

TRANSACTIONS

ADDRESS OF THE PRESIDENT, DWIGHT K. BARTLETT III

A CONVERSATION WITH FRIENDS

“Enflamed with the study of learning and the admiration of virtue; stirred up with high hopes of living to be brave men and worthy patriots, dear to God, and famous to all ages.” Milton, *Tractate of Education*, 1644.

It has become traditional for the annual address by the President of the Society of Actuaries to be a review of recent accomplishments of the Society, current concerns, and perhaps an appraisal of its current condition and that of the actuarial profession in general in North America. My address will not be essentially dissimilar in this respect, but I would like to frame it somewhat differently than my predecessors.

One of the joys of being President of the Society, and for me the greatest single joy, was the pleasure of being invited to address fifteen or so local actuarial clubs across the United States and Canada. I decided very early that a central theme of my talks would be what I understand to be the basic values of the profession.

I have identified these values as follows: integrity, commitment to excellence, courage, vision, humility, and public-spiritedness. I will also use these values as a central theme of this address and will try to illustrate their presence in and relevance to the profession by discussion of some past developments and future issues for the profession. I do this in spite of the possibility that some of you may view this stress on values as unnecessary moralizing. I take great pride in being a member of the actuarial profession and, in particular, of the Society of Actuaries because of the nearly universal upholding of these values by the members of the profession to a degree that I believe to be unparalleled among the generally recognized professions in North America.

We are not totally without taint, of course, as our history reveals. Actuaries played a distressingly large part in the development of policies and practices in the life insurance industry which tarnished the industry prior to the Armstrong investigation early in this century. In more recent years, we have seen the involvement of several of our former members with the Equity

Funding Life scandal which, I understand, at the time was the largest business fraud ever perpetrated in the United States. In total, only three of our members have been publicly disciplined by the Society since its formation in 1949. A somewhat larger number of our members have been privately disciplined. Nevertheless, the total number of discipline cases is quite small for the Society, which now has in excess of eight thousand members.

Some interpret this paucity of discipline cases as simply indicating the weakness of our disciplinary procedures. I choose to believe the contrary—that it indicates the high moral tone with which our members carry on their professional practices. Certainly the Committee on Complaints and Discipline, over the years, has had able leadership which has been committed to carrying out the committee's responsibilities to the fullest.

Nevertheless, in spite of the fine record of the past, the recent rapid growth in the profession and the growing diversity of the scope of its practice create a danger that the commitment to these values will be diluted. Consider this address, therefore, one step among others in the process of attempting to lead the profession to continuing adherence to these values. Others, about which I will have more to say later, include the writing of a definitive history of actuaries in North America and the proposed creation of an Actuarial Standards Board.

Let me return to the six values I earlier identified and comment on each.

I will start with integrity since it is the keystone to the rest. It is the one of the six I believe most nonactuaries attribute most frequently to us.

As its meeting the other day, the Society's Board of Governors received a report from the Joint Committee on the Role of the Valuation Actuary in the United States. This committee was appointed jointly by the American Academy of Actuaries and the Society of Actuaries. The report recommends that the position of the life insurance company valuation actuary be formally recognized by state insurance departments; that life companies be required to appoint a qualified actuary to this position; and that the individual acting in this capacity be required to render a statement of actuarial opinion concerning the adequacy of the reserves held by the company. It also contemplates that over a period of years the detailed statutory standards of valuation of the various states would be replaced by statements of principles so that primary reliance would be on the judgment of the actuary. This would put valuation actuaries in the United States in a position similar to the one that their peers have already attained in Canada. These recommendations are made in recognition of the fact that legal standards are no longer satisfactory in the light of the growing complexity of life insurance company products and increased economic uncertainties.

Clearly, such a proposal should not be adopted unless there is unquestioned confidence in the integrity as well as the competence of those actuaries

who will be exercising this role. They must be counted on at all times to use professional objectivity that is to be free of improper influence by the implications of the results for their clients and themselves. That is fundamental to all else that must follow to equip actuaries for this role.

