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Life insurance sales cont'd

ture laws not somehow address these tontine-like" future projections?

A few other related issues are not reflected in the hypothetical sales illustrations described above:

(9) A few years ago there were complaints about 40-year cash value illustrations that used new-money interest rates. Rates were at a peak, and new-money rates were much higher than the portfolio rates reflected in some companies' dividend scales. It was contended that new-money rates would eventually come down much faster than portfolio rates would and that the new-money illustrations were much less likely to be realized. Lately, however, the shoe is on the other foot. Portfolio-rate dividend illustrations are tough to beat with a realistic new-money product. Are these comparisons not at least as misleading as they were a few years ago?

(10) Why do disclosure laws not apply to participating policies in the same way they apply to universal life? For instance, it should be required that he annual expense load equal to the difference between the gross premium and net cash value premium be prominently disclosed as the guaranteed expense charge. The "tontine" effect in universal life policies pales in comparison to what can be done with participating policies that do not disclose the factors underlying their guarantees and dividend scales.

There probably are no perfect solutions to these problems. Firmer actions are needed, however, to keep these practices in check. Very specific and strict rules as to what can be legally shown in a sales illustration, along with more enlightened regulation of product designs, are an absolute necessity in order to contend with these problems.

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TSA paper accepted

The following paper has been accepted for publication in *TSA* Volume 40: "Recent Mortality Experience in the Soviet Union," by Robert J. Myers.

ARIA promotes interaction of academics, industry

by Curtis E. Huntington

Many SOA members are members of The American Risk and Insurance Association (ARIA). However, many others are either unaware of ARIA's existence or uninformed about its activities. As Society Liaison to ARIA, I feel the two organizations will benefit from a more active interchange.

ARIA President Michael Murray shares that view. The following information is adapted from material he supplied. One of ARIA's goals is to increase interaction between academics and the insurance industry. An aspect of this goal is to increase the number of Institutional Sponsors of ARIA. Members interested in this sponsorship may contact Dr. Murray at The Insurance Center, Drake University, Des Moines, Iowa 50311.

I. Origin and Current Makeup of ARIA

Founded as the American Association of University Teachers of Insurance in the 1930s, the organization changed its name in the 1960s to reflect that membership interests span not only the institutional response to risk, but the nature of risk itself. It also reflected, to some extent, a desire to lend greater academic credibility to the subject area.

ARIA comprises 352 academic members and 465 general (i.e., industry) members. It has 15 institutional sponsors. There are 776 subscribers to the *Journal of Risk and Insurance*. ARIA's annual budget is approximately $100,000, of which some 40% is used to print the *Journal*.

Recent members of the Board of Directors have represented academic institutions, industry associations (e.g., Risk and Insurance Management Society, National Association of Independent Insurers, Life Office Management Association and Insurance Institute of America) and a number of individual insurance companies.

II. Background on Industry Interaction

Increasingly, academic members are recognizing that ties to the insurance industry are a significant source of purpose for ARIA. While ARIA continues to resist any efforts to enlist its support for any particular industry view, it nonetheless recognizes the tremendous contribution of the insurance device and industry to our society and encourages general industry support for its activities. There is increasing recognition that the schism between theoretical research and practical applications needs to be bridged. Industry leaders are becoming better attuned to the need to incorporate newer theories into their daily operations. In addition, academics are increasingly sensitive to the need for students to have a sound institutional background.

III. Benefits for the Insurance Industry

A. General Support for University Insurance Education

There is a widespread concern today for the future of insurance education at our institutions of higher learning. One school of thought holds that insurance is a field of study too specialized for undergraduate business students. Another is concerned that the course studied is more "training" than "education." ARIA members generally feel that insurance professors provide a valuable learning experience, one that should be retained in the university curriculum. The Association makes an effort to support that view.

B. Specific Support for Risk Management as a Core Subject

ARIA has, in recent years, spearheaded a drive to have the American Association of Collegiate Schools of Business require that risk management be included within the core of compulsory subjects at accredited institutions.

C. Encouragement of Research in Risk and Insurance

Through the *Journal of Risk and Insurance* and through its annual meetings, ARIA provides an outlet for research related to risk and insurance. Efforts to make this basic research more attractive to industry are occurring on two fronts. First, as the quantitative techniques are refined, their benefit becomes more apparent. For example, techniques which first appeared in the *Journal* are now written about in publications like *Risk Management* magazine. Second, a

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ARIA promotes cont'd

growing segment of the ARIA membership is increasingly committed to
i) requiring that even quantitative articles be written in a manner which facilitates understanding and
ii) devoting a larger proportion of the *Journal* to nonquantitative topics.

