

TRANSACTIONS

NOVEMBER, 1964

ADDRESS OF THE PRESIDENT ANDREW C. WEBSTER

THE President has the privilege of addressing the members on subjects of his own choosing. I would like to report on major items in the year that has passed and to muse upon such matters as have interested me and seem to me to have some significance for the members of the Society.

My year of office has been a year of travel, taking me to many places. On this continent it has afforded me the opportunity to meet with many actuarial clubs in various parts of the country. This was a most pleasant duty, and I returned from these visits with an even greater appreciation of the fine work the clubs are doing. As the Society grows larger, the importance of the regional clubs becomes greater.

Of primary importance have been the negotiations for the establishment of the Academy of Actuaries. These will be reported upon later, but I should like to express some personal disappointment in not being able to announce to you that we have received our charter and that the Academy is in being. A new congress will call for a renewal of our efforts to obtain the charter, and plans are already being made. I should like to express the thanks of the Society, and of myself, to the group of people, both Society members and members from the other interested organizations, who have worked so hard on this project.

The Committee on Status and Accreditation that is working on the Academy is but one of the many committees making up what Lord Beveridge called the "seamy" side of the Society—they are the seams without which the Society would fall to pieces. To all these committee members and to the officers and to the Board of Governors, I would like to express my personal thanks.

Second in importance was the International Congress of Actuaries, on which you will also have a report. This was a memorable congress, and those of us privileged to be in London and Edinburgh will not soon forget the hospitality of our British hosts. It was memorable in other ways, as a perusal of the papers submitted and discussed will indicate. The members of the Society had their share of contributions, both in

printed papers and in the discussions. Sometimes the *Transactions* of International Congresses are left to gather dust on library shelves. I suggest that the *Transactions* of this Congress are well worthy of perusal by our members. They will find that in many areas, particularly in the fields of social insurance and pensions, the problems of all countries have much in common. Of more particular interest to the members of the Society is the excellent paper, "The Development of the Actuarial Profession in the United States," by Walter Klem. This historical essay I can recommend highly.

The discussion at the Congress on "The Development of the Actuarial Profession" provided much food for thought, and two items remain in my mind. One was the intriguing possibility that we might one day have a basic set of examination requirements for all actuaries, in whatever country. Perhaps this was inspired by a description of the proposed Academy of Actuaries that Mr. Rood contributed to the discussion; perhaps it is an extension of the ideas of my predecessor in trying to find a basic syllabus for life and non-life actuaries. This basic training may be of great value as our horizons expand geographically. Today pension plans leap over not only state borders but international borders. In the life insurance business we are seeing a return to the European market on the part of some companies in the United States, and the Common Market may yet to some of us be more than a mere name, and the international nature of insurance, long recognized by our non-life friends, may be extended to include life insurance.

The second item was the purpose of actuarial education. Some of the speakers emphasized the testing of our students in depth rather than in breadth. The boundaries of actuarial science and its applications have been so extended that nowadays the student can hardly be expected to know all about everything from underwriting to pension funds. If we give our students a basic training in the fundamentals of our science, we should not have to worry about lack of experience in all fields. We can rely upon the integrity and the judgment of our graduates to lead them to comport themselves properly in areas where their knowledge and skill are minimal. This is the professional conduct which is not and need not be described in the *Year Book*. The purpose of our education is to train actuaries—practical actuaries, if you please—and the following comment about medical education might well apply to the actuarial profession.

Most medical schools are confused about their basic purpose. . . . We forget in the competition for students, that the true and chief function of the medical school is to turn out physicians that are artists, not scientists; professional men, not high level technicians.

Two years ago marked the bicentenary of the Equitable Life Assurance Society. Our profession was born with that Society, and I sometimes wonder if we have not inherited some of the defects as well as some of the advantages of the eighteenth century; if, in short, our actuarial outlook is as modern as we would like it to be. The eighteenth century was the age of reason, the age of enlightenment, and the age of the encyclopedists. Man was quite sure that there were answers to all questions and that he knew all the answers. Actuarial science sometimes has a certainty about its methods more apparent than real. Possibly the time has come to take a fresh look at actuarial concepts, and such procedures as separate accounts and investment-year methods may encourage such a review, at least so far as interest and investment are concerned.

