

TRANSACTIONS

ADDRESS OF THE PRESIDENT, HAROLD G. INGRAHAM, JR.

COPING WITH CHANGE

One of the privileges of being President of the Society of Actuaries is the opportunity to address topics of my choosing — without having to clear them with the Committee on Papers. I will address four current subjects that are closely intertwined: governance, flexible education system (FES) and future education methods (FEM), the actuary of the future, and possible reorganization of the actuarial profession in North America.

As to the election results this year, I was particularly pleased at the level of Canadian representation. We must never forget that the Society is an international, North American actuarial body. There have been times in the past when the Society has had too much of a U.S. orientation.

I, for one, feel that the F.S.A. designation has a bit more luster because, through core material, our students are required to have some knowledge of law and practices in both the U.S. and Canada. 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.

Unfortunately, however, our democratic election process continues to fall short when it comes to pension actuaries. We should keep in mind that the Society's image has historically been of an organization that has been dominated largely by actuaries involved in life insurance company activities. In recent years, this image has regrettably been reinforced by pension actuaries, particularly consultants, as other professional actuarial organizations have become major factors in serving a larger share of the professional needs of pension actuaries. This is particularly true relative to educational meetings and in representation on legislative and regulatory matters.

Now, you may wonder why a sitting Society President, put in office by popular election, has the effrontery to complain about the election process.

However, it is curious that essentially the same system of governing the Society has existed since its inception in 1949. The ratio of Fellows now to then is almost 9:1.

But this chronic underrepresentation of pension actuaries serves to provoke a few questions, such as:

- Is our current governmental structure still the most suitable one for carrying out the current and future work of the Society?
- Is it still fully responsive to the changing needs of the actuarial profession?
- Should all members of the Board and Executive Committee continue to be elected at large and not represent any constituency?

Not easy questions!

When the concept of Sections was successfully launched in 1979, it was also contemplated then that ultimately the granting of some form of senatorial representation to major special interest groups within the Society might best be achieved through the establishment of divisions. The idea was that divisions would be responsive to a "top down" need for direction — with the main thrust being governance and structure.

I think we would agree that the Society should ensure that all members and groups of members are adequately and reasonably represented in its governing councils and in its roster of eventual candidates for President. The concept of divisions with senatorial representation might effectively address this problem of pension actuary underrepresentation. Divisions could be regarded as an evolutionary extension of the section concept, as a means to better meet these identified membership representation needs.

Let me turn now to FES and FEM. Here, the news in FES for pension actuarial education is good. There has been a concerted effort to make the pension fellowship track fully relevant to consultants. There has been a total restructuring of the pension syllabus, away from the strict parallel with insurance practice that was an unfortunate feature of the pre-FES education environment. Similarly, the correspondence between U.S. and Canadian pension courses has been relaxed. The Pension Section and the consulting community have provided strong input to develop syllabus material. Every effort is being made to ensure that the pension track will truly meet the basic education needs of pension actuaries. I feel that this will significantly help to overcome the entrenched perception on the part of too many pension actuaries that completion of Associateship and the Enrolled Actuary examinations represents sufficient qualifications to practice as a fully qualified pension actuary.

With respect to FEM, the Board has carefully reviewed your responses to the FEM White Paper Survey. The Board has directed the Education and Examination (E&E) Committee to proceed with development and implementation of the FEM proposals, other than college credit, that a significant majority of you supported. In the case of the college credit proposal, where there was about a 50-50 split of opinion, the Board has directed the E&E Committee to establish a *limited* experimental program for college credit based on Level 2 concepts starting with the 1990–91 academic year. Meanwhile, the E&E Committee in the interim will continue to offer the Level 1 exams — up to four times per year if there is sufficient demand. (It's worth noting that neither Level 1 nor Level 2 college credit has been proposed as a substitute for the key actuarial exams. Level 1 relates to the former parts 1 and 2. Level 2 relates to the former part 3 subjects: Applied Statistics, Numerical Methods, and Operations Research.)

