



SOCIETY OF ACTUARIES

Article From:

The Actuary

October 1987 – Volume No. 21, Issue No. 8



The Newsletter of the
Society of Actuaries

VOL. 21, NO. 8
OCTOBER, 1987

THE Actuary

New Era— New Rules— New Risks

by Carolyn Pitts Corbin

(Ed. note: The following article contains concepts from Carolyn Corbin's new No. 1 Business Bestseller, *Strategies 2000*, Eakin Press, Austin, Texas, and adapts changing socio-economic conditions to the actuarial profession.)

It is common knowledge today that we have entered into an information-based, service-oriented civilization, the third such restructuring of societies since the beginning of humankind. Alvin Toffler in his book, *The Third Wave*, popularizes the idea of civilizations overlapping in long waves. If indeed we have entered into an entirely new civilization, it means that in many instances we are sailing uncharted waters. Rather than applying hard and fast statistics to predict outcomes, we are being called upon to use our "best guess" based on trends. The evolution of this new civilization can have a profound effect on how the actuary does his or her job because this third civilization will introduce new and undocumented risks.

The Third Wave Civilization

Beginning in approximately 1973, North America entered the Third Wave Civilization.* In that year more people were in white collar service

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The First Wave civilization was predominantly agricultural and occurred from 8000 B.C. to the early 1800s. The Second Wave came about during the War of 1812, with the U.S. beginning to manufacture many of its own products.

Major Issues Facing the Society of Actuaries

The *Actuary's* features editor, Deborah Poppel, visited with Harold Ingraham, Jr., President of the Society of Actuaries, to discuss several major topics characterizing his term in office: the actuary of the future, the FES/FEM proposals, and the unification of the profession.

Poppel: *How will the actuary of the future be different from the actuary of the present?*

Ingraham: The actuary of the future will be less of a technician and more of a business person or general manager. The successful actuary will need to be good at the things that good managers do; that is, leading interdisciplinary task forces, doing more conceptualizing, and above all, being an effective communicator.

Poppel: *What external forces are driving the change?*

Ingraham: Actuaries used to think that when they achieved Fellowship they had it made, that they had a glorious route to retirement which would pay good money and they'd be the kings of all financial areas they surveyed. What's happening now is

that many companies are restructuring. They're abolishing the chief actuary's position as they reorganize from a functional to a line-of-business operation. Each line of business has a product and marketing champion, and the actuary now serves in more of a controller's role within the line of business. The actuary's role has been redefined and, in some instances, downgraded.

Another force changing the role of the actuary is the widespread availability of computers. Much of the commutation-based life contingencies in Jordan, and Spurgeon before that, was directed toward ingenious mathematical shortcuts. But consider the valuation of liabilities today—it's done seriatim; you don't need shortcuts. Our horizons have broadened, but we're also playing on a field that others can play on too. We've got to be better than the others or people aren't going to use us.

Poppel: *Have we lost our edge?*

Ingraham: The walls are down; we're not able to practice our arcane craft in an ivory tower, so to speak.

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VOLUME 21, NO. 8
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Published monthly (except July and August) by the SOCIETY OF ACTUARIES, 500 Park Boulevard, Itasca, IL 60143. Harold G. Ingraham, Jr., President; Richard V. Minck, Secretary; Michael J. Cowell, Treasurer; Anthony T. Spano, Director of Publications. Non-member subscriptions: students, \$5.50; others, \$6.50.

The Society is not responsible for statements made or opinions expressed herein. All contributions are subject to editing. Submissions must be signed.



Major Issues cont'd.

I am very proud to be an actuary. I think we have skills to bring to a number of areas where other people can also participate, and we can play a particularly strong role. But we have to be conscious of and prepared for these opportunities, and we have to be able to communicate effectively what we perceive or we aren't going to have much impact on the emerging results.

Poppel: *If actuaries are needed less to do the traditional tasks, what will they be doing?*

Ingraham: Some of the new areas will include the analysis of cash flows and interest-rate risks, the impact of AIDS on society, prefunding of post-retirement health care benefits, and the funding of continuing-care retirement communities. Particularly, I think the actuary should follow the lead of his U.K. colleagues and get more involved in the investment side of the business.

Poppel: *Those sound like technical jobs to me.*

Ingraham: Yes, they involve applications of traditional actuarial analysis to a broader spectrum of issues. They serve as opportunities for actuaries to effectively interface with other disciplines in seeking solutions to industry and societal problems.

Poppel: *Can actuaries be taught these skills, or is it more a matter of recruiting a different type of individual to the profession?*

Ingraham: That's an important point—we need to modify our recruiting material, even at the high school level, to deemphasize somewhat the mathematical focus of the profession and try to stress more its broad-based business elements. We need more people with liberal arts backgrounds. One idea, now just a gleam in my eye, is to develop an investment track to Fellowship under FES, which would serve as a magnet to attract some of the MBA candidates from the leading business schools. These schools now have marketing and finance majors; there's no reason they can't have actuarial majors. A major goal of FES and FEM is to create a more dynamic and relevant education and examination system that will attract a broader group of people.

Poppel: *What, briefly, are FES and FEM?*

Ingraham: FES (Flexible Education System) is designed to make our syllabus more flexible, more like a college catalogue. There is certain core material, and certain required material at the Fellowship level in the chosen specialty, with the balance being electives. FES for Associateship was implemented with the May 1987 exams; FES for Fellowship will start in the fall of 1988.

The FEM (Future Education Methods) proposal includes about a half dozen things, such as accepting college course credit or exams of other organizations, refereed research papers, and intensive seminars in lieu of certain exams. The most interesting one to me is the Fellowship Admission Course. This would be a 2½ day course taken by all those who have otherwise completed the Fellowship exams. The course would focus on professional ethics using case examples, as well as the integration of syllabus material.