Consider one of our current problems. We are being questioned by governmental authorities and by our friends, the accountants, about our life insurance company annual statements and their meaning. May not the misunderstandings arise because we have ourselves accepted the idea that the balance sheet is something absolute, ignoring the fact that the values of the assets and of the liabilities in a life company balance sheet are relative and not absolute? Perhaps the difficulty is that the life insurance company balance sheet, produced in accordance with rigorous legal requirements, is expected to shed light on too many places. It is expected to determine solvency, to determine surplus, and, in the case of stock companies, to determine the value of the stock. I have been intrigued with the possibilities of matching assets and liabilities, a subject which has been discussed on the other side of the Atlantic. Perhaps the more rigid legal framework in which the life insurance companies operate on this continent inhibits any such experimentation, but I wonder whether the greater freedom enjoyed by pension funds does not give an opportunity to be more realistic in the relative values of assets and liabilities. Some of the questions that have been raised by our friends, the accountants, require to be answered and have been valuable in that they have stimulated our own thinking about our own business.

In another area we still think of individual lives and of individual evidence of insurability, this being the basis upon which life insurance was originally worked out. Is it necessary to continue to be so rigid, or is there some common basis, some common denominator, that can be applied to simplify our handling of individual life insurance? I would like to quote an example from the fire and casualty field.

Comprehensive insurances are the result of a new way of looking at the problem of insurance. The man in the street is an average sort of person. The requirements of one are much like those of another, and as their appetites can

be served with a common bill-of-fare so can their insurance needs be met with one common group of benefits by charging one premium directly proportional to the value of the property. The rationale may not quite satisfy the precise mind of the actuary but it works.

Certainly group insurance has produced novel and interesting approaches to the problems of insurance, and I suggest that one of the reasons why the group insurance field has proven so popular among our younger actuaries is that it has a changing pattern and changing problems, that the rate of mortality and the rate of interest are always relative and not apparently fixed far into the future.

Even in the analysis of our own results we have to consider abandoning the laborious methods of individual enumeration in favor of statistical methods using sampling. The availability of computers should not blind the actuary to the possibility of new methods for old problems. The Society has established a Committee on Research which will work with a similar Committee of the Casualty Actuarial Society, looking into such matters as the theory of risk, operations research, and the use of modern statistical methods in our analyses. The traditional methods of life insurance are still of great value, but we should remember that today the actuary has new mathematical tools in the form of statistical methods and new mathematical assistance in the form of computers. These should enable him more accurately to chart the course of the undertaking in which he is engaged, be it life insurance company, pension fund, or social insurance scheme.

Back in 1851, Dr. William Farr remarked that he looked forward to the day "when the profession of actuary will be greatly extended and when no commercial concern of any extent will be without such an officer." We are still a long way from this, and even within our life insurance activities I do not think we are sufficiently represented in the investment field, which may be equally important to the future security of a life insurance company or of a pension plan as the technical calculations. This should not be taken as a request to the Education and Examination Committee to extend the syllabus. It is merely a suggestion that the actuary should properly be concerned with more than merely technical calculations. Technical qualifications are part of our competence, but there should be more to the actuary than techniques and I would quote Frank Redington's Presidential Address to the Institute of Actuaries:

The actuary's danger may lie in too close preoccupation with his particular techniques. His real strength lies elsewhere: in a broad training whose firm roots are in mathematics and statistics, but whose branches reach out into

commerce, investment, administration and all the bustle of humanity. It is not the tools he uses which make a great craftsman. It is the way he feels and thinks.

The proposed Academy of Actuaries lends emphasis to the profession of actuary and to the actuary as an individual. This I welcome, because we have not been officially recognized as a profession and over the years we have been, I think, in danger of losing our individuality. Most of us have corporate affiliations, and individual identities can be lost in the shadow of a corporate personality.

I should like to comment on some of the responsibilities that attend the individual members of the profession. We should continue to require a high degree of competence on the part of our members, and I think we can all agree that part of our debt to the profession is the requirement that we uphold its honor and dignity in such a manner that we are properly recognized for our contribution to the society in which we live.

