SOCIETY OF ACTUARIES

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INDIVIDUAL PRODUCT INNOVATION IN CANADA

by Robert L. Brown

The Canadian Institute of Actuaries held a panel discussion on product innovation at its June 1981 meeting. This article consists of edited excerpts from a document that was distributed in advance to stimulate discussion, and some remarks on the discussion that took place. All these descriptions and comments are my responsibility.

From The Advance Descriptions and Critique

Among new products, developed mostly in response to high and volatile interest rates, are the following:

Flexible Premium Policies. These can be used to purchase either insurance or annuities. Most commonly they offer a five-year guarantee, although deposits in some of today's annuity products earn interest at rates that vary daily. After the guaranteed period, the premium is recalculated using new interest, mortality and expense factors, subject perhaps to a ceiling premium. Most companies guarantee non-forfeiture values; all are believed to guarantee the death benefit. Thus, this non-par product is like a participating policy whose dividends remain constant during the guaranteed period and are based on new-money rates.

Adjustable Single Premium Policies. Here it's the face amount rather than the premium that changes with the vagaries of interest, mortality and expense. Because it's a single premium product, the effects of new-money rates are magnified; much of the initial appeal is that a policyholder can replace his old policy and enjoy more coverage. Neither the cash value nor death benefit is guaranteed, except that some companies put a floor under the death benefit.

Discounted Premium Contract Life Insurance. The guaranteed premium is calculated at a conservative interest rate. The death benefit is fixed. Each premium, including the first, is discounted according to the then yield on Government of Canada Bonds. Although nominally non-par, this is like a participating policy, but the insured can see that he is getting full credit for new-money rates from the outset. The size of the cash value is not guaranteed, except at age 65; it depends on the market value of long-term bonds at time of surrender.

Critique In Advance Document: When interest rates are rising, consumers want the advantage of new-money rates. Life companies seek to satisfy this with products that turn much of the investment risk, sometimes also the mortality and expense risk, over to the policyholder—a sharp change from the modest risk-sharing of the past.

Although today's buyer is more sophisticated (and demanding) than before, one doubts that he is enough so to comprehend the implications of the shrinking of guarantees. If interest rates fall, isn't it conceivable that those who insisted on new-money rates will be the first to complain when their premiums rise or death benefits fall? As to cash values, one fears criticisms reminiscent of the Armstrong Investigation, leading to legislated non-forfeiture minimums such as those in the United States.

Consumers have come to look upon insurance at an affordable price as a

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SOCIETY FINANCES — IN BLACK FOR 1980-81

by Robert J. Johansen, Treasurer

Income and Expenses
(rounded to thousands of dollars)

	Year ending July 31 1979	1980	1981
Income			
Membership Dues	$ 515M	665M	801M
Meeting Registration Fees	185	370	450
Examination Fees & Material	569	682	830
Sale of Publications	82	107	136
Income from Academy & Conference	58	75	79
Investment Income	42	79	134
Other Income	25	70	50
	1,476	2,048	2,480
Expenses			
Membership Activities	141	243	294
Meeting Expenses	174	271	285
Examinations & Materials	387	362	638*
Cost of Publications	30	42	51
Salaries	331	428	499
Other General & Administrative	575	649	684
	1,638	1,995	2,451
Excess, Income over Expenses	−162	53	29
Membership Equity, end of year	425M	478M	506M

* Not comparable with prior year; see Note G, *TSA XXXII* (1980), 657.

The $29,000 gain for 1980-81 amounted to only $4 per member, while the membership equity per member fell from $68 at July 1980 to $66 at July 1981. The helpful increase in investment income arose largely from use of a "locked box" for receipts of dues and fees and from investing transient funds in a high-yield short term fund.

Outlook For 1981-82

Our 1981-82 budget, totalling about $3 million, will reflect increased activity on behalf of our members, the effects of inflation, and heavy emphasis on cost control. A "profit center" approach is being used to analyze and control our income and outgo; such activities as meetings and seminars are intended to be self-supporting.

Even though dues for 1982 will be increased by $10 and $15, and examination and seminar fees also will be increased, the 1981-82 budget will be very close to break-even. □

Canada Product Innovation

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social right. By transferring so much risk to the policyholder, do we increase the danger of government interference? This question must be faced by all actuaries and all companies, not just those who have introduced these modern products. For if the consumer complains, and the government listens, it will be the entire industry that will suffer.