Let me next say a little bit about commitment to excellence because it follows directly from the discussion on integrity. The proposal just described for the creation of a position of valuation actuary is just the latest in a series of steps which have recognized the responsibility of actuaries to act as professionals serving the public with everything that implies including a high level of competence, generally recognized principles and standards of practice, and appropriate disciplinary procedures. We will deserve to be called professionals only if we earn it by our commitment to excellence in our practice, both in fact and as it is perceived by the public we serve. The day of shoddy practice must come to an end. An important step in reaching that end is the recent proposal of the American Academy of Actuaries for the creation of an autonomous Actuarial Standards Board. In the United States its role would be to codify standards of practice in a way as is embraced in the opinions, recommendations, and interpretations of the Academy but in a better developed, more comprehensive, and timely basis. Whether the Board will play the same role in Canada as is proposed for the United States remains to be seen, but it cannot help but be influential on Canadian views of acceptable actuarial practice. It is hoped that the resulting standards of practice will provide practicing actuaries with reasonable latitude in the exercise of professional judgment, even to the extent of permitting deviations from those standards, albeit with a heavy burden on the practitioner to defend the deviation.

We are some months, and perhaps even years, away from an Actuarial Standards Board becoming a reality, but the leadership of the American Academy of Actuaries and the Society of Actuaries is convinced that it is the right step at the right time.

One, of course, cannot talk about commitment to excellence in the actuarial profession without discussing the profession's educational system. Since the early days of the Actuarial Society of America in 1889, the development and preservation of a comprehensive curriculum and a demanding examination series have been far and away the single most important activity for the examining actuarial bodies—currently the Society of Actuaries and the Casualty Actuarial Society. They are what have earned us our right to be the architects and intellectual leaders in the development of financial security systems in North America. If we do nothing else in the coming years, we must act to assure the continuing excellence of the Education and Examination (E&E) system.

The growing complexity of the E&E system in recent years reflects the

growing complexity of financial security systems. When I went through the examinations in the 1950s, everybody took the same examinations. We were expected to know everything about everything, that is, to be veritable Leonardo da Vincis. The system has now evolved so that there is substantial recognition of varying professional specialties and national content. The result is that the students have a substantial degree of choice in the examination system and the E&E Committee is responsible for administering thirteen examinations, not counting partial examinations resulting from transition arrangements. The members of the profession stand in debt beyond measure to those who have been responsible for the E&E system over the years. The current General Chairperson, for example, estimates that he spends 60 percent of his working hours on E&E work.

I have grown increasingly skeptical over the years that we will continue to be able to effectively administer an E&E system of such complexity and size through almost entirely volunteer efforts. We will need to be looking at alternatives such as increasing staff support in the Society's office; giving examination credits for academic work; and creating something like the American College of Life Underwriters which runs the Education and Examination system leading to the Chartered Life Underwriter's degree. The Society's Education Policy Committee has this whole matter on its agenda. I trust they share my perception of its urgency and importance.

One of the real success stories of the Society in recent years has been its continuing education program, particularly the seminars. By the end of this year, we will have run thirty-eight seminars in 1984, attracting 1,400 attendees. I have attended several myself and can attest to their overall quality.

It is heartwarming to see this evidence of the desire of members of the profession to maintain their skills. There will be discussion in coming years about whether continuing education credits will be required of actuaries to maintain their recognized competence to practice, but, in my opinion, that is secondary to the real commitment of practitioners to update and maintain their skills.

Whether mandated or not, I expect the demand for continuing education to continue to grow. The Board has already authorized the creation of a position of a Director of Continuing Education. Seminar faculty is frequently recruited from outside the profession. Just as with our basic Education and Examination program, we will have to look increasingly to nonvolunteer and outside resources if we expect to maintain high quality. We might, for example, contract with universities to run certain programs for us.

