

# RECORD OF SOCIETY OF ACTUARIES 1979 VOL. 5 NO. 4

## NORTH AMERICAN ACTUARIAL ORGANIZATIONS

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MR. JOHN T. BIRKENSHAW: Although I am here on behalf of the Canadian Institute of Actuaries I think it is fair to say that we are all here because of the Society. It is indeed an honor and a privilege for me to be in such distinguished company to represent the CIA and tell you something about our progress and independence. However, I think it is fair to say that there is far more that draws us together with the Society than separates us and that is why we are all here.

Indeed I think that the elections today speak for themselves in terms of how much the Canadians want to and do participate in the Society. It is indeed an honor and, to tell you the truth, I can not ever remember being in a position where I was in such distinguished company having a descendant of the Aztecs and a distinguished American of such high standards to speak with. I will have to employ all of my Canadian single-mindedness to try to hold my own in such company.

It reminds me of one of the experiences that I had as a president of the CIA. I went to speak to one of the actuarial clubs in Canada and I received from them a brief resume of the 50 years of this particular club. The author traced the terrible hardships of 1929, the drought, the recession of the 1930's, World War II and then went on blandly to say, "this small group of actuaries, however, had other things on their minds." Now that really is single-mindedness, I think one would have to agree. I might add that this club has grown into a well-known and highly regarded actuarial group. The CIA is equally sure of its purpose. Compared to some, it may be considered a neophyte in the business world but it is a well established organization with its own idea of where it wants to go.

The purpose of this talk is to give a kind of progress report on three of the major actuarial organizations in North America, and I shall attempt to do that on behalf of the Canadian element which we call, with all due respect, the CIA.

In Canada, since Canada was formed, we had and still have cultural imperatives. Recognizing this unity problem at the outset of the CIA has proven to be a great source of strength to our organization and forced us all to recognize the differences in the professional points of view of every member. It is no secret that some 20 years ago, even before the CIA was formed, two groups in particular, both with legitimate and violent arguments, raised the specter of fragmentation on the Canadian actuarial scene. Francophone actuaries and consultants, as opposed to life or casualty company Anglophone actuaries, university professors, government actuaries, etc., all had different points of view that had to be brought together under one professional body. Francophones were pushing hard to form their own separate group using the rationale that they needed their own organization to take

\* Mr. Suzan, not a member of the Society, is President of the Association Mexicana de Actuarios.

into consideration their cultural and political affiliations and lifestyle. Only one instance of these differences has really developed and that is of the Quebec Pension Plan as opposed to the plan adopted by the balance of Canada. As time went on, however, and the CIA was formed, I believe Quebec actuaries came to recognize the value of having a solid organization behind them with educational facilities, national peer recognition, and the professional status this provides. However they may feel politically, the organization is a common denominator for our profession.

Similarly, consulting actuaries presented a case for a separate forum from which to deal with their special problems. Within the CIA alone, the number of consulting actuaries has risen from a mere handful 20 years ago to constituting over 30% of our membership at the present time. When 30% of the membership feels there is a division, a sense of isolation between them and the rest of the organization, then I would say this points to an area in which we must tread very carefully and thoughtfully indeed. It is similar, if I may draw the analogy, to the situation that often exists between the field and head office personnel in a life insurance company. Each side thinks the other neither knows nor cares about its particular problems and a divisive element creeps in. It is the job and the duty of a national organization such as the CIA to recognize such problems in the making and to administer some preventative medicine.

I would say this Canadian Institute has had a fair degree of success in keeping the interest of all actuaries together and I would further say that this gives us a great deal of credibility in the eyes of the public. As a member of the older generation, if I may say, I sometimes feel that the newer members of the CIA do not fully appreciate just how far our organization has progressed. We have gained Federal as well as Provincial recognition and our status as professionals is unquestioned. By that I mean that in Canada you must be an FCIA, which can only be granted by the Canadian Institute of Actuaries, before you can sign actuarial certificates in Canada. Some people are inclined to think that simply passing their exams automatically insures their professionalism. It does, of course, give them professional status but not stature, and it is the latter that counts on an individual basis. When I look back at my own beginnings, I realize that I, too, took everything for granted and assumed the reputation built by others was my right. It was only when I started doing some of my share of the work on various committees that I realized just how hard this reputation was to come by and that it would be even harder to keep intact.

