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. □