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EDITORIAL

THE NEW SOUTH LIFE CASE

With the notable exception of some Southeastern Actuaries' Club members who heard a spirited presentation by James L. Athearn (then Professor of Insurance, University of South Carolina) at that club's 1973 fall meeting, few actuaries are acquainted with the financial problems suffered by the New South Life Insurance Company, a small debit company that was licensed only in South Carolina.

The New South Life happens to be one of the (mercifully) few life companies in which a major deficit has been directly linked to miscalculation of policy reserves.

Two sources from which the underlying facts are readily obtainable are:

"New South Life: A Case Study", by James L. Athearn, in the April 1973 issue (Vol. XIX, No. 5) of Business and Economic Review, published by the Bureau of Business and Economic Research, University of South Carolina;

and

"Report of the American Academy of Actuaries Committee Regarding The New South Life Insurance Company", a manuscript dated August 30, 1973.

Until recently, the second of these two documents was kept confidential for reasons associated with the life company's rehabilitation. We are pleased to learn that secrecy about it is no longer necessary; now the excellent work done ten years ago by an actuarial trio, Messrs. John M. Bragg, Delos H. Christian, and Allan F. Lebouryeau (who died in 1982), can and should belatedly receive our profession's recognition.

The underlying cause of the company's financial troubles was the writing, for 17 years dating from its inception in 1955, of business at premium rates that weren't even close to being sufficient to support its expenses and mortality. But the state of affairs that enabled the company to continue selling insufficiently priced business for so long was its mis-reporting of its policy reserves. Many endowment and 10-payment life policies were being valued by whole life reserve factors, the consequence being that a financial statement that corrected for this suddenly brought to light liabilities totalling \$25 million in a company whose assets were but \$15 million.

Case studies are widely recognized as immensely valuable aids to professional education. Here's one that we in the Society ought to milk of its object-lesson potential. Practicing actuaries should study the committee's approach, its conclusions and the outcome. Plenty of thought should be given to whether attention to the reserve reconciliation on page 6 of the Annual Statement might have readily shown that something was seriously awry. E.J.M.

LETTERS

Actuarial Notation

Sir:

It appears to me that Turvey's notation, well described by Frank G. Reynolds (Dec. 1982 issue) aimed at getting a notation linear in nature and resembling FORTRAN, presumably because it would lend itself directly to computerization and would minimize ambiguity.

But we may be shortchanging a notation system that represents decades of accumulated decisions. The central symbol with multiple subscript and superscript make it easier to keep the problem's dimensions straight, but is this the right direction? Maybe what we need isn't a new notation, but a new computer language?

APL was developed to be a mathematical concise language, general in nature and able to accommodate powerful vector operation. Since then, computers have become increasingly adept at handling characters, even those in Oriental languages. Why not, then, incorporate existing actuarial notation into an actuarial computer language.

For us as a profession to develop a new language is easier said than done. But, isn't it shortsighted to think that the only answer is to make our notation linear? Would doctors or chemists alter their professional notation just to accommodate a computer?

Larry Lang

Language Aptitude Sir:

I would object to re-introduction of a language aptitude test into our examinations. About seven years ago, I took such a test and did very poorly, but, disregarding that result I switched to an actuarial career and passed most of the exams at first attempts. Although FSA doesn't necessarily imply success in our profession, my experience as an actuary already suggests that the language test was misleading.

Furthermore, when I started graduate study for a Ph.D. in mathematics thirteen years ago, universities administered a special English test to foreign students. I did poorly, was instructed to enroll in an English class, but, ignoring this, went on and completed my Ph.D. smoothly.

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