



SOCIETY OF ACTUARIES

Article from:

# The Actuary

December 1980 – Volume 14, No. 10



# The Actuary

The Newsletter of the Society of Actuaries

VOLUME 14, No. 10

DECEMBER, 1980

## ACTUARIAL LIVERYMEN

by Geoffrey Heywood, F.I.A., F.F.A.

The Livery Companies of the City of London date back to the 14th Century and have their origins in the ancient craft guilds. Their original purpose was to ensure that anybody becoming a Liveryman was fully qualified to carry out his trade or craft. These days the link between liverymen and their occupation has become tenuous; their functions have become largely social, although they enjoy electoral power and have charitable responsibility as an essential requirement.

Some eighteen months ago, it occurred to a few actuaries that it would be a good idea to form a Worshipful Company of Actuaries, i.e., a Livery Company for this profession in London. A petition by these actuaries to the Lord Mayor and Court of Aldermen was approved on 18th September 1979, bringing into being the Worshipful Company of Actuaries as the 91st Livery Company of the City of London.

The oldest such Company, No. 1, is the Mercers Company (1393), and the order of seniority is jealously guarded. There were no new Companies from 1709, when No. 76 was set up, until 1932, since when, particularly during the last twenty years, there has been a resurgence of interest. Already there is one junior to us, by a hairsbreadth, the Worshipful Company of Insurers, No. 92.

On 30th January 1980, at a most impressive ceremony in Mansion House, all of us being fully robed, the Lord Mayor presented to the Master our Letters Patent. This was followed by a luncheon there for the Lord Mayor, the Court of Aldermen and the Members of the new Livery Company.

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

## SOCIETY FELLOW ADDRESSES ACTUARIAL SOCIETY OF INDIA

Rajendra P. Sharma (F.S.A. 1979) of Philadelphia had the opportunity in July 1980 to address the Actuarial Society of India in Bombay. As his topic he selected *The History of Private Pension Plans in the United States of America*, and gave his audience of about 150 actuaries and other insurance executives the following reason for this choice:

"I selected the topic primarily for the reason that I see a lot of similarities between the initial stages of pension plans in the U.S. and the existing gratuity and provident-fund schemes of retirement income security in India. Examining the path of development towards the current system in the U.S. may be a useful indication of what future course the retirement income security system in India may take."

The speaker described the growth pattern of U.S.A. private pensions, and the successive economic and societal influences that determined that pattern. He gave also a succinct analysis of theories that have been advanced to account for pension development — the gratuity theory, the human depreciation theory, the deferred wage theory—and then expressed this view:

"However persuasive some of these theories are, it is doubtful that the private pension expansion can be explained in any one social, political, economic or philosophic concept. The only real explanation

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## SUMMARY OF NON-ROUTINE BUSINESS BY BOARD AND EXECUTIVE COMMITTEE, FOUR MONTHS TO OCTOBER 31st

by Myles M. Gray, Secretary

At meetings of the Executive Committee on September 18th, and the Board of Governors on October 18-19, the following non-routine business was transacted:

(1) *Education and Examinations.* The Executive Committee and the Board discussed a proposal for joint sponsorship and administration of examination Parts 1 and 2 with the American Society of Pension Actuaries and concluded that this was not an appropriate time to pursue the matter.

A liaison representative has been appointed from the Society to the Mexican Actuarial Association to explore possible further cooperative educational efforts.

(2) *Sections Within the Society.* The Board approved institution of Sections and reviewed proposed by-laws and operating rules and procedures.

(3) *Society Operations.* The Board adopted the budget for fiscal year 1980-81. It includes increases in seminar fees (\$20 for one-day and \$35 for two-day seminars), and a \$20 increase in registration fee for Spring Meetings.

The Executive Committee removed the maximum limit on reimbursement of reasonable expenses for the President and President-Elect.

(4) *Public Relations.* The Board received the report of the Council of Presidents' Task Force on Public Relations and authorized the President to appoint two Society representatives to a new Joint Committee on Public Relations.

(5) *Professional Conduct.* The Board received two proposed Opinions on professional conduct: a revised Opinion

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## A FUTURIST'S TECHNIQUE IN PRICING

by Claude Chau

In our rapidly changing world, it is becoming hopeless to try to arrive at a satisfying description of future conditions, even in the short run. Yet prices for new life insurance must somehow reflect one's view of events even in the far distant future. It has become so hazardous to base financial decisions upon a single view of what lies ahead that preference is developing for examining a variety of possibilities, some favorable, others distinctly unattractive.

