



SOCIETY OF ACTUARIES

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## A FUTURE EDUCATION METHODS WHITE PAPER

A Future Education Methods (FEM) White Paper was mailed to members and students in early March. This important document does for the second stage of the FES/FEM development what the Flexible Education System White Paper, reported upon in the May 1986 issue of this newsletter, did for the first.

The FEM White Paper is a set of proposals, carefully worked out by the Society's Education and Examination (E&E) Committees, which has been reviewed by the Board of Governors and approved for exposure to the membership. There are proposals with respect to five different Future Education Methods, and each proposal stands or falls on its own.

The first eight pages are largely background, expressing the rationale behind the FEM development, indicating the benefits anticipated, and summarizing the concerns expressed. The specific proposals are found in pages 9 through 21, and are organized under five headings:

- College Courses
- Intensive Seminars at the ASA level
- Examinations of Other Organizations
- Research Papers
- Fellowship Admission Course

Pages 22-24 are presented as Concerns Revisited, indicating how the concerns previously indicated have been addressed.

An important attachment is a six-page Survey of Your Opinions. The Board asks members and students to complete and return this survey to the

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## DISCUSSIONS OF REPORTS ARTICLES

Sam Gutterman,  
Experience Studies Committee  
Chairman

In order to encourage the publication of additional actuarial research on the experience of insurance and related products, discussions of the articles published in the REPORTS will be allowed (and indeed are desired) by the various Experience Committees of the Society. Discussions will be published in the REPORTS. Such discussions may include, but will not be limited to, such items as the implications of results, additional data analysis, additional data available to the discussant, or other items of related interest.

Availability of preprints of the REPORTS articles will be announced via notices in *The Actuary*. The date any discussion is due will be indicated in the notice. A written discussion should be sent to Mark Doherty, Director of Research, at the Society's Itasca office. □

## NOTICE TO CANDIDATES WRITING FELLOWSHIP EXAMS IN '87 OR '88

The Fellowship examinations to be given in May 1988 will follow the current Part (6-10) structure. Reorganization of the Fellowship examinations into a Flexible Education System (FES) structure will be in place no earlier than the November 1988 exam administration.

A decision as to the timing for the implementation of FES for the Fellowship examinations will be made in June 1987. Candidates will be notified of the scheduled implementation shortly thereafter. □

## VALUATION PRINCIPLES: TODAY'S STATUS, TOMORROW'S HOPES

By Robert D. Shapiro

In October 1984, the Committee on Life Insurance Company Valuation Principles (COLICVP) was formed by the Society of Actuaries Board of Governors. The mission of COLICVP was twofold:

- to develop life insurance company valuation principles for the actuarial profession, and
- to define practical research and continuing education in the valuation area.

Several related events spurred the Society Board to form COLICVP. The 1985 Report of the Joint Committee on the Role of the Valuation Actuary in the United States included recommendations on the role of the valuation actuary and on valuation principles. Also, the American Academy of Actuaries' Committee on Life Insurance Financial Reporting prepared a draft of proposed standards for valuation actuaries. The future valuation environment envisioned in these committee activities accentuated the need for articulated valuation principles, as well as additional research and continuing education in the valuation area.

## COLICVP's First Two Years

COLICVP's primary activity during its first two years was to develop and refine life insurance valuation principles. The Committee encountered a myriad of difficult issues that needed to be addressed before the principles could be refined. For example, the line between "principles" and "standards" was blurry and required constant Com-

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## Valuation Principles: Today's Status, Tomorrow's Hopes

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mittee attention. Also the distinctions between and the implications of concepts such as reasonable, plausible, solvency, solidity and surplus required extensive discussion and analysis.

Although the Committee did address several research and education issues (e.g., definition of a *Handbook for Valuation Actuaries*) in these early years, the task of defining valuation principles took most of our energy because:

- it was the Society of Actuaries' first attempt to formalize actuarial principles;
- the resulting life insurance company valuation principles had to effectively anchor the actuarial profession's development of practice, research and standards in the valuation area; and
- these principles would have to be consistent with the form of as yet undefined principles in other life insurance company valuation and financial areas.

### The Initial Exposure Draft

COLICVP distributed an exposure draft to Society members in spring of 1986. Over 35 members responded with extensive comments and suggestions. The great majority of respondees supported the efforts of the Society to establish valuation principles, attesting to the keen interest of those SOA members involved in the subject.

The primary issues raised by Society members were those related to:

- appropriate definition of the actuary's role in light of anticipated regulatory changes and the changing state of knowledge;
- inclusion and definition of designated or required surplus;
- proper depth and timing for the principles document;
- elaboration in "how-to" areas;
- flaws in using McCaulay durations to the extent originally suggested;
- potential burdens created for smaller companies; and
- consideration of business beyond

the inforce existing on the date of valuation.

The life insurance company valuation principles were modified to reflect member input and a revised document was submitted to the Society Board of Governors in October 1986.

### Today's Status

The Society's Executive Committee has recommended re-exposure of the revised document because substantial changes have been made to reflect membership input. At its October 1986 meeting, the Society Board adopted a specific path for articulating principles. While this re-exposure process is being followed, the drafted valuation principle document can assist those responsible for developing standards of practice for the valuation area.

Simultaneously, significant progress is being made in valuation research and education. Recent examples include the staging of the Valuation Actuary Symposium, the discussion at the Actuarial Research Conference and the development of the *Valuation Actuary Handbook*. Because of the close linkage of principles, practices and standards, these efforts help to sharpen the definitions and perspectives in the valuation principles document.

### Tomorrow's Needs

The Society of Actuaries, having declared itself to be in the principles' business, must build on its experiences in the life insurance company valuation area to define and develop principles in other valuation areas (e.g., GAAP and appraisal valuations), as well as in other disciplines (e.g., health insurance and pensions) and in other actuarial management areas (e.g., pricing, financial reporting, financial management and investment management). This framework of principles must meet the needs of practitioners, regulators, researchers and standard-setters.

### Conclusion

The actuarial profession, like all professions, must formally develop and document the principles and standards that underpin professional actuarial practice. To be recognized and respected, we must provide our

## YEARBOOK INFLATION

Members may be dismayed to note that the 1987 *Yearbook* is 1 1/8" thick, weighs 2 1/2 pounds, and has nearly 500 pages — all of these measurements up 25% over 1986. Since the *Yearbook* is largely a membership listing, and membership has grown by 5%, some investigation is suggested. Here are the results:

1. The Membership Directory and the List of Members by Business Connections together account for 298 pages — up from 283. This rate of increase is almost exactly that of membership growth.

2. There are 79 pages of material on officers, committees, constitution, by-laws, guides, prizes, dues, services, history, and the like, none of which directly reflect membership growth. The 1986 *Yearbook* had 68 such pages. Larger and hence more easily read type accounts for at least some of this 16% growth.

3. Ninety-two pages are devoted to the details of the examination syllabus, whereas only 28 pages were needed in the past. Presumably the Flexible Education System (FES) changes are largely responsible, even though only the May exams are described. The catalogues for the November exams are to be printed separately. □

members with a framework of support and guidance on which to base member conduct and competence.

Actuarial principles should be developed separately from standards. With the fragmented structure of our profession, principles that are driven by the research and education body are less likely to be inappropriately narrowed due to public pressures that might exist in other professional bodies. Also, dealing with principles at a level beyond standard-setting forces analysis and conceptualization that is valuable in assuring overall consistency.

Both the actuarial profession and the Society of Actuaries have made significant progress in addressing critical valuation issues. Hopefully, the knowledge gained will position us to deal proactively with new issues beginning to appear on the actuarial horizon. □