SOCIETY OF ACTUARIES

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Deaths

Norman M. Hughes, F.S.A. 1926
Charles E. Clarke, A.S.A. 1965

My Great-Grandfather

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further decline in the interest rate, as it had been declining for some thirty years. . . . The one man who stood out against that view was Mr. Charlton T. Lewis, in his very scholarly paper . . . (1899). . . . You know the facts are that Mr. Lewis was right."

At an 1897 Society meeting, Lewis contributed the following views on nonforfeiture values:

> "Inasmuch as the very suggestion of a surrender charge involves a reference to a reserve, as if the owner of the policy had some peculiar claim upon that reserve, so-called, as a separate and independent fund, I protest against the use of the term 'surrender charge'."

That view seems in tune with much later efforts — which may resume — to sever the traditional link between statutory nonforfeiture values and reserves.

Lewis was active in a myriad of non-actuarial fields. In addition to being a mathematics professor he taught the classics. At various times he was a Methodist minister, U.S. Deputy Commissioner of Internal Revenue (before income tax days), a practicing lawyer, managing editor of the New York *Evening Post,* and for twenty years Counsel of Mutual Life of New York. He was said to have delivered the most effective speech at the Gold Democratic Convention of 1896. And he co-authored Harper's Latin Dictionary, a 2,000-page standard reference.

His death notices (except the one in *T.A.S.A.* VIII) did not even mention that Charlton T. Lewis was an actuary. Our profession's profile was indeed low in 1904.

Ed. Note: In 1853, H. W. Porter, *F.I.A., remarked*(*J.I.A.* 4, 109) : *"A perfect actuary should be a kind of 'admirable Crichton'." Mr. Case's ancestor was of that breed.* □

"INDEXING LONG-TERM FINANCIAL CONTRACTS"

The above is the title of an extraordinary, and surely controversial, paper by A. D. Wilkie, F.F.A., F.I.A., read to the Institute on March 23, 1981. Quoting from its introduction:

> This paper has two functions: first, to present briefly the results of some recent investigations into the behaviour of a price index (in the United Kingdom) in order to gain some insight into the possible future progress of inflation; secondly, to present the arguments in favour of the linking to a price index of financial instruments, in particular government stocks, life assurance contracts and pension fund benefits . . . I am convinced that widespread index-linking of *long-term* contracts would have a beneficial effect on the conduct of our financial affairs. It is up to those who disagree with me to put their case in the discussion; but I hope my supporters will express their views too.

A striking feature of this paper is its charting of the U.K. price index all the way from 1661 to 1980.

E.J.M.

Economic Forecasting

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the wisdom of, and procedure for, entry into the slippery field of Institute-sponsored forecasts. Among questions discussed were:

> Since all forecasts will inevitably be wrong, would their publication adversely affect the Institute's credibility?
>
> Would such forecasts tend to become legislated or to be seen as professional standards, thereby unnecessarily restricting the actuary's professional freedom?
>
> What alternatives are available to the CIA in fulfilling its mandate to provide technical support to its members?

The discussion proved distinctly helpful. The spectrum of choices open to the Institute is broad; so is the diversity of opinion amongst Canadian actuaries on what should be done. The resolution of this matter will be one of the more interesting challenges facing the CIA Council in 1981. □

AN ACTUARIALLY STAFFED CONSUMER GROUP

by James H. Hunt

Actuarial expressions won't be Greek to the National Insurance Consumer Organization (NICO), a new non-profit organization. Its President is J. Robert Hunter, FCAS; I am a Director, as also is Howard B. Clark, Esq., a former South Carolina Insurance Commissioner. A consideration in forming NICO is the lack of adequate insurance expertise within the consumer movement.

Public comments have already been made by NICO on several life and health insurance issues of concern to Society members, viz.

• *Life Insurance Cost Disclosure*: We called the NAIC Model confusing and misleading, made technical comments on and expressed reservations about the NAIC Task Force's recent proposal, and supported rate-of-return disclosure.

• *Replacements*: We said that unrestrained replacement of participating cash-value policies is causing substantial public harm, that companies have done too little to conserve old business, and that a suitability test, like that of the SEC for variable life policies, should be placed on replacing companies. We characterized the NAIC Model Replacement Regulation as worse than nothing.

• *Deposit Term*: We called the design of these policies an "actuarial trick" because their implied rates of return (7% to 10%) aren't matched by performance, and because they are being used in wholesale replacement, usually to policyholders' disadvantage.

• *"Project Update"*: We have urged insurance commissioners to demand that companies emulate Northwestern Mutual Life (see *The Actuary*, June 1980) in improving their old policies. We have said that failures of non-par companies to improve theirs constitute a cruel judgment that it is more profitable to rely on policyholder ignorance.

