# The Actuary

October 1971 – volume 5 - Issue 8

The Actuary

The Newsletter of the Society of Actuaries

VOLUME 5, NO. 8 OCTOBER, 1971

## DISEASE, DISABILITY, DEATH

*by Arthur Pedoe*

The missing word in the title is "dirt" and the connection between dirt, disease, disability, and death is as close as the alliteration.

The title has an important bearing on current conditions where a generation is growing up with a love for dirt, *coprophilia* is the word: clothes worn deliberately ragged and dirty; filthy, long, unwashed hair—forgetting the dangers of typhus which ravaged mankind, associated with the louse. Then there are rock festivals and gatherings of thousands in tent cities with the most primitive and inadequate sanitary services, ignoring mankind's unfortunate experience over thousands of years in the fight against disease. The word dirt comes from the Saxon *drit,* meaning excrement.

The Greeks worshipped health and their aesthetic sense helped them to avoid the worst effects of dirt in human life. The Romans had the practical sense to build baths and aqueducts, but even these did not spare them from the terrible plagues which repeatedly decimated mankind. The plague of Justinian began in Egypt in A.D. 542 and spread over the whole Roman world (in Constantinople it carried off 10,000 in one day). With the decline of Rome, cleanliness declined all over Europe and it was some 13 centuries before western man took steps to make life reasonably healthy.

To illustrate some aspects of medieval life, we mention the murder of Thomas à Becket, Archbishop of Canterbury, in 1170. In preparing the body for burial it was found he was dressed in eight layers of clothes, decaying and verminous. As the body grew cold an observer recorded that the vermin boiled over like water in a simmering cauldron." Disease and the suffering it caused were

(*Continued on page* 3)

## EUROPEAN REGULATION OF PENSION PLANS

(A report prepared by Frank M. Kleiler for the United States Department of Labor)

*by John K. Dyer, Jr.*

The further one delves into the social security laws and private occupational pension structures of other countries, the greater becomes his amazement at their intricacy and diversity. The almost unlimited variety of benefit structures, qualifying conditions, and financing mechanisms that can be devised to meet what is essentially a uniform objective —the provision of financial security for large groups of people—must be a tribute to the collective imagination and genius of the social planners, the politicians, and, of course, the actuaries.

Frank M. Kleiler's years of experience as Director of the Office of Labor Management and Welfare Pension Reports prepared him well for surveying public and private benefit systems in other countries. His first such survey, *Canadian Regulation of Pension Plans* (see *The Actuary,* September 1970), was, in the words of the reviewer, "the best, concise, up-to-date one-volume description of public and private pension plans in Canada that exists." This is high praise equally applicable to Mr. Kleiler's latest work, in the opinion of this reviewer.

In some respects the two reports are quite different. The Canadian report covered 97 pages of text, and was documented with 40 pages of appendices. The European report has 22 pages of introductory and summary material, 62 pages of description covering separately ten different countries, and 10 pages of conclusions and bibliography.

Obviously in an average of six pages per country (the range is 4 to 8), the

(*Continued on page* 5)

## A DESCENT INTO THE MAELSTROM OF THE INSURANCE FUTURE

*Editor's Note: At the recent (June) meeting of the Canadian Institute of Actuaries, George R. Dinney presided over a workshop on* The Future of Life Insurance. *Mr. Dinney has kindly supplied us with a copy of his text for the workshop.*

There is nothing new under the sun and in many ways we are returning to our origins. Hopefully this backward journey will not carry us to a point of time prior to our origins.

### Future Thinking

In most established industries there is a tendency to adopt what may be termed Maginot Line thinking, i.e., to retreat under heavy fire from one entrenched position to a well fortified but equally undefensible, secondary position. Galbraith's *The New Industrial State* makes sobering comment on the mortality rates of companies and industries that are out of step with time.

We offer a vademecum of famous last words, or a short course in Maginot Line thinking. Complete the following expression:

> __________________*is a threat to the very foundations of our industry which has grown and will continue to grow only on the basis of fixed dollar, permanent, life insurance.*

Suggestions for completing this sentence include:

(*a*) *Group Insurance*
(*b*) *Term Insurance*
(*c*) *Variable Annuities, Mutual Funds*
(*d*) *Variable Insurance*
(*e*) *?*

Fill in the blank with words of your

(*Continued on page* 7)

## Insurance Future

*(Continued from page 1)*

choosing. The contestant who is judged, by open meeting, to have given the best answer will be awarded a set of blinkers inscribed with the winning message, in the language of his choice.

