



SOCIETY OF ACTUARIES

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Practice areas attempt to define scope

by Arnold Dicke

Two years ago, under President Walt Rugland, the Society of Actuaries reorganized administratively into four practice areas: life insurance, health benefit systems, retirement systems, and financial and investment management. Each practice area is assigned to a vice president, and each one has a "steering committee" called the Practice Advancement Committee. These four areas clearly represent the practice areas of most actuaries in North America.

On the surface, these practice areas seem to be relatively distinct. However, in trying to define more carefully the scope of each practice area, some issues arise.

Examples are the financial and investment management practice area, assigned to Vice President Shane Chalke, and the life insurance practice area, assigned to me. It's fairly clear where responsibility for, say, mortality experience tables should lie, as well as where responsibility for asset default studies should be placed. However, given that most life insurance and annuity products are long term in nature, it is difficult to determine exactly where responsibilities related to funding these liabilities should lie.

The Financial Investment Management Practice Advancement Committee discussed this issue and is now working with a statement of scope that covers three areas of actuarial endeavor:

1. **Financial Reporting:** The specialized areas of statutory, GAAP, and tax accounting relating to insurance products. Financial reporting involves the application of geographically specific conventions to the measurement of insurance endeavor.

Asset/Liability Management (ALM): The understanding and managing of differences in asset and liability behavior over time. This area of necessity encompasses a great body

of knowledge relating to the characteristics, mechanics, and behavior of both asset and liability forms common to financial intermediaries.

3. **Financial Management:**

Encompassing areas of financial performance measurement, capital budgeting and control, financial modeling and projection, and analysis supporting changes in institutional control (M&A, demutualization, etc.).

The Life Practice Advancement Committee has not yet developed this kind of formal scope statement. If I were to give a working definition that seems to have formed during the first two years of the life practice area's activities, it might be:

1. **Life Mortality Risk**

Quantification: This would include mortality tables, risk classification issues, and the like.

2. **Life Insurance and Annuity Pricing and Product Line Financial Management:**

This would not include life insurance company financial management. It would, however, include the management of long-term life insurance and annuity risks. In particular, it would include setting up balance sheet provisions (reserves or actuarial liabilities) for these risks and testing the adequacy of such provisions.

3. **Life Insurance and Annuity Systems:**

This would include analysis of appropriate risk-based capital provisions, guarantee associations, etc.

It's not hard to see that these two scope statements have areas of overlap, particularly in asset/liability management. Discussion will, no doubt, go on between the practice areas to help define these boundaries. Shane Chalke and I both believe that the boundaries are rather fuzzy, with the best actuaries

often integrating skills from multiple areas. Consequently, a great deal of coordination is warranted among the various areas of practice.

We would be happy to receive comments from actuaries practicing in life insurance and financial reporting. How do you think the responsibilities should be allocated between the two practice areas? Contact us at our *Directory* addresses.

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Journal calls for papers

Actuaries and other interested parties are invited to submit articles to the *Journal of Actuarial Practice*, Vol. 3, No. 1, on any subject (e.g., life, health, pensions, property/casualty, investments) related to actuarial science or insurance. The journal accepts technical papers, commentaries, essays, and book reviews.

Fax or mail a short abstract (150 words or less) to Colin M. Ramsay, Editor, *Journal of Actuarial Practice*, P.O. Box 22098, Lincoln NE 68542-2098. Phone and fax: 402/421-8149. Five copies of the completed paper must be submitted by May 1, 1995.