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Forecast 2000 forum generates substantial media coverage

by Robert L. Brown

The recent Forecast 2000 forum on the environment held in Toronto dealt with such issues as increased taxes and higher insurance premiums to cover costs of natural disasters. The forum generated a lot of positive worldwide media coverage and brought more focus on the actuarial profession, despite the somewhat negative tone the survey projected.

In discussing the results, based on a survey of casualty actuaries, a positive pro-active stance was emphasized with the media.

In particular, it was our contention that through insurance premiums, the business sector will see real economic incentives and rewards for being responsible corporate citizens with respect to pollution control (e.g. reduced premiums for safe, inspected storage facilities). Furthermore, we stressed that actuaries have an essential role to play in assessing the economic value of the pollution liability risk, both in setting equitable premiums and also in assisting the courts in adjudicating penalties in cases of damage or injury.

Before the July 11 Forecast 2000 seminar, actuaries with a particular interest in the topic were polled on a series of relevant questions. In this case, the response was from 332 property/casualty actuaries (out of 1200 polled). Questions varied from the effects of a catastrophic natural disaster to concerns about environmental pollution. The results of the survey, which acted as the focal point

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Continuing education: The debate goes on and on

by Burton Jay

Should actuaries have a formal program for continuing education? This question has been asked, studied and debated at least since the early part of the decade. For many years, accountants, physicians and lawyers of many states have had continuing education requirements to retain their license to practice. Many other professions, including some groups of life insurance agents, require their members to participate in continuing education activities or in some way recognize those who do. Where are the actuaries?

The topic was on the agenda of the Society's Services to Members Policy Committee as early as 1983.

In 1984, a joint task force representing the actuarial bodies in North America was formed to consider the question. In a September 1985 report to the Council of Presidents (COP) the task force recommended that each founding organization of the Academy

adopt a similar continuing education recognition program. The Conference of Actuaries in Public Practice (CAPP) was already in the process of adopting a program similar to the one envisioned by the joint task force. That program would have recognized - with an asterisk or other designations in the organization's yearbook - those individuals who fulfill the required hours of continuing education and submit documentation to the organization's administrative offices. The American Society of Pension Actuaries has also had such a program for a number of years.

Another type of program involves specified continuing education requirements to retain one's professional designation. The Joint Board for Enrolled Actuaries recently implemented a program that members must fulfill to retain their Enrolled Actuary designations. The COP deferred action

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Responsibilities of mutual company management discussed

by Arnold A. Dicke

Stockholder rights emerged as a major business issue in the last decade. Management's right to a compliant, often hand-picked, board of directors was challenged by stockholders' groups and corporate raiders. The result was a wave of takeovers and break-ups, as well as the dramatically increased use of leverage to squeeze out extra return on invested capital.

Mutual life insurers, lacking stockholders, seemed immune to these developments. But several recent transactions, in addition to the adoption of a demutualization law in New York, have raised issues similar to those faced by stock companies in the early 1980s. The demutualization and recapitalization of Union Mutual, the conversion of the participating branch of Northwestern National, and the sponsored demutualization and simultaneous sale of Maccabees Mutual all required a determination of the value due to participating policyholders and the basis for its allocation. In every case, the value distributed went beyond the current statutory surplus, recognizing a right of some sort of the value represented by future cash flows.

The manner in which these rights were developed was discussed by three panelists at this year's October annual meeting of the Society. Bill Britton looked at the Union Mutual demutualization from an actuary's point of view, while Patrick Delaney of Lindquist and Vennum, a Minneapolis law firm, described the legal considerations taken into account by

the State of Minnesota in approving the Northwestern National conversion. The internal process that resulted in Maccabees Mutual's eventual acquisition by the Royal Group was summarized by Jules Pallone, Maccabee's Chief Executive Officer. In each transaction, the rights of participating policyholders were a major issue.

Even if demutualization is not foreseen, many mutual company boards have been asserting their role as policyholder advocates. Diversification plans come under special scrutiny. Boards are asking not only if a new venture is likely to be successful, but also whether it is an appropriate use of policyholder funds. Furthermore, the board often demands that the return on such investments be tracked over the years to assure that the promised value is realized. Jim Morton, CEO of the John Hancock, rounded out the panel discussion by covering the impact of these new attitudes on the ongoing management of a mutual life insurance company.

The panel concluded that the situation is developing. Future developments are a matter of speculation. Will the comfortable relationship that has been typical between the managements and boards of mutuals become more strained? What is the future of strategic diversification? Will policyholders ever be able to demand the conversion of a mutual to tap its hidden value?

The fact that these questions are being asked is, perhaps, an interesting development in its own light.

Arnold A. Dicke is with Tillinghast/Towers Perrin. He is a member of the SOA Board of Governors.

