

TRANSACTIONS

ADDRESS OF THE PRESIDENT, JULIUS VOGEL

SOME CURRENT ACTUARIAL ISSUES

ONE of the challenges and one of the privileges of being president of the Society of Actuaries is the opportunity the president has to speak to the annual meeting on any topic he or she may choose. Like other presidents before me, I began by looking on this assignment with a degree of apprehension. But I have come to realize that this is a unique opportunity for me to speak to the best possible audience on issues I consider important to the actuarial profession. I will probably never again be able to speak as freely to as large and influential an audience as I have here today. Accordingly, I am going to talk about some topics that seem important to me after thirty years as a Fellow and after a year as president of the Society. I will speak in two separate contexts—first, about the actuarial profession in general and, second, about the organization of the actuarial profession in North America into separate, parallel, largely overlapping, and in practice almost always genuinely cooperative bodies.

First, a few comments on the actuarial profession in general. I will begin by stating what amounts to a fundamental axiom. Our profession exists to serve society in areas where we are qualified.

A couple of questions suggest themselves in this connection. One is: are we actually being of service in all the areas in which we can be, or do we tend to be more limited in our activities than is desirable? My background is in life insurance company work. My observation is that many life insurance company actuaries have been suitably and usefully engaged in all the major aspects of the insurance side of the house, including such functions as general administration, computer and systems work, and marketing, as well as the traditional policy design, pricing, valuation, and underwriting functions. However, I would find it hard to name more than a handful of actuaries in the United States who have been given substantial responsibilities in investment matters. This is, of course, in sharp contrast with the situation in the United Kingdom, and it is not clear to me why this has to be the case.

Members of our Society have many diverse characteristics, of course,

but, to the extent they have traits in common, I believe those traits are the following:

1. A good grounding in the life, health, and pension business and an understanding of how it is supposed to work. The education syllabus is designed to see to that.
2. Intelligence. It takes a reasonably high IQ to master the syllabus.
3. A demonstrated willingness to work long and hard in pursuit of a fairly remote goal. Any F.S.A. has shown that he or she is willing to invest large amounts of current time and energy toward a deferred goal.

Of course, there are many other people who are not actuaries who have these traits also. We do not by any means have a monopoly of insurance knowledge, or intelligence, or dedication. But we do have our fair share, and more, of these qualities. These are the qualities that have made us valuable to our employers and to our clients, and these are the qualities that should enable actuaries to succeed in almost any business responsibility. I hope that actuaries in positions of authority will do what is feasible to see that full use is made of actuarial knowledge and temperament in all areas of the insurance business that can benefit from what our profession has to offer. I regard it as a tribute to the actuarial profession whenever I learn of an actuary who is doing responsible and successful work in an assignment that is far removed from the traditional design, pricing, valuation, and underwriting areas I referred to earlier. Some of the real success of our profession and some of the reason for the respect in which it is held is our tradition of training and developing leaders in all areas of insurance and pension work. We should do what we can to keep that tradition going.

In order to be able to offer a promising future for our new Fellows and Associates, and for the thousands of young people we are attracting as students, we in the profession have to do whatever is needed to prepare them for an actuarial career in the broadest possible sense. We have the privilege of accepting as actuarial students many of the brightest young people coming out of colleges and universities. We owe it to them to give them the best possible foundation for their careers. We can do this by proper coaching and training in the workplace environment and also in our formal education program. In thinking about this, I wonder whether there are additional subjects that ought to be included in our education syllabus in order to assist young actuaries in taking on a broader range of responsibilities. There are constraints, of course. I do not want to suggest an indiscriminate further lengthening of an already onerous syllabus. The Education and Examination Committee has the obvious and necessary guideline that the total amount of reading for the

syllabus must remain within reasonable bounds. If something new goes in, something old should come out. A very helpful feature of the newly revised syllabus is that it accommodates optional subjects, so that the scope of our education system can be broadened without unduly burdening every student.

