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THE ACTUARY — AN AGENT'S PERSPECTIVE

By Leonard S. Frieden

I approach this task with a great deal of trepidation since the president of my company is an actuary and the two top underwriting executives of my company are actuaries. I recognize that I may be running the risk of never having another case approved standard!

I certainly understand the role of the actuary in our industry, but I believe there could be considerably more interaction between the actuary and the field. Let me give you an example. As most of you are aware, there has been an emergence of extremely low cost annual renewable term insurance and so-called Graded Premium Whole Life Insurance disguised as term insurance offered by many non-participating brokerage oriented companies during the past five or six years. In order to compete in the marketplace, our agents were forced to place their term business with these low cost companies. The premiums with these cut-rate companies were so low on an initial basis that many agents in the industry rolled the business from one company to the next company every year to keep their competition from taking the term business away from them.

In my company, we did not have a competitive term product and hence did very little term business. Through our various General Agents' Association committees, we begged, pleaded and cajoled our actuaries to give us a term product that we could sell. We did not expect to have the least expensive product on the street; we just wanted to be in the ball park.

After a few years of begging and pleading, someone amongst our frater-

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A LOOK AT OURSELVES

By E. James Morton

One of the popularly held beliefs about actuaries is that we can predict the future. I have often been introduced with some such phrase as "He's an actuary. That means he can tell you how long you are going to live (laughter)." Well, of course, we can't do that. But we have learned in the course of our training to project current trends of experience and thus set prices based on those "predictions."

Unfortunately, we're not very good at it. Perhaps we would do better to handle projections the way that my former boss Ed Matz described the approach of economists. He felt that the economist always has in his or her mind for any time-series of data a "normal" level. So in making projections the economist merely continues the current trend line for a couple of quarters and then heads it back towards "normality."

Whatever philosophy we have used, or are using in making projections, it could stand some improvement. Let me mention a few examples.

When I started to work as an actuarial student in 1949, the portfolio interest rate of my company was substantially under 3%. In every single year since that time, new money rates have exceeded the portfolio rates. But it took over 30 years and a near-disastrous cash crisis to convince actuaries in the company (including me) that high and volatile interest rates were real, that interest sensitive products have a future, and that asset-liability matching theory actually has some practical applications. Was it more comfortable for us to assume that rates would continue to rise for a few quarters and then return to normal?

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HOW AN UNDERWRITER SEES US

By Charles A. Will

In Lincoln National's *Reinsurance Reporter,* July 1985, Mel McFall, Second Vice President, makes the point, "Actuaries and underwriters need to work together in establishing mortality assumptions and objectives...".

The point is valid and well taken but there is a more crying need — actuaries and underwriters need to *understand* each other.

Reflecting back on over 40 years, the feeling here is that they really don't have any *in depth* perception of each other's job and function. In today's challenging atmosphere, however, they most surely should. Unfortunately, each tends to travel their own one-way street.

It has been said that the actuary draws the road map and the underwriter does the driving. However, won't the actuary prepare a better map if he drives on occasion? And, knowing how the map was drawn will make a better driver of the underwriter.

LaVerne Cain, FSA, Senior Vice President of Mass Mutual, has said, "The actuary is a bridge player, the underwriter is a poker player."

True, but would it not help each of them if they knew more about each other's game other than that both are played with a deck of cards?

Underwriters tend to look (well, almost) on actuaries as expressed a while back in *The Anatomy of Britain* by Anthony Sampson as, "... basically highly specialized mathematicians ... versed in the intricate study of probabilities, on which the success of life insurance depends."

What actuaries tend to think of underwriters, being an underwriter, I

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How An Underwriter Sees Us

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am not qualified to state!

Back in 1977, speaking before the Canadian Reinsurance Conference, I made the point that the actuaries' course of study is, realistically speaking, limited as regards selection of risks. To my mind, it remains so today.

In my opinion, the same charge can also be leveled at the program of the Academy of Life Underwriting as regards the role of the actuary and how he goes about drawing the road map mentioned.

The problem is, of course, that each is a specialist in his own right and that speciality becomes his paramount area of concentration.

Over ten years ago, Jack Moorhead, FSA, wrote me, "...shouldn't the underwriters become more active in studying the statistics that actuaries are developing...?"

