Article From:

# The Actuary

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## Non-traditional Perspectives

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non-traditional field. Our in-house portfolio managers currently perform investment services for over 40 insurance companies. Here, our actuaries may be asked to help develop the investment strategy for a company, particularly with regard to asset-liability management. While non-traditional by definition, this type of activity is quickly becoming a "normal" actuarial function in many insurance companies.

A third area in which actuaries play non-traditional roles in our firm is in our management consulting/industry research activities. Our subject matter here is generally in the realm of broad strategic considerations. Many of the projects relate to the financing, purchase, or sale of a company and it is not uncommon for us to enter the picture after an actuarial valuation already has been performed. We often find that general management consultants, investment bankers, and senior management, itself, may need help in identifying/optimizing the strategic implications of such information.

In terms of generic skills, each of the various functions I've discussed basically consists of converting technical knowledge into a useful business decision and communicating the result to a non-actuarial audience. The key word, of course, is communication. Since Preston Bassett's editorial (November 1984) on communication skills, *The Actuary* has seen a marked increase in the number of articles dealing with this subject in one respect or another. Most, I would submit, are of the tone that actuaries generally lack communications skills commensurate with their analytical abilities. Without passing judgment on this issue, I think it is safe to assert that this is the traditional view held by non-actuaries who have dealt with actuaries in traditional settings.

Fortunately, in the non-traditional environment I have described, one is freed from this perception to a large extent. Institutional investors don't know that actuaries are not supposed to be able to communicate since the actuaries with whom they deal are usually CFO's or CEO's — typically people with demonstrated communications skills. In fact, most of our clients, as well as a good number of my colleagues at work, do not know who in the firm is an actuary. Those who can identify the actuaries would be extremely hard-pressed to explain what an actuary is.

This lack of familiarity has other benefits, as well. For example, actuaries in non-traditional areas can feel free to express viewpoints on subjects ranging from marketing to organizational design (and importantly, financial matters) without the audience bracing themselves for an "overly-conservative" or "uncreative" perspective.

Of course, a degree of cross-training is necessary to achieve this type of environment. All of the actuaries in my firm are either M.B.A.'s or registered "reps". We also have a number of C.P.A.'s and C.F.A.'s, all of whom are also M.B.A.'s and/or registered reps.

I'd like to use this idea of cross-training as a framework to put forth a few ideas from a non-traditional perspective on the current state of actuarial practice in North America. First, I see no reason why actuaries are not more involved in investment activities, such as they are in the United Kingdom. While this point is probably not controversial, my second contention that life and property-casualty actuarial training be unified may inspire some comment. Detractors may argue that this would pack much more material into the exams, about half of which, on average, would be totally foreign to the work experience of the student. Certainly, the number of people who cross industry lines in their careers is limited.

My response (and I am a member of an exam part committee) would be that elimination of irrelevant and/or redundant material currently on the exams could provide ample margin for fresh material. As to the limited number of life-PC careers, it may well be a matter of distinguishing cause and effect. I personally think that an actuary, as a professional, should be reasonably well-versed on all major insurance businesses.

In closing, I'll try to smooth any feathers ruffled by my foregoing comments on the exams and explain why I believe the process is particularly important for those considering non-traditional areas. Yes, students may rightly feel that much of the study material is redundant, irrelevant or even unintelligible. It is also true that exam questions may sometimes seem ambiguous and ill-defined; or they may seem ridiculously detailed. However, students who feel that the exams are therefore poor preparation for their careers, whether traditional or non-traditional, should realize that it is these characteristics which are most like "real life". This is not to say we should strive for an imperfect exam process, but rather that such imperfections are a natural consequence of passing a large and changing body of information through the imperfect screen of human communications — remembering that communications is not just conveying what one means, *but understanding what others are trying to convey.*

This is a particularly important realization for students considering non-traditional careers, where communications generally can be expected to play a major role. Finally, of course, such students should recognize that it is the technical content of the exams, however steeped in minutiae, which provides the actuary with a niche in the non-traditional environment. □

## FROM USURY TO INTEREST

*By Murray Projector*

*USURY: Definitions*

(1) The lending out of money with an interest charge for its use: the taking or practice of taking interest.

(2) An unconscionable or exorbitant rate or amount of interest, specifically interest in excess of a legal rate charged to a borrower for the use of money.

Between definitions (1) and (2) are 2,000 years of Western history, beginning with Biblical strictures against charging *any* interest and reaching today's sophisticated credit economy, in which interest, per se, is accepted and only excessive interest is illegal.

