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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

(Continued on page 2)

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

(Continued on page 6)

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-

(Continued on page 7)

Variable Life in U. K.

(Continued from page 1)

generally. Although the expressed public, press, and Parliamentary concern related initially to non-life business, questions were raised about the life assurance industry as a result of the earlier difficulties of such companies as IOS. The questions were about companies engaged primarily in the investment-linked sector of the life assurance market especially companies issuing "property bonds" (single premium life assurance policies linked to investment results of funds invested in real properties.)

In response to these publicly expressed concerns, the Secretary of State for Trade and Industry announced in February, 1971 the formation of a departmental committee, under the chairmanship of Sir Hilary Scott, to examine the investment-linked sector of the life assurance market. In April, 1973 the Report of the Committee on Property Bonds and Equity Linked Life Assurance was presented to Parliament.

The Committee, generally known as the Scott Committee, was composed of representatives of the life assurance and unit trust (mutual fund) industries, together with prominent figures in other fields. The Committee sought and received written evidence from many interested parties, including individual life assurance companies, industry associations, the Institute of Actuaries, the Faculty of Actuaries, prominent individuals, professional bodies, the Stock Exchange Council, the Consumer Association and numerous others. Although the scope of its inquiry was limited to questions involving investment-linked life assurance and, particularly, the possible application of the basic legislation of the securities business to this type of life assurance, many observers advanced the view that the scope of the inquiry was too limited and ought to have included the life assurance industry as a whole. The content of much of the evidence submitted received widespread publicity and indicated the considerable difference of opinion as to what the Committee should recommend. The following is a sample of some of the viewpoints expressed:

1. The evidence of the Life Offices Association, which can reasonably be taken as representing the view of the

Deaths

John P. Dandy

Charles A. McConaghy

established companies, argued that existing legislation was generally adequate and supported the idea of self-regulation by the industry.

2. Companies specializing in the sale of investment-linked life assurance, most of which are less than ten years old, argued with more or less force that investment-linked life assurance was no different from conventional life assurance and some went on to suggest that the disclosure standards which the specialty companies had imposed upon themselves should be met by all companies. Some companies also suggested that further legislation, applicable to all forms of life assurance, was required, particularly in the areas of asset management, marketing methods and solvency requirements; at least one company advanced the proposal that life assurance salesmen should be licensed.

3. Two professional organizations, the Law Society and the Institute of Chartered Accountants, were critical of the selling techniques which they attributed to North American style agency organizations but their arguments were probably more pertinent to the practices of part-time salesmen.

4. The London Stock Exchange Council suggested that much of the regulation applicable to the unit trust industry should apply equally to unit funds underlying investment linked life assurance.

The following is a brief summary of some of the more important findings which appear in the report of the Committee:

1. First and foremost, the Committee gives the investment-linked sector of the business and the companies participating in it an absolutely clean bill of health.

2. The Committee unequivocally recommends that this type of business be regulated as life assurance rather than as securities and the report includes a clear declaration that the Prevention of Fraud (Investments) Act, the legislation governing the unit trust industry, does not apply to this business.

3. The Committee advanced a long list of recommendations dealing with the regulation of the business, many of

which would merely codify practices already being observed by responsible companies.

In general, the recommendations of the Committee would leave the framework of regulation which has long prevailed in the United Kingdom intact. The Committee suggested that a long list of additional items and financial responsibilities be undertaken by the actuary of each company in a more formal sense than has applied in the past. The Committee recommended that the powers of intervention of the Department of Trade and Industry be widened considerably.

Prior to publication of the Committee report the recommendations of the Committee were anticipated by the submission of legislation which has since been passed by Parliament, received royal assent and became the Insurance Companies Amendment Act 1973. The 1973 Act conferred sweeping and new authority upon the Secretary of State for Trade and Industry, giving him absolute control over insurance companies. The 1973 Act empowers the Secretary of State to apply and to alter minimum standards in a variety of areas of the operations of insurance companies without any indication of what those minimum standards might be. This is the kind of legislation that would hardly ever be proposed, let alone passed, in the United States, but it is exactly the kind of legislation fancied in the U.K. Because of the almost total absence of definition of minimum requirements the question for consideration is not whether the legislation is reasonable but, instead, whether the application of the legislation can be expected to be reasonable.

The Act does not deal specifically with investment-linked life assurance and its provisions have general application to the industry. Nevertheless, many sections of the Act were clearly influenced by the recommendations of the Scott Committee and it is reasonable to suppose that the findings and recommendations of the Scott Committee will significantly influence the manner in which the widened powers of the Department of Trade and Industry are used.

NOTE: Copies of the Report of the Committee on Property Bonds and Equity Linked Life Assurance may be obtained from Her Majesty's Stationery Office, London, at a cost of 73p net. □