
Financial Management of Life Insurance Companies

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Springer Science+Business Media, LLC

Library of Congress Cataloging-in-Publication Data

Financial management of life insurance companies / edited by J. David Cummins, Joan Lamm-Tennant.

p. cm. -- (Huebner international series on risk, insurance and economic security)

Papers prepared for the Symposium on Life Insurance Company Financial Management, held at the Wharton School in Nov. 1992.

Includes bibliographical references.

ISBN 978-94-010-4979-5 ISBN 978-94-011-2208-5 (eBook)

DOI 10.1007/978-94-011-2208-5

1. Insurance, Life--Finance--Congresses. 2. Insurance, Life--Investments--Congresses. 3. Insurance, Life--Management--Congresses. I. Cummins, J. David. II. Lamm-Tennant, Joan. III. Series
HG8844.F56 1993
368.3'2'00681--dc20

93-19221
CIP

Copyright © 1993 by Springer Science+Business Media New York
Originally published by Kluwer Academic Publishers in 1993
Softcover reprint of the hardcover 1st edition 1993

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Printed on acid-free paper.

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Foreword

This book is published to commemorate the 50th Anniversary of the S.S. Huebner Foundation for Insurance Education. Administered at the Wharton School of the University of Pennsylvania, the Huebner Foundation was established in 1941 to strengthen insurance education at the collegiate level by increasing the number of professors specializing in insurance and enriching the literature in the field. The financial support of leading life insurance companies has enabled the Foundation to provide post-graduate education for prospective insurance teachers and scholars. Through its fellowship program, the Foundation supports students in the Ph.D. program in Risk and Insurance at the Wharton School.

The success of the Foundation is measured by the accomplishments of its alumni. Former Huebner Fellows play leading roles in every major area of insurance education. Fellows teach insurance to tens of thousands of undergraduate and MBA students each year and have written hundreds of books and thousands of articles on insurance. Fellows hold leadership positions at the American College, the Life Office Management Association, and the Certified Employee Benefit Specialist Program.

The Foundation was created in honor of Dr. Solomon S. Huebner, a pioneer in insurance education. Dr. Huebner taught the first organized course on the economics of insurance ever offered at the collegiate level in 1904. An internationally recognized author and teacher, Dr. Huebner had a profound impact on both insurance education and the insurance industry. He served on the faculty of the Wharton School for more than nearly fifty years.

The papers in this book were prepared for the Symposium on Life Insurance Company Financial Management, held at the Wharton School in November of 1992. The Symposium was the primary event sponsored by the Foundation in celebration of its 50th Anniversary.

Attendance at the Symposium consisted of life insurance company executives and academic experts on insurance and finance.

The theme of this book is financial management, i.e., management of life insurers using techniques drawn from the field of finance. The importance of financial management has increased greatly in recent years, paralleling the growth in competition within the financial services industry. This competitive environment reflects an increasing financial sophistication among insurance consumers as well as the blurring of the lines that traditionally separated different types of financial institutions. To succeed in today's business environment, insurers must use financial techniques such as asset-liability management, financial hedging, futures, and options. They also must be increasingly precise in measuring the tradeoffs between risk and return in both their asset and product portfolios. These issues are the subject of this book.

We are grateful to Richard Phillips for his diligent efforts in preparing the final manuscript of this book and to Connie Marino for her administrative assistance.

J. David Cummins
Joan Lamm-Ternant

The Huebner Foundation gratefully acknowledges the support of EDS in sponsoring the Symposium on Life Insurance Company Financial Management and this publication.

TECHNOLOGY AND THE GLOBAL INSURANCE MARKET

Benjamin Sims

President, Commercial Insurance

EDS

EDS is pleased to have the opportunity to participate with the S.S. Huebner Foundation and the Wharton School in the Symposium on the Financial Management of Life Insurance Companies and the publication of this book.

EDS is a technology company involved, as are most life insurers, in the global insurance market. And while technology and the global insurance marketplace are each inherently interesting, there is an important trend which links them - *getting back to basics*. This trend has important implications for our personal lives and our business well-being.

In this context, I will first define this trend and then look at some examples of this trend in the personal and professional lives we all lead. Lastly, I will focus on what getting back to the basics may mean for us in the insurance industry.

