



SOCIETY OF ACTUARIES

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FINANCIAL REPORTING SECTION

By William Schreiner

The Life Insurance Company Financial Reporting Section will celebrate its fourth birthday in October with over 1,500 members. The interests of the Section members are wide-ranging and include statutory accounting, the valuation actuary, U.S. GAAP accounting, income tax accounting, Canadian accounting, management reporting and so forth. The majority of the membership is employed by insurance companies (77%), with a significant minority (19%) in the consulting field; Canadian and non-North American members make up 16% of the Section.

Because of the diversity of Section membership and interests, nominations to the Section Council — the Section's nine-member governing board — have followed an objective of providing representation of various membership segments. Thus, the current Council is composed of three individuals who are employed by stock companies, three by mutual companies, one by an accounting firm, one by a consulting actuarial firm, and one by an industry association; two of the members are Canadians.

During the first three years, the Section's major efforts have been directed towards providing educational and informational programs for the benefit of the members. An active and effective program committee has contributed significant tracks relating to financial reporting to the spring and annual Society meetings programs. For example, this fall's Chicago meeting will contain 18 programs developed by the Life Insurance Company Financial Reporting Section. Included in the lineup are: capital management, mergers and acquisitions, New York's new annuity

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CONTINUING EDUCATION CONTINUES TO GROW WITH SOCIETY

By John E. O'Connor, Jr.
Executive Director

The growth and evolution of the actuarial profession in recent years have created an increasing interest in continuing education and professional development.

In response to this interest, the Society of Actuaries added a Continuing Education Department to its office structure in January 1985. Barbara Choyke, a continuing education professional, was hired to serve as the Society's Manager of Continuing Education. In her capacity, Barbara serves as a liaison to the Committee on Continuing Education, the Services to Members Policy Committee, the Program Committee and various Sections by developing and recommending continuing education programs and policies. Her additional responsibilities include: developing seminar topics and presentation styles, recruiting faculty and conducting research in continuing education.

Under Barbara is Ann Polodna, the Seminar Coordinator, and Joyce Paschall, the Seminar Assistant. Ann oversees the administrative work of seminars by coordinating hotel arrangements, brochure preparation, handout materials and marketing strategies. Joyce assists both Barbara and Ann in the administration of the continuing education program and serves as the registrar for all seminars.

Since 1980, the Seminar Program has grown from an offering of 10 topics in 21 locations to last year's total of 17 topics in 41 locations. Attendance also has increased by over 40% in the past five years.

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EXPOSURE DRAFT OF LIFE INSURANCE COMPANY VALUATION PRINCIPLES

by Gary Corbett

The Committee on Life Insurance Company Valuation Principles (COLICVP) has recently mailed to Society members an Exposure Draft of Valuation Principles for Life Insurance Companies. Comments on the draft principles are to be submitted by July 1, 1986 to Robert D. Shapiro, Merrill Lynch Capital Markets, One Plaza East, 330 Kilbourn Avenue, Milwaukee, WI 53202.

In this article I want to:

- 1) Encourage members to comment on the draft principles.
- 2) Encourage discussion of the Society's role in identifying, developing and publishing actuarial principles.

COLICVP was charged by the Board of Governors to develop principles applicable to the valuation of life insurance companies for the measurement of solvency and solidity. Developing the principles themselves was a difficult enough task but, as the first Society committee to be charged with the development of actuarial principles, the Committee was forced to wrestle with such basic questions as: What are principles? Can principles be distinguished from standards and practices?

In early 1985 a Task Force on Actuarial Principles was charged by the Board with recommending the Society's role in establishing actuarial principles and how this role was to be performed. This Task Force submitted a report to the Board in August 1985 recommending that the Society "pursue explicit expression of actuarial principles through a promulgation process". The Society would thus add promulgation of actuarial principles as a third activity to its

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Financial Reporting Section

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valuation regulation, sources of profit, and GAAP for universal life.

One of the innovations that will be introduced at the Chicago meeting is a Section breakfast that will be set up in discussion groups to facilitate the exchange of ideas in an informal setting. The breakfast will be immediately followed by the Section's annual meeting and a panel on "Current Topics in Financial Reporting".

The Section's largest undertaking to date was the 1985 St. Louis meeting devoted to financial reporting issues. Over 600 Society members attended the two-day meeting at which 48 panels and workshops were available. The meeting was very well-received and the Section Council is currently working to gain approval to organize a similar meeting in 1987, or 1988 at the latest.