Coming in November: New area code for Society

Beginning November 11, callers should dial area code 708 to reach the Society office in Schaumburg, Illinois. This new code covers the Chicago suburbs. The current area code, 312, will remain in effect for Chicago numbers only.

A three-month transition period, from November 11 through February 9 will be provided to help callers adjust to the new area code. During the transition period, both the old and new ways of dialing calls will work.

Book review

Megamistakes provides guide for futurists

by J. Bruce MacDonald

Megamistakes: Forecasting and the Myth of Technological Change by Steven P. Schnaars. Published by Free Press, 1988, 224 pages.

While the purpose of this delightful and stimulating book is the identification of new products for the marketplace, anyone interested in predicting the future should read it.

The book surveys the batting average of futurists, which is amazingly low. About 20 years ago, Herman Kahn predicted 100 changes that would occur by the end of the century. Of these, 15 have occurred, and 10 others were vague enough that, if you are charitable, can be considered to have happened. Other futurists have not been as successful.

Predictions are a function of their times. In the heyday of the Apollo missions, colonization of the solar system was predicted. Such predictions vanished with the end of the manned space program. Another frequent mistake is to assume that because the technology exists, it will be used whether or not the end product is useful, wanted, or cost-effective. An example of this is a proposal to replace the rearview mirror on cars with a combination of a backward-aiming video camera and a TV screen on the dash. While it makes sense for fighter planes, does it make sense for automobiles?

Many case histories are examined. Although they existed for many years, microwave ovens and VCRs were not successful until social changes evolved or the right marketing ploy was developed. For microwaves, the dramatic increase in the number of the two-income families was the key. For VCRs, the key to success was the shift in emphasis from looking at videos, then few in number, to recording TV programs for later viewing. Even then, the design had to be changed from a VCR built into the TV set (the original concept) to an independent VCR. And

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Book review cont'd

then the market for videos developed exponentially!

Another case history examined is the market for CB radios, which suddenly went flat and then declined. Will the demand for cellular telephones follow suit or keep expanding? Schnaars thinks a significant difference exists between the social image of these two products.

Actuaries should be pleased that Schnaars believes demographic forecasts, and deductions made from them, have been very good — as long as we limit them to people already born. Predictions about the birthrate have not been successful. I wonder if changing immigration patterns will have an effect? Up to now, we have pretty well been able to ignore them. Schnaars does not, however, mention the debate about OASDI projections.

He suggests a common-sense approach to evaluating predictions. First, the basic underlying assumptions should be evaluated; this should appeal to actuaries. Futurists should ask, is the new product really an improvement on existing products, and will anybody want it? Assuming the answer is "yes," they should ask, can it be produced at a price that will make it marketable? Schnaars does not believe in elaborate mathematical models and suggests they often distract from a hard-headed analysis of erroneous underlying assumptions.

A long time has passed since I recommended a book so enthusiastically to my friends and colleagues.

J. Bruce MacDonald is a Principal with William M. Mercer Ltd.

Mail Alert

Volume 40 of the Society of Actuaries *Transactions* (Parts I and II) was mailed to members in late September. If you have not received your copy, please call Donna D'Agostino at the Society office, 312-706-3526 (after November 11, 708-706-3526).

In memoriam

Ralph D. Maguire FSA 1962
B.J. Patrizi FSA 1966

FACTUARIES

by Deborah Poppel

This is another in a series of profiles of members of the Society's Board of Governors.



Name: Nicholas (Nick) Bauer.

Birthday: September 22, 1941.

Birthplace: Budapest, Hungary.

Current hometown: Montreal.

Current employer: Eckler Partners.

Marital status: Married to Julie.

Children: Audrey, 19; Sandra, 16; Jennifer, 13.

My first job was: Gofer without portfolio in the actuarial department of Montreal Life.

I'd give anything to meet: Paul Bocuse — the father of Nouvelle Cuisine and a true gastronomic genius.

The number of exams I flunked: 2.

The books I recommend most often: The *Dune* Series by Frank Herbert; *Chaos* by James Gleick.

The last movie I saw: *Dangerous Liaisons*.

Nobody would believe it if they saw me: Sitting calmly in traffic.

The TV shows I stay home to watch: "Yes Minister" and any Stanley Cup playoff.

If I could change one thing about myself, I'd: Sit calmly in traffic.

When I'm feeling sorry for myself, I: Go to sleep (it usually works!).

My fantasy is: An uninterrupted two-month family holiday traveling in the Pacific Islands.

The silliest thing I've ever done: Is watch an airplane at O'Hare back away from the gate after having waited for it for an hour. (I was so deep in conversation, I missed all the announcements.)

If I could do it over I'd: Do it over again.

My proudest actuarial moment was: Being elected as one of the first two vice presidents of the Canadian Institute of Actuaries.

The best times of my life are: The private moments spent with my family.