



SOCIETY OF ACTUARIES

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# The Actuary

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1992-93 Society of Actuaries Year in Review

# The Actuary

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**ASK AN ACTUARY**



**PRESIDENTIAL ADDRESS**

# Challenging the beaten paths



by *Walter S. Rugland*  
*President, Society of Actuaries*  
*Address at Annual Meeting*  
*New York City*  
*October 19, 1993*

**M**y final duty as Society of Actuaries' president is to present my thoughts on whatever I wish to address. Thanks for the privilege.

Throughout the year, I have focused on our profession and the opportunities we have to serve our constituencies and the public. Without question, the agenda of future opportunities has been foremost in my mind. I'm convinced that the actuaries of the future, as well as the actuaries of today in the future, can significantly contribute to the society we will live in. Our job as professionals today is to nurture our profession so it is maturing and growing simultaneously. As your president, I have thought of this daily.

Let me, however, depart from that overwhelming theme for a few moments. I'd like to report on the year's activities of one component of our profession – the Society of

Actuaries – and give you my view of our organization's future.

**Scope of SOA and activities**

Let me start by telling you about the makeup of the Society. We are nearly 15,000 members strong, with the majority being Associates. You can see the growth trends in Fellowship and in Associateship in Chart 1.

Of the Associates, 53% took a Fellowship exam within the past 12 months and, of those, 61% were successful in gaining some credits. By 1994, the number of Associates who become Fellows each year will rise

above 300. In the past 12 months, 281 became Fellows.

Geographically, we reside in many areas, shown in Chart 2. Most significantly, nearly one out of 14 of us does not reside in the United States or Canada.

During the past 12 months, we have administered nearly 53,000 examinations, and 21,460 candidates took those 53,000 exams. The exam committees will know; they processed over 87,000 essay exam questions.