The narrow concern in mathematics is usually with the mathematics of interest, how it is measured, and how it functions mathematically. It is difficult to understand why such an essential factor in business and commerce was ever outlawed, and why usurers (i.e., takers of *any* interest) were despised as heinous criminals. A broader concern is desirable.

The 2,000 year struggle which changed the status of interest from a malevolent to a benevolent factor was not monotonic; there were advances

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## From Usury to Interest

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and setbacks from century to century, from country to country, from church to church.

Interest charged for production loans was the troublemaker. The condemnation of interest charged by one neighbor for his neighbor's consumption loan in an agricultural society, which was the concern of the Biblical authorities, was generally accepted. But the same condemnation, applied to an investor lending money to a merchant for business purposes, caused controversy.

Attempts were made to distinguish loans by purpose, and to defend interest for business purposes while condemning it for personal consumption loans. Some held fast against interest in any case on moral and/or economic issues.

Controversy reached its peak in the 16th century. The practice of lending money at interest was by then widespread even though generally prohibited by church and secular law. Jews, Catholics, and Protestants were immersed in the struggle; kings, scholars, merchants, artisans, lawyers, theologians, and ministers all took sides, one side, both sides, or all sides. It was a period when religion was a seven-day a week concern not limited to the Sabbath Day. The language for controversy was not dull; the arguments hold our interest on their own merit, not just for being quaint.

Yet controversy continues under new names. The determination of a just price is still subjective. Business necessity is still in conflict with personal morality; virtue is never as respectable as money. Conflicts always accompany the quest for uncommon wealth.

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*Editor's Note:* Like another article with the same authorship appearing in an earlier issue, this one was written some time ago, but was recently submitted because of its relationship to other articles in *The Actuary.* Here the reference is to the editorial in the April 1985 issue, and to the follow-up on Islamic Life Insurance in October. □

## LIFTED

*The Actuarial Review,* the quarterly newsletter of the Casualty Actuarial Society, has occasionally carried a feature entitled "Lifted from *The Actuary*". The first of the 1986 issues of *The Actuarial Review* includes a full page of material lifted (with permission) from our September and October issues.

Those relatively few actuaries who are members of both Societies may wonder why they are twice exposed to parts of three stories. We only ask these readers to remember where they saw it first. □

## MEMBERSHIP GROWTH

Comparing the membership statistics for Nov. 1, 1985 shown in the 1986 *Yearbook* with the similar statistics for a year earlier, one finds that the annual growth rate of Society membership was 5.6%, up significantly from the 3.7% of a year ago.

This growth, however, was not uniform. By membership class, ASAs grew faster than FSAs; by type of employment, consultants grew faster than employees of insurance companies. The table following presents an abbreviated summary:

| *By membership class* | *Number* | *% of total* | *Annual growth rate* |
|---|---|---|---|
| FSA | 5409 | 55.3% | 3.8% |
| ASA | 4370 | 44.7 | 7.8 |
| *By type of employment* | | | |
| Insurance company | 5007 | 51.2 | 4.6 |
| Consultant | 3391 | 34.6 | 7.4 |
| Other (including retired) | 1381 | 14.2 | 4.9 |
| *Total* | 9779 | 100.0 | 5.6 |

Those who like round number approximations can think of total membership as 10,000 (and growing), FSAs as 55% of the total (declining), insurance company employees as 1/2 + (declining), and consultants as 1/3 + (increasing). □

## LOMA'S WORK WITH ACTUARIES

LOMA's Financial Planning and Control Division involves the work of nine committees of life insurance executives dealing with auditing systems and internal controls, corporate planning, cost accounting, cost analysis and profitability studies, data processing financial issues, expense budgeting, financial controls and reports, investments, and treasury operations.

In addition to the work of the committees, the Division sponsors the LOMA/Ernst & Whinney Life Insurance Accounting Program, Life Insurance Internal Audit Course, and Intercompany Cost Analysis Program. The Division also has a Financial Officers' Forum every three years, and conducts five to six other conferences, roundtables, and seminars annually dealing with current financial issues. The Division also publishes a number of research reports and conference proceedings each year.

In part because such topics as business segmentation, asset/liability management, profitability assessment, and C-3 risk analysis are of concern to both actuaries and financial officers, an increasing number of actuaries are holding financial and accounting positions in the industry and thus working more closely with LOMA. LOMA looks forward to the increased participation of actuaries in its work and more involvement with the Society of Actuaries and other organizations resulting from this evolution in life insurance financial management.

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*Editor's Note:* We are pleased to publish the preceding three paragraphs, which were written by Stephen W. Forbes, a Senior Vice-President of LOMA, and which came to us via Linden Cole, the Society's Director of Education. □

**Coming in May Issue**

**Another "Actuarian"**