



SOCIETY OF ACTUARIES

Article from:

The Actuary

January 1993 – Volume 27, No. 1



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DEC 30 1992

The Newsletter of the
Society of Actuaries

VOL. 27, NO. 1
JANUARY 1993

THE Actuary

The demutualization of The Equitable

by Gary Corbett

The conversion of The Equitable Life Assurance Society (ELAS) from a mutual life insurance company to a stockholder-owned holding company, The Equitable Companies Incorporated, was completed on July 22, 1992. EquitCos (EQ) became a 100% owner of ELAS, which continues to hold interests in many other stock financial service companies, including Equitable Variable Life Insurance Company (EVLICO), the same as before conversion.

This conversion, although not the first, was the largest and most complex. It was the first to take place under a modern demutualization statute — Section 7312 of the New York Insurance Law, enacted in 1988.

The New York statute reflects many of the concepts contained in the July 1987 "Report of the Society's Task Force on Mutual Life Insurance Company Conversion." I served on this task force chaired by Harry Garber of The Equitable. The influence of the task force report is not surprising, given the significance of actuarial elements in any demutualization.

This article explains the process, with a brief description of the actuarial areas of interest.

Feasibility study

In July 1990, The Equitable's board of directors approved an investigation into the feasibility of demutualization, with the understanding we would proceed to demutualize if practical. We already had decided that demutualization would be a two-step process:

- Obtaining an initial pre-demutualization investment or commitment

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Message to the members

Ask an actuary

by Walter S. Rugland
1992-93 President
Address at SOA Annual Meeting
October 27, 1992

Iwant you to know I take great pride in being an actuary. It is an honorable and respected profession. Let me tell you why I think so.

First of all, we have the public trust and stand accountable for the quality of our work. And, we are a profession because of the way we apply our research in practice, because we practice in a way that the people who use our work can rely on our results, because we attest that we are qualified to do the work we do, and because we are able to discipline ourselves.

I am proud to have grown up the son of an actuary. I know I share this with only a few of you. It is a privilege, and to this, I attribute my sense



Walter S. Rugland

of heritage and tradition. Anticipating this day made my Dad very proud.

So, I am proud of our profession's unique history, recorded so well in Jack Moorhead's book, *Our Yesterdays*, and in our shelves of literature. I stand in awe visiting the home of the

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Ask an actuary cont'd

Institute of Actuaries at Staple Inn in London, which to me represents our strong tradition that now has moved throughout the world. I recommend that you put a visit to Staple Inn on your itinerary.

I am also proud to be able to serve our profession. Twenty years ago, I was asked to join the Academy of Actuaries' board as Secretary. I've seen where we were and, as I said last year when I assumed the role as President-Elect, "I am proud of the coming of age of the Society of Actuaries and our profession."

I believe much is implied with a profession's "coming of age." It must include new responsibilities and a new way of doing things. And it certainly means new horizons and new opportunities.

But it's not enough to just talk about the opportunities that a coming of age brings. I believe it also is a signal for a profession to move forward with deliberate action and to focus on what we can do, rather than to reflect on what we have done or what we do now. We are poised today to write new chapters in our history book. We all can contribute to that history as we move forward with an expanded vision for our profession. I call on you to join me.

Earlier, President Don Sondergeld talked about the need for constructive change, and I agree with that. How? We can't change if we restrict ourselves to patterns that have their roots in yesterday. Let me give you some examples. As early as the mid '80s, the Actuary of the Future Task Force and the Society's Planning Committee noted some trends that they believed could lead to diminished value of the work of actuaries. They warned us of several trends:

- 1) Intrusion and pre-emption by regulators and other appointed observers into the realm of the professional judgment of actuaries
- 2) Actuarial functions in large insurers being decentralized by business lines and reduced in overall scope. The chief actuary would be hard to find.
- 3) Defined benefit retirement plans disappearing as self-styled non-risk experts influence employer benefit plan decisions
- 4) Nonactuaries with computers performing many technical actuarial functions, not knowing the basis of their work

5) Asset management strategies overshadowing the old risks of mortality and morbidity

But the most serious observed trend of all was that of the profession itself. We appeared, more and more, to be looking inward and allowing others to define our future. I'm sure you can think of your own examples.

