

RECORD

KEYNOTE DEBATE

Moderator: DWIGHT K. BARTLETT, III. Panelists: DANIEL J. MC CARTHY, RICHARD DASKAIS, ROBERT L. POSNAK. Recorder: LARRY ENGEL*

RESOLVED: THE SOCIETY OF ACTUARIES IS FAILING TO EQUIP ITS MEMBERS FOR THE ROLE THEIR EMPLOYERS AND CLIENTS SHOULD EXPECT OF THEM.

MR. DWIGHT K. BARTLETT: I would like to give a brief background to why we are having this debate this morning. Perhaps many of you are aware that a little over a year ago several members of the Society suggested that the Society should seek accreditation of the FSA degree with the various state insurance commissioners as indicating competency to sign the life insurance company statement. This would be in addition to the existing accreditation of the membership in the American Academy of Actuaries (AAA). The President then chose to appoint a task force which was chaired by Julius Vogel, past President of the Society, to examine this question. The task force met over a period of six months or so and prepared a report setting forth the pros and cons of taking that step. That report was then presented to the Board of Governors at the annual meeting last fall. The Board then concluded that it would be premature to act on that report, but rather that report or that whole subject should be referred to the Committee on Planning. They felt that we really needed to go back to more basic issues about the role of the actuary in general, and in particular the role of the Society of Actuaries, before we could draw a conclusion as to whether or not it would be appropriate to seek accreditation of the FSA for that purpose. So the Committee on Planning has been working diligently on these subjects since the annual meeting last fall. I have prepared a number of discussion pages one of which is distributed now to the membership on the role of the actuary. We also decided it would be worthwhile to have this debate this morning to attempt to sensitize the membership in a dramatic way at what the issues are at hand.

MR. DANIEL J. McCARTHY: My initial premise - to which most of us would subscribe - is that an actuary is a professional and that collectively we are members of a profession (in Webster's sense, "A calling requiring specialized knowledge and often long and intensive academic preparation"). An acquaintance of mine is fond of saying, "If you want to call yourself a duck, you've got to waddle like one." If we are a profession, we ought to behave in a manner roughly in line with the public expectation of professional behavior as exemplified by other professions (law, medicine, accounting, engineering, etc.), not because those forms of behavior are perfect but because they condition public expectations in ways we, as a very small profession, cannot do on our own. In each of several categories, I will discuss characteristics of other professions, contrast them to the characteristic of the actuarial profession as I see it, and examine the past and present role of the Society in that context.

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The substance of my argument is that the Society has, in many respects, failed to recognize professionalism as a necessary ingredient for actuaries (where, for this purpose, "professionalism" means behaving like other professions in several significant respects). Given its history, it is probable that the Society could not have done other than to fail in this regard. My argument is intended to focus on the fact of failure, not to assign blame.

A profession must:

- A. Define its body of knowledge, its unique area of skill.
- B. Educate its members in terms of that body of knowledge.
- C. Conduct research to keep its body of knowledge current.
- D. Have a means of defining credentials - who is qualified to practice?
- E. Have a lobby - who looks after the relationship between the profession and the public?
- F. Have rule-makers - who defines standards of practice?
- G. Have leadership - where does it come from, and what is its outlook?
- H. Define the boundaries over which reasonably uniform standards for the above functions can be expected to prevail.

Prior to 1965, these functions were for the most part either performed by the Society of Actuaries or the Casualty Actuarial Society, or they were not performed at all. Society of Actuaries members came to assume either that the Society of Actuaries was the logical entity to perform all of them, or that the ones it did not perform (e.g., the lobbying function) were not needed. Since then, the national organizations - the AAA and the Canadian Institute of Actuaries (CIA) - have become more significant, as have external government forces.

I believe that the Society, by continuing to dabble in all or most of the roles set forth above, has been adequate in none. The Society, by its own constitution and statement of purpose (adopted recently) is essentially an education and research institution. It is not a credentialing body, or a body concerned with standards of practice, or a lobby, or a trade association. Because it has tried in various ways to be virtually all of these (except a lobby - I will come to that) it has succeeded far less well at any than it could have.

Body of knowledge. Historically, most attempts to define the area of actuarial concern either related specifically to the insurance industry or were broad, "motherhood" statements which appeared oriented principally to proving that if you were an actuary, you knew what the role was, and if you were not, it was impossible to explain. Serious discussions and writings over the last five years have served to crystallize that subject considerably, but like it or not, part of claiming to be a profession is the definition of the relevant turf, and historically neither the profession in general nor the society in particular has been very good at that.

