



SOCIETY OF ACTUARIES

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Concepts cont'd

He wrote, "The role of the actuary is that of the designer, the adaptor, the problem solver, the risk estimator, the innovator, and the technician of the continually changing field of financial security systems." In addition, he wrote, "The actuarial profession understands, however, that the actuary's role is not exclusive...Actuarial skills must mesh with the capabilities of others if financial security systems are to be successful in minimizing the financial consequences of economic risk."

In Chapter III, Trowbridge identified probability and statistics, the study of random variables, as another foundation of actuarial science. In Chapter VII, he said the cluster of ideas surrounding classification, selection and antiselection also is a fundamental concept.

Trowbridge discussed assumptions; conservatism and adjustment in Chapter VIII. He defined actuarial conservatism as "the use of any actuarial technique (usually but not always the choice of one or more assumptions) that leads to a higher price for a set of benefits, or a higher value of liability..."

In the Chapter VIII summary he wrote, "Except where prohibited by law, or effectively barred by competition, actuaries tend to incorporate some degree of conservatism into their calculations and their recommendations...The actuary's bias in favor of the conservative approach is based on a conception of the public interest, and on a preference for the results of erring on the conservative side as opposed to the consequences of the opposite kind of error."

The final chapter dealt with the role of fundamental concepts in the development of standards. Trowbridge wrote, "This monograph cannot anticipate the actuarial standards or actuarial principles that may eventually develop, but it may be useful to illustrate some of the ways in which foundations, principles, and standards might be interrelated."

The American Academy of Actuaries will send complimentary copies of the monograph to members with the September/October issue of its magazine *Contingencies*.

Others interested in a copy of the monograph may send a charitable contribution to the Actuarial Education and Research Fund, 475 North Martingale Road, Suite 800, Schaumburg, IL 60173.

Centennial panel examines challenges from without

by Judith Bluder

Members of an expert panel at the Centennial Celebration called for actuaries to change some of their old ways and expand their abilities in response to challenges from employers, the government, regulators and policyholders.

During the general session titled "The Challenge from Without," moderated by Ardian C. Gill, panel member Walter B. Gerken said three major developments affecting employers will consequently affect their actuaries. Those developments are the globalization of the financial services marketplace, socialization and potential legislation designed to solve social problems through cost shifting.

The trend toward foreign ownership of U.S. companies will continue, he said, along with the expansion of U.S. companies into the insurance and asset management business in foreign markets. "Employers who enter foreign markets will expect their actuaries to understand those markets and the applicable regulatory environment and even have a knowledge of the languages of the countries in which they operate."

Socialization, or the increasing impact of social factors on the actuarial profession, is a second major development, said Gerken, the recently retired chairman of the Executive Committee at Pacific Mutual Life Insurance Company. Proposition 103, passed by California voters last November, exemplifies this. The proposition set up rate regulation by calling for an elected insurance commissioner and a 20% rollback in premiums from the levels in November 1987. And, "What happens in California is likely to happen in other states," he said.

Actuaries also will be expected to design government programs that provide a role for private health insurance carriers if legislation is enacted to solve social problems through cost shifting, Gerken said. "This will require allocating the cost burden in a socially acceptable way by designing risk pools for uninsurables."

In addition, he said employers will challenge their actuaries to better understand how products are sold. Gerken suggested actuaries spend some time in the marketing departments of their companies as part of their training.

"Everything I've said so far brings me to one major conclusion," he said. "Actuaries will have to have a broader background and, in many career roles, will have to become generalists."

Casualty insurance

From the view of employers in the casualty insurance business, panel member Carlton W. Honebein said the challenge facing actuaries is to help companies make a profit consistently over time. Actuaries also have a responsibility to accurately estimate the liabilities listed on the balance sheet.

In addition, he said actuaries must learn to be more individualistic and proactive. The way in which rates are determined has changed. In the past, actuaries determined rates in a group effort. But today, in a world of open competition and competitive ratemaking, actuaries cannot depend on their "strength in numbers," said Honebein, President of AVCO Financial Insurance Group.

"To me, the challenge from the employers is clear profitability and adequate reserves," he said. "But, it's really up to the actuaries to be influential in helping corporate management get to those answers. Actuaries must not be passive by-players."

Government challenge

The challenge from both the Canadian and U.S. governments will be for actuaries to conduct thorough cost analyses of existing social insurance and pension programs and of proposed changes to those programs, said panel member Robert M. Hammond. "However, I think the challenge will be for actuaries to convince governments of this fact by producing credible results and by being able to explain and justify them."

In addition, government will continue to seek actuarial opinions on

Centennial panel cont'd

Carlton W. Honebein



Walter B. Gerken



Robert M. Hammond



James C.H. Anderson

the adequacy of actuarial reserves for insurance, pension and social security benefits, said Hammond, Deputy Superintendent of Financial Institutions in the Office of the Superintendent of Financial Institutions, Canada. "But I think they'll want more. In my opinion, they will also be looking for opinions on solvency and continuing future financial viability. I also believe that they'll be looking for actuaries to provide advice on the ramifications of legislation."

Governments also will expect actuaries carrying out these activities to put the interest of policyholders above those of shareholders, he said. Consequently, a solid set of guiding principles must be created to support the integrity and independence of the actuary.

