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**REORGANIZATION OF THE ACTUARIAL PROFESSION**

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This session provided an opportunity for members to discuss and build on the reorganization presentation made in the General Session.

MS. ANNA RAPPAPORT: After the Board of the Society of Actuaries (SOA) met last fall, I made a list of the issues with which the committee dealing with reorganization would have to cope. First, although there is a general agreement that reorganization is needed, there is no guarantee that an acceptable solution can be found, or that the ARC proposal, in fact, can be implemented because many of the needs and interests of the profession are in conflict with other needs. Second, the question has been raised, "Can there be one voice to effectively deal with government bodies in the U.S.?" Third, how important will the Enrolled Actuaries be in the future? Will government exams become an alternative to professional education and qualification? Fourth, Fellows of the Conference of Actuaries in Public Practice include some people who are ASA's and some who are not SOA members at all. In order for a proposal to be acceptable to the Conference, its Fellows want adequate recognition of their Fellowship status. Fifth, casualty actuaries want only those people trained and qualified in the casualty area to be able to practice as casualty actuaries. The ARC proposal contemplates that casualty actuaries will be included in the restructuring. Sixth, specialty needs, especially those of pension and casualty actuaries, must be met. There are various ways of defining specialty needs and diverse interests. Seventh, scientific and public policy issues cannot be separated. The profession must deal with current issues having public policy implications in a responsive and responsible manner and in a manner that effectively utilizes the scientific resources of the profession. Eighth, there is a need to define what an actuary is and who should be included within that definition. The profession can deal with the outside world effectively only if there is an agreed-upon definition. Ninth, external concerns will be more important in the future than in the past. Tenth, professional degrees will be needed which will be acceptable to all negotiating parties.

I am going to start now with the questions that were asked after the General Session. "What is happening? For whom is the ARC proposal? Is what is being done consistent with the statement that time is of the essence?"

MR. JOHN WOODY: The ARC proposal was put together by a committee of the SOA in response to a resolution of the Board of Governors of the SOA passed at the spring Board meeting last year. The committee was appointed by Jack Bragg and was chaired by me. We adopted the ARC logo, so to speak, ourselves. We attempted to put together a flexible proposal that could be used as a foundation for negotiation and elaboration. We felt that it was necessary to leave specifics to development through discussions within the several bodies and the negotiations among the bodies.

MS. RAPPAPORT: "Who will conduct negotiations? Can we say nothing about the expectations? What is the likelihood that the various organizations will all vote themselves out of existence to become one U.S. organization?"

MR. PAUL BARNHART: At the present moment, the SOA is in the position of having a steering committee that has been appointed in response to the ARC proposal by the Board. This steering committee is authorized to enter into active dialogue and negotiations with the five actuarial bodies. This does not mean that we have some sort of power of attorney to strike a bargain or to conclude anything. What is meant by this is that these negotiations are intended to lead to a consensus, which must then be submitted to the boards of the various bodies and to the membership of the various bodies. The American Academy of Actuaries (AAA) is in a similar position. They also have a steering committee which has similar authority to have dialogue and to enter into serious negotiations. Most of the other bodies have appointed chairmen. Our next move is to find out if we are in a position to begin serious dialogue and to start negotiations. The ARC proposal is the SOA starting point. It is deliberately a highly flexible document so that there is room for negotiation and compromise. ARC provides for the U.S. membership body (U), the Canadian membership body (C), and  $\Sigma$ , the non-membership scientific and research body, which will be dependent on the national bodies for the election of its board. Based on these brief and simplistic principles, our charge is to proceed from this proposal. We recognize that there are difficult problems of credentials, qualifications, and representations and the question of proportionate or disproportionate representation on the boards. Although there are serious difficulties confronting us, we certainly intend to move ahead in every practical and possible way. We have to give our attention to pressing problems whether or not we are making headway in this steering committee operation. There are many important subsidiary tasks that have to be performed, and the concept is to establish task forces which would be in the nature of subcommittees of the steering committees appointed by various bodies.

