Article from:

The Actuary

April 1970 – volume 4 - Issue 4

The Actuary
The Newsletter of the Society of Actuaries
VOLUME 4, No. 4 APRIL, 1970

REPORT OF THE DES MOINES ACTUARIES CLUB

*by Julie C. Stenlund**

Joint speakers at the February, 1970, meeting of the Actuaries Club of Des Moines were Harold G. Allen, President of The Bankers Life Company, and Geoffrey Smith, President of American Mutual Life Insurance Company. Their topic: "The Actuary as President."

Mr. Allen began by speaking of the actuary as actuary rather than as president. He stressed that an actuary is a key man in an insurance company and that an actuary who enjoys being an actuary shouldn't entertain ideas of being the president. The position of actuary is by no means one of diminution; top management must often come to the actuary for the answers, and the actuary can serve a very useful purpose as a far-reaching adviser.

Often the actuary, with his specialized technical knowledge, enjoys a great advantage over others who may aspire to the presidency of an insurance company. No matter how great the actuary's technical qualifications, though, he must have a feel for personnel matters and be able to work well with people. Mr. Smith remarked that in his opinion the first requirement for an ideal president was the ability to pick talented people to serve beneath him. Often a president must make decisions based not upon his own personal knowledge of a situation, but upon whatever knowledge the people beneath him have presented to him. Mr. Allen added that there was a great deal of frustration in being forced to make a decision before things were wrapped up.

**Miss Stenlund is a Student of the Society.*

(*Continued on page* 3)

CAMPUS CONTACT ACTIVITIES

by Samuel P. Adams

Under the wing of the Society's Public Relations Committee, the Subcommittee for Relations with Colleges and Universities is charged with the responsibility for promoting interest in the Society and the actuarial profession among students, faculty and placement officials of colleges and universities in the U. S. and Canada.

The subcommittee, first known as the Subcommittee for the Actuarial Aptitude Test, was originally established in mid-1962 when the test was first published. Its most important role was, and still is, to arrange to have the test personally presented to the appropriate staff members of as many colleges and universities as possible and to urge usage of the test.

This is accomplished by assigning a subcommittee member to each of about a dozen geographical regions of the U. S. and Canada. Each member works with the local actuarial clubs in his territory. Through the efforts of individual club members, presentations of the test are made. The name of each school contacted and of the staff member who agrees to administer the test are reported back for inclusion in a list of such names that the subcommittee maintains.

About two years ago the subcommittee's activities began to broaden and, shortly thereafter, its present more descriptive name was adopted. To promote interest in the profession, subcommittee members encourage actuarial clubs to invite mathematics faculty members to their meetings and arrange on-campus talks by actuaries to groups of interested students. Subcommittee members write personal letters to col-

(*Continued on page* 5)

COMMENT ON AIFA REPORT ON EARNINGS ADJUSTMENT

by Thomas P. Bowles, Jr.

The Association of Insurance and Financial Analysts released, in December 1969, its "Final Report from the Committee on Life Insurance Earnings Adjustment." In the Foreword the Committee states:

"The problem of adjusting life insurance company earnings is highly complex. This stems from myriad reasons, some of which are:

"(1) Unavailability of precise data.

"(2) Frequent lack of comparability in the data available.

"(3) Lack of agreement within the industry and among accountants as to what adjustments are needed to improve reporting to shareholders as well as to conform with generally accepted accounting principles (GAAP).

"These and other adverse factors have precluded the Committee from devising a simple approach for adjusting life company earnings. In addition, the Committee has also come to realize that the needs of the security analyst in the area of adjusting statutory results may well exceed the requirements of the accountant."

Two Adjustments

The Committee has sought to adhere to a basic principle inherent in generally accepted accounting principles in that expenses should be matched "with income over the anticipated life of an earnings asset." To achieve this, the Committee recommends adjustments for two major items for individual ordinary life and individual annuity business: acquisition expenses and reserves.

The adjustment for acquisition expenses is made by capitalizing and

(*Continued on page* 4)

Letters

(*Continued from page* 2)

as public benefactors in the even numbered years.

Going beyond that, I would suspect that in the future the relationship between income to and disbursements from the Trust Fund will be determined to a diminishing degree by Mr. Myers' actuarial projections and to an increasing degree by the fiscal policy then being pursued by the administration in power. Increasing reliance on the public sector will enable the government to exert a far greater leverage effect on the economy. If Social Security operates on an expanded scale, deferment of FICA tax increases or acceleration of benefit liberalization, or vice versa, would have a correspondingly expanded effect on governmental stimulation or retardation of the economy.

