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GUEST EDITORIAL

ONE of the distinctions of the business world in which we all live is that we don't have any report cards. If we did, I think ten years from now the actuary who has tried to cling to his traditional role might find written across his the most damning of modern euphemisms: *Underachieving*.

The word carries with it a compliment; a compliment as to capacity. And it carries with it a criticism; a criticism as to how well the actuary is capitalizing on his abilities. I suggest that the actuary must change from the comfort of his traditional role or run the risk of becoming irrelevant.

Today the actuary tends to work in the retrospective . . . setting his rates on historical evidence. But the actuary was the pioneer . . . and the ultimate test of the pioneer is his ability to keep pace. Looking ten years from now . . . with its situations and its demands . . . we have to question whether the traditional actuary might not be subject to the following comments: He takes a precise, but limited, view of life . . . He is superbly skilled with statistics, but often fails to include all the relevant data such as social and economic trends, inflation, rising costs and other available information that is pertinent to his answers . . . He is a master of problem solving, but often abdicates the role of defining what the problems are to be solved . . . Looking in the opposite direction from the problem, he often wants to end with analysis — offering neither interpretation, projection nor management recommendation . . . The actuary, in love with exactness, has a fear of the intuitive. He lets this carry over and contain his creative ability . . . The actuary functions within a business for most of his professional life, but neglects the necessary attitudes of a businessman.

The demands of the world in which we function are forcing us to change — to redefine our roles and our relationships within the organization — as well as that of the organization within the community. The actuary is being offered alternatives. The only alternative that is not being offered is that of maintaining his traditional role. If he tries to do so, he will be relegated — quietly, subtly, but efficiently — to the function of a technician. And the actuary will be superseded by a new level of organization — the operations researchers. This would be a mistake and a waste, because the new role being offered is ideally suited to the training, background, skills and experience of the actuary.

I am suggesting to many of you that you must change. You will make mistakes, but they will be mistakes of action . . . the mistakes of achievers. You are being presented with the challenge of change, and with an opportunity.

Sterling T. Tooker

NOTE: We present as our guest editor Sterling T. Tooker, President of The Travelers Insurance Companies, who spoke at the meeting of the Casualty Actuarial Society in Hartford recently. We are grateful indeed to Mr. Tooker and to the Society for the privilege of reproducing here excerpts from his stimulating address. The full text will be published in the forthcoming Proceedings of that Society.

VARIABLE ANNUITIES TOPIC AT CHICAGO MEETING

by Malcolm MacKinnon

There has been a sharp increase in the last two years in the adoption of state laws permitting the writing of variable annuities, according to a report at the Society's Annual Meeting in Chicago.

Group variable annuities may now be written in all states except Mississippi, Missouri, North Carolina, North Dakota, Pennsylvania and South Carolina. Individual variable annuities are now permitted in 30 states and the District of Columbia.

An excellent summary of the state legislation and regulation governing variable annuities is contained in a paper presented to the recent Conference of Actuaries in Public Practice by Maximilian Wallach, Actuary of the District of Columbia Department of Insurance.

NAIC Examination

Under certain circumstances, variable annuities may be sold only by a person who has taken a special examination. This is required under the Securities Exchange Act of 1934 and also by certain states. In conjunction with the SEC, the National Association of Insurance Commissioners has developed a variable annuity examination known as the NAIC examination. This two-part examination is administered by the states. Part I satisfies SEC requirements and Part II satisfies state requirements for the sale of variable annuities. To date, about 30 states have adopted this examination.

An important development was the formation of a sub-committee of the ALC-LIAA Joint Legislative Committee to study administrative and legislative developments in connection with federal and state regulation of segregated accounts and variable annuity contracts, both individual and group, with a view to determining if there should be an industry approach to the problems involved.

The sub-committee has set up two task forces. One is dealing with the regulatory problems involved where registration under the Investment Company Act of 1940 is required. This includes consideration of possible amendments to the federal securities statutes to deal specifically with variable annuities, diffi-

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CANADIAN GROUP LIFE INSURANCE EXPERIENCE

by Richard D. Baldwin

The Canadian Institute of Actuaries recently made a study of the mortality experience during the calendar years 1963-1965 inclusive under Canadian group term life insurance policies. Twelve companies, currently insuring slightly under two-thirds of the total group life insurance in Canada, contributed data.

The experience was compiled separately for the three common disability provisions: (a) Waiver of Premium Disability Clause; (b) Extended Death Benefit Clause; (c) Total and Permanent Disability Clause.

Tabular claims were based on the 1960 Basic Group Table. The ratios of actual to tabular claims for rated and non-rated industries combined, by number of lives for all policies, were 91.1% for Waiver of Premium, 95.0% for Extended Death Benefit, and 99.2% for Total and Permanent Disability. Ratios from the Society of Actuaries 1960 to 1964 study were 91.9%, 90.9% and 93.0% respectively.

Structure of Study

Several splits were made in the Canadian study which are not available in the Society of Actuaries' results. The material, which was studied by both lives and amounts, was split by: (a) sex; (b) policies under 25 lives and 25

lives and over; and (c) territory and industry.

The amount study did not indicate any substantial adverse selection. The usual low mortality for female lives was evident. The small policies showed the higher mortality, although there was little difference between the results by lives and by amounts.

In order to obtain data which might be useful in rate setting, crude death, disability, and accidental death rates were derived by age under policies covering 25 lives or more in non-rated industries. The rates were based on the

Comparison

The Canadian study, when compared with corresponding rates developed from the Society of Actuaries experience for the period 1960 to 1964 (published in *TSA 1965 Reports*), showed considerable irregularity, a likely consequence of the small volume of data. Compared with the Society data, the Canadian rates are lower for ages 20 and under; about the same at ages 21-25; about 7% higher at ages 26-30; from 3% to 11% lower for ages 31-55. For ages 56-85 the death rates derived from the Canadian study are reasonably close to those developed from the Society experience.

The accidental death rates for the total Canadian experience are higher than those derived from the Society data for ages 21 through 70. The Can-

adian rates were highest at ages 41 to 55; at these ages, they were close to 30% in excess of those in the Society study.

On the other hand, the study shows that the Canadian disability rates are lower than those derived from the Society data for nearly all ages 31 and over, both in the case of policies with the Waiver of Premium Clause and those with the Total and Permanent Disability Clause. □

Variable Annuities

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culties currently being experienced under the 1934 Act, and the SEC's proposed amendments prohibiting the front end load and limiting sales charges in connection with mutual funds.

Task Force 2

The other task force is concentrating on regulatory problems involved where registration under the 1940 Act is not required. This includes consideration of the current SEC review of rules 3c-3 and 156, possible amendment of Section 3(c) (13) of the 1940 Act to give insured pension plans the same treatment as bank trustee plans, and possible future problems under the 1940 Act.

LIAMA has just surveyed its members to determine the extent of their offerings or plans to offer mutual funds, variable annuities, segregated or separate funds and equity-based life products. It is expected that the results of the survey will be published in a few weeks. □