Poppel: *Could someone fail that course and be denied Fellowship?*

Ingraham: There would be no exam; if you attended and participated you get your Fellowship. This raises a question, by the way, that a number of actuarial clubs I've spoken to this past spring have asked, "Why do you wait until people are about to be Fellows before you give them a professional ethics course?" The more I think about it, the more I think I agree with them. Thus, I'd like to review with the E&E Committee and then with the Board the feasibility of possibly breaking this into two parts, with the professional ethics piece presented to candidates for Associateship. It makes sense that when you first emerge as a professional with the Society of Actuaries, that's the time you need to have a sharpened sense for professional ethics.

Poppel: *How will FES and FEM help us attract and create the "actuary of the future" as you've described it?*

Ingraham: One goal of FEM is to create an educational system that will attract people with both technical and nontechnical skills. Right now we're losing out on some awfully good people, who regard the earlier exams as an unreasonable barrier to entry. The best anecdote I cite is the actuarial student who had passed 2 or 3

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Major Issues cont'd.

exams at a large company, and then left to enter an MBA program, because the MBA was a ticket he could punch at the pay window." The student felt it was unreasonable to expect someone to take another 6-8 years to become a Fellow in the Society, when in just 2 years he could be on Wall Street at a starting salary of \$60,000 or more a year. That's the kind of competition we have.

Other goals of FES and FEM are to enhance the value of our Fellowship designation, and to provide for better and broader education consistent with the future needs of the profession as I've described them.

We can't stand still and settle for the status quo; we've got to reflect the changing business as well as social environment. Self study, which is the method we've used since the 19th century, has served us well in the past, but it doesn't always do the best job. For example, I went to MIT and Paul Samuelson was my economics professor. I have to think I learned more from him as a teacher than I would have from simply studying from his book.

Poppel: *How will we know if FES and FEM have accomplished these goals?*

Ingraham: That's a tough question. It may be something like—"I can't put it in words, but I know it when I see it." Some years from now, we're going to have a feel for whether our ranks are being enriched with people who represent a broader cross section. Maybe we'll start hearing fewer actuarial jokes, and more favorable responses from nonactuarial employers of actuaries.

Poppel: *Last spring the membership was asked to respond to a survey about FEM. What were the results?*

Ingraham: The 2,300 people who completed the survey were keenly interested in the proposals. The respondents generally agreed that the objectives set forth in the FEM proposal were very important and that the impact of FEM would be critical on two objectives: (1) providing better education to meet the future needs of the profession and (2) creating a system that would attract and train the people best suited to fill the role of the actuary. The respondents felt that FEM was going to meet these objectives fairly well or completely.

Regarding specific elements of FEM, only about half viewed the

acceptance of college course credits and the exams of other organizations as meeting stated objectives. We received a much more favorable reaction to intensive seminars, research papers, and the Fellowship Admission Course.

Poppel: *What will happen now?*

Ingraham: We have a commitment that by the October 1987 Board meeting we will either go forward, shelve it at least temporarily, or rework some of the proposals. It looks to me right now that the chances are high that we will move forward on most of the FEM proposals.

Poppel: *How will the membership find out what decisions are made?*

Ingraham: If members attend the annual meeting in Montreal, they'll hear about it in my presidential address. The results will also be published in a future issue of *The Actuary*.

Poppel: *What other changes would you like to see in the exam syllabus?*

Ingraham: I'd like us to consider abolishing Part 1, and maybe even Part 2, with the goal of cutting down on unnecessary testing that is driving away some very good people. Presumably if you don't know that material, it will be revealed in a later exam. I'd also like to see us strengthen the Associateship delegation. The Casualty Actuarial Society requires 7 exams to Associateship, because the CAS feels that since an Associate can certify loss reserves, he should be tested in that area.

Poppel: *You've been an active participant in the drive to unify the actuarial profession. Why should the profession be unified?*

Ingraham: If we had a single organization representing all actuaries, it would improve our fragmented external image and strengthen the view that others hold of our profession. We could have a better chance of influencing public policy and expanding the role of the profession. We could interact more effectively with regulators and with other professional groups, particularly the accountants and lawyers. We'd be able to make more efficient use of the volunteer time and the staff of the various organizations. We'd reduce duplication and overlap on a whole variety of issues, and eliminate the need for unwieldy joint committees.

The time to look at this is when we don't have problems, rather than when we have a major flare up.

Poppel: *If it's such a good idea, why aren't we unified?*

Ingraham: Because of history, to some extent, and because some of the actuarial organizations in the past have been concerned that they might lose their identity or integrity if unification occurs. To some extent, this could be addressed by guaranteeing different interests with senatorial representation on the board or executive committee of a unified organization. The current special-interest section structure could also be used to maintain separate identity within one organization. Perhaps you could have divisions comprising several related sections.

What made unification break down when it was discussed in the mid-1970s was a bitter battle over credentials. We'd have to come up with a way to make sure that unification was achieved without any degree of attendant grandfathering.

Poppel: *How do you envision that unification might happen?*

Ingraham: I think the best chance of significant unification might involve the Society of Actuaries and the Casualty Actuarial Society, either on a formal or a *de facto* basis. The interests of life actuaries and casualty actuaries are intertwining to an ever-increasing extent. FES and FEM can lead to greater cross training of actuaries, in that, for example, some core casualty material could be required of all life actuaries and vice versa.

Poppel: *What are the next steps in the unification process?*

Ingraham: A task force has been formed (described in the May 1987 *Actuary*) and will meet at least monthly. Its charge is to bring a recommendation back to the respective boards of each body by next March. Then there will be a joint executive committee meeting involving all actuarial bodies. Wouldn't it be great if we could achieve some elements of unification that we could announce by the 1989 centennial?