs of the insurers, investors and the public." Although no rule is suggested to implement this section and the NAIC annual statement blanks are not mentioned in the comments, it seems reasonable to assume that the promulgation of the NAIC blanks as the forms in which annual statements are to be filed is intended. Expressing accounting and annual statement requirements in general terms is the pattern followed by nearly all present state laws, although many refer to the NAIC annual statement blanks.

Valuation of Assets. The proposed statutory provision for valuation of assets completely delegates authority to the Commissioner with no guidelines specified. Here there is a suggested rule prescribing amortized values for all evidences of debt having a fixed term, interest rate, and face value, if amply secured and not in default. NAIC values are prescribed for other assets with the exception of nonadmitted assets and insurance subsidiaries. The suggested rule ends with a requirement that companies maintain records that will enable them, on request of the Commissioner, to furnish current market values of all assets. This would include hypothetical market values of private placement securities and would be distinctly a new departure in insurance regulation.

Valuation of Liabilities. The basic provision on valuation of liabilities also delegates complete authority to the Commissioner without guidelines. The section also permits the Commissioner to prescribe optional methods of valuing and reporting reserves, two specific optional methods being stated. These involve separation of reserves into minimum legal reserves and the difference between actual and minimum reserves and the separation of reserves into insurance and investment elements. It is suggested that the last mentioned method might serve as an alternative to the development of separate accounts. The comments indicate that the drafters regard these optional methods as desirable innovations.

The suggested rule on valuation of liabilities is the NAIC standard valuation law. The wording of the standard

law is somewhat modified, the comment on this being that minor improvements have been made in the wording without changing the substance. The precise wording of the standard law has always been regarded as important, and it is possible that questions may arise as to whether the substance has actually been exactly retained. A much more serious question is raised, however, by a new provision contained in the rule which would require a company to keep records to enable it to furnish, on request of the Commissioner, the reserves calculated on a gross premium valuation basis. The comments suggest that use of gross premium reserves may become desirable in the future if the need is recognized in the states generally.

Amount of Compulsory Surplus and Amount of Security Surplus.

These are two related sections which state that the Commissioner shall determine the amount of compulsory surplus and shall set the amount of security surplus at 110% to 140% of the amount of compulsory surplus. The compulsory surplus section is long and lists the factors and considerations to be taken into account in the determination of the amount. The comments on these sections are also extensive since they involve provisions which are largely innovations.

The term "compulsory surplus" is to be defined in another chapter the draft of which has not yet been released. However, the comments indicate that it is supposed to be the minimum amount of surplus required for operation of a company taking into account the volume and nature of its particular lines of business. No rules are suggested for the compulsory surplus or security surplus sections, but it appears that when the amount of a company's surplus is less than the prescribed amount of compulsory surplus, the company would be required to either reduce the volume of its business or take steps to acquire additional capital or surplus. The amount of security surplus is apparently intended to be the amount of surplus which a company ought to have to operate its particular volume and kinds of business with reasonable safety margins.

The provisions of the compulsory surplus section and the comments on it are mainly in property and liability insurance terms, and little real light is thrown on how the amount of compulsory sur-

plus would be determined for a life insurance company. The concept of minimum surplus and its relation to the volume and kinds of business of an insurance company is one which has been debated for a long time in the field of regulation of property and liability insurance, although the debate seems to have produced little agreement as to what proper standards should be. This "surplus" concept has received relatively little discussion as to its application to life insurance.

Two other surplus standards are mentioned in the comments. One is "proper surplus," which is the amount of surplus decided upon as reasonable by management. The other is "maximum surplus," a statutory or regulatory maximum limit on the amount of surplus. No maximum surplus limit is proposed, but it is suggested that the desirability of one may deserve consideration in the future.

Cash surrender and nonforfeiture values. The provision on cash surrender and nonforfeiture values says simply that those shall be on bases approved by the Commissioner who is also permitted to prescribe methods of determining values. No rule to be promulgated is proposed, but the comments say that the commissioner may decide to continue the present statutory method and adopt the substance of the standard nonforfeiture law. He may, if he so wishes, specify the standard law as one alternative method of operation, allowing other options as well. It appears that accommodation to variable life insurance may be one of the intended purposes of the other options.

The comments on both the reserve and nonforfeiture provisions seem to indicate rather clearly that continuation of the present approach of prescribing minimum standards is intended. However, the possibility of rules which would prescribe the actual bases to be used rather than minimum standards does not seem to be definitely ruled out.