*Question*: Is Maginot Line thinking characteristic of our business? If not, explain. If so, to what do you attribute it—the actuary, the "establishment," the agency system, halcyon days? To what extent is Maginot Line thinking equally associated with the "second establishment"—the consulting profession? How can we avoid Maginot Line thinking in the future—Stay loose? Keep our principles vague (or, better still, to ourselves)? Training and education?

### Future Risk Taking

The Merriam-Webster dictionary defines assurance as "a declaration tending to inspire full confidence" and defines insurance as "a guarantee or contract to indemnify against loss or damage." Modern day life "insurance" originated in betting or wagering and it started out providing assurance, not insurance. For example, some of the companies active during the early 18th Century in England offered:

- Assurance of Female Chastity
- Assurance from Lying
- Insurance against Going to Hell.

We seem to be returning to our origins inasmuch as a large part of the "insurance" business is conducted by consulting actuaries who provide assurance rather than insurance, and the life insurance companies provide more and more assurance and less and less insurance—viz., variable annuities and variable insurance, DA or trusteed pension plans, creation of consulting subsidiaries acting on a fee basis, cost-plus health insurance plans.

*Question*: What would the conventional life insurance business be without a large component of risk taking? Does the rapid growth of the consulting practice attest to the diminishing role of the risk taker? What is the influence of social insurance programs, present and future, on risk taking? What about the change in the psychological base of insurance—which is away from selling fear of death to selling the promise of life? What has been and what should be the actuary's influence in promoting or retarding risk taking? Are we trending towards less and less risk taking? If not, explain. If so, where will this trend lead us in the future and how near is that future?

### Future Innovation

When was the last time you heard the cry "Eureka!" from your Actuarial Division? What is new today that didn't have its origin many years ago?

- Policy Fees and Size Bands? Some fraternals used them in the twenties!
- "Enhancement" Type Policies? Some fraternals placed liens on their policies when premiums proved inadequate; the insured had the option to pay an increased premium, however.
- Guaranteed Insurability? That is the conversion privilege which has been detached from the carrier term policy.
- "Pay-as-you-go" Group Health Insurance? Has anybody heard of the "Manchester Unity" tables?

*Question*: What have you done or what has your company done that you regard as fresh and new? Does your company or firm have a functioning research department? Have consulting actuaries been more or less innovative than company actuaries? (Affirmative may be expressed only by company actuaries, negative may be expressed only by consulting actuaries). The actuary has been called a disciplined problem solver. In his role as problem solver does he respond in a technical way to innovation, or does he innovate in anticipation of changing social and economic needs? Is the actuary's innovation restricted to technical innovation? If so, what has been the singular actuarial contribution in the new fields of techniques and mathematics—game theory, operations research? How do North American actuaries compare, in this regard, with European actuaries? Many people contend that the actuary was traumatized by the Armstrong Legislation and has been wearing a belt and suspenders ever since. True or False? Can a professional whose first concern is solvency ever be an innovator? Can anything be done in the future either to increase the innovative qualities of an actuary, or to encourage creative people into the profession, or, if we believe that the actuary in an innovator, to improve his public image?

### Future Distribution

In the 1860's the Scottish Widows' Fund and Life Assurance Society established the branch office agency system and as a consequence it naturally forged ahead of other companies.

It has been suggested that the future distribution system could well be life underwriters placing the company on the risk immediately at scattered locations throughout the country and writing the policy on the spot. This futuristic idea again goes back to our origins because, until the time of the renowned Dr. Farr, "any Tom, Dick or Harry in London, regardless of age, health, colour or previous condition of servitude, could walk into an insurance office, lay down the premium and walk out with a policy."

It has also been suggested that the future lies in the distribution of insurance as a service department of non-financial institutions. We already have the proto-types in Sears and Eatons. But here again "life insurance (in 1832) was not sold but bought like calico and gingerbread—over the counter."

*Question*: Will those life insurance companies that stick to the conventional agency system forge backwards as quickly as the Scottish Widows' forged ahead? Is mass marketing the answer? Is so, what does mass marketing mean? Is it an adaptation of group insurance? Is it a piggy-back ride on a credit card system? Is part of the change in distribution system going to be a change in agents' compensation from commission to salary/commission? If so, what does this mean if the era of man-to-man selling is over? What will this do except increase cost? What have your companies or consulting firms done to adapt the distribution of insurance to the needs of the future? How imminent is that future—do we recognize that we are dealing with a contemporary not a future problem?

### Future Investment

Elizur Wright predicted that life insurance "will involve a larger and larger portion of the capital of the country and become, perhaps, the chief treasury of accumulated savings." His prediction is accurate enough. However, it is clear that conventional life insurance is falling quickly behind other financial institutions in attracting the saving dollar.

