



SOCIETY OF ACTUARIES

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Life Insurance and Buyer

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ing any type of purchase which is repeated relatively frequently. It is not very useful in making a large purchase of a type not made very often. Experience is also very useful to the specialist who is selecting on behalf of a business or other organization.

Other information comes from published sources; for example: *Consumer Reports*, or published lists in trade journals of all comparable equipment of a certain type on the market. This information is useful to the purchaser able to determine independently what he wants, and wishing to evaluate competing products on the market.

A third source of information is the seller. Such information is normally presented to promote the sale. A purchaser looking at a product about which he is knowledgeable will know what to ask for, and also will know how to interpret the information. A purchaser not knowledgeable will be influenced by the information, but it may not help him to make an intelligent choice.

An additional source of information often used by business and other organizations is the paid consultant. It has no relevance for the individual consumer.

What is the impact of the distribution system on the buyer and his ability to make an intelligent choice? The buyer has the best choice when he seeks out the seller, and when there are a number of retailers selling like products. In this situation, the need is established prior to contact with the seller, perhaps by the buyer's own life style or that of his neighbors, or by advertising. However, if the buyer is to make an intelligent choice, he probably will need either sufficient experience, or data from a third party source. Information provided by the seller will probably be of limited use, because this buyer has little economic power, and economic power is what forces the seller to provide more data.

The buyer also seeks out the seller when he is looking for professional or consultant services. The individual, in choosing, however, probably has little basis for comparison, and must rely on references. The provider of the service is the expert, and it is extremely difficult to choose intelligently whenever professional services are sought.

GREATLY EXAGGERATED

The report in the Society's circular letter of November 30 that we were losing the editorial services of Kenneth T. Clark was considerably premature. Mr. Clark has returned to Canada and will continue as one of the associate editors of *The Actuary* with added responsibility for commenting on Canadian affairs.

The buyer is in a most difficult position whenever he must deal with an expert salesman in an area in which the salesman is a specialist. Long attempts to collect information can lead to a large collection of unusable data. This is true whether one is buying a home heating system or life insurance.

The distribution system for life insurance has an additional feature which further complicates the problem. The salesman, at the point of sale, is creating interest in the product and convincing the purchaser that he needs it. The buyer, who is sold the need and the product, at the same time is likely to perceive the need vaguely and in the way desired by the salesman, and therefore he will often not be in a position to make an intelligent choice.

The life insurance distribution system creates another problem: the compensation paid to the agent for various products encourages the agent to present a picture that will favor permanent insurance. As long as agents receive a substantially higher commission for one product as compared to another, many of them will not present the facts about different products fairly.

What can be done to help the buyer of life insurance? The suggestions here of course involve a long term effort on the part of the industry, outside organizations, and regulatory bodies.

First, we can try to make available information which will enable the buyer to understand the product so that he will see what death benefits it has, what cash values it has, and what other features are present.

Second, information can be made available to help the buyer analyze his priorities, and decide what he needs.

Third, pattern of compensation to agents can be changed so that the interest of the agent is not adverse to the interest of the client. This would require in New York a revision of Section 213

OPERATIONS RESEARCH

Guidelines for the Practice of Operations Research, *Operations Research*, Vol. 19, September 1971

by James C. Hickman

Actuaries have spent a lot of time in recent years struggling to define their professional role in conflict situations. The fascinating September, 1971, number of *Operations Research*, the scientific journal of the Operations Research Society of America (ORSA), should make it abundantly clear, if anyone remained in doubt, that actuaries are not alone in this struggle.

The very success of analytic methods in planning, managing, and evaluating complex systems has forced operations analysts, often without much previous experience, into the political arena. Exactly the same statement could be made with respect to actuaries by narrowing the definition of "complex systems" to those involving pensions and insurance. It seems to be a common contemporary experience for practitioners of a technical discipline, originally developed to manage a modest range of problems, to find their discipline applied to influence decisions with rather awesome global consequences.

For operations research, the moment of truth came in connection with the 1969 Congressional debate on the Safeguard anti-ballistic missile system. It is perfectly obvious that the outcome of this debate will continue to have a signi-

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of the Insurance Law so that the same commissions could be paid on term as are paid on permanent.

Fourth, information provided at time of sale could be expanded to disclose product choices, and to disclose costs on a better basis, either using the Interest Adjusted Cost Method, or a method such as one presented by Stan Hill in his recent paper. And in so doing, we must remember that illustrations of cost, either good or poor ones, are of no use to the buyer unless he understands what his dollar is buying.

In closing, I will raise a question: How can we encourage the life insurance industry to do an honest job of disclosure to our customers? Disclosure of price is important, and better price disclosure should be aimed for, but that is merely the tip of the iceberg. □

Operations Research

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ificant impact on the national security of the United States and its allies.