Of course they should, but conversely, why is it, as retired Ken Balay of Lincoln National has put it, "The underwriting decisions appear to me as the peak of vast, complex, hidden and in many ways mysterious mental processes that are not seen and never quite fully understood by other than underwriters." Why is this so, particularly to a good number of actuaries?

Neither underwriter nor actuary would argue that they interrelate. Both basically make judgments as to facts. Certainly the underwriter does and so does the actuary as Robin B. Leckie, FSA, wrote in *The Actuary,* May 1983, "...much of what actuaries do is judgment rather than science."

My point is this: let both start to get a much better understanding, feel if you will, as to the assumptions each makes so that the challenge both face can be met — together. Not only to the how and why of their jobs but also the concepts and philosophies that are contained therein.

How?

Perhaps a starting point would be for both to take a long hard look at their educational programs.

And then, while there have been and will continue to be exceptions, how many underwriters appear on the Society's programs and how many actuaries not directly engaged in underwriting on those of the HOLUA and the IHOU?

Could be I'm off base here, but on the other hand, to paraphrase something Henry Kissinger once said, "...the critic is obliged to stress imperfections in order to challenge assumptions and to goad actions."

Editor's Note: Charles A. Will is the chairman of his own consulting firm, and has written extensively about underwriting. □

An Agent's Perspective

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nity of home office actuaries must have heard us, and, in December 1983, they provided us with a competitive YRT product that finally put us in the ball park. While I do not have the records for the entire company, let me tell you what happened in my agency in 1984. We enjoyed our best year ever, paying for over $1,000,000 of life insurance premium for the first time in the 56-year-history of the agency. Over $100,000 of this premium was YRT premium. We had a case for $1,700,000, another for $2,000,000, and hundreds of cases in the $250,000 to $500,000 range. Lapses on this business have been almost nonexistent, and we are already beginning to see a number of conversions to permanent insurance after the first policy anniversary. In 1985, we have seen even greater activity in the term insurance marketplace. No one is even thinking about rolling our business to another company. In addition, much of the business placed with other companies is coming back to us.

Had our actuaries only heeded our pleas several years sooner, a substantial amount of premium dollars that went elsewhere could have stayed right home in our own coffers. I certainly hope that there will be even more interaction between the field and the actuaries in future years.

Let me give you another example of the same problem. For years on end, our agents were clamoring for a competitive disability income product. Our actuaries continued to tell us that the company was losing money on the current disability income product so we could not expect to have a more competitive product. The end result was the same. Our agents were forced to market products offered by more competitive companies.

Then one day a few years ago, our company decided to give us a competitive product and for the past two years, agents throughout the country have been ringing up new disability income sales records every single month.

As you can see from these examples, we are asking our actuarial brethren to heed these voices from the wilderness. Give us competitive products to sell, and we will achieve sales results beyond our wildest imaginations.

Within our national sales organizations, we provided our actuaries with a vivid demonstration of the power of the field during the past five years that we have been marketing our Variable Life products. We were the second company on the street with Variable Life in late 1980 and early 1981 after its introduction a few years before. In my agency during the years of 1982-1985, Variable Life has accounted for 60% of our new paid life insurance premium.

Our actuaries and other home office executives never dreamed that the Variable Life product would be so successful. As a result, our administrative delivery system has been a disaster for the field, and our home office people have been working night and day to assist us in properly administering the Variable Life product. Once again, all we need is a reasonably competitive product that puts us in the ball park, and we will have no trouble selling it.

Let us move into the area of substandard underwriting and the role of the actuary in underwriting decisions. While I recognize that underwriting can never be an exact science and there certainly must be some judgment calls, there still seems to be a great deal of variance in underwriting actions between companies. I think that my company has an outstanding reinsurance program, and we are able to receive favorable underwriting action in the majority of cases.

Every now and then, however, we will have the occasional substantial case that all of our reinsurance outlets will see as a heavily rated case. Lo and behold, another company will come along with a standard offer. After all these years in agency management, I still have a great deal of difficulty ex-

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A Look at Ourselves

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Other than financial and "social" projections, how are we actuaries who are in the life insurance industry doing as business executives projecting current trends into the future? All of us have been subjected to endless discussion in the trade press, business newspapers and magazines, television, and certainly in our own companies about what appear to be obvious and clear trends toward diversification in the financial service industry.