From a philosophic viewpoint, is the life insurance company, the trust, the bank, a "financial" or a "social" institution? In this vein a 1971 TV award

*(Continued on page 8)*

## Insurance Future

(*Continued from page 7*)

was given to the N.E.T. of the U.S. for a documentary called "Banks and the Poor" which "took a look at bank practices that allegedly disservice the monetarily underprivileged."

*Question*: Is it accurate to say that the "insurance industry" has fallen behind in attracting savings dollars when, in a professional sense, we may say that the "insurance industry" includes insurance of the conventional kind written by life insurance companies as well as insurance services which are performed by consulting actuaries for banks, trust companies? How comforting is this thought to insurance company actuaries? How can insurance companies, banks or trusts afford a social conscience in a competitive environment? How can we afford a competitive posture in a social environment? Is capital investment in socially acceptable projects the new field for future risk taking? If so, what place does an actuary have in the decision-making process where the primary risk is investment? How can private enterprise corporations compete in the investment of capital for socially productive purposes, when over 1/3 of the investment capital today is in the hands of non-profit and non-taxed enterprises such as governments, churches, and foundations, whose principal objective is security of capital rather than income or capital appreciation? To what extent are insurance policyholders sufficiently socially-minded to encourage this kind of investment by companies? If the push for social investment comes from outside our policyholder group, how do we equate social conscience with equity to policyholders, or how does a bank or trust equate social conscience with its fiduciary responsibility?

### Future Administration

In a computer age, uniformity rather than diversity is encouraged for ease of administration. We are relying more and more heavily on computer systems to cope with increasing administrative loads which, in large measure, are the result of growing government reporting requirements. We seem to be concentrating more on doing than on thinking. If we are successful in making our business more uniform and organizing administration into neat packages, this may present a future problem, which has been summarized by a question asked by one of our members:

"If we were to merge the five largest companies in Canada, what would be the difference *in the eyes of the public* between the resulting company and a governmental institution?"

*Question*: Should we be seeking better ways of coping with difficult problems or should we try to simplify our problems?—The chicken and egg question. Does the high speed big memory computer return us to our origins of seriatim valuations and individual policy handling, in which case future administration is past administration? Is the computer a blessing or a curse? If a curse, is this because it creates a new mystique which challenges the established actuarial mystique? In our reliance on the computer have we increased the rigidity which, some say, has caused our industry to be unresponsive to change? If the computer is here to stay, does it mean that uniformity rather than flexibility will be the order of the day in the future? To what extent are future administrative methods and costs a function of external influences, such as Government requirements, rather than internal influences, and what can be done about it?

### Future Products

The consulting members of the profession seem to be on a critical path which is taking them out of the field of financial service and into a broader field of non-financial service, including tax and legal services, employee search, systems and organization, operations research.

The life insurance industry, on the other hand, it still offering Model T products. Going back to our origins, the first kind of insurance sold was one-year term insurance, followed by reversionary annuities, ordinary life insurance, and endowment insurance. These same products, unchanged, are being offered today with layers and layers of product variations which have been developed through our history.

*Question*: Is the posture of life insurance companies and consulting firms the classic marketing posture of creating a need, or is our role that of responding to need? Does this presage heavy involvement by actuaries in government work, either as consultants or employees? If not, why not? Are we as quick to discard obsolete products as we are to introduce new products? If so, how do you explain (in the face of 1970 U.S. Group Accident and Health results) the continuing investment by Canadian as well as U.S. companies of scarce capital to promote losses in a market which will be gone within 3 to 10 years? Has anyone heard the story of the Emperor's suit of clothes?

### Future Actuaries

One of the progenitors of the actuarial profession in the late 18th Century was Patrick Colquhoun. He developed the only historical and statistical data which was suitable for early life insurance calculations. He was also the originator of the soup kitchen and bread line and labour bureaus.

A Malthusian might question our pride in the growth of our membership. Growth for what? Future actuaries will be a quantitative and qualitative function of future needs. Projection of actuarial needs, over the next 50 to 100 years. might show that future actuaries will find their life's work in fields which are alien to us.

*Question*: Is there a message for us as we progress back to our origins in the work of Colquhoun? What about the actuarial population explosion? Is there a natural limit to our numbers—such as so many actuaries per square mile, so many square-headed actuaries per company, or so many actuaries per square company? Apart entirely from the numbers question, is there a place for Cro-Magnon Man in today's society? Is the mature actuary, who grew up in a completely different environment, able to cope with today's problems? How are educational processes changing to recognize the changing role, if any, of the actuary in today's society? How do you define "actuary"? Doesn't this definition form the basis for evaluating the position of the actuary in tomorrow's society? □

### Deaths

Richard E. Erway
Clark T. Foster
Harold A. Grout
Everett C. Huntington
Allen L. Mayerson
Charles M. Sternhell