To sum up at this point, I think that actuaries are the kind of people who can make useful contributions in every area of the insurance and pension business and probably in other businesses as well. Diversification of actuarial interests should be encouraged, and to help in this the syllabus of the Society should be flexible and timely.

Still on the subject of how the actuarial profession should serve the society we live in, and still from the point of view of an insurance company actuary, there is another concern that I want to express, and I am sure it has occurred to many others. I wonder how well we actuaries have responded to our inflationary environment. After all, a high rate of inflation has been a feature of most of the 1970s. Probably few people in this room think it will be cured in the foreseeable future. I suppose most of us hope, but don't really expect, that it can soon be brought down to 5 or 7 percent per year. During the course of the last ten years we have seen two waves of disintermediation affect our business. If inflation is not going to abate, but instead is going to ratchet up again in the next few years, are we making adequate preparation for the next wave of disintermediation? It is easier to call for such forward thinking than to specify how to go about it. Nevertheless, it seems to me that the industry was relatively unprepared for the most recent wave of disintermediation, and it also seems to me that as actuaries we should do our part so that it will be better prepared for the next wave.

Of course, it is not only the life company actuaries whose work is impacted by inflation. Pension actuaries and health actuaries have their own special problems and responsibilities in this regard. All I want to do is remind everyone that we are the technicians of the business and it is at least as much up to us as to any other group to face the problems of inflation and try to develop ways to cope with them.

Another point I want to make has to do with the general area of product design and consumerism. I think we would all agree that our product line must evolve over time to meet the changing security needs brought about by new economic and political conditions. In rapidly changing times like these, the evolution of our product line must necessarily accelerate. I think it is important, however, that as we revise our products to meet new conditions we do our work in such a way as to continue to justify the confidence that people have in the insurance

business. The good reputation of the life insurance business can probably survive the shoddy practices of a few—it obviously has so far. But there is a Gresham's law that applies to this sort of thing. I think we should continually examine our consciences and make sure we are satisfied that what we are designing and pricing is fair and makes sense from the point of view of the customer.

Now I said earlier that actuaries do not have a monopoly on knowledge, intelligence, and personal dedication in the insurance business. I also want to make it clear that actuaries do not, in my view, have a monopoly on the morals of the business, either. It would be presumptuous to set ourselves up as the conscience of the insurance business. We are not. There are plenty of people of good will in all disciplines in our business. But we are some of them, and we have our fair share of responsibility for what our companies do. Actuaries generally have positions of considerable influence in their companies. I think it is up to us to use that influence wisely and for the good of the general public as well as for the good of our own individual companies. As actuaries we have a key role in assuring the long-term survival of our companies, and we should remember that responsibility not only in adopting appropriate premium rates and valuation bases but also in designing respectable and useful products. We should remember that in the long run what is best for the public is what is best for the companies; otherwise, the companies will not survive.

To conclude this point on a blunt note, I urge actuaries to use their influence and their ingenuity to design products that not only appear to be attractive but are genuinely useful to the consumer as well. A successful product should look good and be good. If its good looks are deceptive, it is a disservice to the public, to the insurance industry, and to the actuarial profession.

Now I would like to spend a few minutes on the organization of the actuarial profession itself. It seems to me that the missions of our various organizations are, in the aggregate, to facilitate the following activities:

1. The education of new actuaries.
2. The continuing education of existing actuaries.
3. Research in matters of actuarial interest.
4. The making of statements to the public and to government agencies on matters of actuarial interest. These statements are of two general kinds:
 - a) Procedural—for example, who is entitled to be called an actuary, who should be allowed to sign life or casualty statements or pension reports of one kind or another, and the like.

- b) Substantive—for example, should separate premium rates for males and females be encouraged or prohibited? what are appropriate standards for dividends in insurance policies? and so on.
5. The establishing of appropriate standards of professional conduct.
6. Social interchanges among actuaries.