Another area in which we are necessarily adjusting our thinking is discipline. The administration of this area is, of course, linked to all the basic tenets of our profession and it is an area in which the coming of age of the CIA can be most readily seen. Needless to say, we would rather not have to widen our experience in this field, but that is hardly the point. With the growth of our organization and the increasing complexity of the work of the actuary, it is becoming more and more vital for us to establish a definitive self-policing policy. At the present time, we have 1,500 members and it is inevitable that we will have an increasing number of cases of misconduct, running the gamut from the smallest misdemeanor to any other form of misconduct. If we are going to maintain the professional standards we have set for ourselves we must be in a position to enforce these standards and have a set of guidelines that cannot be ignored or sidestepped by our profession, the consumers, or government. To this end we are in the process of investigating our bylaws and tightening them where necessary.

Two other facts which point strongly to our growing sophistication are the changing of our reporting system and the expansion of our permanent staff. Suffice it to say that we are following the lead of the Society in terms of looking for an executive director on a permanent basis at this time, and we are also examining very critically the structure of our executive committee to provide for four vice presidents. This will enhance our work with accountants on financial reporting, our work with other professions and, particularly, in the area of pension valuation. It will also provide what we believe will be the continuity that many of our members and most notably the consultants wish to have. It might even be conceivable that we will be able to get our yearbook out on time which is a feat, I understand, more easily accomplished in theory than in practice.

In conclusion, I would like to comment on the relationship that exists, and I am sure will continue to exist, between the CIA and the Society. Historically, we have relied heavily on the assistance, experience, and educational and research facilities of the Society with the greatest success. I believe we return these favors at least in part with the extensive Canadian participation on the various committees of the Society and I sincerely hope we are continuing to do so. Now, after several years as a Federally recognized institute in Canada, we are growing in strength and independence formulating our own policies and putting them into operation. Another very real milestone in the CIA is the formulation of our own Canadian input on examinations and the sense of economy this gives our Institute. None of this, however, in any way diminishes our very strong professional ties with the Society. It merely puts them on a different footing. Within Canada, because of the growth of the actuarial profession which is largely supported by the Society, the CIA has never been stronger, and I think it can be anticipated it will continue to grow in stature as well as professional independence. I have a little note to myself which really just says, "let's hear it for the Society" and although I have stressed the growth of the independence of the CIA, I believe the Society of Actuaries will continue to be a pillar of the actuarial profession in North America.

MR. DALE R. GUSTAFSON: In my remarks I intend to comment on three areas. First I will discuss briefly the origins of the American Academy of Actuaries. The second area on which I will comment is the current level of membership requirements and how we got there. Finally, I will outline what I consider to be the most important areas currently confronting the actuarial profession in the United States.

#### ORIGINS

The roots of the actuarial profession in the United States go back a very long way. A formal examination system for life insurance actuaries goes back well before the turn of the century, and a quite parallel system of examinations for casualty actuaries goes back something like 70 years. I think it is fair to characterize the actuarial profession in the United States up until about 15 years ago as a very successful inward-looking profession with very high educational standards.

It began to be apparent (at least to some actuaries) about 20 years ago that change was taking place. The actuary was going to have to interface more regularly and increasingly on an official basis with the public, or representatives of the public. The American Academy of Actuaries was formed in 1964 and 1965 to try to meet this new public interface role for the actu-

arial profession in the United States. Thus, four actuarial bodies then in existence, the Casualty Actuarial Society, the Conference of Actuaries in Public Practice, the Fraternal Actuarial Association, and the Society of Actuaries joined together to found the American Academy of Actuaries. At that time, the role for the Academy seemed to be fairly simple. "Accreditation" was the watch word, and it was felt that the four founding bodies would need to give up relatively little in order to accomplish the needed public interface role for accreditation through the Academy. In the intervening 15 years, we have learned a great deal. Our original view of simple accreditation was much too simple. However, our original view that the actuarial profession was going to change from essentially a private inward-looking profession to a publicly recognized and publicly performing profession has been very strongly supported by the activities of the past 15 years. My time is much too short to describe in any detail how our needs, and our view of those needs, have changed over the past 15 years. I can perhaps give some insight into this change by a brief review of the Academy membership requirements.