Today, the fallout of some of these trends is here in full force: vast defined benefit pension plan terminations, insolvencies of insurers, a lack of public confidence in the traditional constituencies we serve and, for the first time, more actuaries than there are jobs.

But, this is not new news.

The profession in North America recognized early aspects of these trends and took giant strides to bolster our position. Now, it is time to enhance the scope of our professional work. We've built a strong base. Actuaries today are ready to serve at the heart of strengthening North America's financial systems.

Let's note recent accomplishments. We have:

- Legal sanction for the integrity of our employee benefit plan assumptions
- Standards of practice through the Actuarial Standards Board (ASB) and the Canadian Institute of Actuaries (CIA)
- Discipline processes through the Actuarial Board for Counseling and Discipline (ABCD) and the CIA
- Qualification processes promulgated by the American Academy of Actuaries (AAA) and the CIA
- A meaningful insurer valuation role as an "appointed actuary" and recognition of the actuarial role in analysis of an insurer's investment risk and economic health

These major developments, all within the last half decade, enable us, with our unique set of skills, to open doors and forcefully say: "Ask us! Ask actuaries to be a part of your problem analysis and solution." Twenty-first century actuaries will have to apply these skills more broadly.

Remember, there's no such job as "actuary," but being an actuary gives us many unique skills and enables us to do a lot of problem solving.

We also need to take the lead to market actuaries, convincing current and potential clients and employers that Society members have the skills to solve problems of the future.

One of the things the Task Force on the Actuary of the Future did in 1988 was a "vision matrix." In this matrix, potential actuarial functions and skills were assessed against potential users of our services. This helped identify and strengthen roles where we were uniquely qualified and to seek new areas where we would bring something special to the table. This vision has become clearer as the task force has continued its work.

Much groundwork has been laid in the past four years. The field has been plowed, nutrients are being added to the soil, and we can start the seeding. It's time to pick up tools and get on with the work.

So how do we get started? One way is by joining the new Actuary of the Future Section. The Section's purpose is to identify and develop future roles and opportunities for actuaries. Join it and help sow the seeds of a new field. Remember, it's not your skills that are being challenged; it is the usefulness of those skills.

Three things make a profession great:

- Men and women with a spirit of adventure
- Men and women who know their duty
- Men and women who strive to meet a standard

I am proud that the actuarial profession is such a profession.

The leaders of the profession and the Society not only lead and listen, we also listen and lead. During the past few years, my listening has convinced me that many of you wish the Society could do more for practicing actuaries. For example, do our members get the support they need in their practice areas? Is the Society's heavy emphasis and commitment to basic education and examination, experience analysis, and traditional meetings delaying other activities and thrusts practicing actuaries need?

I have become convinced that the Society of Actuaries should be more. I believe that our work must truly embrace all members' practice needs, as well as qualify new members, while also enlarging our profession's scope.

The Board of Governors has approved a modified governance structure for the Society that will move us in the direction of better meeting member practice needs. By clarifying functions and examining major policy

and committee agendas from both a practice and corporate point of view, I believe that we will be able to more quickly understand, anticipate, and respond to our changing environment. This is a change which will enable us to have appropriate focus.

Now I want to disclose a motivator in my seeking this presidency. The Society of Actuaries' current motto is "The work of science is to substitute facts for appearances and demonstrations for impressions." This statement, chosen in Victorian times, comes from Ruskin in the "Roman Renaissance" chapter in *The Stones of Venice* and is taken entirely out of context. I have to question in this day of fuzzy sets, chaos theory, and model building whether it is relevant to our profession. It perpetuates a thought process that doesn't fit; it doesn't project us into the future. In fact, it limits our opportunities. I believe the time has come to consider a new motto for the 21st century, and I have asked the staff to structure a contest to find a new one. So get your entries ready.

