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ACTUARIES AT WORK IN OTHER LANDS: FRANCE

by Véronique Lamblé

Ed. Note: This is one of a series. Mme. Lamblé is Actuary of Eagle Star Vie. We are happy to welcome her as this newsletter's Paris Correspondent.

Although life insurance is a fairly long-standing business concern in France (since the days of King Louis XV in the 18th century), the actuarial profession remained unknown here until the end of the 19th century.

The people, generally mathematicians, who practiced in our profession, claimed to be actuaries without having received any special diploma. In 1890, some of them founded an association under the name "Institut des Actuaires Francais" (I.A.F.), which accepted as a member any person approved by that body's board of governors. This Association exists today and still operates in that way.

In 1930, a decree permitted creation of a specific school for training actuaries in a university framework; that is the "Institut des Sciences Financieres et d'Assurance" (I.S.F.A.). The earliest students of that organization formed the "I.S.F.A. Actuaries Association" in 1933. Each of these Associations now has nearly 400 members.

Activities of French Actuaries

Most I.A.F. members are in the insurance business, especially life insurance and reinsurance, but the activities of I.S.F.A. members are more diversified, particularly since the 1960s. Indeed, a significant breakthrough has been made into non-life insurance, and also into finance, i.e., financial departments of banks and brokers' offices. It can be said that the French bond market is now in the hands of I.S.F.A. actuaries.

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IS UNIVERSAL LIFE MANAGEABLE?

by Roland A. Dieter

Universal Life's policy structure confers upon policyowners the ability to see all transactions affecting policy values while providing themselves with an insurance benefit. Companies aiming for profitable operation will have to face some large questions.

Suppose, for example, that in 1983 you sold a UL policy to a rising professional aged 30 and in excellent health. Assume there's no market-value penalty clause in your policy; it's a back-end loaded product so that acquisition expenses can only be recovered out of interest and mortality loadings. What lies ahead?

Conditions Foreseeable By 1998

1. As the years go by, the UL product presence and policyholder access to computer terminals will become more and more commonplace.
2. When your policyholder is in the mid-40's, the penalty, if any, on transferring accumulated values elsewhere will be trivial.
3. Life and investment vehicles then available will still be transaction-oriented; back-end loaded UL, no-load deferred annuities and money market funds won't have disappeared.
4. Long term yields generally will be higher than short term, i.e., yield curves will still be positive. Competitive pressures will have caused your company to invest heavily in securities maturing beyond the end of your surrender charge period, passing through to the policyholder the total yield reduced only for acquisition cost recovery and profit. No margin for the C-3 risk will have been taken.

(Readers may pause here to consider what commercial banks do on their no-load product—passbook savings. The

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RETIREMENT COMMUNITIES

Howard E. Winklevoss and Alwyn V. Powell, *Continuing Care Retirement Communities: An Empirical, Financial and Legal Analysis*, 1984, pp. 347, Richard D. Irwin, Inc., Homewood, IL, $23.00.

Reviewed by: David L. Hewitt

Here is a pioneering actuarial, financial and legislative analysis of *continuing care retirement communities* (also known as life care communities). Such communities provide lifetime housing and health care to older people. Several hundred exist in the United States, and their number is expected to grow substantially in the coming years. They offer a stimulating and secure environment, with independence from one's children, for those who may survive to very old ages.

While the CCRC idea is not new, it is evolving and the major growth has occurred in the last twenty-or-so years. Despite the actuarial nature of the lifetime promise, these communities have made little use of actuarial techniques, and few actuaries have expressed a scientific interest in their operations.

Winklevoss and Powell challenge actuaries to *start* thinking in this new field and CCRC sponsors and accountants to *clarify* their thinking. With assistance from attorney David Cohen, they also focus on the delicate balance of the legislative need to set standards but not stultify the existence of these useful institutions.

The actuarial issue is to devise an appropriate fee structure. This must make the best use of our knowledge, anticipate change, and offer a realistic picture to the consumer. Because the promise is of services, rather than dollars, and is extended over an indefinite future lifetime, inflation is an important part of the picture. Further-

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Actuaries At Work

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Some actuaries are engaged in other industries; this segment of our profession is now developing strongly, though outside of banks and insurance companies nobody can say who is an actuary. Lastly, many actuaries work in pension funds and at the Social Security Office.