I would like to say a few words about humility. Humility is the recognition that, as talented and energetic as we believe ourselves to be, both individually and as a group, we have a great deal to learn from others and will

accomplish a great deal more if we work with others in a cooperative and mutually respectful relationship.

The three years that I was Chief Actuary of the United States Social Security Administration (SSA) provided wonderful experience and a high point of my professional career. I was fortunate enough to inherit the legacy created by my predecessors, particularly Robert J. Myers, as well as by an outstanding staff, which had established for the office a reputation of outstanding integrity and credibility. Generally speaking, the policymakers in both the executive and legislative branches of the federal government have accepted without serious challenge the cost estimates and projections for the Social Security program prepared by the Office. Nevertheless, from time to time there were criticisms made by economists, sociologists, and others. I suspect also that many of the smaller actuarial offices in the federal government, which lack the legacy that I inherited, find that their work product is subject to frequent criticism.

A common criticism of the actuarial models used by the SSA actuaries was that they were inadequately sensitive to second order effects such as the impact of changing unemployment rates on disability incident rates. We did, of course, try to accommodate these interactions but not with the level of sophistication that would have satisfied the critics.

The point of reciting this background is to acknowledge that actuaries not only at the SSA but in all areas of professional practice have a lot to learn from other professionals. Before I become too humble on behalf of the profession, however, let me hasten to add that as I looked at some of the models developed by the critics of the Social Security models, I found that, while they were very sensitive to second order effects, they frequently were inadequately rigorous in dealing with first order effects or were "straining at the gnats and ignoring the elephants" as the expression goes.

I would like, therefore, to see the profession become increasingly open to working with and learning from other professionals, particularly those who labor in the field of academe. I believe we would not only learn a great deal, but would enhance our credibility with public policymakers. They tend to have a reverence, albeit exaggerated, for the Ph.D. degree and to view actuaries as individuals who have a high level of computational competence but who lack the level of sophistication provided by the academic study leading to the Ph.D. degree.

I would also like to talk about humility from the point of view of the Society of Actuaries. We officially recognize the status of four other organizations in North America as national or international professional actuarial organizations. These are, of course, the American Academy of Actuaries, the Canadian Institute of Actuaries, the Casualty Actuarial Society, and the

Conference of Actuaries in Public Practice. Nevertheless, I suspect that those of us who have gone through the rigors of the Society's examination system tend to view the Society as "primus inter pares." Perhaps that unspoken attitude has been largely responsible for the failure of attempts at restructuring the profession which were abandoned some years ago. Nevertheless, I found that during my service as a member of the Council of Presidents of the North American Actuarial Organizations for the last two years, there was a growing mutual respect as well as a better appreciation by the leadership of the differing roles of the various organizations. I do not believe that now is the time for further efforts at restructuring, per se, but I believe that the mood is right for greatly increased levels of cooperation which ultimately could lead to restructuring. I have in mind, for example, the development of the Actuarial Standards Board, which while an initiative of the Academy, will clearly require the support of both Societies and the Conference if it is to be effective in the United States.

The current leadership of the Casualty Actuarial Society appears to be open to a greatly increased degree of coordination in the examination system of the two Societies.

The Planning Committees of the various organizations have been discussing what the unique role of each organization is. It is my fervent hope that when these various reports are complete they will be taken up for discussion by the Council of Presidents to see whether in totality they would hold together in a sensible way or whether some further redefinition of roles is suggested. Subsequently, I believe a reeducation effort on this matter is needed in the profession. I believe this is particularly important because I did find in my actuarial club visits an expressed lack of understanding and unique appreciation of the role of the Academy.