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**FSA & ASA Growth**

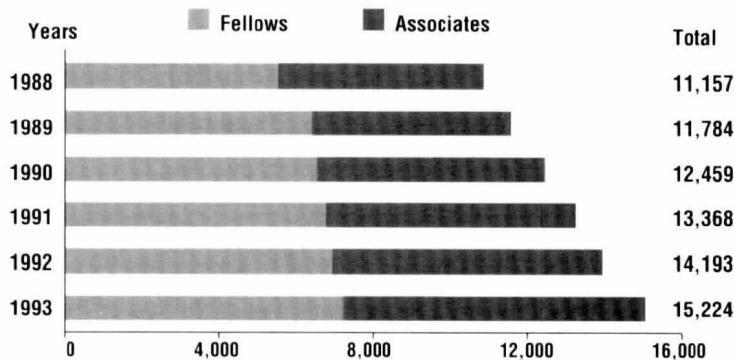


Chart 1

**Geographical Split of Members**  
**Total - 15,224**

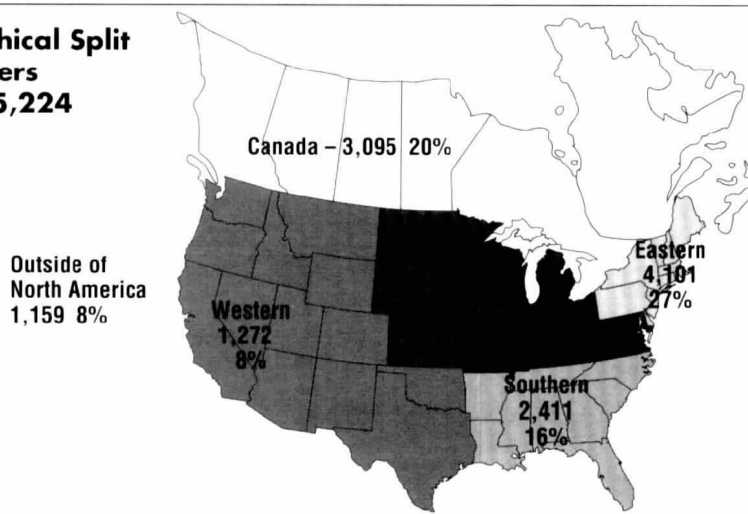


Chart 2

## Presidential address (continued)

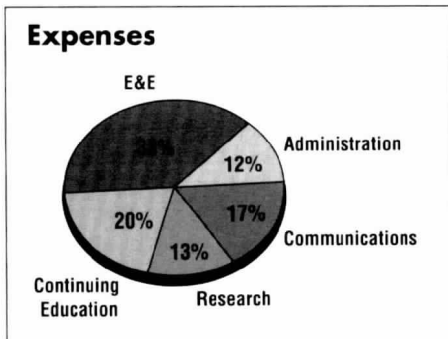


Chart 3

If we could find the right price to charge for a 900 number hotline, we probably could pay for the entire exam system with students' urgent calls to obtain our newly automated exam results. For May 1993, nearly 20,000 calls came into the automated system. By the way, this saved 571 hours of staff time this year.

We also maintain the *Directory of Actuarial Memberships* for the profession in North America, and last year we changed the entries on 74% of the listings. That's a total of 16,300 changes, and some of us changed our listings more than once.

To support our education, research, and member services, we have a continuing staff of 70 full-time people, including six FSAs and one Ph.D. Several others have masters' degrees.

The Society budget for the fiscal year beginning last August is more than \$14 million. Expenses are indicated on Chart 3. Now we need to match these expense pieces against revenue pieces (Chart 4). You can see by the revenue pie chart how portions of the revenue match with the expenses.

In short, our current financial profile shows \$1.5 million coming from examination and continuing education programs which, when added to dues, support our communications, research, and general administration activities.

In the past 12 months, almost 5,200 people have taken advantage of our continuing education programs in meetings like this and in seminars, symposia, and satellite conferences. We had more

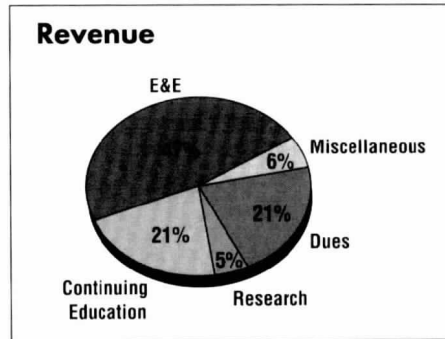


Chart 4

than 7,600 registrations, so some of you have attended more than one.

These are impressive statistics, but the most impressive of all is the volunteer activity of our members. That's you. Last year our committee and task force rosters numbered more than 1,400 members. Some of these are repeats, but not very many. The education and examination system alone involved 585 volunteers and lots of late night activity. There also were about 280 committee and task force meetings last year and too many conference calls to keep track of.

Let's look at some demographics. Chart 1 shows FSA growth. Another way to look at this is to identify the makeup of the January population of 7,106 FSAs relative to the year of attainment of FSA. Here you see that 871 of the FSAs became Fellows in the '90s. Two in seven became Fellows in 1985 or later. About one-half became Fellows in 1980 or later. More than 70% became Fellows in 1975 or later, and 80% became Fellows in 1970 or later.

I thought it would also be interesting to estimate how many of today's Fellows became FSAs before the current new FSAs were born. Fellows who became FSAs prior to 1963 total 871, and Fellows from 1990 to 1993 total 871. We are a very young organization.

People often ask me about our distribution between men and women. The answer is, we don't know. We have not kept gender data, and our membership mix is so diverse that we are unable to reasonably count by assuming gender from a name. Some

staff observations during the last two years, however, indicate that the breakdown of women and men attending the Fellowship Admission Courses is about 35% women and 65% men. The trend is moving toward parity; at least one course was 50/50.

### Reengineering for future transitional leaders

At the beginning of my presidential term, I observed that, as an organization, the Society has never been stronger and probably never more vulnerable.

In contemplating the responsibility of the presidency, my personal goal was to do whatever I could to reengineer the Society so it would be an attractive option in the future for those members with the potential to be exceptional leaders. I believed I had a chance of success with this objective. I knew my time frame was short.

A president serves for only one year. The competition for attention is keen, and the inertia is unbelievable. But reengineering must occur quickly and must create some discontinuities in the way things normally are done.