Discussion at the Meeting

There was a full and wide spectrum of opinion. At one extreme—the buyer wants an inexpensive product, and is willing to risk future premium increases or face amount decreases to get it. And he's willing to accept lower cash value. The old guarantees have had their day; if we don't respond, we'll lose even more savings dollars to other financial institutions. At the other extreme—the buyer doesn't know the risks he's assuming; his satisfaction will last only till costs turn adversely.

Most opinions were in-between, but perhaps closer to the first than to the second extreme. The annual premium flexible products seem quite accepted in Canada, but less so the single premium variety.Nor is thre universal acceptance of products devoid of cash value guarantees. □

Universal Life in U.K.?

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It is quite possible that regulatory changes in both our countiies may lead to convergence in product design. We know there is pressure on U.S. regulators to broaden the scope for unit-linking, and the U.K. industry is lobbying for relaxation of the constraints on product design.

Ed. Note: We welcome this account from a member in Great Britain. □

PART 5 CHANGES IN 1982

The E & E Committee has decided to continue offering Part 5A and Part 5B as separate examinations for the foreseeable future, rather than to combine them into one exam as originally scheduled for 1982. Thus, any credit that students have *for either Part* 5A *or* 5B will be retained indefinitely.

Two modifications are being made for Part 5 in 1982: (1) Part 5A will become a 4-hour exam, and (2) Risk Theory will be moved from Part 5B to 5A. Thus, Part 5A (4 hours) will cover Advanced Life Contingency Theory and Risk Theory; Part 5B (3 hours) will embrace Mathematics of Demography, Principles of Construction of Mortality and Other Tables, and Mathematics of Graduation.

Please see Alastair Longley-Cook's article, "New Risk Theory Study Note Signals Change," in this issue, for particulars of a new Risk Theory study note which is being circulated to Part 5 students and can be ordered by others who want it.

James J. Murphy,
Vice-General Chairman,
E & E Committee

Seminar On Actuarial Career Development

The University of Nebraska Actuarial Club cordially invites anyone interested to attend their Sixth Annual Educational Seminar at the City Campus Union in Lincoln on January 23, 1982, 8:45 a.m. to 1 p.m. The major career development subjects include Actuarial Recruiting and Student Development in Companies. Admission charge is $2.00. Enquire to Prof. Warren R. Luckner at his Year Book phone or address.

LETTERS

Election Matters

Sir:

This letter is in strong support of Recommendation III (cutting back on Board renominations) of the Special Committee on Election Procedures (October issue). The Society cannot afford to become in-bred; we have many talented younger members on our committees who have earned places on the Board; and adequate continuity is amply assured by our constitutional provisions.

Here are the figures for the eighteen non-officer members of the current Board, divided between "repeaters" (those who have previously served in any capacity) and new blood:

Year Elected	Term Expires	Repeaters	New Blood
1979	1982	2	4
1980	1983	4	2
1981	1984	4	2
	Totals	10	8

Four of these ten repeaters are now in their *third* term; two are former Vice-Presidents.

Examination of the preceding six years shows how new this phenomenon is. Apart from 1978 (in which three of the six were repeaters) we elected at most a single repeater annually; in 1977 there were none. The reason, I believe, was that Committees on Elections before 1978 operated under unwritten guidelines that effectively forestalled multiple terms.

Mr. Jackson's committee report was given to the Board (and hence to the 1981 Committee on Elections) in time for this problem to be dealt with. Chairman E. Paul Barnhart tells me that his committee did not knowingly ignore Recommendation III; through communication failure they simply didn't "hear".

A remedial guideline needs to be promptly drafted and communicated to the membership. It should permit occasional exceptions, but only for good and clear reasons.

C. L. Trowbridge

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IT'S LOWRIE (NOT LAWRIE)!

The man who'll be glad to hear from readers who have ideas about the curriculum for Numerical Analysis and Graduation is Walter B. LOWRIE. We apologize to those who were sidetracked by our misspelling of Walter's name on page 4 of our November issue.

Prof. Lowrie is at University of Nebraska-Lincoln. See p. A-90 of Year Book. E.J.M.