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THE ACTUARY — AN AGENT'S PERSPECTIVE

By Leonard S. Frieden

I approach this task with a great deal of trepidation since the president of my company is an actuary and the two top underwriting executives of my company are actuaries. I recognize that I may be running the risk of never having another case approved standard!

I certainly understand the role of the actuary in our industry, but I believe there could be considerably more interaction between the actuary and the field. Let me give you an example. As most of you are aware, there has been an emergence of extremely low cost annual renewable term insurance and so-called Graded Premium Whole Life Insurance disguised as term insurance offered by many non-participating brokerage oriented companies during the past five or six years. In order to compete in the marketplace, our agents were forced to place their term business with these low cost companies. The premiums with these cut-rate companies were so low on an initial basis that many agents in the industry rolled the business from one company to the next company every year to keep their competition from taking the term business away from them.

In my company, we did not have a competitive term product and hence did very little term business. Through our various General Agents' Association committees, we begged, pleaded and cajoled our actuaries to give us a term product that we could sell. We did not expect to have the least expensive product on the street; we just wanted to be in the ball park.

After a few years of begging and pleading, someone amongst our frater-

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A LOOK AT OURSELVES

By E. James Morton

One of the popularly held beliefs about actuaries is that we can predict the future. I have often been introduced with some such phrase as "He's an actuary. That means he can tell you how long you are going to live (laughter)." Well, of course, we can't do that. But we have learned in the course of our training to project current trends of experience and thus set prices based on those "predictions."

Unfortunately, we're not very good at it. Perhaps we would do better to handle projections the way that my former boss Ed Matz described the approach of economists. He felt that the economist always has in his or her mind for any time-series of data a "normal" level. So in making projections the economist merely continues the current trend line for a couple of quarters and then heads it back towards "normality."

Whatever philosophy we have used, or are using in making projections, it could stand some improvement. Let me mention a few examples.

When I started to work as an actuarial student in 1949, the portfolio interest rate of my company was substantially under 3%. In every single year since that time, new money rates have exceeded the portfolio rates. But it took over 30 years and a near-disastrous cash crisis to convince actuaries in the company (including me) that high and volatile interest rates were real, that interest sensitive products have a future, and that asset-liability matching theory actually has some practical applications. Was it more comfortable for us to assume that rates would continue to rise for a few quarters and then return to normal?

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HOW AN UNDERWRITER SEES US

By Charles A. Will

In Lincoln National's *Reinsurance Reporter*, July 1985, Mel McFall, Second Vice President, makes the point, "Actuaries and underwriters need to work together in establishing mortality assumptions and objectives...".

The point is valid and well taken but there is a more crying need — actuaries and underwriters need to *understand* each other.

Reflecting back on over 40 years, the feeling here is that they really don't have any *in depth* perception of each other's job and function. In today's challenging atmosphere, however, they most surely should. Unfortunately, each tends to travel their own one-way street.

It has been said that the actuary draws the road map and the underwriter does the driving. However, won't the actuary prepare a better map if he drives on occasion? And, knowing how the map was drawn will make a better driver of the underwriter.

LaVerne Cain, FSA, Senior Vice President of Mass Mutual, has said, "The actuary is a bridge player, the underwriter is a poker player."

True, but would it not help each of them if they knew more about each other's game other than that both are played with a deck of cards?

Underwriters tend to look (well, almost) on actuaries as expressed a while back in *The Anatomy of Britain* by Anthony Sampson as, "... basically highly specialized mathematicians ... versed in the intricate study of probabilities, on which the success of life insurance depends."

What actuaries tend to think of underwriters, being an underwriter, I

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EDITORIAL

WHICH GROUP ARE YOU IN?

There are two kinds of people in the world — people who have wild ideas and people who shoot them down. The first group will passionately fight to prove that they're right; the second will dispassionately argue to prove the first group wrong. The first group sees unusual patterns in ordinary things, and sees relationships between things that are seemingly unrelated. The second group forces the unusual into familiar patterns, and orders its world into mutually exclusive compartments.

Members of these groups may not be intrinsically different. They may be intelligent or not, creative or not, energetic or not; neither group is homogeneous. But they do act differently, and their effect on the organizations they belong to and the people they interact with is very different.

Our industry needs as many people in the first group as it can get. We need people to think of new ways to compete and to thrive in an increasingly challenging environment. Actuaries can be these people. We have the knowledge and background and intelligence to see new patterns and the clout to push through new ideas. We have proven this in the past, with various innovative products and creative tax schemes. But all too often, we are in the other group, the group of limiters. At least, we are perceived that way by others, as evidenced by the front page of this issue. I don't know why this is so. Perhaps it's historical — actuaries were "invented" to keep things under tight control. Perhaps it's temperamental, and fostered by self-selection — those in the second group are more likely to become actuaries. Perhaps it's just habit. I don't think it's terminal.

I'm not saying we must fling all propriety away and become raving lunatics. (Frankly, I'm not too worried about that happening.) There must always be pretty tight control when you're responsible for other people's money, and we must abide by the constraints imposed on us by outside authorities.

We must rechannel our energy and redirect our focus. We must stop looking for reasons to say no and instead look for ways to say yes. We must change our image from one of keeper of the past to one of hope for the future. If we don't do this, we may find our cushy position at the helm of the insurance industry taken over by a group that is more willing to rock the boat.

D.A.P.

Deaths

John R. Byrnes	ASA 1963

A Look at Ourselves

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These days I hear a lot of talk from economists, and indeed from actuaries, about the "abnormally" high level of "real" interest rates. What is "abnormal"? Is it the level of the 18th and 19th and first three quarters of the 20th centuries? Or is there a new "normal" level?