I need not cite examples of "everyone getting into everyone else's business," because we are up to our necks in such illustrations and they increase in number every day. Now what do you think the official position of the industry is on diversification? Is it "Let us recognize the existing situation, project it into the future, and work so that the life insurance industry will have equal access to all segments of the financial markets"? Or is it, "We will fight to the last policyholder to keep everyone else out of our business"? Do we really want the playing field to be level? Do we actually believe that competition is a good thing?

Finally, we might look at the current trends of regulation in the life insurance industry. I expect that all actuaries, whether in industry, consulting firms, government or academia, can agree that there has been increasing involvement of the Federal Government over the past 25 years in the regulation of life insurance. The Securities and Exchange Commission, the Federal Trade Commission, the Federal Reserve Board, the Treasury Department, the Internal Revenue Service, and Senate and House Committees are all arms of the Federal Government reaching out eagerly to embrace what they view as an "unregulated industry." It would surprise me if any projection of the future is a scenario with less Federal involvement than at present.

Perhaps some of you who are concerned with such matters as approval of policy forms, and attempts at diversification, may have also noted the increasing activity of the state regulators. I leave it to you to judge whether this has resulted in more uniformity of regulation or deepening chaos. Where do you think the future lies in this area, including that of mandated benefits?

If these trends are accurate might we not project a future where the industry is increasingly regulated by the Federal Government? Is it possible that it could be a positive thing to have a federal agency to turn to for help and protection as the banks do to the Federal Reserve Board or the securities industry does to the Securities and Exchange Commission? Is it in our own best interest to shape the future rather than to be shaped by it?

Perhaps in making our projections from now on, we might try asking ourselves some of these questions. After all, we need all the help we can get in this uncertain world.

Editor's Note: E. James Morton is President of John Hancock. □

Wanted: Extra Transactions

Denis Loring (The Equitable) wants to complete his set of leather-bound *Transactions*. He'll pay shipping costs. Please contact Denis directly if you can help him.

An Agent's Perspective

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plaining this disparity to my agent, as the agent always feels that our actuaries and those of our reinsurers are being overly conservative in their guidelines for their underwriters.

I fully recognize the fact that the many decisions that are made in the daily life of the actuary involve probability as well as the effect on company expenses. Perhaps more weight should be given, however, to the problems of the real world that we field people face as part of our everyday existence. All too often, decisions are made without regard for the many difficult and untenable problems they create for the field. We want our actuaries to know that we stand ready to serve as their partners to help our companies and our industry survive and grow in these turbulent times in which we live and work. United, we can all rise to unprecedented levels of growth and success!

Editor's Note: Leonard Frieden has been a General Agent for 20 years. □

REINSURANCE ADMINISTRATION IN THE SPOTLIGHT

By Mark R. White

Reinsurance has always been one of the more glamorous fields of the insurance business, but not all aspects of it have received equal attention. Reinsurance grabs headlines when there is a natural disaster or an insurance company insolvency, or when the IRS gets miffed, which is most of the time lately.

Perhaps the least noticed aspect of reinsurance over the years has been administration. Except for a small group of people in the reinsurance companies who developed the reinsurers' administrative systems, few people in the industry cared to know much about the subject. And why should they have cared? Generally things worked well enough without their constant attention.

Historically, of course, the reinsurers were responsible for the administration under most treaties. Negotiations focused on other factors such as price. Ceding companies, except for the relative few who had their own administration systems, took for granted that portion of a reinsurer's service.

In the last decade, however, several major changes have had an impact on the reinsurance marketplace. The entrance of many new reinsurers, particularly from Europe, was accompanied by a steady decrease in the price of reinsurance, not to mention a steady increase in the number of reinsurance doodads given away at actuarial meetings. In order to attract market share, reinsurers were often willing to consider additional price discounts for direct writers who self-administered.

At the same time, products such as Universal Life and Variable Life were being developed which in many cases necessitated self-administration because the reinsurers had not yet developed administration systems that could adequately handle the products' complex requirements.

Due to the proliferation of low reinsurance premium rates, reinsurers also found it more difficult to cope with the substantial increase in the volume of low cost term business reinsured. This led to dissatisfaction on the part of some ceding companies and a conse-

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