Understandably, the debate was heavily influenced by scientific testimony. One of the most important points in this scientific testimony related to the estimated proportion of the Minuteman Missiles that would remain operational after a Soviet first strike in the last half of this decade. Conflicting estimates, both based on an application of operations research methods, were presented. As a result of the consternation over this conflict, the Council of ORSA ultimately appointed a special purpose committee of distinguished leaders in operations research to look into the fundamental issues raised by the divergent estimates. This report of the special committee was accepted by the Council of ORSA in May 1971, and later published in the Society's journal.

The first two sections are entitled "Guidelines for Professional Practices" and "The Operations Analyst in an Adversary Process." The dominant impression of most actuaries upon reading the guidelines is that they seem almost identical with those of his own profession. Because the use of scientific experts in the adversary process of decision making is still somewhat novel, the second section is more tentative. Hopefully, actuarial readers will relate the soul-searching of operations analysts to similar problems within their own area.

Following these short sections come four appendices. The first is an essay on the nature of operations research. The essay tends to support the proposition that operations research is really actuarial science applied to a broader class of problems. (Of course, an operations analyst would prefer to say that actuarial science is operations research applied to insurance). Appendix II is a reprint of the government document that contains the conflicting analyses on the size of the threat to the U.S. retaliatory capacity posed by the Soviet missile buildup.

The third appendix is the longest and the most controversial part of the report. In it the committee explores in some detail the quality of the analysis and the level of professional conduct of some of the participants in the development of

the technical issues for Congress. Don't be frightened by this section. No specialized knowledge is required to read it. If the reader has any interest in national security questions or in the use of analytic methods in making public decisions, he will find the third appendix hard to lay aside.

The fourth appendix contains supporting documents, letters from some of the protagonists and a minority report on one aspect of the study.

The Operations Research Society of America should be commended for providing us with a case study on the opportunities and perils involved in using scientific methods in an adversary process for determining public policy. The guidelines to be used in applying science, not just to expand knowledge but to influence decisions, are provocative and merit careful attention from all who simultaneously seek scientific truth and also serve the institutions of society.

*Copies may be obtained from ORSA
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Actuarial Education

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particular areas and who are best qualified to prepare study notes often have the least available time. The E & E Committee hopes to make use of some of the materials developed by the Continuing Education Committee.

Mr. Miller began the discussion of Continuing Education by highlighting some of the objectives and activities of the Continuing Education Committee. He pointed out that many aspects of a continuing education program are covered by other Society Committees. For example, the Committee on Papers, the Committee on Review and the Committee on Research have all worked toward the continuing education of the actuary. Most obviously, we have all been exposed to continuing education in the sessions and workshops at the Society meetings. One idea of the Committee is to concentrate one regional Society meeting each year on in-depth coverage of one subject. The 1971 Spring meeting in Des Moines on Adjusted Earnings was considered successful and the 1972 spring meeting in New Orleans will be devoted to Pensions. Another step in continuing

education is allowing individuals to purchase individual study notes instead of an entire set.

Mr. Miller then discussed some of the findings of the questionnaire distributed last fall to all Society members by the Committee. Responses indicated that members felt that the most valuable activity for the Committee would be the preparation of papers on various subjects of interest. The second most useful activity would be the holding of discussion groups and work-shops, etc. The least useful function was assembling bibliographies and reading lists.

The results of this questionnaire point out the difficult job the Committee will have, because the most desirable activity—the preparation of papers on topics of interest—is also the most difficult job; the least desirable activity—the assembling of reading lists, etc.—would be the easiest activity.

The questionnaire also revealed certain areas of high interest and low knowledge for which the need for continuing education is obvious: Equity Products, Corporate Planning, Operations Research, Risk Theory, Statistical Techniques, etc.

After Mr. Miller's discussion, Anna Rappaport outlined the New York Actuaries Club's efforts in education. The student education program of the Club is well known and successful, and Anna pointed out that last year's successful course in Pension Mathematics will be repeated this year. Also, day-long programs in certain areas such as Agency Profitability and Adjusted Earnings are contemplated.

In conclusion, most members felt that, at least until now, the Society has been able to rely on its members to make a substantial contribution to the activities of the Society, particularly in the educational process. Indeed, members of the Society have probably contributed more to their profession on a voluntary basis than have most other professional groups. It seems likely, however, that in the future more reliance will have to be placed on paid professionals (e.g., the appointment of Barry Watson as Executive Director of the Society), although in certain areas, such as education, it will be impossible to dispense with the contributions of many members who are motivated by concern for the Society. □