



SOCIETY OF ACTUARIES

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Actuaries...be careful!

by Jerrold G. Dolins

On January 1, 1986, a life insurance company began issuing whole life policies countrywide on a nonmedical issue basis. Each applicant was asked whether he was a smoker or a nonsmoker. In 1986 a total of 3,800 policies were issued to males aged 40-45. Following each of these policies through the first policy year indicated that 21 deaths occurred, for an overall first-year select mortality rate of 21/3,800.

The actuary desired to compare the smoker first-year select mortality rate with the nonsmoker mortality rate for these 3,800 policies. The company's files were kept in two separate locations: Nashville for policies issued east of the Mississippi and Los Angeles for policies issued west of the

Mississippi. Nashville issued 2,000 policies and processed 13 deaths; Los Angeles issued 1,800 policies and processed 8 deaths. Each office supplied smoker and nonsmoker data.

Nashville reported that smokers had a higher mortality rate than nonsmokers (6/900 > 7/1,100). Los Angeles reported the same conclusion (5/1,100 > 3/700). The actuary therefore concluded (since the entire population was considered) that the overall mortality rate for the 3,800 issued policies must be greater for smokers than nonsmokers. Right? Wrong! 11/2,000 < 10/1,800. What went wrong?

Jerrold Dolins is Senior Manager in the financial analysis area at CNA.

Nonmedical, male, duration 1, issue ages 40-45						
Office	Smoker		Nonsmoker		Total	
	Deaths	Policies	Deaths	Policies	Deaths	Policies
Nashville	6	900	7	1,100	13	2,200
Los Angeles	5	1,100	3	700	8	1,800
Total	11	2,000	10	1,800	21	3,800

Task force analyzes financial implications of AIDS

by David J. Christianson

The Society of Actuaries Task Force on the Financial Implications of AIDS has been hard at work since last June. Much has been accomplished, and we plan to present our report in an open forum at the Vancouver meeting. The Canadian Institute of Actuaries will also present its findings, and the audience and panel will have a chance for dialogue on these reports. Actuaries will also have the chance to discuss actions their own companies have taken.

Because we needed to concentrate our efforts to produce a report in a reasonable time, we limited the scope of our research to individual life

insurance and individual disability insurance. These plans of insurance were selected because they are of great interest to the industry and have limited ability to respond to changes in experience.

The output of our research is clearly taking shape. We have settled on general population scenarios for AIDS deaths and have focused on the midrange scenario. From this population model we are developing mortality factors for the general population and are researching the correlation between population data and the insured population. We will suggest

Continued on page 14 column 3

AFIR opens wider financial arena to actuaries

by Walter Rugland

Is there life for actuaries other than in insurance companies or with employee benefits?

For years the French have thought so, and this summer at the International Congress of Actuaries, the rest of the world agreed. The International Actuarial Association (IAA) established AFIR (Actuarial Approach for Financial Risks), a "division" within IAA that directs its research and discussion efforts to those financial areas other than insurance and benefits in which actuaries can make contributions.

Nearly 40% of the accredited actuaries in France work in major banks and other financial institutions that are not insurance or benefit oriented. They help those institutions analyze risks associated with different transactions and institutions both in terms of structure of the arrangements and quality.

AFIR gives actuaries worldwide the opportunity of sharing experiences with actuarial theory and operations in the wider financial arena. The focus is broad and different. But, the application of actuarial skills is not different, even though the language and the approaches are.

Led by an international committee, AFIR offers membership to actuaries throughout the world who are members of the International Actuarial Association. The initial focus of the group's activity will be an International Symposium to be held in Paris in 1990. Ideas for other activities are being presented and refined.

Members of the Society of Actuaries provided major impetus to the establishment of AFIR. Nearly coincidental to the charter granted AFIR was the establishment of the Investment Section within the Society. A broad view of the purpose of the Investment Section calls for extension of actuarial skills to the entire range of investment and financial affairs. Investment Section leadership endorsed the concept of AFIR and encouraged the Congress to adopt the recommendation that it be established.

Continued on page 12 column 3