Education. For years, we have patted ourselves on the back by saying that our volunteer system of education and examination is a remarkable system, and a credit to our members willingness to devote time to Society matters. It is both of those things - remarkable, and a credit to members - but that

does not mean it is a good system. There are roughly 50 times as many doctors as actuaries, 50 or 60 times as many lawyers as actuaries - the scope of the educational systems of those professions is far greater, in proportion to their numbers, than ours is. Perhaps instead of congratulating ourselves on the volunteer system, we should have increased our charges and constructed a system with more permanent staffing, more consistent professional direction. In that way, a larger portion of the volunteer effort of practitioners could have gone into considering questions of overall direction rather than struggling to keep up with the process of developing educational materials and examining people on their knowledge of them. The recent "Strategic Premise" report is, in my mind, a major step forward in saying what we should be doing. But even now, it will be difficult if not impossible to do it with our present mode of operation.

Research. The failure here is not that the Society of Actuaries has not done research well - although it has not - but that only in very recent years have we begun to realize that this is a serious problem. In the meantime, research into mortality and morbidity matters has largely flowed from other areas; we have lost opportunities which will at this point be difficult to regain.

Continuing Education. Our sources are principally our meetings, our papers, and recently our seminars. People do not go to the meetings anymore in the same proportions that they used to, the papers are useful but hardly sufficient. The two plusses are the Record and the tapes, which enable us to keep up with things people are saying, and the seminars. Scorecard - better than it was, but still a problem for the increasing number of actuaries not involved in life insurance company work. Look at it this way: The dues for an FSA are \$155; do you get \$155 worth of continuing education? If you got more, would you pay more?

Credentials. Our situation is a mess, with credentialing coming from different sources for different things, but we are not unique in that - other professions face it also in certain respects. What is unique is that one of our credentialing organizations is also our lobby. Personally, I accept that, partly because of our small size as a profession and partly because of our inability to reverse historical failures. If you do not accept it, and given the seeming necessity of having the credentialing organization being also the organization that defines standards of practice, do you really want still another actuarial organization. The Society has been paralyzed by a refusal on the part of some of its members to recognize that an inevitable result of being a member of an organized profession is the sacrifice of some individual freedom. We ought to face that and get on with it; in weakening our organizations, we weaken ourselves. The lobby that we have (the Academy) has gone from a standing start to become a reasonably credible organization, notwithstanding a major handicap I will mention in a moment. Let it be!

Rule-makers. Who defines our standards of practice? The lessons of history are that if we do not, someone else will (someone else may even if we try, but there is no harm in trying). The AAA and the CIA have established procedures for doing this; there is no need for the Society to do so. The Board seems to accept that; I hope the members do. The failure

is that, in the course of sorting all this out, we have lost ten years or more of headway.

Professional leadership. We are the only profession I know of whose leadership comes principally from people not engaged in the independent practice of that profession. This is not the fault of the Society, and historically it was one of the Society's strengths (a group so small might not have survived, much less grown, without the direct and indirect support of the insurance industry) but it tends to give us a mind-set different from other professions. It tends to cause ongoing confusion in the minds of some of our members as to whether we are a professional group or an industry group. One senior actuary I know - who works for a life insurance company - referred to the Society as "the cartel of the life insurance industry". It probably helps to explain the much-discussed phenomenon of the alienation of pension actuaries from the Society. The failure of the Society is not principally in the distribution of its members by employer - it cannot do much about that in the short run - but in failing to recognize and address the fact that this historical advantage has become a disadvantage as we have become a more public profession.

In summary, I am proud to be an actuary and I am proud to be an FSA. The profession and the Society have made significant strides, especially in the last five years, but in terms of our evolution as a profession, we were - twenty years ago - at least thirty, and perhaps fifty, years behind the development of other professions. We do not have the luxury of amortizing this gap over a long period of time; we are simply not doing it fast enough. Doing it faster will require more resources, but first some clear perceptions about the role of the actuarial profession and the role of the Society within it. I have tried to suggest some things that will help us in thinking about those roles, in the hope that if we resolve the roles, we will find the resources.

MR. RICHARD DASKAIS: We, as Dan pointed out, are not like many other professions. The principal difference is that we are not, for most of our activities, a legally recognized profession. The legislatures of the various states and the congress, and I believe the situation is quite similar in Canada, have not decided that for the purpose of the protection of the public that actuaries need to be licensed in order to practice actuarial science. A few of our activities such as the signing of life insurance company annual statements and certifying that pension plans have met the funding standards of ERISA are in fact licensed. But by and large these are specialized activities. Anybody can call himself an actuary; anybody cannot call himself a doctor or lawyer in most states.

