

ACCOUNTING AND RELATED PROBLEMS

- A. Is revenue accounting practical for smaller companies? Does revenue accounting facilitate studies of company operations and trends? Are companies encountering problems in allocating expense according to the annual statement instructions?
- B. How extensively are budgets used? Have budgets proved effective? Have budgets aided in forecasting earnings?
- C. To what extent can annual statement work, besides reserves, be mechanized? Does exchange of annual statements prove worth while? If so, what analyses are made?
- D. How is the reserve calculation problem solved for interim statements? How does the use of these statements agree with the contention that only long term trends in the business are significant? What specific use is made of results obtained from interim statements?

MR. C. H. CONNOLLY stated that the Southwestern Life follows a practice of maintaining appropriate annual net premiums in both the policy exhibit and a premium exhibit. The former is derived from valuation cards and the latter from master collection cards. The results from each source are balanced for consistency. As the premium exhibit carries the net annual premium and the gross premium for a particular mode it is possible to get deferred premiums very easily. He also said that Schedule D, Part I, is prepared on tabulating equipment.

Turning to the question on interim statements he stated that instead of preparing interim statements they prepared a so-called profit estimate which aims at the reproduction of the net gain from operations before dividends to policyholders, excluding capital gains and losses. This profit estimate is prepared on a quarterly basis. The losses from loading, gain from surrenders, gain from interest and gain from mortality are obtained by using a system based on the old gain and loss exhibit. In addition to these four items, profit or loss is developed for accidental death benefits, disability, annuities, agents' balances and sales. Much of the work is done on a cash basis. If, however, accruals are sufficiently important they are recognized.

As an example, the method of obtaining the gain from mortality may be described briefly. Each year mortality factors applicable to large blocks of business are obtained. These factors are derived by extrapolating the experience of previous years as displayed in the analysis of increase in reserves. The previously determined factors are applied to the business in force in each large category and the actual mortality on a cash basis is deducted to determine the mortality profit.

MR. G. P. ARCHER stated that the Southland Life had adopted a method developed by Mr. A. E. Archibald for obtaining reserves for interim statements. The analysis of increase in reserve formula is used and is found to work quite well except on disability. The formula is arranged to eliminate the calculation of deferred premiums. In respect of the second part of the question he felt that the results were not inconsistent with those obtained over a longer period. The interim statement has been of assistance to top management in informing them of trends in time to modify existing plans, if necessary. As a sideline it has enabled clerks to be more familiar with statement activities and to do a better job at the end of the year.

MR. J. H. MILLER observed that Mr. Connolly had referred to a method of getting deferred premiums which seems to be similar to that used in the Monarch. For their regular premium and commission accounting, they have a punch card for each premium paid, showing the month for which the payment is made, the anniversary month and the mode of payment. Once a month these cards are tabulated and sorted in relation to these two dates and mode. From this information the amount of deferred premiums may be determined without making an inventory.

He stated that he is familiar with the interim reserve method described by Mr. Archer. He has used it for quite some time and thinks very highly of it. It is the only method he knows which does not distort monthly or quarterly results as a result of seasonal variation in anniversary dates. Moreover, it is extremely accurate and yet very simple and inexpensive.

MR. R. E. LARSON described the punch card method used in his company in the preparation of their annual statement. An accounting punch card for each of the statement items is prepared from reports from the Actuarial Department showing the account number, a code for the type of business and the debit or credit amount. Additional information is transferred to the accounting card from a master card deck. The master cards contain account numbers and fields having codes for each of the exhibits, lines and columns in the annual statement. The master cards are not changed unless there is a change in the instructions for preparing the statement. The tabulating department sorts the accounting cards according to the fields and prepares a book which is used in transcribing the information to the statement.

MR. R. H. NILES stated that his company has made use of budgets for approximately 10 years. They feel that there is some advantage to this from at least two standpoints. If a budget is used it requires planning on the part of various executives which in turn leads to better management. Also, it tends to control expenses.

Where a particular job is sufficiently large it is set up on a punch card or some other mechanical method. Sometimes mechanical means are obtained as a by-product of other operations. For instance, the premium notice and premium accounting on punch cards give as a by-product such items as deferred premiums. They also use mechanical procedures for policy loans, interest in advance, mortgage loan interest and valuation of certain supplementary contracts.

The reserve increase for interim statements is obtained by a method similar to that described by Mr. Archer. It is produced as a balancing item.

MR. W. H. AITKEN stated that the Empire Life's general ledger and premium billing is on punch cards.

They also prepare a budget each year and this ties together the operations of various departments of the company. Each one involved thus has an opportunity to see where he fits into the financial picture. The budget provides a guide during the year and, at year-end, helps in assessing the past year.

Statementwise probably the most important figure is the increase in surplus expected. They have found that the best way to get this figure is from an analysis of the sources of earnings. This is checked by preparing a revenue statement for the coming year.

Every four months an interim statement for the previous twelve-month period is prepared. This overcomes some of the fluctuations which may occur from time to time. They compute reserves on the attained age basis. Knowing the amount of premiums by month of issue and the death strain, they are able to adjust the year-end reserve in order to obtain an accurate interim reserve.

Annual statements are exchanged with a few other companies. An expense analysis based on these statements is made and is of considerable interest and value.

MISS G. A. SCHLACHTER stated that the Colonial Life has been preparing interim statements for about 15 years. These are now prepared on a quarterly basis. They have found them to be a very effective management tool but one which has to be used with extreme care. When an earnings statement is prepared for such a short period as three months, seasonal fluctuations can cause distortions. The only way of using the short range statements is by comparisons with previous years' results, always remembering to look for unusual circumstances. Some of the causes of variations are: (1) seasonal distribution of death claims, (2) uneven distribution of premium income, (3) seasonal variations in cash surrenders, and (4) unusually heavy writing of new business as a result of contests.

In preparing these statements reserves are calculated by two different methods and they attempt to reconcile the results. The first method is to determine the total reserve by direct calculation. They do a preliminary valuation of all insurance, calculating the December 31 reserve on amounts in force on January 1. Since they have the previous year's reserve on the same block of business it is just a matter of interpolating and adjusting for terminations and new issues. The second method of obtaining the reserve is by using the accumulation process. Interest and net premiums are added to the previous year's reserves and deductions are made for the cost of claims and for reserves released by terminations. A great deal of this is done by the use of averages derived from the previous year's work. In practice they have found better results from the first method.