

TRANSACTIONS

NOVEMBER, 1971

ADDRESS OF THE PRESIDENT, EDWIN B. LANCASTER THE SOCIETY IN THE MIDST OF CHANGE

THIS has been another busy year for our Society. I will devote this address to reporting to you on what seem to me to be the highlights of the year's activity. I do this for a twofold reason—first, to communicate to our ever growing membership and, second, to record these matters in the *Transactions*.

MEMBERSHIP

The examination results published in 1971 announced 226 new Associates and 154 new Fellows. This is a record number of new Associates and one short of a record of new Fellows. Last year there were 155 new Fellows. Five years ago there were 115 new Fellows. In short, the number of new Fellows in 1970 and 1971 is one-third greater than the number in 1966. If the number of persons writing and passing the early examinations is a harbinger of the future, we can expect further substantial increases in membership to meet the ever growing demand for actuarial talent.

The number of students who wrote, and the number who passed, the first three examinations in May, 1971, were each 35 per cent greater than the comparable figures for May, 1970. Obviously, the significant feature of that statistic is the 35 per cent increase in successful candidates.

Behind these success stories is our Education and Examination Committee, now composed of nearly two hundred Fellows, about 10 per cent of the Fellows in our membership. This past year the Education and Examination Committee administered over nine thousand individual examinations—a major undertaking by anyone's standard.

As we all know, the Society's activities are carried on through its committees, and the highlights of the year serve to emphasize the importance and variety of work they do. These committees are the working fabric of the Society. At the present time about five hundred Society members serve on committees. This is remarkable membership participation, and it reflects the high esteem in which we hold Society membership.

ALTERNATE ROUTE

As you know, for two years Society members have debated (sometimes heatedly) the desirability of having two routes through the earlier actuarial examinations. One route would be our traditional work-study route. The so-called alternate route (a poor term, in my opinion) would place greater reliance on institutions of higher education for the education aspect of our traditional education and examination system and would rely upon these institutions and upon a comprehensive examination to assure maintenance of standards. Earlier this year, the Advisory Committee on Education and Examinations, in a recommendation to the Board of Governors, expressed the view that this matter could not be resolved without doing considerably more work in the difficult areas of accreditation and possible disaccreditation of institutions of higher education, maintenance of comparable standards between the two routes, and related matters. Thus, on recommendation by the Advisory Committee and authorization by the Board of Governors, I have appointed a special committee to explore this entire matter in depth. The committee's mandate is broad and flexible. It is not to be hemmed in by the rigidity which seems to have characterized some of the polarized positions on this difficult subject. Its only charge is to produce that which will, in the long run, best serve the actuarial profession, and more fundamentally the public, which in the last analysis we all serve. The committee is at liberty to conclude that the entire matter is unworkable, or it may conclude that we should try this approach for just two examinations, or just three or four examinations, for example. In short, it is to view this matter in a highly flexible but realistic fashion.

RELATIONSHIPS AMONG NORTH AMERICAN ACTUARIAL BODIES

The creation in 1965 of the two national actuarial organizations—the Canadian Institute of Actuaries and the American Academy of Actuaries—has quite naturally resulted in the necessity of defining and developing relations among the various North American actuarial bodies. While we have made headway in this matter, it seems to me that we still have much to do. Development of a program of joint sponsorship of examinations should go a long way toward smoothing certain relationships among the various bodies. Beyond this, I believe, is a series of matters which we must recognize and cope with.

As we all know, the Canadian Institute of Actuaries is a very active organization; it holds regular meetings and carries on various activities of importance to Canadian actuaries. The American Academy of Ac-

tuaries, on the other hand, is an umbrella type of organization, and its activities are conducted primarily by its Board of Directors and a few relatively small committees.

There are obvious and practical reasons for this substantial difference in the nature of the activities of the two national organizations. Yet these differences tend to induce the Society of Actuaries in its treatment of some matters to be more United States-oriented than Canada-oriented. In short, the Society tends, from time to time, to assume roles in the United States which are assumed in Canada by the Canadian Institute of Actuaries. This fact makes for stresses and strains within the Society—an international organization. I am not sufficiently wise or clairvoyant to suggest a cure for all these stresses and strains, other than to urge that all Society members recognize the situation and be understanding of the political problems created by the membership distribution and the sometimes United States orientation of the Society. I also hope that Society boards of governors will try to minimize the United States orientation of the Society when it exists and at the same time accomplish professional objectives for all North American actuaries.

