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SURRENDER VALUES

J. David Cummins, *Development of Life Insurance Surrender Values in the United States*, S.S. Huebner Foundation for Insurance Education, University of Pennsylvania, distributed by Richard D. Irwin, Inc., Homewood, Illinois, 1973, pp. 81, \$2.50.

by Arthur Pedoe

This is Monograph No. 2 of the series being published. Its ultimate objective is described as "a historical analysis of the evolution of the concepts and practices which culminated in the present surrender value legislation." The treatment is chronological and in effect may be said to cover the century 1850-1950.

Professor Cummins confines himself solely to ordinary life insurance in the United States; Canada and Britain are barely mentioned. There is no reference to annuities or industrial insurance or case law concerning surrender values. One is most impressed by the historical detail uncovered by the author.

One cannot but enquire for whom the monograph is intended. A fair knowledge of life insurance development is assumed. To give one instance. There are several references to the tontine idea; that on page 71 reads: "For the most part the surrender value problem was submerged in the morass of the tontine struggle until 1879 . . ." but nothing is said about the tontine struggle which is essential to an understanding of U.S. life insurance development in that period.

There is much emphasis on Elizur Wright's work as one would expect. He undoubtedly started the train of rigid legislation of almost every facet of life insurance practice which is a characteristic of U.S. life insurance and which has engendered its own problems. This glorification of Elizur Wright, who has even been called the Father of Life insurance, can be overdone. The monograph names many actuaries who have made

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To All Our Readers,
A Happy New Year!
The Editors

A VIEW OF THE REGULATION OF VARIABLE LIFE INSURANCE IN THE UNITED KINGDOM

by James C. H. Anderson

Since 1870, there has been legislation regulating life assurance companies in the United Kingdom. In addition to the Companies Act 1948, which has general application to all companies, contemporary legislation is embodied in the Insurance Companies Act 1958 as amended and extended by Part II of the Companies Act 1967 and the recently enacted Insurance Companies Amendment Act 1973. The Department of Trade and Industry is responsible for enforcement of legislation affecting all insurance companies life and non-life, and has similar responsibility with respect to the Unit Trust (Mutual Fund) industry. Prior to passage of the 1973 Act, and possibly subsequently, legislation allows extensive freedom of management on a scale not found in other developed countries. By comparison with other countries, the life assurance industry in the United Kingdom appears to be hardly at all regulated and the record of the industry, both recently and over many years, supports the view that it has served its policyholders well and responsibly.

In 1971 a major motor insurance company and two other small general insurance companies became insolvent. These events and the subsequent inquiry raised serious questions as to the adequacy of existing legislation and the competence of the Department of Trade and Industry to protect policyholders

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PROFIT SHARING

by Gerald A. Levy

Pearl Orlando (Ed.), *Guide to Modern Profit Sharing*, pp. 230, Profit Sharing Council of America, Chicago, Illinois 60606, 1973, \$10.00.

The Profit Sharing Council represents over 1,400 employers with profit sharing plans. Seven hundred and two of them submitted information for this book. This is the most comprehensive investigation of profit sharing plans ever made in the 50 years that such plans have been officially recognized.

In addition to a wealth of data, the book contains articles by 18 knowledgeable practitioners. We find chapters by attorneys, corporate heads, accountants, management consultants, and actuaries. Where appropriate, after each chapter, there is a companion survey chapter indicating plan practices and trends.

The book is divided into three major sections. The first introduces the subject matter, describing the different types of profit sharing plans: cash only, combination cash and deferred, deferred only, and savings and thrift plans. There is a review of the nature of profit sharing plans, how they relate to pension plans and the objectives they serve.

The second section covers in great detail the provisions of profit sharing plans qualified under IRS Regulations. Twenty-four chapters are devoted to plan provisions. Also, detailed statistical information is given on the frequency of use of different provisions by age and size of plan. We are able to observe the latest trends from a comparison of plans most recently adopted with their counterparts of 5, 10, and 25 years ago. Data is also presented to indicate any significant differences of plan provisions by size of employer and whether there is a companion pension plan in existence.

The last major segment of the book deals with the operations of profit shar-

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 articles, criticisms, and discussions in this publication.