Well, apart from the interest rates, how have some other of our "projections" gone? Suppose we consider sex, or what is euphemistically known today as "gender-based pricing." Nature invented sex a few hundred million years ago, and for at least the last 100 years the question of unfair discrimination between men and women has been a burning issue.

While it has been even more recently that the question — whether it is fair to charge different insurance prices according to the sex of the insured — has arisen, it was certainly not the day before yesterday as some seem to believe. The Civil Rights Act of 1964 included sex in the list of characteristics which could not be used as a basis of discrimination in employment and other areas. Not long thereafter, the industry began to face challenges under this statute and similar state laws alleging that employment benefit and pension plans discriminated on the basis of sex. Throughout the 1970's, lawsuits were being filed, state legislatures were stirring, and the social nature of the issue was apparent.

What were the actuaries doing at this time? Well, we were busily constructing the 1980 CSO table, or I should say, "tables," because for the first time there was one "CSO" table for males and one for females. Do we fall in the category known as "hard learners?" Is it possible that the assault on risk-classification will have discrimination by age as its next target? Have you looked at the demographic projections for the United States? What should our response be?

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A Look at Ourselves

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Other than financial and "social" projections, how are we actuaries who are in the life insurance industry doing as business executives projecting current trends into the future? All of us have been subjected to endless discussion in the trade press, business newspapers and magazines, television, and certainly in our own companies about what appear to be obvious and clear trends toward diversification in the financial service industry.

I need not cite examples of "everyone getting into everyone else's business," because we are up to our necks in such illustrations and they increase in number every day. Now what do you think the official position of the industry is on diversification? Is it "Let us recognize the existing situation, project it into the future, and work so that the life insurance industry will have equal access to all segments of the financial markets"? Or is it, "We will fight to the last policyholder to keep everyone else out of our business"? Do we really want the playing field to be level? Do we actually believe that competition is a good thing?

Finally, we might look at the current trends of regulation in the life insurance industry. I expect that all actuaries, whether in industry, consulting firms, government or academia, can agree that there has been increasing involvement of the Federal Government over the past 25 years in the regulation of life insurance. The Securities and Exchange Commission, the Federal Trade Commission, the Federal Reserve Board, the Treasury Department, the Internal Revenue Service, and Senate and House Committees are all arms of the Federal Government reaching out eagerly to embrace what they view as an "unregulated industry." It would surprise me if any projection of the future is a scenario with less Federal involvement than at present.

Perhaps some of you who are concerned with such matters as approval of policy forms, and attempts at diversification, may have also noted the increasing activity of the state regulators. I leave it to you to judge whether this has resulted in more uniformity of regulation or deepening chaos. Where do you think the future lies in this area, including that of mandated benefits?

If these trends are accurate might we not project a future where the industry is increasingly regulated by the Federal Government? Is it possible that it could be a positive thing to have a federal agency to turn to for help and protection as the banks do to the Federal Reserve Board or the securities industry does to the Securities and Exchange Commission? Is it in our own best interest to shape the future rather than to be shaped by it?

Perhaps in making our projections from now on, we might try asking ourselves some of these questions. After all, we need all the help we can get in this uncertain world.

Editor's Note: E. James Morton is President of John Hancock. □

Wanted: Extra Transactions

Denis Loring (The Equitable) wants to complete his set of leather-bound *Transactions.* He'll pay shipping costs. Please contact Denis directly if you can help him.

An Agent's Perspective

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plaining this disparity to my agent, as the agent always feels that our actuaries and those of our reinsurers are being overly conservative in their guidelines for their underwriters.

I fully recognize the fact that the many decisions that are made in the daily life of the actuary involve probability as well as the effect on company expenses. Perhaps more weight should be given, however, to the problems of the real world that we field people face as part of our everyday existence. All too often, decisions are made without regard for the many difficult and untenable problems they create for the field. We want our actuaries to know that we stand ready to serve as their partners to help our companies and our industry survive and grow in these turbulent times in which we live and work. United, we can all rise to unprecedented levels of growth and success!

Editor's Note: Leonard Frieden has been a General Agent for 20 years. □

REINSURANCE ADMINISTRATION IN THE SPOTLIGHT

By Mark R. White

Reinsurance has always been one of the more glamorous fields of the insurance business, but not all aspects of it have received equal attention. Reinsurance grabs headlines when there is a natural disaster or an insurance company insolvency, or when the IRS gets miffed, which is most of the time lately.

Perhaps the least noticed aspect of reinsurance over the years has been administration. Except for a small group of people in the reinsurance companies who developed the reinsurers' administrative systems, few people in the industry cared to know much about the subject. And why should they have cared? Generally things worked well enough without their constant attention.

Historically, of course, the reinsurers were responsible for the administration under most treaties. Negotiations focused on other factors such as price. Ceding companies, except for the relative few who had their own administration systems, took for granted that portion of a reinsurer's service.

In the last decade, however, several major changes have had an impact on the reinsurance marketplace. The entrance of many new reinsurers, particularly from Europe, was accompanied by a steady decrease in the price of reinsurance, not to mention a steady increase in the number of reinsurance doodads given away at actuarial meetings. In order to attract market share, reinsurers were often willing to consider additional price discounts for direct writers who self-administered.

At the same time, products such as Universal Life and Variable Life were being developed which in many cases necessitated self-administration because the reinsurers had not yet developed administration systems that could adequately handle the products' complex requirements.

Due to the proliferation of low reinsurance premium rates, reinsurers also found it more difficult to cope with the substantial increase in the volume of low cost term business reinsured. This led to dissatisfaction on the part of some ceding companies and a conse-

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