The concept of getting "back to the basics" is much more than just a faddish attempt to immerse ourselves in nostalgia. "Back to the Basics" is a trend that aims to make changes in our lives and businesses that are fundamental, long-lasting and *welcome*.

A "back to the basics" approach represents a departure from instant gratification and quick fixes. Instead, it involves perseverance, continuous improvement and results achieved through tried-and-true

solutions. But it's an absolutely essential trend if we are to compete successfully here and throughout the world.

How is the back to the basics trend affecting our personal lives? Let's look at some examples in the areas of education and lifestyles.

In education, the fundamentals - reading, 'riting, and 'rithmetic - are back in vogue. One of the interesting asides about the 3 R's is that there is no debate on the necessity of providing a firm educational grounding in these core areas. However, there *is* debate on implementing the changes required to get back to the basics. That debate is taking shape in communities across the nation. Whatever the outcome of those discussions, some curriculum change is inevitable if we are to ensure that the education of our youngsters is grounded in the basics.

Much to our credit, American business is playing a major role in implementing the back to the basics solution. On the local front, business has always played an important educational role. Programs like junior achievement are an ideal blending of business know-how and schooling for budding entrepreneurs.

And what better example of supporting educational initiatives is there than the support provided by insurance companies for the S.S. Huebner Foundation? The American College of Life Underwriters is another excellent example of how the insurance industry is supporting educational initiatives.

Many of our companies are also developing partnerships with schools through "Adopt-A-School" and other tutoring programs. And many of us underwrite the costs associated with developing far-reaching educational programming, delivered through a variety of media.

At EDS on the local level, we are partners with 35 elementary and middle schools from New York to California and Michigan to Texas. On the national front, we, along with Turner Broadcasting, provide systems integration and communications services for the Jason Project. This began as the dream of Dr. Robert Ballard, of the Woods Hole Oceanographic Institute, and has resulted in over a half million U.S. students participating in the discovery of the wrecks of the R.M.S. Titanic and Bismarck.

Sponsorship of programs like these needs to continue. To ensure our viability in the marketplace, we have had to step to the fore to promote the educational values that will keep our children and our businesses competitive. It's a trend that we must continue. The important thing for American business is to stay involved and play an active role with educators in rebuilding the American educational system.

Our lifestyles have also been influenced heavily by the back to the basics trend. Although the 1980s have sometimes been termed a decade of excess, in these years we also came to better appreciate the non-material aspects of our lives. In this regard, business leaders are now considering initiatives which address a variety of employee quality of life concerns. The emergence of these concerns demonstrates that we are all going through a tremendous refocusing or rebalancing of our personal and professional priorities. Issues like parental leave, paternity benefits, health care continuation and other immediate family needs are at the forefront.

But what does getting "back to basics" mean for us in the insurance industry? It means strategic financial management, the focus of the Huebner Foundation's symposium and of this book. In this context, a variety of viewpoints, advice and general observations have been offered from industry and academic leaders.

The insurance industry is refocusing itself, much the same way as the educational system, our lifestyles, and, on a more grand scale, the American economy. We have the chance before us to redefine our purpose, to recommit ourselves to the industry and to get back to the basics.

Industry chief executives suggest that just such a trend is underway. Insurance companies will need to focus on their product offerings, premium rates and a host of other issues that define them in the marketplace. But companies will also need to focus on their infrastructure - their people, work processes and technical environment - to ensure a competitive service edge. All of these elements comprise the basics of the insurance industry.

The 1980s were years of incredible product innovation. For the 1990s and beyond, the key will be determining what's basic to the success of your business. Is it junk bond or real estate investment portfolios, or is it the selling of a valued product, priced at a fair rate, and supported with superior service effort? We will no doubt encounter new and formidable challenges in the coming years.

The companies that create an environment which allows a return to the basics will be staffed by intelligent, articulate and market wise employees. The source of these individuals is our educational system. Quite simply, our business success is *directly linked* to that of our educational system. Hence, we need to continue to take the long view - both in terms of education and our business. And continue to work together to ensure our mutual success.

Financial Management of Life Insurance Companies