In the discussions in the planning committee there were three or four types of inadequacies, but the program or the subject of the debate might consider failures that were discussed at considerable length. First, that the FSA as a degree is not being recognized as much today as it may have been in the past. Second, and all of these of course are related, that other professions, other types of persons, people with other types of training are doing work that was considered actuarial work. In other words, our turf has been invaded. Third, that many actuaries, particularly pension actuaries who are very capable, are never the less not completing

their exams to get an FSA. They are stopping at the ASA or perhaps not even getting an ASA. Last, that perhaps because of the business and social environment there are not as many job opportunities for actuaries as there were ten or twenty years ago.

I do not believe that the Society of Actuaries is failing to equip its members to fill the role that their employers and clients should expect of them. This of course, does not mean that I am opposed to any change or that I think that the Society is doing everything it should. Obviously, any organization must make changes as the environment changes. First let us look at the FSA designation. Do users of activities think Society of Actuaries' exams are important? Who is recognizing the FSA designation? The life companies, the major consulting firms, the American Academy of Actuaries and the Conference of Actuaries. We cannot be complacent. We must keep actuarial education to date. There are several areas in which we undoubtedly can improve.

Many actuaries are displeased with the fact that the actuary's role is lessening in their companies or in their consulting firms. This is happening more frequently in life companies than in the consulting firms. This is perfectly natural. Thirty or forty years ago life companies and organizations associated with life companies were, for all practical purposes, the sole employers of life actuaries. The principal positions for which life companies used educated and technically qualified people were positions as actuaries, lawyers and salesmen. They rarely even hired certified public accountants to do their accounting work. It is not at all surprising that a fairly large proportion of the executive positions in life insurance companies were held by actuaries.

Recently a larger proportion of young people have attended college and received technical educations. Some of the technical educations are in business, computer science, security analysis and statistics. Our society became more litigious leading an increase in the demand for and number of lawyers. People with other types of technical training became available, and life companies hired them. It is obvious that in the last 10 or 20 years actuaries have represented a smaller proportion of the educated and capable people at the entry level in the life insurance companies. This quite naturally has resulted in actuaries filling a smaller proportion of the executive positions in life companies. The declining proportion of actuaries in executive positions is in no way an indication of any shortcomings of actuarial education, generally, or of education by the Society, in particular.

In recent years, life company products have changed. They are more investment oriented and less risk oriented. The specialized actuarial technical education is not as important for investment oriented products and services as it is for risk oriented products and services. In addition, the life companies are selling a larger proportion of their products and services to businesses and less to individuals. This requires different skills of sales and marketing people. The more technically capable sales and marketing people can compete with actuaries for general executive jobs in life companies.

The changing mix of life company and pension consulting actuarial work has led to a decreased importance of an FSA degree. The Society syllabus has always been oriented more to life insurance company actuarial work than to pension consulting actuarial work. This is quite natural since there has been a minority of actuaries that complete their examinations to get their FSA because the material on the Fellowship examinations is relevant to them. Also, they recognize that their chances for promotion in their company, or in some other company, would be significantly limited if they stopped with the Associateship.

In contrast, the advantages of the FSA to the pension consultant are considerably less, although most large and medium size pension consulting firms value the FSA quite highly. An FSA is not necessary to reach the highest level of actuarial jobs. In addition, pension actuaries who are Associates may find that they have very heavy job responsibilities and do not wish to take the time required to complete the examinations.

Because insurance company actuaries are more likely to get an FSA than pension actuaries, as the mix of actuarial employment changes to be more heavily pension actuaries, we expect that more actuaries will stop after an Associateship and fewer will get a Fellowship. Again, this does not indicate any failure on the part of the Society.

The two principal fields in which actuaries have worked in recent years are cash value life insurance and defined benefit pension plans. Neither of these fields is growing. Cash value life insurance suffers in an inflationary environment; it is not a good investment. Defined benefit pension plans for large and medium sized companies are declining because of the contingent liabilities under ERISA.

If we continue to produce Associates and Fellows at the rates we have been in the last 10 or 20 years, it is quite likely that there will be a greater supply of actuaries in relation to the demand for jobs that have traditionally been actuarial. However, we can expect the law of supply and demand to operate. As the supply of actuaries increases, we can expect that our compensation will decrease in relation to compensation in other occupations requiring similar skills and training. This in turn encourages traditional employers of actuaries to use actuaries for many jobs that have not been filled by actuaries. Life Insurance companies, consulting firms, and benefit plan sponsors can be expected to use actuaries in a broader range of jobs, including jobs with limited actuarial content.