These seem rather straightforward objectives, and it is hard to see why it requires so many overlapping organizations to accomplish them. Now I have been around the question of actuarial reorganization long enough and have been involved in enough committees, meetings, and debates to appreciate that unification of the actuarial professions by merger or voluntary dissolution of the various organizations is a very unlikely near-term or middle-term prospect. Nevertheless, I can't help repeating, if only for the record, some of the problems caused by the number of overlapping actuarial organizations.

For one thing, there is inevitable confusion in dealing with the outside world. For another, organizations use up a lot of talented time and energy. Each organization has its own board, its own officers, and its own committees. The committee structure has been altered to reduce some of the duplication of effort as a result of the work of the Joint Committee on Committees. The idea has been to avoid, wherever possible, having two committees work on the same thing, and this has been accomplished to a considerable extent. But it is by no means working perfectly. I just want to point out that the numerous boards and sets of officers, and the misunderstandings and requirements for coordination that, in spite of the best intentions, will inevitably arise when you have several groups working in the same general area, impose a heavy burden on the actuarial profession. At least some of that burden seems quite unnecessary to me.

I think it is safe to say that the current system will be reformed, but very slowly, as the added price that results from the system begins to become apparent. Also, as the dues of the various organizations keep climbing, perhaps the members will begin to wonder whether all this expenditure is really necessary, and some steps toward a more rational organization of the profession will become feasible. I should add that there is in existence a Joint Committee on Operational Economies, which is trying to see what can be done, short of reorganization, to hold down expenses.

On the other hand, I have a remark about the governance of the Society of Actuaries itself that in some ways contradicts what I have

just said. It strikes me as strange that essentially the same system of governing the Society exists today as when I became a Fellow thirty years ago. In 1950 there were forty-three new Fellows. If you think about it, you realize that it was not too unlikely for a member of the class of 1950 to become a committee chairman or a Board member or an officer.

Furthermore, with only about seven hundred Fellows in the entire Society, most people were personally acquainted with a very substantial portion of all the Fellows in the Society. Things are quite different now. We currently graduate about three hundred and fifty new Fellows each year. Although we have many more committees than in 1950, we still have the same number of board members and officers we had then. Accordingly, the chance of a current new Fellow achieving a prominent position in Society affairs is diminished.

Similarly, with our current four thousand Fellows in the Society, it is impossible for anyone to know more than a small portion of the total. As a result of these changes, there has been sentiment expressed for the idea that candidates for the Board and for the offices should run on the basis of platforms. I can understand the reason for this suggestion, although I don't happen to agree with it. But I do think it would be desirable for Society members in general to have more opportunities to become involved in Society affairs. Accordingly, I welcome discussion of this problem in *The Actuary* and among Society members. I may not agree with what has been specifically proposed so far, but I do agree that there is a situation here that calls for examination and improvement.

Maybe one solution of this problem lies in the Sections the Society is creating. This will serve the dual function of making the Society more useful to its members and also giving interested Society members an additional opportunity to be of service to the Society.

Unfortunately, what I have just said about looking for ways to get more Society members involved in the affairs of the Society is at variance with what I said earlier about the profession requiring the time and energy of too many talented people who are kept busy running and coordinating our overlapping organizations. I am sure there must be a resolution to this paradox, and it probably lies in having more actuaries work on substantive professional matters and fewer on procedural ones. At any rate, organizing for the best use of actuarial talent by the profession is one of many unresolved problems we face, and it is one of the many challenges that Robin Leckie and Bob Hoskins and their successors will have to deal with.

This talk is the last duty I have as president of the Society, and I want to conclude it by sharing with this audience my profound sense of gratitude to the committee chairmen, the Board members, and particularly the officers and members of the Executive Committee with whom I have worked closely this last year. The dedication and ability they have brought to their tasks make it clear that the Society will be in good hands in the years ahead. I have the deepest respect and admiration for what they have accomplished and what they are going to accomplish in the future.

May I also add a word of sincere appreciation to John O'Connor, our executive director, and the entire dedicated and devoted Society office staff who have made such fine improvements in the administration of Society affairs this year and who have done so much to lighten the work load and enhance the effectiveness of our volunteers.