#### MEMBERSHIP REQUIREMENTS

Our understanding at the outset was I think quite accurate, and I believe it is still quite accurate today. We assumed at the outset that if the American Academy of Actuaries was going to fulfill an effective public role for the actuarial profession it had to encompass within its membership a substantial majority of all then-practicing actuaries. It was seen immediately that to simply admit current Fellows of the Society of Actuaries and Fellows of the Casualty Actuarial Society would not accomplish that purpose. Therefore a very elaborate, detailed and demanding set of qualifications was established to offer all then-practicing actuaries an opportunity to qualify for membership in the American Academy of Actuaries, a classic example of "grandfathering." Accomplishing that, the Academy moved quite forthrightly to gradually change its membership requirements until, in 1977, the education requirements for membership in the Academy reached fellowship in either the Society of Actuaries or the Casualty Actuarial Society. At about the same time this goal was achieved it was clearly seen by the board of the Academy that that simply would not do in the real world if the Academy was going to fulfill its function of interfacing with the public, or publics, for the actuarial profession.

This conviction on the part of the board of the Academy led to a long, intensive dialogue with the membership, leading to a change in the bylaws pertaining to membership which was approved by the membership very early in this year. Now, the current membership requirements for the American Academy of Actuaries require three years of experience and either successful completion of examinations for enrolled actuary or Associateship in either the Society of Actuaries or the Casualty Actuarial Society.

If the Academy is going to fulfill its role of presenting itself as being able to accomplish needed public interfaces for the actuarial profession, it must offer membership to, and have significant representation from, all of the various groups of people actually performing bona fide actuarial functions for the public. We believe the Academy's current membership requirements do just that. We are aware, however, that it is not impossible that further accommodation may be necessary to meet specific emerging immediate needs. Examples are the very rapidly developing situation regarding a statement of opinion in connection with casualty loss and loss expense

reserves, and potential future developments with regard to health insurance. We have a pretty good handle on what may be developing in connection with the casualty loss reserve area, but the direct public interface involvement for the actuarial profession in connection with health insurance is only very dimly seen at this time.

#### CURRENT INVOLVEMENT

In the third section of my remarks I want to talk about what I think are our two most important current topics. Again, because of the very few minutes I have, I will only be able to identify the topics. I will not really be able to go into much substance in either one.

The first topic is generally identified with the word "Independence." In fact it involves, among other things, a very complex set of interrelationships between the actuarial profession and the accounting profession. Specific areas of concern involve financial reporting for life insurance companies, including the Audit Guide for stock life insurance companies, and the required statement of actuarial opinion in connection with the statutory annual statement for all life insurance companies. A second significant area of sensitivity between the professions involves financial reporting for pension plans and pension plan sponsors. The third area of current interest is the impending required statement of opinion in connection with casualty loss reserves. Without going into detail, the areas of sensitivity can be identified with the audit function, self review, the use of specialists by auditors, the general antipathy with which Generally Accepted Accounting Principles views discounting, either for the time value of money or other contingencies, and the providing of management advisory services, especially actuarial in nature, by accounting firms to their audit clients.

The second critical current topic involves the general subject of risk classification. It is extremely difficult in this area to separate out actuarial principles from political and philosophical interests. I would like to characterize this very significant and complex area with a simple analogy.

Several hundred years ago the legislature in a particular country passed a law which stated that from and after the effective date of the legislation the physical constant  $\pi$  would be 3.0. If the actuarial profession had been prominent in that society at that time, proper actuarial testimony would have very vigorously put forward the view that this piece of legislation had not changed the area of a circle or its circumference.

It could be viewed that this piece of legislation had a broad, important social purpose in mind, that is the simplification of arduous calculations. However, in spite of that broad social purpose, it would have been entirely valid for the actuarial profession to be quite vigorous in its testimony.

Much of what is going on today in the area of risk classification smacks of " $\pi$  equals 3.0." I will give only one example. Mandating unisex will not change the fact that a given annuity costs more for a female than for a male the same age. Unverified hearsay has it that one piece of legislation under consideration would make it a felony for an actuary, or anyone else for that matter, to have a sex-specific mortality table in his possession.

My purpose in these few minutes has been to give some insight into where we are today in the United States from the point of view of the national actu-

arial body, that is the American Academy of Actuaries. Like it or not, the primary frame of reference for the actuarial profession in the United States today is political in nature. It is my opinion that we would ignore the opportunities presented at our peril. It is also my view that, on balance, we have been doing quite well, although there is yet a very long way to go.

MR. JORGE SUZAN V.: It has been a pleasure for us to be at this beautiful place on this historical occasion, since as far as we know this is the first time that the actuarial professions of the three North American countries have officially met together. It is an honor for us, ladies and gentlemen, to be here with you as representatives of the Mexican Actuarial Association and we want to express our gratitude to Mr. Paul Barnhart for his kind invitation. A lot may be said on this first occasion but I will try to briefly summarize the past years of the profession in Mexico in order to describe the present situation and future responsibilities we have to assume according to the current and coming expectations of our country.