This scenario may appear pretty bleak. What is the alternative? Some actuaries have urged that we educate actuaries in fields that have not been solely actuarial fields. For example, we might educate actuaries in management, computer science, and securities analysis. The reasoning goes that then actuaries could compete with individuals who are trained in business administration, computer science, and securities analysis. However, if we look carefully, it is clear that we will not be able to compete. There are two reasons for this. First, we are a relatively small profession so we rely on what is essentially a "mail order" education. Mail order education is not as good as campus education, and students and employers do not think it is as good as campus education. The result will be that we will not

Gentlemen, I can only say that accountants tend to think the same way. And the accounting profession is in trouble. We cannot attract top students; audits are increasingly perceived as a fungible commodity with all that implies for pricing; our prestige and our profits are eroding. My own view is that our problems are attributable to our inability - or unwillingness - to expand our outlook and our capabilities, to provide the high-level services our clients need. We have finally seen the enemy, which is us, and are beginning to make strides in the right direction. The fact remains, though, that we have lost a lot of precious time. Do not let that happen to you.

MR. McCARTHY: Let us think about this now. Let us think about what Dick just said. You have got to help me because I have only got four minutes. You are the members and I am the president of the American Society of Buggy Whip Designers. It is about the year 1900 and I am reporting to you the status of our profession. Ladies and gentlemen the future of our profession looks very bleak. It is clear that our profession has historically been linked to the status of the horse. We find that recent inventions - the horseless carriage or if you will, the universal horse - are serving to reduce the likely future status of the horse, and therefore the likely future status of the buggy whip designer. We are going to have fewer jobs, they are going to pay us less, people are going to care about us less, people are going to want us to do fewer things. Basically, it is all downhill but it is not the fault of our society.

The outside world changed, we did not, it is not our fault. That is what Dick is saying. He is saying first of all that an actuary's role can be defined in terms of cash value life insurance, old nonforfeiture formulae and defined benefit pension plans. If the world changes those two elements are likely not to be as significant in the future as they are in the past. But it is not our fault, we did not do anything different, we kept on doing the same thing.

I urge you again to look very seriously at A Strategic Premise for Actuarial Education. This is a good map for the future. Actually, it goes way beyond that. It talks about the role of the actuary, it talks about education in relation to that role and it outlines the kinds of education actuaries ought to have for what we can imagine to be the actuarial role of the future. If we define that role in terms of narrowly defined products or even a narrowly defined industry we are going to go the way of the buggy whip designers. This is not a good idea for the profession and it certainly is not a good idea for the Society.

I would agree with Dick that the reason that a lot of pension actuaries have not gone on to the FSA designation is because the Society's exams in the later stages have been oriented to life company work. That is not an adverse commentary on the pension actuaries, but an adverse commentary on our own syllabus. We need to look seriously at that. We need to look at a syllabus that orients itself more to educational principals, although you have got to put them in a context, and less to the regulatory detail that has been incrustated around them. If we stay where we are we are simply going to know more and more about less and less.

attract the most capable students to be educated in fields where traditional university education is available. Our mail order education will not be highly regarded by the employers in these fields.

Second, a student that is interested in any of these fields will undoubtedly believe, quite rightly, that if he or she wants to get a specialized education it would be better to get a more intensive education in his specific field than to spend a great deal of time learning details of compound interest, life contingencies and insurance and pensions. The only students we can attract to the Society of Actuaries education are those who want a specialized education in the fields that are traditionally actuarial — the financing and administration of personal security and risk sharing schemes. There is no reason for the Society to change its focus and to try to educate outside our traditional areas. As a practical matter most actuarial jobs will be in our traditional areas and will not be in general management. This does not mean that actuaries who want to cannot undertake formal education to earn credentials in other fields. Most actuaries work in metropolitan areas of reasonable size where there are good colleges and universities. Those actuaries who want to take courses in management, computer science or whatever, can take courses at these schools.

In closing I would just like to say if it is not broken, don't fix it.

What would this imply for the Society of Actuaries? Probably at least the following:

- Admission to candidacy for an FSA would require a graduate degree and extensive training in economics, finance, and business administration as well as mathematics.
- A drastically altered and somewhat lengthier syllabus, with life insurance, casualty insurance, and pensions being elective specialties along with many others.
- Mandatory continuing professional education.
- A much better career image with all that implies for attracting top students to the profession.
- A much more powerful Society of Actuaries.
- Many more career choices for members of the Society.
- Probably higher levels of responsibility and compensation for members of the Society.
- Finally, absorption of the Casualty Actuarial Society.

Obviously this would be a very long-term program. It is also obvious that getting a consensus on so drastic a change in direction would be very, very difficult. After all, actuaries have all they can handle dealing with their traditional chores. Who needs more to do at this point in time?