As I've said, I'm very proud to be an actuary, but that pride is not without its frustrations. As I move about our constituent clientele and look at the research on our profession's image, one characteristic is much too prevalent, and it hurts us. It causes our clients and employers to question our value.

We come across as being "above the fray" — too good to wrestle with the real issue; quick to criticize; too busy to help. Our best friends tell us we are cynical. Yet they respect us. They really want us to get into the solution and help.

Present company may be individually excluded; but this is a corporate, historical image. We all share the fallout, and I, for one, have never liked it.

We in the Society need to work together to break out of this adverse image and to convince people to look beyond the stereotypes and consider our skills and the value we can contribute.

We must let our employers and clients know that we are scientists, managers, and/or consultants with a strong quantitative base of knowledge and problem solving skills, ready to be used in many ways; that we as actuaries can provide expert, relevant

solutions to financial and business issues, especially those requiring analysis of uncertain future events. An actuary is uniquely qualified to measure, model, and communicate the implications of future contingent events. We've changed our mission statement to articulate this, and I like it.

Enhancing our image is not a job that your leaders can do alone. It's a mindset issue. We, the entire membership, must do it together. It won't be easy, and it won't be quick. But it is a movement we can start now. We all have to believe two things: one, that our profession will be of more value to people tomorrow than it is today, and two, that every one of us has a personal responsibility to make it so in how we work and how we act.

Tonight, there will be students bent over books and study notes, giving up time with family and friends to become actuaries. Let it be our cause to give them a chance to join a strong, meaningful, and secure profession. It is our common duty to initiate change now to ensure their future in this profession and allow it to also continue to reward us.

This means first we must become a part of solutions that allow us to apply our skills, and then we must see universality in the application of our expertise.

I want to share my vision. I see the day in the 21st century that whenever a business or government decision maker has a question about risk, her or his first thought will be, "Ask an actuary."

"Ask an actuary!" Share that vision by joining me in wearing this button, "Ask an actuary." Take a few, wear them home, on the street, and to your work meetings. Get your family and friends to wear them. These buttons are guaranteed to give you the opportunity to explain that you can be part of a solution process.

To wear this badge of office of the President of the Society of Actuaries is a distinct privilege. I take it with great honor. As we move into the new program year, I thank you in advance for your confidence, your enthusiasm, and your support.

Now, get set for a great ride.



Buttons available

If you would like to participate in President Rugland's program to increase awareness of actuaries as business people capable of participating in solutions to any financial problem involving risk, you may request a supply of "Ask an Actuary" buttons. Just contact Connie Tegeler, Communications, Society of Actuaries, 475 N. Martingale Road, Suite 800, Schaumburg, IL 60173-2226; phone, 708-706-3500; fax, 708-706-3599. Please specify quantity needed and intended use.

Health actuaries cont'd

issue. I believe that for actuaries to be effective, the AAA needs to be able to tap into the SOA's education and research resources in ways that appear to the outside as if we were a "seamless" organization. In return, the AAA helps enhance our profession's image and, indirectly, helps increase actuarial job opportunities.

What we are capable of doing and how we get it done are the fundamental issues to focus on to enable us to do more as a profession in influencing health care policy. If we can solve these organizational problems, health actuaries will be more visible. "Yes, we are involved" will become the answer to a question that won't even need to be asked.

If you have any ideas or comments or would like to volunteer to work on policy issues, please write me at my address listed in the *Directory of Actuarial Memberships*. Your input is always important.

Howard J. Bolnick is president of Celtic Life Insurance Company, a former member of SOA's Board of Governors and an AAA Director, and currently is an AAA vice president and chairperson of the AAA Health Practice Council.