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MONEY MYOPIA—INSURANCE INDUSTRY AND THE SAVINGS DOLLAR

by D. S. Magnusson and D. E. Steven

Ed. Note: This is the gist of the authors' presentation to the Actuaries' Club of Winnipeg. The discussion was described as "contentious." Some argued that we are in the protection business and should not enter the shorter-term fund accumulation process, particularly on the ordinary side. Others approved of providing alternatives to other savings institutions and discussed the consequent investment problems.

Myopia means "deficiency of foresight or discernment." One can review the last 50 years and conclude that our industry has exhibited a degree of myopic behaviour concerning the savings dollar in Canada.

Individual Products

From the early 1920's to the mid-1950's, individual products demonstrated a relative lack of change or improvement. There was, however, good reason for the success of Retirement Annuities and Retirement Income Endowments over most of this period. Following the Depression, the customer's greatest concern was security, and our industry had an impeccable reputation for meeting financial promises. During the decade following the war, signs of change were emerging, but the cloud of myopia prevented our discerning the future.

The post-war economy provided increased interest rates, and banks, trusts and credit unions started attracting more savings. Reduced term rates led to "buy term and invest the difference" alternatives. And just when we might have reacted positively, the Department of National Revenue introduced the Registered Retirement Savings Plan—a monopoly for our industry. Instead of focusing on the total issue, we continued to sell, with

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JOHN E. O'CONNOR IS SOCIETY'S NEW EXECUTIVE DIRECTOR

The Board of Governors on May 23rd unanimously approved the appointment of John E. O'Connor, Jr. to fill the vacancy created when Peter Plumley resigned as Executive Director.

For the past twelve years Mr. O'Connor has been on the staff of the American College of Hospital Administrators in Chicago. He holds a B.B.A. degree from Loyola, and is a C.P.A. He will start his duties with us in July.

We welcome Mr. O'Connor to the Society staff. More information about him will appear in *The Actuary* next month. □

IN THE FOOTPRINTS OF GEORGE KING AND SPURGEON

Alistair Neill, F.I.A., F.F.A., *Life Contingencies*, pp. 452, William Heinemann, London, 1977, £10.50.

by William H. Wetterstrand

This book replaces the Hooker and Longley-Cook texts for the Institute and the Faculty of Actuaries examinations. The author was educated both in Britain and in the United States (under a Fulbright grant). His U.S. experience is strongly evident in the book, since it bears a closer resemblance to our Jordan than to the British texts both in topic selection and arrangement. The most striking difference from Jordan is in the new book's practicality, it having been designed particularly for self-study. Many worked examples are given. The exercises are mostly numerical, treating actuarial functions in applications typical of an actuary's daily work, i.e., theory admirably tied to practice.

Naturally, the treatment relates to British practices. Differences in terminology give the book a certain charm for the American reader: office premiums, assurances, bonuses, retirals, and so on. A gross premium model, showing

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THE ART OF IMMUNIZING

by C. L. Trowbridge

The Committee on Valuation and Related Problems, formed two years ago to develop a theoretical framework for the balance sheet of an insurance enterprise, has issued a preliminary report. This report was discussed in a Concurrent Session at the New Orleans Society meeting in early April. Number 1 of Volume 5 of the "RECORD," to appear in the late summer, will contain this report and its several attachments.

The body of the report is seven pages long. Assets are viewed as the present value of the income stream arising from investments held; liabilities as the present value of the disbursement stream arising from insurance and annuity contracts already in force. The most troublesome theoretical problem is to determine an appropriate valuation interest rate.

The difference between assets and liabilities (D=A−L) is thought of as an aggregate contingency reserve, having three components:

- C_1 is a contingency reserve for the possibility of asset loss.
- C_2 is a contingency reserve for the pricing of an insurance product proving to be inadequate.
- C_3 is a contingency reserve against the possibility of a change in interest rates, which can be expected to affect A and L differently unless income and outgo flows are closely matched.

The Committee has not attempted to quantify C_1 or C_2, but has referred each to the Actuarial Education and Research Fund. Research specifications appear as attachments 1 and 2 to the preliminary report. The AERF is asking for proposals on these two matters. (See AERF p. 7).

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