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REPORT FROM PHILADELPHIA CLUB

by Marianne Baeckstrom

The Actuaries Club of Philadelphia held a lunch and afternoon meeting at the Barclay Hotel on April 21. The speaker was Warren J. Gustus, Economic Advisor of the Federal Reserve Bank of Philadelphia. His topic was "The 1970's —Judgmental and Model Forecasting."

After lunch those in attendance divided into three discussion groups on the following topics: Pension Problems — IRS Qualification; The Value of a College Actuarial Education; and Mass Marketing and the American Agency System.

Following are short reports on the speech by Mr. Gustus and of two of the afternoon sessions.

Economic Outlook

Mr. Gustus started with a general discussion of the relationship among inflation, high interest rates and supply of money. Usually a great supply of money will mean inflation and tight supply recession. He noted that measures can be taken to combat inflation, but emphasized the time lag between an action taken and its reaction. He went on to describe a model that the Federal Reserve Bank has in Philadelphia and which they use for forecasting. It does not replace judgment, however; and, as was the case recently, if the results of the model forecasting seem to be in disagreement with sound judgment, the results are not accepted. Regarding long-range forecasting, Mr. Gustus said that both the judgmental and model forecasting indicate that inflation and high interest rates will be here to stay for at least a good part of this decade.

In reply to a question regarding his thoughts of the stock market, Mr. Gustus somewhat facetiously answered, "Buy insurance instead."

Alternate Route

The session entitled "The Value of a College Actuarial Education" was devoted primarily to a discussion of the Alternate Route proposal. The group was fortunate to have both William Spare and Charles Rickards in attendance; both are on the Society Committee reviewing this proposal. They presented a good summary of the proposal and the consideration that has been given to it thus far. Additional expertise was supplied by Alan Lauer, who is on the Education and Examination Committee and who formerly was a Part Chairman, and Jerry Hartman, a Fellow of the Casualty Society who has been instrumental in the establishment of an actuarial science program at Temple University.

It is difficult to develop a consensus, but it seems fair to say that those who expressed opinions did not support the Alternate Route proposal. Their feelings were that any objectives of such a proposal could be attained in some better manner. Primarily, concern was expressed that the expense and time of establishing and maintaining an Alternate Route would be far beyond the resources that the Society and Academy have available.

As has been expressed by Professor Kellison and Dean Crofts, those present concurred in the feeling that any student in a college actuarial program will prefer a series of examinations which are taken when specific courses are completed, over one comprehensive examination given at the end of his college career. Therefore, it seems that the comprehensive examination will be attractive only to those who are unsuccessful with the individual examinations. This is certainly an undesirable result.

Objectives and Reasons

The shortcomings of the existing education and examination procedures were not specifically discussed. However, it was believed that they could be strengthened to achieve the same results that are envisioned as coming from the Alternate Route. It may well be necessary for the Society or Academy to hire individuals to carry out this function, but it was felt that the necessary expenditure of time and money would be less under an extension of the existing system than under the adoption of a parallel system.

Those present agreed that what was most needed at this time was a statement of the objectives and reasons behind the proposed Alternate Route. We understand that this will be discussed at the Denver meeting of the Society. It was felt that it might be appropriate for our Club, as a whole, to discuss it at our meeting in September or November (after the Denver meeting), if such a statement is available at that time. This will be referred to our Program Committee for consideration.

The session on marketing was led by Richard Burrows and featured Arthur De Moss, President of National Liberty Corporation, and Joseph C. Ladd, Executive Vice President of the Fidelity Mutual Life Insurance Company.

Mr. De Moss, as the exponent of mass marketing, opened his remarks by stating that he was not against the agency system, but that he objected to resistance to change, sacred cows and insistence on 100 per cent systems whether agency or mass marketing and that both were needed for differing marketing segments. He quoted several regulatory, marketing and executive insurance people stating that mass marketing was here to stay, that sales by agents are outmoded except for large amount cases and that mass marketing was an effective and economical technique to reach the less fortunate economic classes.

He cited the advantages of lower acquisition costs and better persistency, and found that the traditionally opposed desiderata—growth and earnings—were compatible under mass marketing. He said that the agency system had not improved the problem of retention of agents, and is having an increasingly difficult time in providing a decent living for the agent.

Mr. Ladd recalled the history of life insurance and pointed out how the agency system was a necessary part of life insurance's tremendous growth.

In the last 30-40 years there has been a change from extensive to intensive selling. The professional concept was budding. He then referred to several efforts at direct marketing—The Wisconsin State Fund, Postal Life, Sears-Roebuck and savings banks. These have either remained at a very low level of selling, or were successfully augmented by salesmen. He thinks mass marketing is here to stay but that it cannot become a major factor in the market. □