The requirement that a life insurance policy must contain nonforfeiture provisions is not part of Chapter 623, but is contained in the chapter on Insurance Contracts. The wording of the basic requirement here is interesting since it does not require that the policy provision state nonforfeiture benefits, but that it state "the conditions under which and the alternative ways in which the policy-

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State of the Society*(Continued from page 1)*

And always presenting available facts
Instead of impressions and debatable
acts.

* * * *

The State of the Society? Now? Today?
The President asks and what do you say?
You answer him with many thanks
For all of his merry, happy pranks.

* * * *

The progress made throughout the year!
Jack's faithful guidance always near.
Now he passes on the gavel—
And lets our future plans unravel.

And wishes luck to Ed Lancaster.
He will not lead us to disaster,
He'll handle well the future fires,
Supported by our Robert Myers.

Our final thanks unto the staff.
Without them we can't take this gaff.
But with them all, including Barry,
Future burdens we can carry,
And come again with greetings sweet,
The very next time that we meet!

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holder is entitled to share in the assets attributable to the class of policies to which his policy belongs." This is certainly a novel approach, although there seems no reason to suppose that it is intended to change radically the regulation of nonforfeiture benefits. The section contains certain other provisions corresponding to parts of the standard nonforfeiture law, such as the requirement for an explanation of the basis of calculation of benefits and a provision specifying which benefit is automatic.

The Insurance Laws Revision Committee is far behind in the schedule laid out by its staff when it started its work. In addition to Chapter 623, several more chapters have been released as drafts and are currently being reviewed and commented upon. Some of these are closer to the final draft for introduction in the Legislature than is Chapter 623, which is only in the first draft stage. Although the draft is worded so as to contemplate its becoming effective at the beginning of 1972, it appears that there is substantial doubt that effort will be made to put it into final draft form for introduction and enactment in 1971.

1971 EXAMINATION CHANGES

The 1971 examinations edition of the *Requirements for Admission* booklet incorporated a number of changes of interest to actuarial students.

To ease the problem of obtaining suitable examination accommodations on college campuses, the Parts 1 and 2 examinations have been switched from Wednesday to Thursday and will be given on May 13 and Nov. 4. This change, plus the fact that Election Day in the U. S. falls in examination week, has resulted in day changes for the other examinations as well. For example, Part 3 will be given on Tuesday, May 11 and Wednesday, Nov. 3. A complete schedule appears in the *Requirements for Admission* booklet. Except for Part 2, which begins at 1:30 P.M. local time, all examinations begin at 9:00 A.M. local time.

The subject of Risk Theory has been transferred from Part 10I to Part 5, effective with the 1971 examinations. This transfer will not involve any part credit arrangements. A notice as to the Part 3 change from Finite Differences to Numerical Analysis appeared in the October issue of *The Actuary*. Part 5 students will be happy to know that the material on Sources and Characteristics will in 1971 be considerably reduced.

Students are advised to read the pertinent sections of the new *Requirements for Admission* booklet.

A new expanded edition of the booklet, *Preliminary Actuarial Examinations*, is now available. Reprinted in the booklet are complete, unexpurgated, recently given examinations for Parts 1 and 2.

Examination fees and study note charges have been increased for 1971 to help defray increased costs. Remittances must be in U. S. dollars or an equivalent amount in Canadian dollars. The new fee schedule is as follows:

Examination Part	Examination Fees	Study Note Service Charges	
		Complete Sets	Revisions Only
1, 2	\$ 9.00	Not applicable	
3	12.50	\$2.50	No charge
4	25.00	2.50	\$1.25
5-8	25.00	7.50	2.50
9, 10	30.00	10.00	3.50

Late registration for Parts 3-10 will be \$25 for each examination.

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that he must decide to get more and more out of the supporting role of calculating premium rates, that he take the incentive, and move into all fields of management as a leader.

In many cases an actuary feels that because he had achieved recognition as an actuary and was able to tack F.S.A. to the back of his name, he can sit back, play his divine role, and ignore all progress around him. Such an actuary has to open his eyes and accept the fact that his F.S.A. is not going to guarantee him a continuing position in high level management. He must recognize that there is high quality talent in various fields and from various educational backgrounds.

It is time to start Part XI of the actuarial training program. That is, it is

time to achieve further technical education and training in many areas. This is where a company training program should enter the picture. This is where actuarial meetings should be of greater benefit. Perhaps the C.I.A. can improve the educational usefulness of its meetings by preparing various reports, instead of just outlines, on the subjects to be covered. This would give attending members an opportunity to develop ideas and criticisms before the meeting and enable the discussion to develop faster and to cover the subject more completely.

There was agreement that the present actuarial exam requirements should only guarantee a junior executive level, and that it is a "must" that the C.I.A. attempt to contribute in as many ways as possible to the continuing education of the actuary.