• *Credit Life Insurance*: We said that profit margins have increased faster than states have been reducing permitted rates. We filed objection to the Federal Reserve Board's proposed loosening of disclosures. We have a major report due in March on the implications of the

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COMPUTER APPRECIATION COURSE

News from London is that the Institute's Students' Society, in partnership with Hewlett-Packard Ltd., has arranged a two-day course "to assist in bridging the gap between the range of modern computing equipment and software on the one hand, and the tasks and problems faced by the actuary in running his office on the other."

The course booklet (available on request to this newsletter) contains an editorial by the actuarial organizer, Gary F. Chamberlin, saying in part:

> There can be no doubt that this is a stimulating period to be working as an actuary or actuarial student in any Office which has begun to respond wholeheartedly to the opportunities presented by modern electronic equipment. It may not be too rash to predict that, within the space of 5 or 10 years hence, it will become second nature for the actuary to have the use of a desk-top machine of his own—perhaps a terminal linking him to the Office's mainframe, or a stand-alone computer capable of a wide variety of functions. . . . It is not only throughput and efficiency of work that will be affected by this "Desk-top Revolution." The actuary's whole attitude towards, and view of, the work he is engaged in are likely to be transformed. . . .

E.J.M.

Consumer Group

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sale of high-priced credit life insurance for Annual Percentage Rate (APR) disclosures under Truth in Lending, aimed at showing how much APR's are distorted when prices exceed reasonable levels.

• *Consumer Booklet*: We sell for $5 a booklet, "How to Save Money on Life Insurance." We urge that most buyers purchase annual renewable term insurance and recommend maximum rates they should pay.

• *Health Insurance*: We think commissioners should upgrade the minimum standards in the Baucus Amendment (Public Law 96-265) that would set up a program of voluntary certification of Medicare supplement policies. Benchmark would be a 60% loss ratio.

NICO is not yet a membership organization, but we have built a mailing list from nearly 5,000 persons who have written following our President's appearance on the Phil Donahue and Mike Douglas TV shows. We can accept tax-deductible contributions, and in due course will seek members. We would like to hear from Society members, at 344 Commerce St., Alexandria, VA 22314, (703) 549-8050. □

DEALING WITH INFLATION AND UNCERTAINTY

by Henry K. Knowlton

Ed. Note: These are excerpts from Mr. Knowlton's presidential address to the Southeastern Actuaries' Club on November 21, 1980.

The only thing we could all possibly agree on today about the economic situation is that the degree of uncertainty is high. It is this uncertainty that presents us actuaries with professional problems which cannot be addressed by traditional methods. Yet there is a lot we can do to live with both inflation and uncertainty, and in some sense to accommodate them, which will both enhance our profession and help protect the publics we serve.

Repeal

It seems to me that we should do all within our power to encourage the repeal of both the present Standard Nonforfeiture Law and the Standard Valuation Law. Although both have been amended to permit using higher interest rates, these laws in their current form were devised in the 1940's and date back to actuarial customs of the 19th century. It is only with considerable pain that many non-traditional products can be accommodated within the framework of these traditional laws, and I have no doubt that the public could be better served if these laws were simply repealed, and the constraints that they put on the marketplace thus removed. As an aside, if we could eliminate the Standard Valuation Law, and determine a company's liabilities and assets on a more rational basis, there would be no need for separate statutory and GAAP annual statements. This may be wishful thinking, but it's essentially what has happened in Canada.

Modelling

When asked what an actuary's primary business is, my usual reply is that we're in the business of making financial models. In my view, the largest deficiency in our models is that they are often made in an economic vacuum. We too often set forth assumptions without specifically outlining what economic conditions would support them, and in doing so too frequently end up with assumptions that are inherently inconsistent.

Twenty years ago in profit-testing ordinary insurance, actuaries were assuming an interest rate in the area of 3.75% graded to 3% over 20 years. Our current assumptions are more like 7½% graded to 6% at 20 years, and to 5¼% at 40 years. In an era of increasing interest rates, we continue to predict a downturn of the same magnitude today as we did 20 years ago. If we consider that our financial projections are valid only if our assumptions are consistent with an economic environment which might validate them, then it seems to me that much of our work will not stand close scrutiny.

Three Rules

If we are to live with inflation and uncertainty, and at the time maintain our professional standards, it might help if we followed a few simple rules.

Rule 1. Actuaries should explain their assumptions, both in actuarial terms and in terms of the underlying economic scenario which supports them.

> *Corollary to Rule* 1—One economic scenario must be used to explain all assumptions in any one set.

Rule 2. The probability of any one set of assumptions being correct, and therefore any one answer being correct, is zero.

> *Corollary to Rule* 2—The degree of uncertainty that faces us today requires more than one answer.

Rule 3. The actuary should be ready, willing, and able to explain why his assumptions were wrong, in both actuarial and economic terms.

> *Corollary to Rule* 3—In explaining where he went wrong, the actuary is prohibited from blaming more than one regulatory agency at a time. □