A new activity that, peculiar as it may seem, did not exist in France until very recently, is developing: the profession of Consulting Actuary. Many important American, British and Belgian consulting actuarial firms have set up subsidiaries here, the earliest of these being from the United States.

In the face of this precedent, some young French actuaries have ventured into the actuarial consulting field also. In 1983, the "Association Francaise des Actuaires-Conseils", open to any consulting actuary working here, was created.

One of our main problems is the shortage of actuaries; there are easily twice as many positions as there are candidates, and many companies that would like to hire a skilled actuary or novice are forced to employ non-actuaries. Our profession is still so little known that few students think of entering it. About 100 candidates each year sit for the I.S.F.A. entrance examination (compared with three or four thousand in engineering, medical or law schools); fewer than fifteen students a year qualify as actuaries. Various advertising efforts by the Associations to attract larger numbers have thus far been ineffective.

Our two Associations maintain strong connections with the outside actuarial world, both European and beyond. Almost half the I.A.F. and I.S.F.A. members are also members of the recognized international actuarial bodies, and European actuarial gatherings are well supported by French actuaries. Each of our Associations conducts regular conferences and issues bulletins.

Many members of both Associations wish that we might amalgamate, but differences in their by-laws are making this desirable goal difficult to reach.

Protection of the title of actuary is a common goal of both Associations. We seek a state of affairs in which Association membership will be a requirement so that no longer can just anybody claim to be an actuary. For this, it would be necessary to have a law passed, but so far no government has been favourable. But the success of our Italian actuarial friends in this encourages us to believe that we too will succeed sooner or later. □

Universal Life

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rates they allow produce some margins even when backed by short term loans; they provide higher C-3 margins if loans are for longer terms).

5. Long and short term rates will have reached three to five points above those in the aggregate portfolio underlying the block of UL policies to which your policyholder belongs.
6. Financial consultants will have proliferated. They will be armed with software and data bases easily able to sort out and show replacement comparisons to your policyholder, including deferred annuities for impaired risks. Furthermore, cross-company comparisons may even be available on home monitors for a small fee.
7. Though continuing to realize that he needs life insurance, your policyholder will demand an acceptable rate of return on his accumulation component. He won't expect to pay a surrender charge if he decides to transfer to a new back-end loaded life or investment vehicle of his own choice.
8. His advisors now recommend that, if he's still a standard risk, he surrender your UL policy to purchase a new one with more attractive interest and mortality charges. If he's substandard, only a residual balance is to be left with you to maintain the life insurance, the remainder going to another investment vehicle at current rates.
9. Your mortality on continuing lives having turned sour for reasons already found with re-entry term, the interest rates you can allow must be cut back. Apart from possible market value problems, the inability to reinvest income will be a restraint on declaring high renewal rates.

Keeping Out Of Trouble

The moral of all this—Don't invest beyond the time when a healthy insured is likely to shift to a new transaction-oriented product, withdrawing assets at book values. These conditions may occur as early as four years from now. I'm not convinced that interest rates and investment practices in use today, coupled with today's projected mortality charges will postpone this scenario unless adequate C-3 charges are made.

Similar things were said of conventional insurance years ago when UL first came on the market. The difference is that we have now armed consumers with more information so they can play the transaction game to their own advantage.

Have we yet seen the forest for the trees?

This reflects my own views, not necessarily those of my employer in all respects. □

BE THE TOAST OF THE TOWN AT NEW ORLEANS!

HOW: Enter the Society's contest on putting to use statistical concepts that weren't in Jordan but are in our new text, "Actuarial Mathematics".

WHEN: Enter any time up to December 1, 1984. But the sooner you submit a paper, the more time you'll have to send in a second or third entry.

PAYOFFS: Tributes at our New Orleans meeting, October 1985. And a certificate. And a starring role at a competitors' workshop. And, maybe a prize. Most of all, spawning a new skill for future use.

RULES: They are out. If yours are lost, ask another member or student.

Here is an opportunity to be grasped!