

ACTUARIAL DEPARTMENT ORGANIZATION

- A. 1. What fields of work in a life insurance company are necessarily the responsibility of the Company Actuary?
2. How may these functions best be grouped for organizational purposes?
- B. What other fields of work are being successfully administered under the Company Actuary and how is the staff organized?
- C. In Actuarial organization what size and type of basic clerical work unit have proven to be most successful?

MR. M. F. AUDEN felt that the obvious answer to A. 1. is "all fields, since otherwise why are so many actuaries the heads of their companies?" Passing to a more detailed answer, he pointed to the need for observing certain generalities on organization.

The perfect organization is one that ensures the maximum efficiency with the least effort, withstanding shock and changing and growing without disruption. Probably impossible to attain, it should nevertheless be striven for with continuous improvement. Practice may not follow theory in individual companies because of variations in methods. The span of authority should be limited to the number of subordinates whose activities can be effectively controlled by one man and similar functions should be placed in a single group; and organization should be built around functions and not around individuals or groups of individuals.

He cited the late Dr. Harry A. Hopf who had commented on the limited interest in the life insurance business in principles of organization and its reluctance to reduce to permanent form and publish the facts regarding existing internal organizational relationships. With this background of generality, he submitted two suggested groupings of functions in answer to A. They covered in substance the ground referred to later by Mr. Murphy and differed from each other only as they reflected minor differences in opinion between Mr. Auden and his colleague, Mr. Edward Ruse. Both were based on the actuary not only as a staff advisor but also as a line supervisor.

MR. R. D. MURPHY suggested that the word "responsibility" may need interpretation. The Actuary's responsibility is complete in performing calculations which involve the mathematics of life contingencies (calculating premiums, surrender values, reserve liabilities, making mortality investigations, constructing mortality tables, determining the conditions of changing policies, etc.). The Actuary's responsibility is not complete, however, in determining the assumptions on which his calculations

are based and, while he has a heavy responsibility as a skilled advisor, in the last analysis his chief executive and his Board must take the final responsibility.

In a participating company one of his responsibilities lies in the field of surplus distribution, on which he must advise the chief executive and Board. No edition of policy forms should be adopted by his company without at least his thorough study of them. In many companies, probably in most, the terms of all policy provisions are initially drafted under actuarial authority and then submitted to counsel. It has been tried in reverse order, but the fact that the initial draftsman must know thoroughly the benefits and conditions of coverage intended argues for original drafting under actuarial authority. The Actuary must also give attention to expense studies which affect his many problems and which, even though made by accounting officers, must be transformed for his own purposes.

It is virtually impossible to bound the Actuary's responsibility for making studies of special problems—for example, agency operations, the possession of mechanical equipment in the actuarial department suggesting their being made under actuarial supervision. He must have the imagination necessary to originate studies which can lead to improvement in company operations.

Mr. Murphy declined to draw a line between types of work that require professional actuarial attention and those which do not, but emphasized the fact that the Actuary who finds himself in charge of large administrative units must give the same thoughtful and considerate care to important personnel principles that would be required of any administrator.

In companies which issue group, while part of the actuarial staff will specialize in group problems, the final actuarial responsibility should be channeled to the point of top actuarial responsibility because so many of the problems are indivisible.

He mentioned a practice in the Equitable of holding two sets of regular meetings of professional men in which major problems of the department are discussed. One group, made up of senior men, discusses current controversial problems of major importance, with many valuable contributions being made by men not in the field under discussion. For the Fellows in junior positions a monthly meeting provides opportunity to review, with a full discussion of the contributing reasons, many of the major decisions made by their seniors.

Using for reference a booklet prepared by the Prudential for recruiting purposes, MR. R. L. MILLER described the seven divisions that come directly under actuarial responsibility: Ordinary Underwriting, Ordinary Issue, Settlement Options, Ordinary Valuation, Debit Policy Valuation, Group Actuarial, and General Actuarial. Generally the names are self-descriptive, and each division handles not only those problems that are

closely related to its work but also much of its own technical control and research. He pointed out that while some of the nonactuarial divisions in the company had successfully omitted one level of line operation, the actuarial divisions usually required more levels. He described the manner in which Associates and Fellows are worked into the technical staff in the divisions with titles comparable to Assistant Manager and Manager, and are given their own line of reference through technical channels. Divisions average about 150 persons, and the most desirable work unit has been found to be the section of ten to fifteen persons.

He also indicated that while the Group Department is essentially a sales organization and does not handle the actuarial aspects of underwriting, dividends and statement work, it is, nevertheless, headed by a Fellow; in fact, 40% of the company's Fellows are assigned to Group work.

MR. R. G. STAGG, expressing the view of a medium-size company, likened the Actuary to an engineer who was useful almost anywhere in the organization even though not detached (and frequently preferring not to be) from his regular sphere. The only alternative would appear to be in a corps of reserve experts, probably also of actuarial background, who would be attached to the other areas. Mr. Stagg mentioned particularly the usefulness of an Actuary as an executive assistant to a chief executive officer. Reverting to the Actuary's interest in various other departments, he pointed out the joint responsibility to both fields that thereupon exists, and the care that must be taken in such use of actuarial men. Some are good managers and others are not, and it is important to maintain the best personnel relations with the nontechnical staff elsewhere.

MR. H. F. ROOD, after reviewing much of the work of a company for which an Actuary should be responsible, went on to urge a flexible organization, tending more to recognize the abilities of the personnel available than to fit certain prescribed operations. When a person is replaced, the new man may retain certain responsibilities which have been developed under his leadership and may assume only those duties of his predecessor which seem best to fit his capacities. Consequently, some or all of the responsibilities just mentioned might be placed under the supervision of one Company Actuary but not of another. He cited some of the uses of an Actuary, particularly in underwriting and in agency work. In the Lincoln National seven of twelve senior officers are Actuaries: the President, two of four Vice Presidents, three of five Second Vice Presidents, and the Secretary. In addition, the Agency, Investment Research, New Business, Reinsurance, and Group Departments are headed by Actuaries. The company feels that Actuaries are particularly well fitted for executives of life insurance companies, and that where Actuaries head many different departments there is a greater uniformity of opinion as to the proper solution of problems and consequently greater harmony in the organization.