The Level 2 experiment of limited duration will allow us to carefully reevaluate college credit after we have some experience to determine whether or not it has educational benefits — and, at the same time, to assure us that it does not significantly weaken the Society's standards. I believe that this Level 2 experiment is an important step in the right direction. The self-study educational approach has served us well for many years. However, for the nonactuarial Associate level subjects, a directed program in an academic environment will provide a better education.

Nonactuarial topics available through university-sponsored programs, such as General Mathematics, Probability, Statistics, Economics, should be dropped from our examinations. The Society should seriously consider examining only on those subjects for which it believes a high level of knowledge is essential for practice as a qualified actuary.

We also need to strengthen our Associateship designation. The Casualty Actuarial Society (CAS) raised its Associateship examination requirements some years ago, and it was the proper move. As Preston Bassett stated in his Presidential address two years ago,

“The designation of Associate should be at the level that the Society is comfortable with, recognizing that the public now perceives this member as a qualified actuary.”

I would add that the emergence of the valuation actuary concept and the continued articulation of various standards of actuarial practice lend some degree of urgency to this need for an increase in the educational requirements for the Associateship designation. The structure and content of the Associateship exams should be reassessed to ensure that they provide proper preparation

both for later examinations and for a professional actuarial career.

Once FES and FEM are successfully implemented, I hope that the E&E Committee can turn its attention to this. With a stronger Associate designation, it would also make good sense for new Associates to be exposed to the ethics part of the new Fellowship admission course.

One of our problems as actuaries is that too many of us still define the profession as it existed fifteen years ago. And yet, the rapidly changing environment of the business world in which many actuaries work is inexorably shifting the emphasis on the skills necessary to become a successful actuary in the future.

The traditional mathematical core of our profession relates to dealing with the financial implications of future contingent events, often within a business environment. What sets the successful actuary apart is his or her breadth of knowledge. Those who do not grasp the broad issues tend to bog down.

Real-world problems requiring the application of traditional actuarial science also involve other issues often not within the realm of the "science." Increasingly, they involve effective communication and presentation skills — both oral and written — particularly with nonprofessional businessmen and laymen. Also, they involve conceptual and organizational skills — an ability to identify and to solve ill-defined problems, using a mixture of mathematical skills, and other skills and practical knowledge as required. This suggests that we should emphasize to a much greater degree the recruitment of people who are stronger in these nonmathematical attributes, rather than focus so much on the pure mathematical skills, as has been done in the past.

We need to appeal more to that group of people with reasonably solid mathematics backgrounds who prefer to use their mathematical skills to develop a broader-based business or professional career. We need to recruit individuals with more diverse educational backgrounds, including liberal arts and business management graduates, as well as those from the science disciplines.

The needs of our profession are changing, because the world around us is changing. We need more individuals who have a greater capacity to handle unstructured problems — with lesser emphasis on the purely mathematical types who today constitute a significant part of our profession.

For many years, the two primary areas of interest and employment of Society members have been individual life insurance and defined benefit pension plans. Due to various environmental factors, both of these areas are currently exhibiting some degree of stagnation, even shrinkage. Reduced

demand for actuarial services in these areas can be reasonably expected in the foreseeable future. We need to expand the scope of our profession — to foster additional demand for the services of actuaries, to protect the long-term viability of the profession, and to advance the interests of the membership.

An attractive part of the solution relates to outward growth of actuarial activity through the investment route. This has long been established as a route for actuaries in the United Kingdom and Australia. Particularly in the pension field, actuaries are being increasingly confronted with asset issues. For example, the new Financial Accounting Standards No. 87 rules are prompting many companies to reevaluate their pension investment strategies relative to the liabilities — with liabilities valued at something akin to market. Furthermore, pension actuaries are being increasingly asked whether each new investment strategy will favorably affect the investment return assumption — and if not, why not.

