



SOCIETY OF ACTUARIES

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## FES/FEM AND THE VALUE OF THE ACTUARY

By James J. Murphy

The Society of Actuaries recently distributed a White Paper on Future Education Methods (FEM). This paper was prepared by the E & E Committee for review and comment by members and students. A White Paper on a Flexible Education System (FES) was distributed last year. A major force behind the development by the E & E Committee of the FES and FEM concepts has been the "Value of the Actuary" issue, which the Society's Committee on Planning and Board of Gover-

nors have been discussing over the last several years. This issue is addressed in some depth by members of the Committee in this Special Supplement on the *Actuarial Profile Survey*.

The FES/FEM concepts are viewed as part of the solution for addressing concerns about the value of the actuary today and in the future. In the complex and fast moving environment that we see now, and expect to see more of in the future, changes such as FES/FEM in basic actuarial education, along with comparable steps in research, public relations, recruiting and continuing education, are necessary to maintain the value of the FSA. In this way, the Soci-

ety leadership hopes to maintain and even increase both the real and perceived membership satisfaction that is shown in the Profile Survey results.

It is hoped that readers of this supplement will gain a greater awareness and understanding of some of the background that has led to FES/FEM. The Committee on Planning hopes that this will be helpful in evaluating the concepts and proposals of the recent FEM White Paper.

We urge all members and students to make their views known by responding to the FEM questionnaire included with the White Paper. □

## A STRATEGIC PLAN FOR THE SOCIETY OF ACTUARIES

By James C.H. Anderson

My hypothetical client, the Society of Actuaries, has engaged me to assist in the preparation of a Strategic Plan intended to establish the future direction of the profession and the role of the Society beyond the year 2000. This is the Executive Summary of my report.

### Principal Findings

- The Society of Actuaries, since its founding in 1949, has succeeded in establishing and maintaining high professional standards among its members by administering an educational and examination program which requires aspiring members to demonstrate superior mathematical skills and specialized expertise in areas relating to the traditional scope of the profession.

- The members of the Society, because the qualification process is intellectually demanding, have benefited substantially, economically and otherwise, from the scarcity value created by the high standards.

- The members of the Society, in contrast to many other professional groups, have also benefited substantially because they earned reasonable incomes and incurred no significant costs during their period of early training. This is because the insurance industry and other employers have operated a "farm system" for future members of the profession.

- On several past occasions, competing professional organizations have

emerged, sponsored by individuals and groups disadvantaged by the exclusionary membership standards of the Society or not adequately served by the narrow focus of its areas of interest. These competing organizations include:

- The Casualty Actuarial Society (CAS) organized 1914.
- The Conference of Actuaries in Public Practice (CAPP) 1950.
- The American Society of Pension Actuaries (ASPA) 1966.
- The last two organizations were established concurrent with efforts to consolidate the profession on an exclusionary basis:

In 1949, the Actuarial Society of America and the American Institute of Actuaries merged to become the Society of Actuaries.

In 1965, the American Academy of Actuaries was organized under the sponsorship of the established professional organizations.

- In 1975 the U.S. Government rejected the proposal of the Academy to use the existing membership criteria of the Academy for the purpose of the Employees Retirement Income Security Act, finding its standards unrealistically high. Since then, the Joint Board for the Enrollment of Actuaries has developed qualification standards for this purpose. Enrolled actuaries as such have no standing within the Society, but are eligible to become members of the American Academy of Actuaries.

- The Canadian Institute of Actuaries has been more successful than the Academy in maintaining control of uniform qualification standards for ac-

tuaries within its jurisdiction. It has recently begun to push for broader qualification procedures, including casualty practice and possible recognition of university training.

- During the period of steady growth that occurred in the life insurance industry from 1950 to 1970, the supply of actuaries meeting the qualifications of the Society was adequate to the needs of that industry. In the pension and employee benefits field, which experienced extremely rapid growth during and since that period, the supply of actuaries meeting the qualifications of the Society was inadequate to meet the needs of the market; thus, alternative and less demanding qualification standards emerged and became accepted by the marketplace.

The casualty actuarial practice, long neglected by the Society, experienced explosive growth from 1975 onwards; the substantial and growing needs of this branch of the profession have been met by the Casualty Actuarial Society, an organization which seems to have adopted standards of qualification at least as demanding as those of the Society of Actuaries.

- Since 1970, the growth of the life insurance industry has slowed dramatically in the area of individual products, heretofore the dominant area of practice for members of the Society. Unbundled products and advanced computer technology have diminished the demand for actuaries, particularly those who are technically oriented.