As a consequence of the enactment of the general professions law that required an official licence in order to be allowed to practice several professions, it was about 33 years ago that the first actuarial program was established at the Mexican National University. For alphabetical reasons, the list of those professions was headed by ours. A group of engineers that had adopted the actuarial profession in the insurance companies made all the necessary arrangements to establish an actuarial program among others that were offered by the National University science faculty. They were the first teachers and professors. All of us who have since joined the profession still remember these pioneers with gratitude.

The great need of insurance companies for actuarially oriented people forced many students to start working before ending their university studies. Therefore, 13 years passed until, in 1959, the first actuary graduating from the National University received official recognition. The following decade of the 1960's saw about 100 people graduating as actuaries and through the 1970's, about 500 new actuaries have come from the universities. Today, both the National University, another state, and one private university are offering actuarial programs. Several actuarial organizations were founded during these years but only the Mexican Actuarial Association has survived. Founded in 1962, by a group of about 15 people, the Mexican association now has more than 200 members. During the last 17 years, the association has been holding monthly working sessions and annual national meetings, the most recent of which took place only two weeks ago with attendance not only of Mexican but also American, European, Central and South American actuaries.

A question that may arise is why only 200 actuaries belong to our association, while, on the other hand, there are more than 600 actuaries in our country. A bit more than 20% of the new actuaries are joining the insurance industry. This matter should be understood in the terms of a country that is experiencing a very fast rate of development. The demand for highly technical professionals in fields like computers, statistics, operations research, and rational strategy decision making in management science has oriented many of our actuaries to industries other than insurance. Even the government has offered opportunities to actuaries in areas besides social security. This situation is good but it also represents a main problem for the private insurance industry. I, personally, believe that this phenomenon points to our association's responsibility to promote the insurance industry as I will comment later. Either way, it is important to recognize that every

day we can see more actuaries in high executive levels including some that were traditionally considered as non-actuarial, for example, sales administration and finance.

It is also important to mention that casualty and property insurance is being recognized as a logical actuarial activity. Our profession's future has to be seen within Mexico's general perspective. The demographic growth will cause our population to double in 20 years. That means we have to start the 21st century with twice the resources that our current system is now providing, thus building in only two decades what took more than 150 years to develop. This analysis could be dramatic if every point were to be mentioned. The natural known resources, especially in oil, give Mexico the chance to look optimistically at the near future. Our country will have to face an extraordinary challenge. We have economic resources that will let us speed our industrialization process. The problems and risks that this development will cause are known and have been carefully considered. Presently, the insurance industry represents about 1% of our economic activity and during the last 10 years its growth has been slightly higher than the rest of the economy.

What is the role that the insurance industry is going to play in the following years and specifically what do we actuaries have to do? Industrialization will necessarily mean high investment in established and future industries and also will allow major population groups to join the economic activity. The necessity of protecting the economy against the impact of new risks and the increase in the purchasing power of industry and people necessarily mean the development of the Mexican insurance industry. Insurance will be a necessary way to protect development but also will play a meaningful role as an important investment vehicle, as has occurred in many developed countries. Our forecast, based on our surveys, shows that insurance activity will at least double its relative economic importance and will grow faster than the rest of the economy. We actuaries also have a great opportunity to aid in our country's development. This opportunity calls for our imagination and creativity to be at the same level as the challenge that all Mexicans are facing.

The way our profession has diversified will result in finding actuaries in many fields, thus increasing the relative importance of the profession. Our Association is responsible for making actuaries aware of the compromise that we have with the insurance industry, an industry that will not just appear to be taking advantage of a given situation but is really an important and realistic vehicle to help our economic development. This great responsibility will force us to keep an open gateway to the world, helping us to compare and improve ourselves professionally, and supplying our profession with new ideas that will help us to give the answers we are going to be asked for.

We really appreciate this chance to establish a formal relationship with the most important actuarial organizations of the world. We started the relationship, as Paul Barnhart said, with his visit to Mexico City last July. Many ideas have evolved from this visit, among them the establishment of an examination center at Anahuac University in Mexico City. We sincerely hope this is just the beginning of a permanent and fruitful alliance. Perhaps in the very near future we will be able to develop some ties not only with the Society, but also with the Academy and with the Canadian Institute. To determine what we have in common and how we can aid each other is another challenge that we accept on behalf of your Mexican colleagues.