Is the issue entirely hopeless? Must we accept the inevitability of reduction or elimination of the role of life insurance and private pension industries? Not necessarily. But to defeat the proper rhetoric must be employed. And the proper rhetoric, deflating as it may be to our professional egos, does not consist of actuarial data or free enterprise appeals. It consists of concentration on "gut" issues.

The life insurance industry invests $7.9 billion (1968 *Fact Book*) in residential mortgages. Weaken its capacity to do so and who will fill the gap? The federal government as mortage banker? Well, perhaps. But have all the consequences been considered? The life insurance industry bought $461 million of state and municipal bonds. Is Washington going to invest in the cities and counties and states? At what price? Will the OASDI trust fund provide venture capital in the form of equity investment? Or debt for the purpose of increasing productive capacity? Is the American public prepared to live with the social and political consequences of the shift to the federal government as both the provider of the full spectrum of insurance and annuity benefits *and* the underwriter of the economy?

These are the questions that should be asked, and not the narrow technical ones. And we should be asking them and getting our colleagues in investments and agency and legal, and our policyholders and the bankers and trust officers and mortgage correspondents we work with, to ask them also. And while we are asking them, let's ask ourselves a few more. Is the industry weakening its ability to present such an argument by its development of equity products and by its increasing disdain (relatively, of course) for single family mortgages, municipal bonds, and debentures lacking in convertibility features?

Or, asking the same question another way, do we enjoy some protection by virtue of being deemed a quasi-public utility and are we giving up some of it by concentrating on higher yields, i.e., asking our investment department to bring in more money to offset our unwillingness to charge a realistic premium, or to do something about astronomical marketing costs? And again, would private pension funds be in a stronger position to justify their existence in a political environment if, even at the expense of higher costs (I shudder to think of the ultimate cost of an all-encompassing Social Security system) they, for example, liberalized vesting rules, or allocated more assets to mortgages, to urban renewal, or to investment in urban core areas?

The insurance industry demonstrated its capacity to mobilize popular support for its position during the recent premium sales tax fiasco in Pennsylvania. It's the job of all of us, actuaries and others, to meet the challenge of elephantiasis in the Social Security system by responding to its threat in terms most likely to be effective.

Peter F. Chapman

Des Moines Club

(*Continued from page* 1)

Both speakers emphasized that insurance was fast becoming a young man's business. Mr. Allen reported the interesting statistic that of approximately 400 men in executive positions (both as officers and as high-level supervisory personnel) at The Bankers Life, only 30 started with the company before World War II.

The insurance industry has always been the bulwark of conservatism, and the investment area of the industry even more so, but the fast-moving equity philosophy developing today is one example of the move toward younger men with more progressive ideas. Furthermore, the sales arena—always filled with young combatants—is becoming more and more important as the emphasis shifts to giving the customer what he wants rather than what we think he needs.

Mr. Smith pointed out that more pronounced and more profound changes have occurred in the insurance industry than in any other. These innovative trends have been partly a reaction to the creation of new companies with a profit motive. Also, banks have brought keen competition to the insurance company in its capacity as a financial institution.

Both speakers felt that the insurance industry was one of the last to adopt the "science" of management. However, it was generally agreed that the manager was going to be the one looked to in years to come. One attraction of the actuarial position is a movement toward management. Right or wrong, structurally, the one who has passed the most exams is pushed into the management position. But the actuary gets very little exposure to management during his school and study years, and thus may approach his new responsibilities ill-prepared. General discussion revealed that it was felt a broad liberal education with particular emphasis on economics was the optimum career preparation an actuary could make and that it was the company's responsibility to provide him with management experience.

Most people present believed the mechanical side of management could be taught, but the ability to deal with people was a gift rather than a skill that could be learned. Mr. Allen agreed that an actuary could probably be taught to be an effective manager, but he also stated that an actuary's adjustment to a managerial position would depend on him as an individual.

In this industry of specialists with its painful scarcity of actuaries, an actuary cannot really be sacrificed, if "sacrificed" is the word, to fill the position of president, and in the years to come, it appears insurance companies will be looking toward managers for their presidential timber. □