Now a major consolidation of the life insurance industry seems certain and  
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## A Strategic Plan

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imminent; among the economies of scale expected to result is a reduction in labor costs for actuaries. Some believe the demand for actuaries within the life insurance industry has already declined. A further decline, perhaps of major proportions, is clearly indicated. The decline is likely to be most severe as it relates to those whose skills are primarily technical, as contrasted to managerial.

- In the pension and employee benefits field, many recent developments have also diminished opportunities for actuaries meeting the qualifications of the Society. Current emphasis has shifted away from defined benefit plans and towards defined contribution plans; away from risk sharing of health care costs and towards self-insurance; away from retirement and health-care employee benefit programs of the traditional type and towards flexible benefits and total employee compensation programs.

These changes diminish the need for traditional actuarial skills while increasing the demand for administrative and human resource skills. Some consulting firms active in the field distinguish their staff members as "actuaries" or "consultants", viewing the former as providing technical support and the latter as the true professionals.

- In summary, the Society has, for many years, retained a narrow focus within the wider actuarial profession. Its qualification standards have been elitist and exclusionary, which has operated to the benefit of its members.

At an early stage, arguably at a time when demanding standards of qualification were unnecessary, it abandoned the needs of the casualty actuarial branch of the profession. At a later stage, it did not meet the growing and progressively non-technical needs of the employee benefits branch of the profession.

Developments within the life insurance industry and elsewhere now suggest that the future demand for actuaries in the areas of practice primarily served by the Society is likely to diminish and be exceeded by the supply of actuaries meeting the qualifications of the Society.

This will diminish the economic and other benefits of membership. Moreover, the future role of the Society within the wider profession is likely to diminish further if its current narrow focus and exclusionary membership policies continue.

### Recommendations

- The Society of Actuaries should redefine the branches of the actuarial profession it intends primarily to serve in a way that includes those branches and new extensions of the profession likely to experience reasonable future growth. These include:

- Casualty actuarial practice.
- Employee benefits consulting in the wider sense.
- Investment management and supervision.
- Management consulting to the financial services industry.
- An expanded practice in the area of long-term forecasting.

### QUO VADIS

*By Gary Corbett*

For some time the Committee on Planning has been discussing and investigating the role and the value of the actuary in today's world. In the next few months, we'll be turning our attention to the actuary of the future.

You've read what Committee members and others see as our problems and opportunities. What does your crystal ball foretell? Are the Society and the other actuarial organizations appropriately preparing us for the 21st century? Even if we continue our attention to current FSAs and ASAs, most of their careers will be spent in the 21st century.

As the Committee on Planning and other Society bodies look to the future, we'd appreciate learning of your concerns and ideas. Please send them to me at my *Yearbook* address or express them in person to President Ingraham or me at Society meetings or in our visits to local actuarial clubs.

- The Society of Actuaries should revise its qualification standards in a way that permits it to attract members interested in these wider fields.

The core requirement should remain mathematically oriented and demanding, but with less emphasis on mathematical theory and more emphasis on applied mathematics (such as general probability theory, statistics and computer science). It is unrealistic to continue to require a demonstrated expert knowledge of life contingencies or pension funding techniques from those intending to practice in other branches of the wider profession.

The flexible education proposal now under consideration represents a reasonable first step. To address the probable over-supply of members trained in existing areas of practice primarily served by the Society, a major retraining program is needed to equip some of these members, particularly younger ones, to engage successfully in new and growing segments of actuarial practice.

- The Society of Actuaries, notwithstanding its premier position in the actuarial profession in North America, is also the most threatened of the established actuarial organizations because the areas of practice it now serves are shrinking.

It should seek an amalgamation with the Casualty Actuarial Society, the Conference of Actuaries in Public Practice and the American Society of Pension Actuaries to expedite its move to widen its existing focus into growing areas of practice. Such an amalgamation is practical only if its terms are widely inclusive for members of the constituent organizations; an amalgamation on exclusionary membership terms is likely to fail and, even if it succeeds, likely to spawn a new competing body. In particular, there must be a role for the Enrolled Actuary.

- These recommendations, if adopted, are not likely to be embraced enthusiastically by the membership of the Society. They are likely to be viewed as threatening to the hard-won advantages long enjoyed by the members. Accordingly, the perceived problems addressed by the Strategic Plan must be widely understood before the Plan itself can be implemented. □