D. Support for Book Awards
Each year, ARIA selects two of the best books on insurance or related matters published in the previous year and presents cash awards to their authors at the annual meeting. The purpose is to encourage high quality publications about insurance.

E. Specific Assistance to University Insurance Professors
Two recent annual meeting sessions have been designed to improve the quality of insurance teaching. The first was an annual seminar on pedagogical techniques sponsored by the Insurance Information Institute. It provided a forum for leading educators to assist members with their teaching techniques. The second is the recently instituted Pedagogical Seminar. In this seminar, leading scholars in insurance and related disciplines present summaries of cutting edge topics related to the teaching of insurance. The intent is to encourage and assist professors to incorporate these topics into their classes.

F. Encouragement of Academic/ Industry Interaction
Industry leaders are encouraged to attend ARIA meetings; in some instances, personal invitations are sent to officers of industry associations and they are accorded special guest status. In addition, ARIA provides funding for its president to accept invitations to industry association meetings.

In an effort to increase communication between the two organizations, SOA staffed a round-table discussion of current research issues at ARIA's annual meeting August 14-17 in Reno.

Curtis E. Huntington is Corporate Actuary with New England Mutual Life Insurance Company, Boston. A past General Chairperson of the E&E Committee, he is now a member of the Education Policy Committee, the Research Policy Committee and the Board of Governors.

Executive Committee and Board of Governors report of significant actions

by Anthony T. Spano

Executive Committee – March 8-9, 1988 – Phoenix
For the second ballot of the Society's 1988 elections, the Committee approved a classification of candidates and continuing Board members by area of practice. Included as areas of practice would be such categories as insurance company, insurance consultant, pension consultant, health consultant, and teaching. The objective is to achieve appropriate representation from each major segment of the membership on both the Board and the Executive Committee.

Board of Governors – May 18, 1988 – Louisville
The Board accepted the final report of the Task Force to Revitalize Society Research. In accordance with Task Force recommendations and as part of additional efforts to strengthen significantly the role of research within the Society, the Board:

- Approved creation of a Research Development Fund to accept donations and grants to be used for initiating and developing research activities and programs approved by the Board.
- Approved provision of $25,000 for specific worthwhile research projects identified by the Research Policy Committee, to be made available for expenditure on the approval of the Executive Committee.

The Board authorized the appointment of a joint committee with the Casualty Actuarial Society to articulate actuarial principles. It also received the final report of the Committee on Life Insurance Company Valuation Principles, authorized that the report be made available to the Society membership upon request, directed the Committee to turn its report over to the new Actuarial Principles Committee for its consideration, and discharged the Committee with thanks.

Anthony T. Spano is Actuary, American Council of Life Insurance. He is Secretary of the SOA.

A means of comparing unit reserves on different valuation bases

by Henry R. Ramsey, Jr.

The heightened interest and concern with respect to statutory valuation bases and the increasing emphasis on effective-management-basis financial statements have resulted in a greater need for a means to compare different reserve bases. Formula B in Table 1 enables a duration-by-duration comparison of the components of the calculation of two different valuation bases (one designated by primed values, the other by unprimed values).

(Ed. note: The 14-step derivation of the formula, not printed here, can be obtained from the author at his Yearbook *address. The derivation makes use of, among others, formula A [see Table 1].*

The author explains that this is general formula, expressed in a form suitable for use with reserves on a "level-return-on-equity" [level ROE] basis. A paper describing the level ROE reserve basis was distributed to Financial Reporting Section members in February 1987).

The Generalized Comparison Formula
The generalized comparison formula (formula B – see Table 1) assumes that the unprimed reserves ignore taxes and do not take into account that the company may require a return on its invested assets that differs from the expected investment earnings rate. Thus, unprimed reserve bases could include statutory and GAAP valuation bases as currently defined.

This formula says that the difference in reserves at a given duration (using "new" for primed values and "old" for unprimed values) is equal to the present value at the new valuation rate of the following at each future duration:

(a) the excess of the new valuation rate over the new interest rate times the new asset value at the beginning of the year

minus (b) the excess of the new valua-

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