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NEW RISK THEORY STUDY NOTE SIGNALS CHANGE

by Alastair G. Longley-Cook

In a new contingencies textbook being written by five distinguished actuaries, there are five chapters dealing almost exclusively with Risk Theory. As these chapters are self-contained, the E & E Committee is circulating these to May 1982 Part 5 students as a study note. Others interested may order them by sending \$6.00 to the Society Office.

Introduction of this new material marks something of a milestone in our profession's progress. Until now Risk Theory has been treated as a separate subject, useful perhaps for pricing reinsurance, but not part of the mainstream of actuarial work. The new textbook firmly embraces the study of variations from expected values as being at the heart of actuarial science; consideration of deviations in experience, traditionally the domain of Risk Theory, has become an integral part of the study of contingencies.

The E & E Committee realizes that initially such a fundamental change will not be unanimously applauded. Some may find the terminology and concepts unfamiliar; others may consider this approach academic, "not useful to the practicing actuary." Hence the Committee is trying to introduce this new approach in a way that will emphasize its true usefulness. A carefully chosen group of fourteen practicing actuaries has worked with the textbook authors to ensure that the material will be readily assimilated by actuaries not closely connected to the academic world, and that mathematical sophistication no greater than presently covered on Parts 1 and 2 is required.

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SPECIFICATIONS FOR 1980 CSO MONETARY VALUES

Recognizing that actuaries' prevailing need is for programming aid rather than for volumes of derived values, the Society has formed a committee to design specifications on the 1980 CSO Tables and *has no plans to publish the traditional books.*

Specifications visualized include: monetary values, reserves and cash values, interpolated select mortality factors, age last birthday and joint life functions.

Suggestions are welcome. Please send them by phone or letter to Godfrey Perrott, Chairman at his Year Book location.

HELP NEEDED WITH ONE OF THE SOCIETY'S FINEST PROJECTS

We believe that some actuaries who have neglected reading their mail will welcome a reminder on behalf of the Minority Recruiting Program.

276 U.S.A. employers of six or more actuaries were solicited by letter for a contribution of \$20 per actuary on their staff. 83 replied, sending \$31,415.

6,000 individual Society members were solicited through an editorial in the September issue of this newsletter. 4 replied, sending \$65.

The consequence is that the response thus far is below last year, and below what the task requires.

Those who care to do something about this, please make your check payable to "SOA/CAS Minority Recruiting Program" and send it to the Society (or Casualty Society) office. Contributions are tax-deductible in the U.S.A.

E.J.M.

UNIVERSAL LIFE IN THE U.K.?

by Seamus Creedon

We who have watched from a distance the development of Universal Life perceive two key influences:

- i. the need to make the form of life assurance contract more responsive to the client's changing circumstances and to volatile economic environment;
- ii. pressure of competition from a wide range of savings and investment media.

These influences have also been at work in the United Kingdom, although in a different regulatory and fiscal climate.

The key elements of Universal Life design—transparent investment returns, flexible premium and benefit structure and generally lower expense loadings—are increasingly found in United Kingdom new products. Most notably, unit-linked policy types (under which policy benefits directly reflect the performance of a segregated account) have steadily increased their share of industry sales. Some recurring single premium life products and most individual pension plans are very similar to Universal Life in their structures.

An important difference here is that policyholders are allowed a partial tax deduction in respect of individual life premiums. This deduction is subject to constraints on product design—policies must be for level annual premiums and for a minimum term—which have inhibited development of Universal Life as you have it. And this favourable tax treatment may have given our industry a built-in advantage over other savings media and thus avoided pressure on expense loadings.

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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 there 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 countries 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:

| <i>Year Elected</i> | <i>Term Expires</i> | <i>Repeaters</i> | <i>New Blood</i> |
|---------------------|---------------------|------------------|------------------|
| 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.