MS. RAPPAPORT: The only board that has endorsed the concept of the ARC proposal is the SOA board. The other boards have established the basis for negotiation. I believe that all of the board members of all of the organizations and all of the Committee members recognize that there are certain problems facing the actuarial profession. They are committed to finding solutions for those problems.

Another question raised was, "Why would professional conduct matters be handled in C and U and not in  $\Sigma$ ? How was professional conduct going to be maintained for the people outside of North America? Would not professional conduct be easier if we had a British Institute structure?"

MR. BARNHART: What is envisioned in the ARC proposal is that matters of conduct and discipline would basically fall in each of the national bodies and the reason that they would not lie in  $\Sigma$  can be easily illustrated by the case of an MD who is charged with misconduct as a medical doctor. His MD degree is an academic degree that cannot be taken away from him. What is taken away will relate to his license to practice medicine which falls into a different area.  $\Sigma$ , as it is envisioned in the ARC proposal, would not be a disciplinary body because it would not be involved in the area of licensing or qualification to practice in a legal manner. The rules of conduct and discipline would not have to be identical between C and U, but one would hope that they would not be grossly contradictory, that there would

be some similarity of standards of conduct and degrees of discipline. These are very specifically matters that would be the responsibility of the two national bodies.

MS. RAPPAPORT: These same arguments would hold for those people outside of North America. We could not have the British Institute structure because of the political reality of the situation. We would simply not be able to have one body in the U.S. and Canada. The Canadian Institute is mentioned throughout Canadian law and they have very strong reasons why they need a national body there, just as we need a politically effective body in the U.S.

We also had a question "Can someone belong both to C and U if he practiced in both countries?"

MR. WOODY: That would be expected to be the case. Each body, C and U, would set its own standards for admission which presumably would consist in a large part of qualifications derived from  $\Sigma$ , that is, through examinations or whatever other means were set up by  $\Sigma$ . In addition, each body would have its own local requirements and there would seem to be no reason at all why Canadians could not qualify in U and people from the U.S. could not qualify in C. The requirements might not be parallel, but I do not think that we have to insist on symmetry.

MR. GEORGE POZNANSKI: It is my understanding from the chart representing the ARC proposal that the  $\Sigma$  body is to be an educational and scientific entity with no members but governed by an elected board appointed by the C and U bodies. The organizations that would have members and would hold periodic professional meetings would be the C and U bodies; the C body being a national body for Canadian actuaries and the U body being the organization for U.S. actuaries. It appears from the proposal and what the members of the panel said that I, as a Canadian actuary, particularly one whose employer conducts no business in the U.S., may have difficulty becoming a member of the U body. Yet, as a Canadian, I have greatly benefited over the years from being able to attend the meetings of the SOA at which technical problems facing actuaries in the U.S. and possible solutions to those problems were being discussed. It would be, therefore, regrettable if, under the proposed organization of the profession, Canadian actuaries were denied the opportunity of being able to attend meetings at which U.S. actuaries discussed various professional matters in the light of the legal and economic conditions existing in that country.

MR. WOODY: I do not see any reason why members of U would not be welcomed in C meetings and members of C would not be welcomed in U meetings.

MR. POZNANSKI: I would hope that perhaps the U organization might have a correspondent status of membership such as the Canadian Institute of Actuaries has. The correspondents of the Institute may attend meetings of the Institute and participate in all discussions, including workshops. Correspondents, even though they would not be members of U, would be able to attend meetings of U, take part in discussions, and receive the material that that body may be distributing to its members.

MR. WOODY: The meetings structure is again one of these items subject to development and negotiation. It seems clear that many topics come within the purview of  $\Sigma$ . Research, theoretical actuarial problems, mortality and morbidity studies, a whole raft of such activities seem logical for meetings

organized by  $\Sigma$  for all of the members of C and U. At this point there is no clear concept of the relative weights of activity of the various organizations. I would like to erase the idea of dependency and simply say that having C and U electing the board of  $\Sigma$  is a device for achieving something like a common board.