As I looked at the Society, I thought several areas could be reengineered that would profoundly affect our ability to attract, retain, and utilize our best potential leaders. I want the Society to be so attractive that our best potential leaders will aspire to be part of our future.

Our future success will depend on the emergence of what I call transitional leaders – those who have the ability to create necessary major change as we move from generation to generation and from environment to environment. This type of leadership ability is not the norm.

There are good leaders who are transactional. They lead within a given environment. Transitional leaders move us from environment to environment. They help us overcome inertia and establish renewed purpose and momentum.

### 4 areas for reengineering in 1992-93

What were the areas that I thought we could reengineer? The first was our committee structure. The second was the role of the Board of Governors.

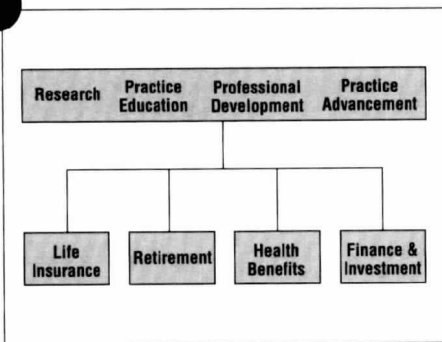


Chart 5

The third was our position in the world among actuarial organizations. The fourth was the full utilization of the capability of our professional staff, especially with respect to accountability and continuity.

As most of you know, we adjusted our committee structure this year to better respond to current and future member needs. We started with the functional research, practice education, and professional development committees and added a new function of practice advancement.

Then we subdivided these functions to better focus committees on practice area needs. This design, shown in Chart 5, has already proven worth the effort. Although future leaders will adjust it as needed, I expect it will serve us well, especially since it easily lends itself to refinement as practice areas emerge or change.

With regard to the role of the Board, many of you have heard stories of long and tedious Board of Governors meetings adrift in a churning sea of reports, discussion, and resolutions. I think we've ordered that. The Board has agreed to work with more structured agendas, and this has prompted extremely thoughtful consideration of action items resulting in significant discussions of policies and directions. I am pleased with our progress.

Early in 1992, it became clear to me that the Society and the North American profession should play a larger role in global actuarial circles. As a result, we have developed partnership relations with our U.K. counterparts, particularly with respect to research and professionalism. Our ties with Mexico

are newly discovered and quickly becoming quite strong.

We also have participated in drafting a conceptual description for a new international federation of actuarial organizations that would allow the Society and its members the unique privilege of being part of a global profession sharing a common science and practice base.

The fourth area I focused on was our professional and support staff. Through the years, this staff has maintained consistent quality, and I, for one, am proud of their efforts. When you see a Society production, remember that it just doesn't happen. Behind the scenes is a staff member who wants us to have the very best.

As an organization, a serious weakness has been our corporate continuity and memory. Better staff support will provide continuity and allow committees to build on the work of prior committees. This expanded view of staff accountability and support continuity will make a difference for the Society of the future.

#### 4 thrusts for 1993-94

You might think that's all there is. What could be left to reengineer?

The answer to that is: those things that can't be dealt with in 12 months. [President-Elect] Steve Radcliffe has teamed with me to initiate work with four major thrusts.

The first is a concerted effort to add a profession-wide focus on the principles that underlie our science – their discovery, articulation, and future application. This year, together with the Casualty Actuarial Society, we've progressed on this front. Our overseas colleagues have expressed interest in participating as well.

Secondly, we have had several in-depth discussions among Society leaders and within our committees focusing on the Society's role with its widely diverse constituents. Our goal is to define a strategy to successfully and consistently manage activities that support an articulated vision for the profession.

Third, through committee restructuring, we now are better focused on our research. We have initiated significant

changes in the Society's research management and operations functions. Our objective is to do meaningful research on budget and on time. During the next year, this effort will take shape, and you'll begin to see the difference.

Fourth, we have taken steps to better manage the Society's long-term resource position. Our commitment to members, now and in the future, demands that we carefully manage our resources, both in terms of members and funds. In the next year, newly implemented management reporting measures and planning tools will assist in managing our resource commitments and financial allocations.

