



SOCIETY OF ACTUARIES

Article from:

# The Actuary

November 1973 – Volume 7, No. 9

## Basis of Cost Comparisons

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Consequently, those of us who find it hard to conceive of a distribution system that is consistent with individual freedom and economic realities which does not involve a free market, find ourselves compelled to support efforts to summarize cost aspects of life insurance. Of course, it is equally important to develop a system to widely disseminate this information.

Nevertheless, one who values the precise use of the English language must view "truth in insurance" as no more than a slogan. Truth is a measure of the correspondence between a proposition and reality. The reality of a life insurance contract will be revealed only over an extended period of future time. Truth is a relevant concept when applied to past insurance results. Yet 20-year net cost, interest adjusted net cost, and the family of cost indices that also employ probabilities of death and withdrawal and which have occupied the attention of those working in this field, are prospective rather than retrospective in nature.

In addition, most of these indices have explicitly attached zero value to the set of auxiliary benefits and services that are part of many life insurance policies. Therefore, it is legitimate to speak of such prospective indices as being valid with respect to a set of assumptions by which the particular index is computed, but we may never know the truth before the event.

There is more involved here than a pedantic concern with the definitions of words. The main result of modern decision theory tells us that a decision maker who accepts a few plausible axioms for coherent behavior may formulate probability distributions about future events. In addition, a decision maker's preferences may be combined with his view of future uncertainty to arrive at an optimal decision for him. This elegant theory provides a superb framework for individual decision making. However, the theory is concerned with individual preferences and states of information. There is nothing that would lead one to hope for any degree of universality in preferences or in views of the future.

Thus a proponent of decision theory is forced to support complete disclosure

## BOSTON CLUB MEETING

by Charles A. Peirce

The 200 members of the Actuaries' Club of Boston who did not attend the Oct. 11 meeting missed an exciting program devoted to a discussion on the education of actuaries. The program notice, listing the speakers assembled by Michael J. Cowell and his program committee, did entice 102 members.

The program was moderated by John A. Fibiger, general chairman of the Education and Examination Committee. Panel members were George L. Hogeman, president of Paul Revere Life (the industry spokesman); Geoffrey Crofts, dean of the Graduate School of Actuarial Science at Northeastern University, Richard London, assistant professor at Northeastern (representing academia); Denis W. Loring, actuarial associate at John Hancock (representing the actuarial students); and two representatives from the Education and Examination Committee, Peter W. Plumley and Harold G. Ingraham, Jr. The frosting on the educational cake was in the form of an after-dinner speech by Andy Webster.

Mr. Hogeman started by expressing the feeling that insurance industry management was satisfied with the work of the actuary. He then went on to list a number of shortcomings of actuaries, including a reluctance to utilize new techniques and a lack of much needed communication skills. Dean Crofts felt that elder statesmen, not students, were the most qualified to guide the development of educational programs which would equip the actuary to face the problems of the 1980's. Mr. London felt the syllabus was not theoretical enough and made a plea for a less well defined syllabus. Both teachers found an unusual motiva-

of life insurance cost information and to encourage attempts to summarize this information in comprehensive indices. Yet he is also forced to admit an element of futility in this work. Summary indices may be helpful, but there is no reason for believing that any index can capture the essence of more than one individual's view of the future and his preferences. The subject of cost comparisons is important but no magic answer is hidden awaiting discovery. This hay stack is important, but it may not have a needle. □

tional level (*vive les exam raises!*) and this helped to make it rewarding professionally to teach actuarial students.

Mr. Loring, in a very articulate presentation, expressed the consensus he had reached with his fellow students. They felt that management development training and an awareness of EDP constraints and opportunities were missing from the syllabus. He stressed the need to gear exam preparation toward problem solving and felt that the actuary should be much more in the forefront in developing research techniques.

The E and E Committee members, rather than defending the existing educational system, added to the number of problem areas pointed out by prior speakers. Mr. Ingraham noted deficiencies in the syllabus in underwriting, investment and finance, and marketing and advanced underwriting. He also felt that the effect of the insurance industry involvement in providing broader financial services should be considered in future syllabus changes. Mr. Plumley commented on the theoretical versus practical question. While a slight emphasis on the practical is necessary for the training of employees, Mr. Plumley suggested that the current restructuring of the examinations will make them both more theoretical and more pertinent. The E and E members also stressed recent efforts at continuing education, such as specialized society meetings and articles in *The Actuary*.

The question and answer period elicited the following opinions:

- (1) It is not getting easier to pass the exams.
- (2) Students feel that dropping memory items from the exams is not a bad idea.
- (3) If an exam question is too good, it tends to be ducked in favor of memory questions.
- (4) The Society should consider the Casualty Society practice of including some questions on topics of current interest not covered by a defined reading list.

The cocktail hour-plus and the dinner were most enjoyable. Mr. Webster's after-dinner remarks, liberally spiced, is his style, with quotations (usually attributed to Scottish actuaries), were so spellbinding that the reporter neglected to take notes. □