In this regard, it is exciting for me to note that a new Investment track to Fellowship under FES will be planned by the Society's E&E Committee for introduction within the next few years. And much of the syllabus needed for this new track will be developed by the Society's new Investment section.

Think of the new vistas to expanded recruiting that would be produced. We might be able to convince some of the better business school MBA programs to introduce an actuarial specialty. Then, those actuarial MBAs would have the opportunity to rapidly proceed down this Investment track to Fellowship.

Finally, I would like to discuss the organization of the actuarial profession itself. When you think about it, there are quite a few actuarial organizations, considering our relatively small overall size. Efforts have been made to consolidate over the years, but with one or two exceptions, these have not been successful.

There is a widespread perception that the concerted efforts at reorganizing the profession during the 1970s were a failure. However, a very major restructuring of the Society came out of that — special interest Sections were born. And, during the past decade, we have seen a persistent trend toward increasing coordination and cooperation among the various actuarial organizations.

However, on any major issue that arises today, we are now essentially reluctant to proceed without joint committees representing the major parts of the profession affected by that issue. In effect, we have used joint committees as a *de facto* substitute for formal unification. Three recent examples are

- the Joint Committee on the Valuation Actuary,
- the Interim Actuarial Standards Board, and
- the Task Force on Continuing Professional Education Qualification for Enrolled Actuaries.

As most of you know by now, the Council of Presidents has established a task force to explore how to strengthen the actuarial profession and to consider whether restructuring the organization of the profession would be helpful in achieving this goal. The Board of each member body, plus the American Society of Pension Actuaries Board, has endorsed the concept.

In this regard, as a general premise, I would offer this. There is a real and basic commonality of interest among all actuaries. There is a pressing need for a structural medium by which these common interests can be advanced in the general community, without impairing the ability of actuarial bodies to serve professional specialties. We need — we require — a better coordinated organizational structure to serve the actuarial profession in the critical areas of public interface, standards of practice, professional conduct, and actuarial education.

Some of the benefits of such a better coordinated structure would include

1. a strengthened external image — an enhanced ability to more effectively interface with other professional groups and with regulators, and
2. reduced duplication and overlap on such things as administrative functions, meetings, continuing education, and discipline.

A serious impediment to better public and governmental recognition of the profession is that we do not define ourselves in a unified way. As an example, former Congressman John Erlenborn recently told James A. Curtis, President of Milliman & Robertson, “The actuarial profession will not do well with Congress until there is one actuarial organization speaking with one voice.”

For some time, I have felt that an extremely logical route to closer ties between the examination-giving bodies is through the actuarial examinations. With the recent activity taking place in the FES area, it seems easier than ever to reduce or eliminate structural examination distinctions. For example, the Canadian Institute is currently pressing for casualty training for all its members and the Society is planning to include some casualty topics in the FES Fellowship core.

There is no question that a more flexible examination structure will produce more cross-training, and further enhance the growing symbiotic relationship between the Society and the CAS. The interests of life actuaries and casualty actuaries are intertwining to an ever-increasing extent.

Ultimately, we should have one North American E&E system based on FES and FEM concepts with an array of courses and methods providing various “degrees” to meet the particular needs of different specialties and nations.

I sense an ongoing convergence of initiatives among the various actuarial bodies. I am optimistic that the task force will recommend a number of ways to achieve a better coordinated organization structure. I urge that their recommendations, when they are formulated some time next year, be seriously considered not only by the governing bodies of the several organizations, but also by *you* — the members of the profession as a whole.

With regard to this effort, I am reminded of a statement attributed to Dr. Edwin Land, founder of the Polaroid Corporation. He said, “Nothing is worth doing so much as when it is manifestly important — and nearly impossible.”

I would like to say once again how deeply I appreciate the honor that you conferred upon me two years ago in naming me your President-Elect. This Society has been by far the most important influence in my life since I wrote my first actuarial examination thirty-seven years ago. It has been a privilege and a pleasure to serve you in this office during the past year.

