The Actuary

November 1979 – Volume 13, No. 9

THE OVERSIGHT SUBCOMMITTEE REPORT: MARKETING & COST DISCLOSURE

by E. J. Moorhead

(This is the last of three instalments. The earlier ones are in our February and June issues).

A major question explored in the last of the three-chapter Moss Subcommittee Report is this:

> Has state regulation been successful in its effort to supply life insurance buyers with the means for making intelligent choices?

The Report looks at this in terms of NAIC's own description of what their Model Regulation was intended to accomplish. Herbert W. Anderson, the Iowa Commissioner, had said:

> There are three basic types of information that a life insurance prospect should have . . . . :(1) what types of coverage and options are available; (2) what coverage is most suitable to the purchaser's needs; and (3) how to obtain suitable coverage at low cost.

The Subcommittee's majority verdict* on the Model Regulation's success on this trio is:

re (1), "The NAIC disclosure rule achieves the first objective reasonably well."

re (2), "It (the NAIC Buyer's Guide) fails altogether to explain the significance of even the most fundamental aspects of the term-whole life choice. The NAIC rule neither provides rate of return data nor even mentions the concept. Instead, the NAIC adopts the position of non-disclosure that has been advanced by insurers for years to avoid revealing the information that would enable consumers to make a meaningful decision." . . . "Another aspect of selecting the 'most suitable' coverage is the problem of premature lapse. Clearly, a good many people who let their whole life policies lapse shortly after they purchase them, and suffer a financial loss in the process, can be regarded as having made an unsuitable purchase. Yet . . . the NAIC rule contains no provisions specifically designed to deter early lapse."

* Dissenting views of one Subcommittee member supplement the Report.

re (3), "Here, the NAIC rule represents a major achievement, because it does mandate interest-adjusted cost indexes and outlaws comparisons using traditional net cost. However, . . . the rule requires too many index numbers to be displayed, omits yardstick data entirely, and provides for disclosing the cost comparison data only after the purchase decision has been made. Further, we have doubts about effective control of policy manipulation . . . and about the comprehensibility of the NAIC disclosure system." . . . "NAIC earnestly argues that it's too soon to know whether the model rule will work. . . . We think the NAIC raises a legitimate point here, and we are thus willing to defer judgment." . . . We do not recommend instant invocation of federal power to preempt the life insurance cost disclosure field. . . . We believe that the states ought to have an opportunity to address themselves to the issues with a conscious awareness that they are under Congressional observation. We will then see whether, as the NAIC asserts, such scrutiny "concentrates the mind wonderfully."*

(Actuaries can find ideas and predictions on improvement of state regulation in general by reading the excellent Federal vs. State Regulation discussion in the *Record* Vol. 3, No. 4, pp. 801-816).

Other Subjects in Chapter III

The Report discusses the potential impact of the Subcommittee recommendations on the life insurance market. It denies that the costs of implementing them present any serious problem for the life companies. It explores the possibility that its recommendations might result in creating "residual markets," i.e., groups of people who need and can pay for individual life insurance but which few or no companies will be willing to insure. It doubts that such persons will be refused coverage, and asserts that in any event such residual markets "are not properly avoided by keeping consumers ignorant of available low-cost product alternatives."

Discussing the impact of the recommendations on the agency system, the Report begins by pointing out the usefulness of an effective cost disclosure policy in educating agents about the relative cost and features of the products they are selling, and the good results that accrue when agents demand better products to sell. A point little noted in discussion within the industry is made, that this may happen even if consumers pay little attention to the cost disclosure materials. "If sensitizing agents to product differences is beneficial," it says, "detailed disclosure to agents obviously shouldn't be delayed merely because consumers are not yet ready for it."

* The Iowa Commissioner had quoted Samuel Johnson's remark, "Depend upon it, sir, when a man knows he is to be hanged in a fortnight, it concentrates his mind wonderfully."

After mentioning the possibility that agents might charge a fee for their counsel so that they won't completely lose out when buyers decide to purchase lower-cost policies than the agent can offer, the Report closes its discussion of this general subject with the flat statement, "In our view, the demise of the agency system is simply not a likely consequence of cost disclosure."

In its final section the Report assesses the propriety of the FTC's involvement in the field of life insurance cost disclosure. It concludes that FTC's activities "have been proper from both a legal and policy standpoint," but believes the FTC staff "should have been more circumspect in its dealings with state regulators," this reference being to FTC's request that insurance departments that haven't already promulgated the NAIC Model postpone doing so. □

COMMENTS

A new Build and Blood Pressure study is an important underwriting aid, although it may not be received with riotous acclaim; the students may groan about possible extension of syllabus reading. The new study records some slight improvement in the mortality from over-weights and a major change in the results from the blood pressure experience.