Now the work of the actuary and the fields in which he has knowledge and skill practically at all times are within the public domain. This, as illustrated by both life insurance companies and by pension funds, is one of the reasons why the Academy of Actuaries is being proposed. On the other hand, the lords of the public domain seem to pay but little heed to the actuarial voice on matters which are of actuarial moment. In the United States, in Canada, and elsewhere we are confronted with various schemes of social security and with various plans for human welfare, all involving the application of probability to human affairs. I suggest that we as a profession have been unusually silent on subjects about which we are expected to know a little. In his Presidential Address Frank Redington remarked, "The work of the actuary is mainly concerned with long term obligations and in that sphere he has a professional duty to the community; to protect the future against the ravages of the present." This is not a political matter; this is a matter of citizenship. If we are silent, who shall speak? We must follow Richard Price, who remarked about the national debt, "I find it difficult to speak with calmness. But I must restrain myself. *Calculation* and not *censure* is my business in this work."

Even without going as far back as Richard Price, let me quote from Mr. Jordan's booklet on the Actuary in the "American Occupation Series":

The actuary has many civic responsibilities. As one who has been uniquely trained as a specialist in the analysis of complex financial problems, the actuary takes a particular interest in such matters as social insurance, taxation, anti-inflation measures, and welfare legislation—proposals that the average citizen

is usually poorly equipped to evaluate. The actuary thus has a duty to advise his fellow-citizens and the government on these matters of fiscal policy.

Mr. Jordan takes a rosier view than I do when he says, "The government frequently takes the initiative in asking a committee of actuaries for recommendations on proposals relating to their specialized fields of knowledge."

The members of the Society may, because of their affiliations, find themselves in difficult positions, but, recognizing that we owe an obligation to our employers and to our clients, is it not possible for us to speak as members of a profession? I have no immediate solution for this thorny problem. I bring its existence to the attention of the Society and of the other actuarial bodies because I think that a solution must be found. Perhaps too long we have hesitated to speak as actuaries on social welfare and on other subjects. The problem involves governmental rulings on our business, as well as matters of social security, and it is not going to disappear. If we continue our silence about matters within our knowledge and our skill, some other, and possibly less capable, group is going to make itself heard.

In raising the question, I am fully aware of the Society's constitution which states, "No resolution expressive of opinion shall be entertained at any meeting of the Society of Actuaries." I am not asking for resolutions or opinions. I am asking for facts, for critical analysis of matters financially affecting the welfare of our nations.

Some of the facets of this problem are matters of professional conduct, and we should heed the words of Walter Klem, who said in his Presidential Address that "a sense of personal responsibility is at the heart of the highest standards of professional conduct."

This year is the seventy-fifth anniversary of the founding of the Actuarial Society of America—the original constitution was adopted on April 26, 1889. We should pay tribute to the founders, for they built well, and a membership of 45 on October 3, 1889, has grown to 2,445 today. The reports of the first meeting emphasize that the actuaries then considered themselves as individual members of a profession, and seventy-five years later I would lay stress upon the individuality of our membership. Today the professional requirements of the actuary are perhaps more extensive than they were in 1889, but the requirements of the actuary as an individual have not changed. Back in the days of the founding of the Institute the *Post* magazine said:

The requirements in the character of an actuary are—a high degree of mathematical knowledge, the most unspotted integrity and a practical acquaintance

with the management of large accounts, so as to present the most involved details in the simplest form; he must be capable of hearing opposition without irritation and of supporting the views which he believes to be just, without arrogance—he must possess a thorough command over himself, a complete acquaintance with the world and that suavity of manner which enables a man to perform a difficult duty without imputation, but to meet with patience the objections of the ignorant or the schemes of the interested.

Today the Society, as evidenced by its products and by its members, is a lively organization, and we must keep it so. To maintain the high standards of our profession, we need more than mere learning from the past; we need imagination to devise new ways for new problems as well as new ways for old practices. Where there is no vision the people perish, and the prophet reminds us that while the old men dream dreams it is the young men who shall see visions. Our strength is in our youth, and with an able body of young members the Society can confidently look forward to future expansion both in size and usefulness. Actuarial science, of which we are the practitioners, has been described as the application of the doctrine of probabilities to human affairs. Let us not forget in our practice the admonition of David Hume: "Indulge your Passion for Science, but let your Science be human and such as may have a direct Reference to Action and Society."