The Section has also actively assisted in the development of the popular valuation actuary seminars and is planning additional efforts in the area of continuing education.

The Financial Reporter, the newsletter of the Section, was started in 1984 and has provided members with news of developing issues in the U.S. and Canada, including the valuation actuary and GAAP accounting for universal life and annuities, as well as news of Section activities and coming events. The progress of the issue of accounting for universal life insurance policies through the American Institute of Certified Public Accountants and the Financial Accounting Standards Board has been followed in detail and the newsletter will remain a key source of current information on the subject until it is resolved by the Board, presumably some time in 1987.

Also, the last issue featured a debate on the merits of the Joint Committee's proposal on the role of the valuation actuary in which Walt Rugland urged acceptance of the concept, while this writer suggested that significant modifications should be made in the approach. A number of thoughtful responses, which will be published in the next issue of the newsletter, were received from readers. In addition, efforts are currently underway to expand the newsletter from its current January/August schedule.

LIFE INSURANCE FINANCIAL STATEMENTS: KEYS TO SUCCESSFUL REPORTING

By **R. Arthur Saunders, FSA, FCIA**
(Teach'em, Inc., Chicago, IL)

Reviewed by **Anthony B. Richter**

Did you know that —

- double-entry bookkeeping was invented in Renaissance Italy?

- in the entire history of Canada, there have only been *seven* Superintendents of Insurance, *six* of whom were actuaries?

The next major effort of the Section will be in the area of the examination syllabus. An E&E Advisory Committee has been formed and is charged with providing a thorough analysis of existing examination material to produce proposals for improvements. In addition, liaison has been established with the SOA Research Policy Committee with the objective of identifying financial reporting issues needing research support.

One of the major continuing efforts of the Section Council will be to increasingly draw on the talent and expertise of Section members to improve the programs of the Section. While much of the work of the Section is unheralded and goes on behind the scenes of existing Society programs, the response of our members to requests for their time and expertise has been superb. Many Section members have already willingly provided their time and effort on behalf of the membership through staffing committees, speaking at meetings and seminars, writing articles, and service on the Council.

It is the Council's desire to expand the utilization of this resource and it plans to distribute a questionnaire this summer to all members to seek their ideas and to identify areas where each individual would be willing to make a contribution. We hope that when the questionnaire arrives Section members will take a few minutes to complete it. In the meantime, if you have any questions, ideas or suggestions that you would like to share with the Council, you are invited to get in touch with a Council member (see page 30 of the *Yearbook*). We look forward to hearing from you. □

- in the NAIC Early Warning System for U.S. insurance companies, one of the tests for financial stability is the ratio of real estate investments to capital and surplus? (It should be less than 100%.)

No, these facts are not from a book on insurance trivia. Far from it, in fact. They come from *Life Insurance Financial Statements: Keys to Successful Reporting*, by R. Arthur Saunders, FSA, FCIA. The author's new book on life insurance company annual statements, both U.S. and Canadian, fills a need for up-to-date information that has too long been unfilled. This book will be included in the Society's exam syllabus, and the Society's seal appears on the title page and the back cover.

The author gives equal time to U.S. and Canadian financial statements, and this will prove useful to those interested in differences of philosophy and structure between the two countries. (The reviewer was somewhat envious to learn that Canadian actuaries have relatively more freedom to set Annual Statement actuarial assumptions than their U.S. counterparts.)

The book also includes an especially welcome chapter, a lucid explanation of GAAP accounting, with examples, and a thorough explanation of the difference between GAAP and statutory accounting. The chapter will provide an understanding of the difficulties of matching revenues and costs in life insurance accounting.

A substantial portion of the book's 305 pages (which are followed by a glossary and an index) are taken up with numerical examples of transactions and hypothetical financial exhibits. (Some of the examples are quite detailed, and the reader might get bogged down.) The treatment of the material is exhaustive, and the book provides a "one-stop" opportunity for familiarity and understanding of the Annual Statement and the various supporting exhibits.

Mr. Saunders is to be congratulated for a genuine work of scholarship. Notwithstanding revisions that may be needed due to changes in the structure of the Annual Statement itself (changes are constantly being discussed by the NAIC), this book should remain the definitive work on life insurance accounting for many years. □