

**TRANSACTIONS OF SOCIETY OF ACTUARIES
1974 VOL. 26 PT. 2D NO. 75 AB**

VOL. XXVI, PART II

MEETINGS No. 75A AND 75B

TRANSACTIONS

MAY AND JUNE, 1974

SPECIAL REPORTS

**ISSUES FACING THE ACTUARIAL PROFESSION
IN THE UNITED STATES**

This is the year when actuaries are taking professional inventory. External, as well as internal, forces have directed our attention to the need for a re-examination and reappraisal of our "professionalism." Our discussion today in Dallas and a corresponding discussion in Montreal in June are a prelude to our twenty-fifth anniversary meeting in New Orleans, which will focus on a critical and perceptive examination of "professionalism."

As evidence of our collective awareness of the need for an introspective analysis, consider what the several actuarial bodies are examining through joint committees: (1) independence, (2) organization and disciplinary procedures, (3) professional conduct, (4) actuarial principles for funding of pension plans, (5) education and examination, and (6) experience requirements. Most of these involve the relationship of the actuary to the general public.

Our purpose today as we look at professionalism is to stimulate your thinking and perhaps even to stir you with controversy. My comments are my own. They do not represent either a consensus or the establishment. With a background of seventeen years of "in house" experience, the last two of which were not in the actuarial arena, and twenty-four years in public practice as a consulting actuary, I should be acceptably objective, assuming that anyone can be.

Let us look at several fundamental issues involved in our search for professionalism.

I. DEFINITION OF "PROFESSIONAL"

A logical first step in the search for professionalism is to define "professional." If each of us were asked now to submit his own definition, not just a quote from Noah Webster, the odds are in favor of there being a large number of substantial differences among us.

For purpose of our re-examination of the actuarial profession and with an apology to Mr. Webster, I wish to define professional as it applies to the actuary:

A professional is a member of a group of individuals who has derived and continues to derive from a body of expanding scientific knowledge, through rigorous academic discipline and experience, a unique skill, capacity, and competence to perform, by word or deed, in a designated arena, in such a way that that public which he serves by that performance

- a) May presume that such service reflects business morality and intellectual integrity, reasonably independent of the influence of any force or circumstance which may be contrary to the best interests of that public;
- b) Is aware of the identity and opinion of the professional who so serves;
- c) Holds the professional accountable for the morality and integrity of such service;
- d) Expects the body of professionals to maintain those high ethical standards which justify confidence in its members.

Fundamentally, this definition concerns itself with an interface with the public served and necessarily requires confrontation, directly or indirectly, with that public.

The arena of the actuarial function in which the actuary practices his profession is concerned with the ultimate economic soundness of any scheme whose operation is related to or based upon measurable probabilities of economic loss resulting from injury, damage, disability, destruction, or loss of life or of property of any kind, and the science and methodology pertinent thereto.

II. PUBLICS SERVED BY THE PROFESSIONAL

The odds are that at least one common thread runs through each person's definition of professional, and that is a responsibility to the public whom he serves. An interfacing with and a responsibility to a public are essential ingredients of professionalism. It is important that one sort out the various publics and recognize which public he serves.

As a consultant I have no problem in accepting the fact that an in-house actuary represents his employer. The employer is his public. Generally, I would not expect him to proclaim to the general public a position contrary to what his management considers to be in its best interests.

However, within the confines of the halls of the corporate decision makers, I would expect him to be vigorous and articulate in stating his objective actuarial opinion. If the environment becomes professionally intolerable he should remove himself from it, but while serving his employer, he should neither render a disservice to that public nor presume to serve another public.

III. ORGANIZATION

The profession must unify its fragmented structure if it expects to compete successfully in the real world. As you know, there is a joint committee now at work on reviewing the organizational structure of the various actuarial bodies. We must push toward our objectives with vigor and statesmanship, with continuous monitoring, auditing, and evaluation of progress and reappraisal of long-range objectives. The objectives stated in the constitutions of each of the actuarial bodies should lead in the same direction, without conflict or discord.

IV. PRINCIPLES AND PRACTICES

We must hasten to codify our principles and practices, including methodology, so that the public can have documentary evidence of the controlling forces by which the actuary's peers measure and control his professional performance.

V. COMMUNICATIONS

We must intensify our program to communicate to the general public the professional posture of the actuary and define for the general public the arena in which the actuary functions. To give visibility to our ethics, we should provide evidence of the internal maintenance of intellectual integrity and business morality. Someone has suggested that such evidence could be the timely publishing of case histories of conduct which were alleged to have been unprofessional, and the response thereto by the Board of Governors. An active communications program is essential also for a dependable supply of recruits to the profession.