A second reason for making calculations on a range of possibilities is that the door is thus opened to relating profit loadings to the risks undertaken. Profit, after all, is the compensation for taking risk as well as for giving service. It is reasonable to aim for a basic profit for services, supplemented by an additional return related to risk of loss, defined as the difference between the outcome considered today as most likely, and that perceived as the most adverse.

### Scenarios

Historically the word "scenario" has meant a plot in theatrics; futurists have appropriated it as their label for each member of an array of outcomes considered within the range of practical possibility. Each of these possibilities is a hypothetical sequence of events intended to illustrate a point. Perhaps none of the scenarios is necessarily to be taken seriously by itself, but together they serve to help us understand what might happen.

A difficult but essential requirement of this approach is that each of the outcomes be internally consistent. Grotesquely unhelpful results emerge if any scenario is inadvertently permitted to combine events that cannot conceivably all happen together. It is surprisingly easy to fall into the trap of introducing this form of irrationality.

When examining for internal consistency, it is usually discovered that even the most favorable portrayals must incorporate unfavorable elements; for example, unfavorable mortality increases the likelihood that healthy policyholders will replace their term insurance, and high investment returns are frequently coupled with rising costs and excessive policy loan usages.

Finally, it is necessary to do one's best to place a numerical probability or weighting on the relative likelihood of each selected set of events being the one that occurs. One of the most valuable, and exciting, sessions is that in which company management is presented with a set of possibilities and is asked to help establish these comparative weights.

### Competitive Considerations

The approach outlined here does not, of course, free the actuary in the slightest from the constraints of competition, which are severe. Skeptics may even say that after price competition has been taken into account, premiums will turn out about the same as they would have under traditional methods of calculation. This may largely be true, but the alternative futures system helps a company to decide where it is worthwhile for it to be strongly competitive, and where it is prudent to be less so.

Pricing is far from being the only use for the system described here. It is helpful in such diverse activities as product design, tax planning, response to regulatory proposals, retention limits, and acquisitions of other companies. □

### Actuarial Society of India

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of the development of pension plans in a free competitive climate such as that of the U.S., is the equation of the market place."

Mr. Sharma went on to describe ERISA, its significance for actuaries, and the role of our Academy. His closing comment was this:

"Unfortunately, to accommodate the changes brought about by ERISA, the Academy relaxed its high standards for admission to membership and adopted the federal requirements for enrollment as one of the alternative means of satisfying membership requirements. However, it is to be hoped that by acting in an advisory capacity to the Joint Board for the Enrollment of Actuaries the Academy recovers in the future by bringing back the previous level of excellence through an upgrading of the enrollment requirements."

Most of the members of the Actuarial Society of India are F.I.A.s. □

### Actuarial Meetings

Dec. 4, Boston Actuaries' Club  
Dec. 16, Chicago Actuarial Club  
Jan. 14, Chicago Actuarial Club

Please let us know when your meetings will be held so that they may be publicized. □

### Actuarial Liverymen

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The procedure for admission to the Worshipful Company of Actuaries is that one is first admitted as a Freeman and then application is made to Guildhall for admission by redemption as a Freeman of the City of London which involves appearing before an appropriate City dignitary and making declarations of loyalty to the Sovereign and protection to the Lord Mayor. One is then "clothed with the Livery" at a meeting of the Court of the Company. The membership of our Company is now approaching 100.

Liverymen are entitled to attend at Guildhall and to take part annually in the election of the Lord Mayor and the Sheriffs. This again is an impressive ceremony, following a tradition unchanged for hundreds of years.

Our new Company, like all other Livery Companies, has a charitable function. Ours is to set aside monies under a covenant to be used for encouragement of actuarial research and education in its very widest aspects.

*Ed. Note: Mr. Heywood's name now goes into actuarial history as the Founder Master of the Worshipful Company of Actuaries of the City of London. A handsome booklet, a copy of which is now in our Chicago headquarters and available for reading by any one requesting it, commemorates the Mansion House ceremony of last January.* □

### UNGARBLING

The third line of the verse, "Actuarial Perry" in our October issue should have appeared thus:

Here's a query almost merry,

We weren't bowdlerizing; we tried to transmit the item from N.C. to N.Y.C. by phone, with less than perfect results. □