Policyholders

From the policyholder's point of view, Honebein said the largest challenge to actuaries is to propose lower premiums and affordable prices.

He introduced a concept called paradigms, which are preconceived mental boundaries causing a person to accept or reject additional data. He said actuaries have their own set of paradigms as a result of the exposure they have had to inflation, high medical costs, a litigious society and other factors.

"If we can learn how to break out of those paradigm traps that we carry in our minds, we may be able to meet the challenge from insurers for affordability," Honebein said.

Actuaries are influenced by several paradigm traps, including prices, demographics, the U.S. self-centered view, the "eroding concept" of personal responsibility, and cost control, he said.

With prices, Honebein said actuaries seldom if ever ask, "Can the buyer truly afford the cost of the product we are proposing? In the future, I think we're going to have to perhaps ask that question as the first step, determine what the buyer can afford and then come around and compute the price for whatever can be included in the package that's being offered by the company."

Demographics and the "changing customer" also influence the actuary, he said. Actuaries depended for many years on historical data to figure their rates. But as the population changes, the data used for these rate forecasts are going to become "very suspect." "We won't be able to use the looking-out-the-back-window ratemaking approach very much longer."

In addition, he said U.S. companies must change the view that they are the center of the world insur-

ance market. "It's all too prevalent a paradigm of U.S. companies to ignore what is going on overseas in the international marketplace. This really isn't a problem for people in other countries because, for the most part, they've always had to go outside their own borders in order to generate the kind of revenue and premium that they wanted."

Honebein said actuaries must learn to venture outside of the United States and examine overseas companies.

Professional identification

Overall, the actuarial profession faces many challenges, including professional identification, a fiduciary responsibility and public issues, said panel member James C. H. Anderson.

The actuarial profession worldwide confronts identification problems, he said. What actuaries do is not widely known. And in order for a profession to receive lasting recognition and respect, society generally must know what a profession does and who its members are. In the United States, these problems are compounded by the fragmentation of professional organizations, each of which qualifies its own members and which even compete with each other for relative status and recognition.

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"We the members of a small and obscure profession, whose members have nevertheless achieved notable success, must demand that our leadership take the steps necessary to receive more widespread recognition and respect," said Anderson, of Tillinghast/Towers Perrin. "And, when our leadership responds to this demand, we must be prepared to follow no matter how unpopular those steps may be among important but complacent segments of our membership."

In addition, he said actuaries who are not involved in the regulatory process must share with regulators the responsibility for the soundness of insurance companies, pension funds and other fiduciaries they serve. "Full acceptance of this responsibility may require some actuaries to develop skills that are not now part of our traditional scope."

Finally, Anderson said actuaries have not contributed as actively as might be expected to the discussion of public issues within their areas of expertise. Some of those issues include proposals to socialize rates for certain insurance coverages and to finance retirement income needs, medical expenses and long-term care. Many actuaries may be reluctant to participate in debate because they are affiliated with insurance companies and other organizations with a vested interest in the outcome of the issues.

Anderson said the profession in North America will continue to flourish as long as actuaries keep pace with the flood of new challenges headed in their direction. "Our enemy is complacency. Our friend is constructive change. We are members of a young profession that has already conferred upon its members both honor and personal success. We, the inheritors of that legacy, have the duty to bequeath it undiminished to our successors."



Anniversary gifts were received from all over the world.

Overseas visitors present anniversary gifts

Several overseas actuarial organizations helped toast the 100th year of the actuarial profession in North America at the Centennial Celebration in Washington, D.C. Many sent representatives who came bearing congratulatory gifts for the sponsoring organizations.

The Actuarieel Genootschap presented a special flowered plate inscribed with a few words about the Centennial while the Institute of Actuaries in Japan offered a hand-painted flowered red vase.

From the Faculty of Actuaries in Scotland, the sponsoring organizations received a Quaich, or Scottish drinking cup, and from the International Actuarial Association they received a large engraved pewter tray.

The Institute of Actuaries of Australia presented a mounted opal, the Royal Association of Belgian Actuaries gave a book entitled "Flemish Art," and the Actuarial Society of South Africa presented a serpentine stone sculpture, entitled "Tribal Dance."

From the Institute of Actuaries, the sponsoring organizations received a crystal decanter. The Swiss Association of Actuaries gave a round pewter

plate decorated with the symbols of 26 cantons and demicantons representing the states of the Swiss confederation.

The Danish Society of Actuaries presented a book entitled "The Queen, the Shepherdess and the Chimney-Sweeper," about the making of a film based on the story by Hans Christian Andersen. From l'Association des Actuairees in Paris, the sponsoring organizations received an historical drawing.

A plaque inscribed with a message noting the Centennial Celebration was given by El Colegio Nacional de Actuarios, S.C., Mexico, and a small Labradorite stone was presented by Finnish actuaries.

From the Society of Actuaries in Ireland, the sponsoring organizations received a small silver bowl inscribed with symbols of Irish history, and Svenska Aktuarieföreningen, Sweden, presented a coin featuring the likeness of the renowned Swiss statistical mathematician Harald Cramer.

Not pictured in the accompanying photograph is an etching of the main entrance of the University of Technology in Vienna, presented by the Aktuar Vereinigung Osterreichs.