MR. DONALD S. GRUBBS: It is agreed that any proposal can be adopted only if it has the support of the membership. One approach to discovering whether a proposal is suitable to the membership is for the leadership of the six actuarial organizations to fully develop the plan of reorganization and then to submit it to the membership on a take-it-or-leave-it basis. A second approach is first to find out what the membership wants, and then to develop a solution which will accomplish that end as nearly as possible.

The leadership has taken some small steps to ascertain how the membership feels about the subject. The invitation for members to write suggesting their ideas was good, but inevitably drew responses from only a small percent of members. Concurrent sessions in Quebec and St. Louis to consider the ARC proposal were also good, but because they were in competition with other important sessions, small attendance could be expected, and such sessions ordinarily reveal only the opinions of a few who speak.

The best way to obtain the opinions of the majority is to conduct a written poll of the six organizations' memberships. A poll with check responses (with written comment optional) could be expected to get a high return and could be quickly administered. The poll could address the major substantive questions, and could be accomplished with a brief argument favoring each alternative.

Now I want to focus on two of the substantive issues related to reorganization. The first question is, "What should be the relation between casualty actuaries and life actuaries?" There are three basic alternatives:

- (1) One combined organization, with committees to handle specialized matters.
- (2) Two separate organizations, with a third organization to handle matters of common interest.
- (3) Two separate organizations, with joint committees to handle matters of common interest.

Apart from basic mathematical tools and health insurance, the actuaries who work with pension and life insurance really have very little in common with the casualty actuaries. The needs of both groups have been well met by separate actuarial organizations for many years and there seems no need to combine them. In areas where they have common interests, such as in sponsoring actuarial examinations dealing with the basic principles, the SOA and the Casualty Actuarial Society have proven that co-sponsorship by the two separate bodies coordinated on the committee level works well. There may be other areas of common interest where joint committees can work on common problems, but to combine the entire profession in a single organization would create a body with interests so diverse that members would have little in common. Of course, those few actuaries who work in both realms could join both organizations.

The second question is, "What should be the relationship between U.S. and Canadian actuaries?" Again, there are three basic alternatives:

- (1) One combined organization for U.S. and Canadian actuaries, with committees to handle specialized matters.
- (2) Two separate organizations, with a third organization to handle matters of common interest.
- (3) Two separate organizations, with joint committees to handle matters of common interest.

There is considerable value in exchange of information and ideas between actuaries of different countries. This need is filled by the International Actuarial Association and by the International Association of Consulting Actuaries. There is no more reason or need to have a binational actuarial organization between the U.S. and Canada than there is to have a binational organization between the U.S. and Australia. To be sure, that minority of actuaries who work on both U.S. and Canadian problems will want to be members of both national organizations, but having a binational organization adds substantially to organizational complexity. Indeed, the two national organizations will probably want to jointly sponsor actuarial examinations, but this can be handled by committees of the two national bodies, just as it now is by the SOA and the Casualty Actuarial Society.

In conclusion, I advocate one organization of U.S. life actuaries, one organization of Canadian life actuaries and one or two organizations of casualty actuaries, as the casualty actuaries think best. No superstructure above these bodies is needed.

MS. RAPPAPORT: The next question has to do with the lowering of professional standards as a necessary result of unification of the U.S. profession into one body. "How can our reorganization committee really believe that this can be avoided?"