Another point of Dick's is that the decline of the actuarial percentage, if you like, in insurance company's top management is not an adverse commentary on our profession or on the society. That is true for the reasons he indicated, but that is only a drawback if we have defined the function of the actuary and the role of the profession and of this Society in terms of a particular industry. That is a bad mistake. If we look to our role more broadly, if we look to our role as has been suggested as the financial consequences of future contingent events and develop the role in that context you will find that today, in contrast to what Dick says, there is a very wide future for actuaries and a very wide future for this society. We have to reach out and work for it. It is not going to be there on a plate and it will not be there if we go along complacently defining ourselves in terms of the past.

MR. DASKAIS: On the question of the bleak outlook, I do not think the outlook is that bleak. It is not as rosy as it once was but we will not be successful if we try to broaden our areas of activity so much that we disfuse our activities and become ineffective. We cannot compete with the campus education for those who are getting what were originally actuarial jobs but who have training in business management and statistics and in computer science.

I would like to go back to a couple of the points that were in Dan's initial presentation. Two of them we cannot do anything about because we are different from the other professions. He mentioned specifically the granting of credentials and making of rules for both standards of practice and ethical conduct. In the other professions these rules and these standards and the granting of credentials is done by governments. Take the legal profession. The law schools do the education. They are similar or analogous to the society of actuaries. The states, perhaps through an examination which is identical in all 50 states and the District of Columbia grant the credentials, the license to practice law. Nobody can practice law unless he has his credentials. Anybody can call himself an actuary as long as he does not want to sign a life company annual statement or certify to the meeting of the funding standards of ERISA. In the rule making situation, again it is the states that make the rules. The American Bar Association and State Bar Associations may make model codes of professional conduct but these codes are essentially adopted with whatever changes the state legislature, or the body that the state legislature has designated, choose to make. We cannot be like these other professions for two very important reasons. One is the lack of state licensing that is present in most of the other professions and the second, the one that Dan eluded to originally, is that we are a much smaller profession. We cannot do the same sorts of things with roughly 10,000 people who call themselves actuaries of one sort or another that a profession with 500,000 or 700,000 members, such as law or medicine, can do.

MR. ROBERT L. POSNAK: I will start out by saying that the title of this debate is too provincial. We are being limited to the expectations of employers and clients. That is safe enough, but it begs the real question: What should be the role of the actuary and the Society in our economic system?

I first learned about the actuarial profession about 19 years ago when I began specializing in insurance accounting and auditing in our San Francisco office. I was really impressed. Here were professionals who knew things about insurance that no one else knew. In those days we accountants relied on actuaries and had the good sense to actually say we did.

As time went on, I learned a little bit about insurance, and the actuarial mystique faded a little. Even I was able to comprehend some of the basics of risk and present values. I began to wonder why people with such immense talent as actuaries limited themselves to insurance and pensions. Finally it dawned on me: the actuarial profession represents one of the most underutilized resources in society today.

Think about it. Is there any business of substance that does not evaluate risk and project probable returns? That is how economic resources are supposed to be allocated. Who does this kind of work? Primarily, fuzzy-cheeked MBA's, old school bosses who fly by the seat of their pants, accountants, economists, politicians, and assorted other amateurs. The result is rotten productivity, outlandish interest rates, roller-coaster inflation, industries that can no longer compete in quality or cost, recession and joblessness, and on and on.

In short, U. S. capitalism needs some help, and I can think of no one with more potential to help than the actuary. Who is more rigorously trained in the evaluation and quantification of risk, in the risk-weighted projection of results, in the ability to deal systematically with contingencies? Who can deal more effectively on both the conceptual and practical levels?

I am not suggesting here that actuaries take over society, but that you take a much larger role, in which insurance and pensions are merely two specialties among many. I tend to view this ideal role as a kind of super economist, quantifier, and business analyst--an advanced version, if you will, of McNamera's whiz-kids.

MR. BARTLETT: One of the things that came through to me from all three speakers is that perhaps for somewhat different reasons an actuary might want to broaden his educational background and broaden his sphere of interest. Dick said to the extent to which he does that he becomes less an actuary and more something else. Could we pick up on that thought a little bit. Can do you agree with that, that by broadening our interests and education we are becoming less actuaries?

MR. MCCARTHY: I disagree with that. It goes to the fundamental difference that Dick and I have on what the role is that an actuary is geared to fill. In fact, in my practice the inadequacies that I feel most are not inadequacies in terms of things that I learned in the actuarial syllabus and I may since have forgotten or may since have changed. Rather, they are in terms of areas that are not covered that I basically had to get from scratch in order to practice. In broadening the syllabus, in following the mandate of this book (A Strategic Premise for Actuarial Education) which tries to broaden the outlook on some of the underlying perceptions and not

to include quite as much of the regulatory detail at an introductory education level, we are doing a very good thing not only for actuaries in the pure education sense but from our own self-interest in terms of future employability of who will want to hire us and pay us.