A summary of these eight major areas for reengineering during 1992-1994 indicates:

- Improvement in our ability to focus more on our scientific base
- An effort to accommodate and support changing practice forms with Society resources
- Positioning the Society as an organization that will attract transitional leaders and maximize the potential roles the profession can play in the early 21st century

These are and will be significant advances.

I thank all the members and staff who in the past years and this year have worked hard to lay the foundations to launch these developments.

#### Moving off the beaten path

There still are some significant areas to renew. Candidly, our inability to deal with them in the past makes the Society as an organization exceptionally vulnerable in the future. Scenarios of success in the next century require that we accommodate change in some yet unaddressed areas.

As I think of the future, a nagging nightmare persists. It is best described by an experiment reported by a magazine, *The Natural World*. Processionary caterpillars forage their way through the trees, eyes half-closed, head down, snugly fitted one behind the other. The hypothesis was that they behave this

(continued on page 6)

## Presidential address (continued)

way for efficiency and that they would adjust to find food if none was there.

A naturalist carefully placed caterpillars, one behind the other, on a clean lip of a large crock until the last snuggled up to the tail of the first. The question was: what would they do when they realized there was no food?

For seven days and seven nights, they went around and around their beaten path until they dropped of starvation.

When the world changes radically, the beaten path may not work.

Let me identify four beaten paths in terms of significant challenges:

1. We must address our philosophy of examination. We must address our tendency to focus on vocational application of our skills, as opposed to professional understanding. Professions are careers; vocations are not. Our examination education must provide career-long value.

2. We must address the implicit dependency of our members on third-party payment of member financial obligations to the Society and the profession. This dependence limits our capacity to realize full value and can potentially hold us hostage as we explore future opportunities.

3. We must address the fact that, as a profession with a base in business science, we need a close partnership with the academic community and its colleges and universities which foster research, new teachings, and contrarian check points.

4. We must articulate definitions of our skills and our potential in terms of future applications. This will open doors to what we can do, instead of creating an inventory of what we are not doing or cannot do.

Perhaps these "beaten paths" are too abstract for action descriptions, but I believe they present challenges upon which to focus. I warn that some of the paths which must change have become entities unto themselves. They will beg for maintenance of the status quo, even to the extent of demanding referenda or constitutional restraints.



(Left) Walter Rugland, with his wife Amelia, waves to an appreciative audience as he ends his presidential term at the annual meeting by handing the gavel and badge of office to the 1993-94 president, Steve Radcliffe (right).



Successfully meeting these challenges will require extended time frames. The impetus for change must have a basic purpose that will not only transcend the terms of individual presidents of the Society but also muster obvious and deep-rooted continuing support of the Fellows. It will be for future presidents to lead the Society toward these objectives in response to demands from the Fellows. Let them hear from you; I'll be among the cheerleaders.

### Challenge for change

The challenge for change will:

- Entail a redefinition of education systems and membership criteria – both for initial qualifiers and ongoing membership
- Require a clarification of membership privileges and entitlements
- Insist that we give strong collegiate and graduate institutions a role to play as nurturers of our science in teaching and research, together with all the compromises that might require
- Demand that we prepare students for actuarial practice of their future, not actuarial practice of our current time or our past.

While I believe we are making some big strides now, they are small steps

relative to what we must do in the next decade. I ask you to join me in our quest for the transitional leaders – those who can lead change from generation to generation and from environment to environment. We must support them when their time arrives.

You might say, "Why bother?"

I'm ever conscious of our heritage and legacy. It took 100 years for actuaries of the past to build what we have today, and it is for us to pass on a vibrant and vital profession and Society to the actuaries of the 21st century. These are more than just nice ideas. They provide an agenda of purpose.

As I've said at 25 actuarial club meetings this year, the only thing we really know about actuaries of the future is that they won't do what we did 10 years ago or even what we are doing today. This calls for us all to contribute to stronger fundamentals, build open minds for change, and embrace a future vision.

My vision is that when a business or government decision maker of the 21st century has a question about risk, her or his first thought will be, "Ask an actuary."