MR. BARNHART: The answer has to be broken into three areas. First of all, to the extent we are successful in maintaining the educational and the training standards that are now represented by the FSA and ASA designations, those same qualifications in that type of educational attainment will be fully maintained. The difference arises in that as the ARC proposal is conceived, there is a distinction or separation between the educational qualifications and the purely membership or what might eventually become licensing qualifications. These are distinguished as being to some degree separate in concept. It is quite possible that in order to bring into reality this unified body, there would have to be recognition of members in some of the merging bodies who might in terms of their present membership qualifications not be fulfilling professional qualifications in the same degree as are now seen in the FSA. If we are going to ask these people to vote on whether they are willing to in effect dissolve their existing organization and merge into a U.S. national body, we cannot ask them to disenfranchise themselves, so there would have to be some type of grandfathering provisions. The point at which I am getting is that there could very well be some temporary lowering of standards. As we see this, it would be strictly temporary and the further requirements for eligibility for membership from that point forward would be just as strong and high in terms of professional standards as anyone could hope. Let me get to the third area which is an answer to

a question which is often overlooked. Let us say that if this reorganization is not brought about and we simply continue as we have been, six or seven or eight organizations with various standards of education and training, there is a much greater danger of actual dilution in practice. At the present moment, what is the category of actuary that has the most specific recognition at the Federal Government level? It is the Enrolled Actuary. There you have specific recognition of qualification to practice at the Federal Government level, and the FSA does not have similar recognition. The practical effect of this if this kind of thing were to continue and if in the future we had other areas of federal regulation, such as qualification needed to sign an insurance company annual statement and certify to the reserves, is the very real danger of a dilution of professional standards. As the public looks at this, it is entirely possible that many might very well regard the Enrolled Actuary as being a higher standard of qualification than an FSA. The real danger of dilution of professional qualifications and standards would lie in the possibility that we would not take effective steps for reorganization and that we would allow the fragmentation and the diversity which we now have to continue.

MS. RAPPAPORT: The Federal Government is going to be continuing to give examinations for enrolling actuaries and it seems clear to the extent that they license people, they are going to be setting their own minimum standard. No matter how we reorganize, we are not going to have any control over this.

MR. BARNHART: I agree with that, and I think what we are trying to say is that through creating a unification of the profession in the U.S., we would be better able to deal with that kind of danger to our profession.

MS. RAPPAPORT: On the subject of licensing, it is extremely important to recognize that licensing is something that can only be done by a government. It cannot be done by a private organization. However, if you deal with the Government, there are risks.

The next question deals with the reasons for reorganization. "The reorganization seems mainly to concern only a minority of our members, consultants and pension consultants in particular. Why should the profession be reorganized to meet the problems of only a minority?"

MR. BARNHART: First of all, I disagree very strongly with that premise that the problems leading to consideration of reorganization concern only a minority. To some extent, some of these things are more in the nature of potential problems, but there are very imminent potential problems. For instance, the prospect of expansion of federal regulation in the life insurance area is a very imminent and real prospect. The question of federal legislation in the health insurance area is certainly a very imminent possibility. We have to recognize that even though recent legislation has been more concentrated in the pension field, these other areas loom very, very close and because of that, it would be a great mistake to simply sit back and say these immediate problems only concern a minority. We already have instances of developments that have certainly had an impact on life insurance companies' actuaries in the AICPA Audit Guide. I think we are all aware of the concern that came among life company actuaries at the prospect of someone else saying, "I am going to audit your valuation of the company's reserves and liabilities." Here is an example of a development that has a very real impact on the life company actuary. We are not at all talking about a minority, we are talking about either present or very imminent potential developments that could have a very direct and specific impact on the great majority of our membership.

Let me look at that question from another standpoint and let us presume that it is really true that at the moment, the most imminent problems do have a direct impact only for a minority of our profession. I think we all feel that we owe a lot to this Society and to this profession. One of the ways that we would want to help pay back that bill is to look into the future at the status of the membership. What are going to be the opportunities and the professional standards and challenges that face those who come into this profession in the future? Even though one might feel that the problems of today perhaps have a real immediate concern for a minority, we would all certainly agree that the status, that situation, certainly is not going to prevail. We have to look ahead and look down the road and see what the problems and the challenges of our profession are going to be in the coming several decades. When we take that view of it and think in terms of what we owe to our profession and to its continuation, it is hard to come to any other conclusion except that these challenges and problems concern the vast majority of our profession.