MR. DASKAIS: I thought of two things as Bob spoke. One I like very much is his idea of increasing our compensation. That would be very much in the public interest. Second, I initially heard him agreeing with me and disagreeing with Dan when he said our education and our work experience were qualifying us to do other things without further changes in our educational and work experience without the changes in the formality. Howard Young is an actuary who works for the UAW and he gets involved in a lot of things that are not in any way narrowly actuarial. I worked for some of the companies with which his union deals and I get involved in a lot of things that are not at all actuarial. But I agree with Bob that I would not be capable of doing these things were it not for the training and experience I got as an actuary.

MR. POSNAK: As you perhaps know, we are very gradually developing an actuarial capability within my firm after many years of thinking that we should not do that, and I was the longest holdout. We are doing it a little bit differently. We have in the United Kingdom our first UK actuary. He is spending 50% of his time in totally non-insurance areas dealing with all sorts of contingency problems, operations, research problems, across the length and breadth of the UK. I do not know if that has been done very often. He loves it and so do we, our clients and our collections people. It is going very well.

MR. BARTLETT: Bob could you translate one phrase you used in your comments? You referred to an audit of the fungible quantity. I am not sure that means a lot to this audience.

MR. POSNAK: Well, fungible means undistinguished. It does not matter who does not get it at the cheapest price. That is like selling grain.

MR. BARTLETT: I see. Before we ask for comments from the floor does anybody have a further comment or statement?

MR. McCARTHY: The most interesting part of this process we have been going through here this morning was the preparation for it. When you are asked to do something like this it kind of challenges your basic assumptions and requires you to do a lot of reading and thinking and sorting out. One of the things I would urge for everybody is that you pretend that you were given the assignment that Dick and I were given this morning and think through where you really stand on some of these issues. Often the problem is not that we disagree but that we have not individually and collectively thought through the issues. There is a lot that has been written and is available. It is very valuable to think it through. You will be better off no matter what your job or your outlook for having done so and I urge that to you.

MR. BARTLETT: That is a terrific comment Dan. At this point we are ready for any questions, statements, or comments that anybody in the audience would care to make.

MR. BRUCE DIXON: Is the fact that accountants no longer like to admit to reliance on actuaries for the reserve part of the life statement a reflection on the status of the actuarial profession?

MR. POSNAK: No it had to do with some certain accountants thinking that it is up to us as accountants to decide what constitutes evidence and we should not try to pass the buck. It does not have anything to do with any perception of actuaries. It was very foolish on the part of the accountants. They may have relieved themselves of some possible additional avenue of legal redraft in taking it all on themselves. It does not have anything to do with perceptions of the actuaries. This happened about 10 years ago.

MR. AL CHRISTIANS: I have criticisms of the actuarial education the society provides. I would like to know the comments of the panel on my observations. The first is that I spent about ten years going through actuarial exams and I never earned a point for original thought. I do not know if you can expect the actuarial education to reward original thought or not but we are getting into a period where our employers and clients may put some value on it. The second criticism is that the education makes the individual make a great investment in learning certain mathematical techniques, gets the individual quite attached to those techniques and does very little to tell them the limitations of the techniques. Mr. Posnak's comment reflected maybe some possible enchantment for actuarial techniques without considering the fact that they may be applicable in areas of economics or other areas where we do not have a pure probabilistic risk model where you have true uncertainty. It is easy to think that you can apply actuarial models in cases where you can apply them but your results may or may not be good. You will not know until things happen whether or not they are any good, but yet the actuary is frequently called to produce a result in areas where he may not be qualified and not know that he is not qualified. I have seen actuarial opinions rendered certifying that prices charged were fair without making any reference to the fact that prices are determined by supply and demand and not by actuarial formulae. Or the prices being paid for insurance company stock were fair without making any reference to market value, but the discounted value of future cash flow is what it is and therefore that is the price. There are many limitations in the actuarial education, and our clients and employers would probably benefit if the actuaries knew what those limitations were. There is a possibility here for a large scale catastrophe for at least a particular firm or corporation if it is led by reliance on an actuary who may not be aware of some of the pitfalls that are out there.

MR. BARTLETT: I wonder, Dan, if the fact that we do have a volunteer educational system makes it difficult to reward originality in the examination process.