This year you've shared that vision by joining me in displaying the "Ask

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# Annual Secretary/Treasurer's Report

by James F. Reiskytl  
Vice-President, Secretary and Treasurer  
Society of Actuaries, 1992-93

The Society of Actuaries is in excellent financial shape at the end of the 1993 fiscal year. Revenue exceeded expenses by \$859,000. Section and other restricted funds produced \$251,000 of this surplus and general operations contributed \$608,000. A one-time credit of \$157,000 is a significant portion of the \$608,000 general operating surplus. This credit is due to the accounting treatment of ABCD/ASB expenses. The liability for these expenses was originally estimated and charged to the 1992 fiscal year and then was reversed in 1993, because these expenses were charged to all U.S.-based actuaries who were not members of the American Academy of Actuaries. The pie charts on this page show a breakdown by category of revenue and expenses of the general operating fund.

As of July 31, 1993, unrestricted membership equity was \$5,514,000 or about 39% of budgeted expenses for the 1994 fiscal year. Five-year forecasts project expenses to exceed revenue in amounts that will reduce unrestricted membership equity to our 25-30% guidelines.

The complete Financial Statements and the Independent Auditor's Report from Selden, Fox and Associates, Ltd., will be published in the *Transactions*. They have been reviewed by the Committee on Financial Affairs and approved by the Board of Governors.

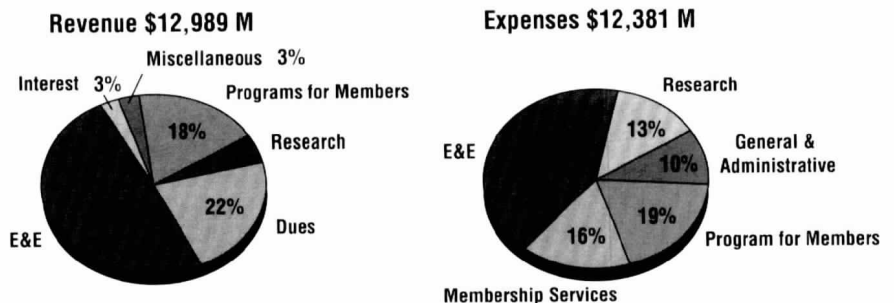
Last May, the Committee on Financial Affairs presented to the Board a budget for 1994 with an excess of expenses over revenues of \$85,000. Recent estimates indicate a modest surplus. Based on these estimates and the fact that our current surplus continues to exceed previously suggested guidelines, the committee recommended no dues increase for 1994. It will be the fourth consecutive year without a dues increase to our members.

Subsequent to the approval of the budget, the Board approved the

creation of the Society of Actuaries Foundation to enrich and expand the Society's continuing education and research efforts. To demonstrate its commitment to this new development, the Board provided \$500,000 as seed money. The Society also will contribute additional monies in dollar-for-dollar matching funds up to \$500,000. As a result, expenditures may exceed revenue next year.

In October, the Board approved a change in the dues structure effective in 1996. When the new structure takes effect, all FSAs and ASAs will pay the same regular dues, except ASAs with fewer than five calendar years of membership, who will continue to be charged 50% of regular dues. Note that this change does not address the amount of dues, only the structure.

## 1993 General Operating Fund



## Presidential address (continued)

An Actuary" button. Together, we have altered our mind sets. Let us maintain our momentum in making room for a broadened future.

### Thanks

It has been my privilege to be president of the Society of Actuaries. To you all, I say thank you for that. My spouse, Amelia, says this assignment has consumed me, and she is always right. She has been most patient and supportive. The officers,

the Board of Governors, the Society staff, my Milliman & Robertson associates, and my clients likewise have been patient and supportive. To them all, I say sincere thanks.

And, I thank all the Fellows for giving me the opportunity to serve.

In addition to my gratitude, what do I hope you will remember today?

First, that we are a strong organization by any measure – the most important measure being member

involvement and youthfulness. Second, that we are very vulnerable in terms of future vitality and viability. Remember the beaten paths. And, third, that it is our common duty now, all of us, to shape the Society of Actuaries for the 21st century. A key component is "Ask An Actuary!"