Finally, the anniversary celebration meeting, presently being planned by the Council of Presidents for Washington in June of 1989, (in recognition of the one hundredth anniversary of the founding of the Actuarial Society of America; the eightieth anniversary of the founding of the American Institute of Actuaries; the seventy-fifth anniversary of the founding of the Casualty Actuarial Society; and the fortieth anniversary of the founding of the Society of Actuaries) will be a joint meeting of the five actuarial organizations. The meeting will not be successful without the full support of the Society working as an equal partner.

These opportunities to work with the other organizations may seem to some to relegate the Society to less than the primary role I freely confess I cherish for the Society. I reject that view. We are primary and will enhance the likelihood of remaining primary in those roles which are properly ours if we work with the other organizations and strengthen them in their primary roles. The Society's primary role is in education, research, and service to

members, as described in its Statement of Purpose which appears on page 8 of the current yearbook of the Society.

Let me now move on to the subject of the commitment of the profession to public-spiritedness. It is undoubtedly best exemplified by the contributions made by individual members of the profession acting both within and without their professional practices. I have a particularly warm feeling for those who work as public employees at all levels of government, as a result of my experience at the SSA. I was astounded to discover when I first arrived at the SSA that more than fifteen departments or agencies of the U.S. government employ actuaries. Most of these actuaries labor in obscurity and at compensation levels substantially below what they could earn in the private sector. A surprisingly large number of these individuals choose to work in the public sector out of a real conviction that is how they can best make a contribution to the public welfare. I believe it is regrettable that they do not have the recognition, at least outside our own Society, that they so richly deserve.

Those who work in the private sector have also generously given of their time and talent to public affairs. Not surprisingly, the contributions of many to the Social Security program particularly come to my mind. Many distinguished actuaries have played important roles over the years in the development of the program by serving, not as employees, but as members of committees or commissions or merely by speaking out as individual citizens in an effort to improve public understanding of the actuarial issues.

The Society itself has increasingly recognized that the profession exists to serve the public and not just the parochial interests of individual practitioners and their clients. This is apparent in many of the actions of the Society over the years of which the Actuarial Standards Board is only the most recent. The leadership that the Society took in the 1960s in the formation of the American Academy of Actuaries is another. Certainly much of our literature reflects this value. Witness the importance given to questions of equity in discussions of actuarial principles.

The presence of courage as one of the fundamental values of the profession is harder to document, although I would doubt that anyone would dispute the appropriateness of its inclusion in my list.

How many untold stories are there of actuaries out there who stood up for principle when it would have been expedient to do otherwise? While I know a few such stories firsthand, I will not embarrass anyone by attempting to recite any of them here. I do hope that a few of these "profiles in courage" will find their way into the previously mentioned definitive history of the profession, which E.J. Moorhead and his colleagues are developing plans to write.

The present and the importance of vision is almost too easy to document.

Virtually everything I have mentioned previously, such as the Actuarial Standards Board, the report of the Committee on the Role of the Valuation Actuary in the United States, and the Education and Examination System gives witness to that. All of this hardly suggests that ours is a hidebound profession of individuals who cannot see beyond the screens of their personal computers. However, I would particularly like to hark back to those visionary actuaries who led the creation of the Society of Actuaries with the merger of the Actuarial Society of America and the American Institute of Actuaries. The original Board of Governors of the Society included the great names of the profession at the time such as McConney, Holmes, Klem, Rood, Larus, Beatty, Linton, Milliman, Guest, Hoskins, Marshall, Beers, Henningsen, Hohaus, Menge, and others. I believe nine of the twenty-seven are still living. How these names ring down the corridors of time with tremendous inspiration. Let us have our heroes and not apologize for it, for I believe that respect for these great leaders and those that have followed them in the succeeding years increases our understanding of and commitment to the values about which I have been talking.

I urge you to continually reexamine your professional lives in the light of these values. Cherish and nurture them as the stuff of life. Let us make sure that our successors will also find heroes among us and will have equal reason for pride. We are all stewards of the future of the profession in the interest of service to the public.

God bless all of you for the fine professionals you are.

Thank you for allowing me to serve you this past year.