MR. MCCARTHY: Let me take those two points. First, the second point made is a very legitimate criticism of our syllabus. We often describe tools and techniques without describing completely their uses and limitations,

and that part of the redoing of the Society education process needs to address that. On the originality question, it is true that in the examination process as opposed to the education, and they are not the same but we tend to lump them together, we do not reward our original thought. In that I do not think we are unique at all. Every profession requires its entrants, if you like, to be able to recite the then accepted wisdom of the profession or calculate or demonstrate that they know it. And to me that goes back to Bob's point about the importance of continuing education. If we link education to the examination system and stop there we do not have originality. So I accept that limitation of the examinations but it is not a limitation of our educational system, or should not be anyway.

MR. DENIS W. LORING: Let me start by drumming off on the previous speaker's comments. He hit what may be the crux of the matter. That is the traditional actuarial techniques are applicable within a certain well defined limited environment, perhaps, casualty, life defined benefit plans and a few more things. What the debate has come to is that one side is saying yes there are those limitations and so let us do the best we can within them. The other side is saying those are the limitations but we should be looking to do more than that. I have always thought of an actuary as someone who is professionally trained in the valuation of risk. Now that does not necessarily mean life contingency risks, but risks. As the comment was made by our esteemed outside observer there are many risks out there and there are many risks that cannot be quantified by actuarial formulae. There are several risks that require, if not hipshooting, at least well aimed dart throwing. These are risks that will not be amendable to the type of analysis that most actuaries feel comfortable doing.

I would also claim that many of the actuaries in this room who are doing the traditional actuarial things might perhaps aspire to be in the CEO's chair where they will almost certainly not be doing traditional actuarial things. They would, in fact, find themselves dealing with precisely these risks questions that cannot be answered by well defined methods that we learned on parts IV and V, which means we have essentially two choices. We can broaden ourselves to the point where we are comfortable dealing with risks questions in uncertain environments with unsure techniques having been well grounded in those situations where we do have the tools to work. Or, we can be willing to limit ourselves to just the situation where we feel comfortable with the tools we have and dealing with the risks we can really get a handle on. I would not like to think that we are going to opt for the second of those.

MR. DASKAIS: I could not agree more with what the previous speaker said. We need not be concerned that we necessarily train our membership through our formal education (either pre-FSA or continuing) about the limitations of what is narrowly actuarial. Rather we should be concerned that we are not providing all of our members with what they will regard as all there is to know about actuarial science and the things with which actuaries, broad or narrow, consider themselves concerned with. There has been some discussion in the actuary and other places about whether our syllabus is becoming too mathematical, too statistical, too narrow and whether we are not therefore attracting the best people. It is clear to me looking around the room that the 500 or 600 of us here are the best people but we only represent less than 10% of the Society membership.

MR. McCARTHY: Just one thought on the comment that was made, most of which I would agree with. There is a running together of two different things. One is the buildup of enough experience in a particular area of activity so that we are qualified, comfortable, whatever the word you like, of making judgment, risk types of judgments. The second thing is that the tools that we then carry along to work out the quantitative effects of those judgments once they are made. Our tools, not as they are narrowly defined in part IV syllabus, but the tools of most working actuaries have pretty broad application. The issue, though, is that in many instances our experience would be limited so we would not be prepared to make the right initial judgment to which to apply those tools. That is not necessarily a fault of the introductory education system; it speaks to our career development beyond that point. It seems to me a well qualified professional needs a whole bundle of experience that he is dragging along with him plus the set of tools and the problem is putting those two together.

MR. CHARLES B. H. WATSON: I have two observations with respect to what we have heard so far this morning on the issue of the assistance offered by the Society to its members which I would like to put before you.

First, I am somewhat concerned by the observations made by Mr. McCarthy with respect to general standards which would be applied to actuaries and which might or might not be enforced by the Society of Actuaries. As I understood his comments, he was suggesting that the entire question of the establishment and enforcement of standards should be left to the American Academy of Actuaries in this country and the Canadian Institute of Actuaries in Canada. I would be inclined to agree with this so long as we were referring to "standards of practice"—in other words, the constraints of good and proper form which are to be applied to what the actuary does in the work place. Certainly those standards which were in the past laid down as recommendations and interpretations in the discipline structure of the Society, but which have now been removed therefrom, would lie in this sphere, as might some of the admonitions contained within the Society's Guides to Professional Conduct. However, when it comes to "standards of conduct", I cannot agree that this is a matter which can be left entirely in the hands of the Academy and the Canadian Institute. The situation might be satisfactory in the case of Canada, where laws exist which require that the actuary be a member of the Canadian Institute in order to qualify to carry out most of those activities which are of economic consequence.