EDITORIAL

NO one who has attended an Actuarial meeting on Literature can doubt that this is a subject that at least some Society members really care about. There is certainly no consensus on what the problem is, however.

One group will object to filling the sacred green binders with papers which are obvious to any one of the fourteen actuaries who truly understand the matter; another group is unwilling to tolerate a paper which presupposes a retention of more than 14% of the fellowship syllabus of 1957. How are we to choose between these two approaches?

Well, perhaps we shouldn't make the choice at all. Suppose a paper were written by one of the fourteen experts whose only audience was the other thirteen; should we decline? Suppose another were proposed which was so elementary that it could only benefit the actuaries in another field entirely who wanted to dip a toe in subject X; should we accept?

One current suggestion is to institutionalize the various kinds of papers in stereotyped journals. *The Actuary* would be used for trivia (of course!). ARCH would contain Academic Riposte and Curious Hypotheses. A new journal, to be called the *Record*, would be started to contain discussions, at present found in Part 2 of the *TSA* Volumes, which are not worth being part of the permanent record. The *Study Notes* would be indexed and made accessible. The *Transactions* would roll on in their own inimitable fashion.

This approach, while it may seem mechanistic, does recognize the key fact that there is more than one actuarial audience, and hence there must be more than one actuarial literature. At a practical level, one must wonder whether a minute profession such as ours has enough editorial people to carry all these publications.

Before we build new structures, we might want to consider adjusting existing structures to the new needs. Naturally, the first to be considered is the *TSA*; and the first problem apparently is the role in which the Committee on Papers is cast. It is clear that the Committee perceives no responsibility for papers that have not been written.

It is probably not fair to criticize the Committee's conception of its mandate until the Board changes that mandate. Yet someone, somewhere should try to develop the incompletely formed ideas of unsuccessful writers . . . and someone must search for talent and solicit submissions from experts in fields whose theory and practice are insufficiently reflected in our literature.

This solicitation process can be very successful. Suppose it is concluded that Urbelgarg Insurance should be written up; attending a few workshops will quickly unearth one or two Urbelgarg experts. "I was interested in your comments; would you write up your thoughts for consideration for the *Transactions*?" This approach will fill in gaps in the literature more quickly than waiting for someone to decide, on his own and without encouragement, to fill gap X.

If we follow this approach, there will be an implied commitment to try to publish the paper that results. In many instances, there would be no problem. On occasion, one would need the courage to decline unsalvageable submissions. We would also need to be prepared to spend the time to develop and organize and articulate the content of papers which were well thought out but less well put together.

This activist role is certainly inconsistent with current practice. We could stop complaining about the quality of our literature and start to do something about it, remembering that reorganization of the various journals, however worthwhile, will not solve the whole problem.

P.L.H.

Surrender Values

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contributions to the subject of surrender values; some of them have played a major role in raising the life insurance industry in the United States to the world leadership it has attained. This should be mentioned.

There is much detail given covering the "actuarial debates of the 1890's" and Professor Cummins deals with the "theoretically accurate measure of the present value of future costs of insurance," and adds: "the criterion was attacked on a number of grounds by assorted actuaries suffering from varying degrees of confusion."

The monograph loses something by not mentioning the current practice in Britain where most companies do not guarantee surrender values, a situation which is supposed to give them greater flexibility in meeting changing conditions. My own point of view is that the guaranteed surrender values are a benefit only second to the sum insured and any disadvantages in granting them must be considered as a hazard the business must accept.

One regrets the derogatory statements made of life insurance companies in the early days of the business in the United States. Allowances should be made for hesitation in liberalizing policy conditions in the 1850's and 1860's when viewed from the 1970's, over a hundred years later.

It is stated that the Armstrong Investigation of 1905 in New York followed "the disclosure of corruption in the life insurance industry." This statement could be misleading. My own reading gave me the impression that the corruption was very limited and the offending individuals ceased to be connected with the companies following that investigation.

The references to natural reserves, asset shares, and statutory reserves would have meant much more if actual comparative figures had been given.

It should be noted that this is Monograph No. 2 of the Series. No. 1 by Robert W. Cooper, *An Historical Analysis of the Tontine Principle* was reviewed in *The Actuary*, April 1973. □