VI. PRICE OF THE SEARCH

There are several elements to the price. The consulting actuary must assume professional and economic responsibility for his service. The in-house actuary usually has significantly less economic responsibility. The members of the profession must be willing to pick up the tab for an investment in the collective search for and maintenance of professionalism, such as expanded development of the core of scientific knowledge, definition of the principles underlying our skills, effective lobbying, and public relations activity required to expose our arena to the world.

VII. COMMITMENT

The organized body of actuaries must not act and react as a trade association. A commitment to intellectual integrity may often lead to conflict with the "traditional and accepted" patterns of thought of an employer, a client, or a regulatory authority. The general public has the right to assume that in our public pronouncements as professionals we speak for the interests of the general public. If trade association thinking, acting, and reacting dominate our professional body, our chances of becoming a vigorous profession are reduced. It may be possible that we will face the trade association syndrome until the noncompany actuary becomes a majority group in our profession.

VIII. DICHOTOMY OF THE "INS" AND "OUTS"

The in-house actuary should not, as an "employee," eschew his obligation to perform in a manner to adequately represent the best interests of his employer. Even if one accepts the premise that no one is totally objective, he may be willing to assume, however, that in general the "out of house" actuary, the noncompany actuary, more nearly approaches total objectivity than his in-house colleague because in general he is more nearly "independent."

IX. GUIDES TO PROFESSIONAL CONDUCT

The Guides and Interpretive Opinions must be refined, clarified, communicated, and enforced and must recognize realistically the different publics which an actuary can serve. That is to say, it should not be presumed that the actuary professionally represents the policyholder when he is serving his employer or client insurance company. No one can serve two masters. In the judgmental areas of our professional arena, where the precision of mathematical conclusions is absent, the role of advocacy can lead to professional disagreement on fundamental issues.

X. INDEPENDENCE

As one of the spokesmen for the minority (a group which includes many consultants and a sprinkling of company actuaries), I am appalled and greatly concerned by the majority's asserting that the company actuary can represent professionally several parties whose interests are divergent or even in conflict. I reject the position of some of the elder statesmen of our profession, who, never having really been in the tough street fights of professional life, say that actuaries, because they are actuaries, or chosen people, will never fail to serve all publics professionally and simultaneously. I put this simple question to that majority: "If you were chief executive of your life company and were planning to spend \$35,000,000 of your

company's cash to acquire another life company, would you have the actuarial liabilities of that company reviewed by an actuary independent of the purchased company?" What is your answer to that question?

If the consulting actuary audits an insurance company's balance-sheet liabilities in order to express an opinion to stockholders or policyholders for their protection and comfort, he is representing and serving his public or client, that is, the stockholders or policyholders, even though he may be paid by the company.

In his editorial in the April, 1974, issue of *The Actuary* the editor has stated his position on the independence issue. The joint Committee on Independence, struggling to reach a consensus as to what our posture should be, will recognize that what the editor and what I say are our own personal opinions—another dichotomy. A debate by those who support or reject the need under certain circumstances for the actuary's "independence" would provide an interesting attraction for a meeting of our Society.

Just as there is philosophical conflict between stock and mutual actuaries (in their representing the best interest of their employers), so there is philosophical conflict between the company and consulting actuaries because in many assignments each represents different publics with opposing interests.

XI. CONFRONTATION

The Academy is making considerable progress in its effort to develop a cooperative professional environment for CPA's and actuaries. Morton Miller, while president of the Academy, appointed a committee, chaired by Fred Sloat, to develop liaison with the AICPA. Nevertheless, additional progress must be made. The proper role of the actuary in those areas where actuarial judgment, rather than accounting judgment, is required could be forced if managements of life companies who employ the majority of our profession would support our professional posture.

XII. CONCLUSION

Jim Hickman wisely cautions us that a thrust toward professionalism without an associated drive to expand the science on which the profession is based may leave us well prepared to command relatively less and less. Jim's wise counsel will not go unheeded by actuaries. An expanding core of scientific knowledge is vital for the actuary. The actuary, however, in his search for professionalism should examine thoughtfully and dispassionately the fundamental issues involved in our search for mature professionalism. Let us sit down and reason together—and then reach for the stars.

THOMAS P. BOWLES, JR.