I, for one, feel that the designation F.S.A. has a bit more brilliance because our students are required to have some knowledge of laws and practices in both Canada and the United States than it would if they were limited to just one country. Also, many of the problems and opportunities facing actuaries in our two countries are similar; we all continue to benefit greatly from the free exchange of knowledge that is possible in an international organization like ours.

Earlier I referred to our substantial education and examination activity. Certainly the entire North American actuarial profession benefits from the support of this activity by actuaries on both sides of the border, without regard to their citizenship. The effort put forth by the two hundred Fellows in administering over nine thousand examinations a year is, I believe, simply one good reason—and there are many others—why the Society should remain a strong, viable, international organization.

CONTINUING EDUCATION

You will recall that the Committee on the Future Course of the Society, which completed its work in 1968, recommended, among other things, that the Society embrace a post-Fellowship education program. Pursuant to this recommendation, in 1968 President Morton D. Miller appointed a Committee on Continuing Education (chaired by C. Lambert Trowbridge) whose assignment was to explore ways to implement a post-

Fellowship education program. The committee completed its assignment in 1969. Thereupon a new standing Committee on Continuing Education, chaired by John M. Bragg, was appointed. As you know, the principal part of the Des Moines Regional Meeting this year was devoted to the special topic "Adjusted Earnings of Life Insurance Companies." The program for this special topic was arranged by a subcommittee of the Committee on Continuing Education. I believe it was generally agreed by the some six hundred members in attendance that the program for the special topic was superb. While there were some special considerations associated with the topic chosen for the Des Moines Regional Meeting, it is clear that the Committee on Continuing Education has given us an outstanding example of the important role it can and will play in serving our Society. We look forward to further important contributions from that committee.

LIFE INSURANCE COMPANY FINANCIAL REPORTING

The Joint Actuarial Committee on Financial Reporting is a joint committee of the American Academy of Actuaries, the Canadian Institute of Actuaries, the Conference of Actuaries in Public Practice, and the Society, with a liaison representation from the Casualty Actuarial Society. Twelve of the fourteen committee members are members of our Society. This committee was formed in an atmosphere of near-crisis immediately following last year's annual meeting of the Society. Operating under the able chairmanship of Robert C. Winters, the committee prepared a remarkably detailed and complete actuarial response to the American Institute of Certified Public Accountants exposure draft of an audit guide for life insurance companies. The response included, among other things, the development and formalization of a generalized reserve system which generates an entire spectrum of life insurance company earnings patterns. This piece of original actuarial development is included in the papers which are to be presented at this meeting. I believe it is fair to report that actuaries who have been close to this matter unanimously point with pride to the remarkable job performed by the Joint Actuarial Committee, operating as it did within a very demanding time frame and, even more difficult, within an area very largely defined by the accountants and the life insurance industry committee.

While this is not the place to discuss the substance of this important and highly controversial matter, I note that it will certainly present the members of the actuarial profession with some difficult challenges if it is implemented in its present form. As I see it, some of these challenges are (1) the temptation to be expedient, (2) pressure to influence the

incidence of life insurance company earnings, and (3) potential fundamental disagreement with the accounting profession as to suitability of financial presentations of life insurance companies.

LOOKING AHEAD

During the past few years we have witnessed two corporate bankruptcies outside the life insurance area which have shocked the business and financial communities. While these financial catastrophes were on the other side of the fence, so to speak, a penetrating analysis of the causes leading to them, as well as the reported insights into the relevance of the financial data in the hands of the managements, certainly should give pause to each of us. Didn't (or shouldn't) these unfortunate events cause each of us to ask ourselves: Are my analyses and data presenting blunt, hard-headed, understandable facts, or am I kidding myself and my boss or my clients? Am I allowing pressures to lead me into presentations that are unsound or misleading? Obviously we need to keep questions like this ever before us.

Our activities are caught up in the increasing competitive pressures and the rising level of expenses that are common to all business. Also, we are involved in various ways with the rapid changes that characterize today's business climate. Consumerism views press upon us. At the same time, our efforts are closely related to human needs and aspirations; thus we are always touched in a special way by political forces.

These pressures test and will continue to test the disciplines of our profession. We must continue to work at the job of communicating with one another. Artful and thoughtful communication is the mortar that binds a professional group together and is an important aid in maintaining professional standards.