A table accompanying the press releases for the new Build and Blood Pressure study shows that the Association of Life Insurance Medical Directors and the Society of Actuaries have jointly published, previous to the current study, four intercompany Blood Pressure

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Comments

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studies since 1925. The mortality experience of this impairment in these four successive studies has never shown any improvement—the actual to expected was always higher than in the previous study, setting the underwriters, both medical and lay, to worrying as to why they could not improve these results and reduce the ratings required.

The new 1979 study is the first to show a decrease rather than an increase in mortality ratios as compared with the previous studies. Part of this improvement is undoubtedly due to the extension of hypertensive therapy to policyholders after issue, the group not known to be under treatment for hypertension at issue.

In any event, this is an important result, but we are far from finding a cure for hypertension, and the lower mortality ratios are not going to justify dramatically reduced substandard premiums. We may be excused for hoping that we are entering upon a new history of treatment for blood pressure with more favorable prognosis for hypertensive patients as well as a reduction in the extra premiums charged for this impairment.

Two other technical points about the study are worth mentioning. The mortality tables for the standard basis were constructed from the standard experience of the companies in the study thereby, in the judgment of the committee, excluding extraneous factors from the mortality ratio computations.

The other point is that much of the work was accomplished at the Center for Medico-Actuarial Statistics of the M.I.B.

The 1979 Study has been heralded by a series of press releases announcing several of its most striking findings. We are more accustomed to reading results like these in esoteric medico-actuarial publications than in our morning newspaper. This was an improvement and possibly a help to all readers of the study. Questions and comments can wait until we get the promised volumes.

A.C.W.

WHO IS JOHN RUSKIN AND WHAT IS HE DOING ON MY FELLOWSHIP CERTIFICATE?

by Sidney A. LeBlanc

"The work of science is to substitute facts for appearances and demonstrations for impressions." It's on your Fellowship Certificate and in every volume of the *Transactions*. Gazing at it (intermittently) for nine years I became curious: Who was John Ruskin? How did that motto get chosen?

John Ruskin (1811-1900) was an English art critic, author and philosopher. He was a man of his time, eloquent and quotable—the type who might say in daily conversation, "The work of science is (etc.)".

As an art critic he was sued by Whistler for saying unkind things about Whistler's work. Ruskin had described one of Whistler's *Nocturnes as* "flinging a pot of paint in the public's face." The court had to decide what is art. Ruskin lost, but had to pay only a farthing in damages.

Books on art and architecture rarely make one famous today. But in the 19th century Ruskin apparently fulfilled a widespread hunger for beauty inasmuch as his essays were avidly read by both middle and upper classes. In the New Orleans library today there still are no fewer than 30 books by or about John Ruskin, most of them dusty.

In the laissez-faire atmosphere of the 1850's Ruskin's political ideas were startling. He considered it the state's duty to see that every child was housed, clothed, fed and educated. He recommended universal suffrage, progressive income tax, care for the aged, and retraining of the unemployed.

Neither an actuary nor a scientist, Ruskin yet showed some actuarial characteristics—emotionally slumbering but intellectually wide awake. Though unable to come to terms with mankind's foibles his mind was so active that he began publishing in his teens and ultimately published 39 books.

His body's sole purpose seemingly was to carry his mind around. Throughout his 89 years he was chronically unwell, much of his infirmity apparently psychosomatic. He was married for six years; the marriage was never consummated and was annulled. For his last 20 years Ruskin was quite mad.

Words from his pen serve as mottos for such diverse institutions as Baskin-Robbins Ice Cream Parlors, Stuart Lang Clothes, our Society and also the Academy of Actuaries (this last supplied in 1974 by Jack Moorhead). The source of the Society's motto has recently been recounted by George Dinney (*The Actuary*, March 1979).

How Ruskin's now familiar assertion came to be the guiding star for actuaries in North America is set forth in *T.A.S.A.* Vol. II (1892), p. 358. In a mail ballot it won by receiving 35 votes. The four runners-up were:

"Truth, our aim; the time to come, our care."

"By calculation you will find the truth."

"Experience is the only prophecy of wise men."

"I have but one lamp by which my feet are guided and that is the lamp of experience. I know of no way of judging the future but by the past."

Given these choices, I'd settle for the maxim of our mad, eloquent ascetic. □

Aphorism Results

(*Continued from page 1*)

Then the two entrants that I would consider to be co-winners are the last entrant, Don Segal, with:

There is no error so large that it can't be spread over future normal costs.

and Steve Cooperstein with these two:

Estimated earnings are sure to be more accurate than actual earnings.

The pursuit of centralization, e.g., under the Academy, always seems to result in greater subdivision.

However, paraphrasing an entry by Jerrold Scher, since "they thought they would win this contest, they didn't". So how can I give them first prize?

Finally, I received a letter from Ralph Edwards who, I had believed, was my predecessor. He wasn't and pointed out that "it is a peculiar actuary who gets credit for another actuary's accomplishments." Then he added that:

An actuary is the kind of mathematician who rounds off his assumptions but not his results. □

Note to Puzzle Lovers: With this issue we enclose a pair of Actucrostics—a new feature. Hope you like them.

C. G. G.