To the extent that an actuary must be a member of the Canadian Institute in order to attest to the contributions which should be made to a pension plan, or to sign the financial statements of an insurance company, he would certainly wish to belong to the Institute, and therefore the Institute's standards of conduct as well as its standards of practice would apply to him. That is not the case here in the United States, though. Granted, there are certain legal requirements that a certifying actuary be a member of the Academy, but this is not nearly so widespread as in Canada. Accordingly it is not nearly so necessary for an individual to be a member of the Academy as it would be for him to be a member of the Canadian Institute. There are individual actuaries who have chosen either not to join the Academy or to resign from the Academy; these resignations have many rationales, but at least one for some individuals has been a desire to

escape from the Academy's standards which are viewed to be unreasonably onerous and restrictive. In this situation, then, if all standards were left to the Academy, such actuaries would effectively escape from any possibility of discipline by the profession, even if they indulged in truly "bad" conduct. I would regard this as highly unsatisfactory, and therefore I believe it is necessary for the Society to adopt and enforce at least those standards of conduct which make up the bulk of the current Guides. This is the approach which the Society has taken, and the Guides are in the process of revision so as to deal only with conduct. I view this as the correct course of action and I am therefore disturbed by any suggestion that the Society needs no enforceable standards whatsoever.

Turning to Mr. Posnak's remarks, I may have misunderstood what he meant, but he appeared to suggest that one of the courses of conduct which the accounting profession has taken in order to preserve and even enhance the status of accountants within our society has been to have accounting firms expand into new areas of practice. This undoubtedly has advantages, financial as well as otherwise, but it is at the same time necessary, for the expansion to take place in such a way that there is no danger that suitable standards of conduct and perhaps practice will not be applied to the accounting profession in those areas and that a disciplinary procedure to enforce those standards will be kept in place and used. It would concern me, and I think it would concern many accountants, if an expansion of services into certain areas would lead to a situation where the activities in those areas of practice were entirely unregulated by the accounting profession. I realize that this is a difficult issue, but I think it is important, and certainly I believe it would be important if the actuarial profession chose a similar course of action in order to maintain its standing and image in years to come.

MR. POSNAK: I did not say expansion of services, I think I referred to expansion of capabilities. The CPA certificate provides us our professionalism through the educational examination and ethical requirements of that designation. So we start out with the advantage presumably of a degree of professionalism and an image of professionalism. I guess all I was getting at is that our clients are having tough times in every industry. They do not have too many people to talk to and they need help. They need more help than we as bookkeepers and accountants can give them. But they sure as heck are calling on us. As a consequence those of us who are able to do it spend 50% of our time helping our clients in acquisitions. They want to know if it is the right acquisition, if it is the right thing to do. That is the sort of thing I am speaking of. I am not necessarily speaking of an expansion of services. I am not sure we should become a supermarket. I do not believe in that, frankly. All I am talking about is giving our clientele the level of service with the people that we already have in the existing public accounting framework that we do not seem to be able to give them right now because we tended to focus on accounting and auditing and things that people seem to care less about. They just take that for granted now.

MR. MCCARTHY: On your other point, Barry, the issue which you raise which is very legitimate is the consequence of the sort of prime work we are in because we do not have universal credentialing. If in fact we had some

kind of universal credentialing (Dick pointed out correctly that there are issues involved in not having that), then it would be fairly clear that in order to maintain ones credentials, one would have to be subject to the conduct standards of the credentialing body and that would handle the whole event. The problem that we have here is, as you say, that one can avoid the nearest thing we have to a credentialing body in the US, the Academy, and still practice in many areas. Now of course the Joint Board also has a technique for dealing with credentialing and conduct in that area. I notice, by the way, in the treasury publication that there have been a couple of actuaries suspended from practice. I guess that is a first. It shows somebody is doing their job, not the actuary but the regulator. Because of the fact that we do have this little gap through which people can fall (i.e., they can be members of the Society functioning as actuaries in many areas with no other credentials), then I must admit that the society probably has to have as a kind of safety net standards of conduct that would function when there are no other standards. I would hope that when there is another organization in the picture which has much more detailed standards than we are likely to have that we would not exercise ours until an organization which would be better equipped to do so would do so first. So I do agree with you on the gap problem.

MR. POSNAK: There is one comment that Barry Watson made that needs to be responded to. Barry indicated that it was his opinion that a substantial number of the relatively small portion of actuaries who are not members of some other organization, such as the Academy, are not members because they do not wish to be subject to the Academy standards. It would be my speculation that most, if not almost all, of the actuaries of the Society members who are eligible for Academy membership but who are not Academy members have not become Academy members because they do not wish to endorse the lobbying activities of the Academy.