



SOCIETY OF ACTUARIES

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## THAT'S YOUR OPINION

# Actuaries and the public: What role do you see?

by Charles Habeck

**A**n advertisement for Scotch whisky in *The Wall Street Journal* last year caught my eye. The purport of the copy was that the purveyors of this whisky suffered a substantial loss of revenue because of evaporation during the aging process. Based on the facts of the wine cask problem (old Part 3), it was at once evident to me that the ad was wrong. The wine cask problem (D.W.A. Donald, page 72) teaches us that such evaporation is accounted for in the final pricing of the product.

My first thought was to write a letter to the *Journal*, taking issue publicly with this clear misrepresentation. On second thought, it seemed more effective to notify the ad agency. On further reflection, perhaps the manufacturer should be asked to withdraw the offending statement, since it would have suggested or at least approved of the copy for this ad.

At this point I recalled that a

legendary professor of actuarial science at the University of Wisconsin in Madison used to offer a prize to any student who could solve the wine cask problem on his feet at the chalk board and without error on the first attempt. (I believe the award was a martini; former students, please correct me if I'm wrong). So I thought, why not send the whisky ad to Madison to be used as the basis for a graduate thesis?

This course of action would provide a much greater educational impact than going straight to the distiller. Actuarial students could ponder the whisky ad for years and years, while the only possible result of contacting the distiller would be a change in the ad. Another factor — nobody outside the actuarial profession probably has ever heard of the wine cask problem, and it wouldn't take an actuarial education to point out the flaw in the ad.

The above exaggerated example is meant to illustrate some of the

problems facing the actuarial profession when its members try to communicate directly with the general public as actuaries. Among the questions that arise are:

- For whom does the member speak? What are the implications of identifying oneself as an actuary?
- Is the problem strictly "actuarial" in nature?
- If not, what makes the actuary distinctly qualified to solve it?
- And of course, what is the desired result?

What are your thoughts on the proposition that actuaries should communicate more directly with the general public whenever the opportunity arises? Which actuaries and which publics may benefit from more dialogue, keeping in mind that "general public" means persons unfamiliar with insurance principles.

If you have given talks to the general  
*(continued on page 11)*

## Impact of Nankai program (continued)

### First official recognition

In September 1991, the Hunan College of Finance and Economics introduced an actuarial program at the undergraduate level and admitted its first class of students. These students will take actuarial courses in their junior year beginning September 1993.

The Hunan College is supported by, and under the jurisdiction of, the Education Bureau of the People's Bank of China (PBOC). PBOC is China's central bank and is the

national authority in regulating China's financial institutions including insurance companies. Thus, this may be considered the first official recognition of the actuarial profession and study in China and a major impact of the SOA-Nankai program.

### Other schools starting programs

Since the early 1990s, several other Chinese colleges and universities have been exploring the feasibility of establishing actuarial study programs. Two major Chinese schools, the People's

University of China in Beijing and the Fudan University in Shanghai, are beginning actuarial programs in the 1993-94 academic year at the undergraduate level. Northeast University's undergraduate program in Shen Yang is in the planning stage.

A third program, a joint venture between the Central Institute of Finance and Economics in Beijing and the Institute of Actuaries (England), will be established soon. The Central

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## Actuaries and the public (continued)

public while identified as an actuary, I would like to hear about them. (This includes experiences such as talks to grade school pupils to show them how insurance works.) Please send an account either to me at my *Directory* address or to *The Actuary* at the Society office. If an upcoming issue editor agrees the responses warrant seeing ink, your responses will be published.

Another, more forward-looking, aspect of the same question is encapsulated in the slogan, "Ask an Actuary." What should be our stance? Should actuaries adopt a proactive position, or should they wait until asked before speaking, as now seems to be the case? Following is a list of several areas of public concern getting headlines in the United States. Can actuaries define for themselves a greater role, or any role at all, in resolving these issues?

- Health care financing reform, especially at the state level, where push soon will come to shove.
- Proposition 103 rolling back auto insurance rates in California; it could happen elsewhere.
- Reapportionment of Congressional districts based on new

census data and given political objectives; will we be ready next time?

- Simplification of property tax methodology, for instance, as in Cook County, Illinois, so the public understands and accepts it as equitable.
- School financing outside the property tax, as it seems to be moving forward in Michigan, a recurring issue in many states.
- Development of revenue-sharing formulas among major-league baseball teams (a joint Canadian/U.S. problem) to address the small market problem; can actuaries contribute here?

Health care financing reform and auto insurance rating are obviously within the purview of the actuary. Reapportionment, property tax rules, baseball revenue-sharing — these issues involve data and methodology familiar to actuaries, such as population demographics, valuation methods, and optimization of returns. It seems that actuaries could be part of many solutions that the public needs. Thus, your experiences, thoughts, and comments on the past and continuing role of the actuary would be much appreciated by your fellow actuaries.

I have been told not to be overly

optimistic about getting responses to such a request: "You'll be lucky if you get even one!"

I took this statement to imply a Poisson distribution, and I was about to share this random thought when I caught myself and asked instead: "What if we award a martini to anyone who sends in a significant response?"

"Well, you might get two," was the guarded reply.

Before the editors can make such an offer, of course, they need to determine what reserve should be set up to provide for it adequately. My guess is \$32; can anyone confirm this amount?

A final note: Copies of the whisky ad and the wine cask problem are available from *The Actuary* staff editors at the Society office. From the combined information in each item, it seems that these folks are working with a very large batch of Scotch whisky, which "lies, in aureate slumbers, maturing," as the ad states. Resembles the actuarial profession, some would say.

**Charles Habeck is a consultant at EM-BAR-EX International, Milwaukee, Wisconsin, and an assistant editor of *The Actuary*.**

## IN MEMORIAM

**James C.H. Anderson**  
ASA 1954, MAAA 1966, FCA 1975

**James O. Challenger**  
FSA 1944, MAAA 1965

**Lynn T. Hansen**  
ASA 1987, EA 1986

**John S. Pearson, Jr.**  
FSA 1966, MAAA 1969

**G. Emerson Reilly**  
ASA 1930, MAAA 1966

**Jacques Roy**  
FSA 1968, FCIA 1968

**Samuel C. Tatum**  
ASA 1932, MAAA 1966, EA 1976

**James "Jim" C.H. Anderson** will be remembered within the actuarial profession as an innovative thinker and a pioneer in new products and practices. In 1975, he introduced a new concept, which he called "the universal life insurance policy." His 1959 paper (TSA XI), "Gross Premium Calculations and Profit Measurement for Nonparticipating Insurance," which won the Society of Actuaries Triennial Prize, still serves as the basis for most of today's insurance pricing and appraisal work. He shared his insights with the insurance industry in his column, "The Last Word," in *Emphasis*, the quarterly

magazine for Tillinghast, where he was president, managing principal, and chief executive officer until 1986. Contributions in his memory can be directed to the Thomas P. Bowles Jr. Chair of Actuarial Science at Georgia State University, c/o Steven W. Strickland, Dean's Office, College of Business Administration, University Plaza, Georgia State University, Atlanta, GA 30303.