MS. RAPPAPORT: Our next question is, "Is the ARC proposal a defensive proposal looking at the problems of the past or does it anticipate future problems? Are we not trying to solve the problems of the past?" It is very vital that the profession and that the organizations that currently represent the profession do in fact try to look at what is going on in the world and anticipate what are the important issues of the next two, three or four years and deal with them and in fleshing out the details of any reorganization, we in fact try to do that. This is also a difficult type of problem. The tendency of almost anyone in solving any problem is to want to look at things in terms of the solutions that they think would have worked in the past. It is very much up to the leaderships of the actuarial organizations, irrespective of the question of reorganization, to try to anticipate future problems.

The next question is, "Would specialties be reflected in credentials or in membership designations?" There is also the question of what are specialties and how are they going to be handled. We have casualty actuaries who are a well defined group right now and are a well defined specialty. We have life, health, and pension actuaries and they are not three separate groups of people. Some of the members would claim that they are only one of those three; and some would claim that they are two of the three. When we are talking about individual products, they may overlap one way. When we are talking about group products, they may overlap another way. Health is also an area that overlaps between pension and casualty. We have consultants and we have company actuaries who are working in all of the same product line areas. You can use specialty as being something that is divided by type of product line, by type of markets, or by type of employer. There is no correct way of defining specialty.

MR. WOODYD: I would like to comment on Mr. Grubbs' statement on the casualty versus life issue. I happen to be an associate in the Casualty Actuarial Society. In my opinion, an actuary is one who deals with contingencies, time, and money. That embraces a large area and that is the turf that I want to defend. Accountants deal with money. Accountants deal with time. They do not deal with contingencies. Contingencies really is another word for risk and where there is risk present, an actuary should be in the picture to measure it and to price it.

Mr. Grubbs also mentioned why are Canada and the U.S. different from all other pairs of the countries. It seems so obvious to me that I almost do not have to answer. Many present U.S. actuaries came from Canada. We have a large common tradition. We do many things the same way. I have been active in the International Actuarial Association and other pairs of countries do not do things the same way, so it is not convenient to put them under that same umbrella. The Germans and the Swiss do not do things the same way. Each one has its own separate actuarial body, and the International Actuarial Association just simply can in no way take the place of the international aspect of the SOA.

MS. RAPPAPORT: It is extremely important that people can retain their identity to their FSA and to their FCAS, and the people who went through these long years of examinations value very highly their recognition that they received in their degree. We have in our organizations a situation that is almost unique among any professional organizations in that virtually 100 percent of the people who are eligible to be members of the SOA continue to pay their dues every year. The Bar Association does not have virtually 100 percent of the people who are eligible to belong and the American Medical Association does not, so we have to work very hard in designing this thing to preserve something with which the people, who work very hard to earn these things, can feel the same strong sense of identity that they now have with the professional organization.

The other half of the coin and the one that makes it one of these fundamental dilemmas with which it is very hard to grip, is that if the new organization is going to come together, we need to be able to represent the interests of all of the people who are practicing as actuaries right now and that includes a number of people who are FSA's, who have been enrolled, who are going to be enrolled in the future, and who are members of the AAA. The ARC proposal tries to take care of these two sets of needs by having the degrees granted by  $\Sigma$  and having the membership requirement separated.

One of the big questions as we proceed through negotiations is, "Will something be able to be worked out that is satisfactory to the members?" We all see that we have problems and that we must work to their solutions. The mandate that we have now from the Board is to start trying to work together with other actuarial organizations to find those solutions and to start, in the case of our committee, with the principles of the ARC proposal.

MR. BARNHART: A point that is kind of obvious, but at the same time, easy to lose sight of, is that we cannot afford to think too much of coming up with something for which the members of other actuarial bodies will vote and have one for which the members of the SOA will not vote. There are more members of this Society than any of the others and certainly whatever we work out has to be acceptable to the members of the SOA.