



SOCIETY OF ACTUARIES

Article From:

# The Actuary

December 1983 – Volume No. 17, Issue No. 10

## Savings Banks

(Continued from page 4)

highly interested in seeing fresh capital brought to the savings bank industry; they regard conversion as a way to accomplish this.

Deregulation also has brought a quantum increase in competition from other financial institutions and from money market and mutual funds. All these developments have plunged parts of the savings industry into difficulties for which conversion is seen as a palliative.

### Contrast With Life Insurance

I do not see a direct similarity between the problems just recited and the vexations now giving rise to arguments (see "Mutual Companies in Chains", October issue—Ed.) for conversion of mutual life insurance companies. In briefly reviewing our historical background I shall use the word "conversion" which strikes me, and others, as a better term than "demutualization". Mutualization implies transformation from a stock to a mutual form of organization; demutualization the reverse. But some of our leading companies started as mutuals—the oldest in London where the old Equitable was founded in 1762 to employ the principles espoused by James Dodson and Richard Price.

Eight decades later, mutual life insurance arose in America. J. Owen Stalson, author of our best history of life insurance marketing, speaks of "The Revolution of 1843". "This year," he writes, "saw the mutual idea take America. From 1843 to 1847 seven notable life insurance companies (were formed)... Each devoted itself exclusively to life underwriting and each made mutuality the prime element of its corporate character"... "Marketing efforts of a vital and positive character became a reality when the mutual idea seized America". In New York State it was not until passage of the laws resulting from the Armstrong Committee investigation of 1905 that mutualization of stock life insurance companies became possible. □

### MAIL ALERT

Transactions, Vol. 34 (1982) should have reached you. Note that it doesn't contain Book Reviews that you have received in preprint pamphlets.

## VALUE OF POLICY UPDATE PROGRAMS

by Thomas E. Dyer

Three times in the last seven years, Northwestern Mutual Life has offered its policy-owners UPDATE programs that incorporated into their contracts pricing characteristics available to new buyers. One of these, UPDATE '80, raised the reserve interest rate to 4%; death benefits were increased by about 15%, and future guaranteed cash values were adjusted. Approximately 1.3 million policies, 67% of those eligible, issued before 1978 accepted this offer.

The following table summarizes comparative lapse experience, between 1981 and 1982 anniversaries, for the policies that accepted the amendment and those that didn't.

Comparison of Voluntary Lapse Rates  
(by volume)

Issue Years	Standard Issues—All Life Plans All Age Groups Combined	
	UPDATE '80 Accepted	UPDATE '80 Rejected
1977	.035	.074
1976	.036	.076
1975	.025	.064
1974	.028	.056
1973	.034	.056
1972	.029	.062
1967-71	.022	.050
1962-66	.014	.038
1957-61	.012	.032
1956 & Prior	.013	.025

We do not know to what extent the much lower lapse rates experienced by those who accepted result from satisfaction at having been offered that privilege, or reflect ingrained characteristics of the group itself. We have compared the distributions of the two blocks by policy size, age, sex and plan, and have found them strikingly similar in these important respects.

I believe these results confirm the value of UPDATE programs. Certainly there are increased values generated for the policyowner. The lower lapse rates show that the business has increased value for the company. And the agent has benefited by having more business still in force and clearly more satisfied clients. □

### PRIZE AWARDS

The Committee on Papers announces that the winners of the Society's Annual Prize (Yearbook, p. 66) are Michael F. Davlin and Shane A. Chalke for their paper distributed in March 1983, "Universal Life Valuation and Nonforfeiture: A Generalized Model".

Announced at our Annual Meeting in October was award of the L. Ronald Hill Memorial Prize (Yearbook, p. 68) to Barnet N. Berin and Anthony B. Richter for "Constant Replacement Ratios in Retirement: A Theoretical Approach", to appear in TASA XXXIV.

Our hearty congratulations to all these four authors.

### MR. AND MRS. MYERS WERE THERE

Both The Washington Post of October 27 and The New York Times two days later told their readers that Robert J. and Rudy Myers were in Grenada for eleven days ending just before the U.S. invasion. They arrived there October 13th, planned to leave on the 19th but could not because of the curfew, and did leave on the 24th when the curfew was lifted one day before the U.S. invasion.

Mr. Myers gave no indication that they were much worried during their enforced stay. Quizzed on why he was there, he informed this reporter that six months ago Grenada had adopted a social security plan—essentially OASDI with cash sickness benefits—and he had been invited to look into its installation and its suitability for the country's needs. *E.J.M.*