



SOCIETY OF ACTUARIES

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A history of the future Tracing the rise of profession's globalization

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Globalization is here. Our business lives and personal lives are being forever altered by its relentless progress. The actuarial profession, too, is somewhat silently being caught up. For most of us, globalization has not yet affected our professional lives. However, this will change dramatically in the next five to 10 years as globalization of the financial services industry changes the very nature of the businesses for which we work, the customers with whom we consult, and the rules by which we practice. Growth of national actuarial organizations. Actuarial science is in the process of becoming a worldwide profession. The International Actuarial Association (IAA) currently has 61 member organizations representing actuaries in 50 countries.

Actuaries have their intellectual roots in 18th-century development of probability and statistics by formidable thinkers like Daniel and Jacob Bernoulli, Abraham de Moivre, Edmund Halley, and Richard Price (the founding father of actuarial science). These intellectual achievements

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The public's voice

Actuary joins high-profile teleconference on Social Security and women's issues

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Nearly a year ago, a forum was launched to give the public a neutral avenue through which to express views on the U.S. Social Security program and possible reforms. This nonpartisan, unbiased effort is called "Americans Discuss Social Security," and its sponsor is the Pew Charitable Trust, which supports projects involving citizen participation in important issues.

Its agenda has been aggressive — forums in all 50 states, nationwide forums featuring President Clinton and Vice President Gore, and even a grassroots effort to raise discussion about Social Security among U.S. college students.

An important element of "Americans Discuss Social Security" is a teleconference format, in which panelists or keynote speakers discuss issues before audiences in several states linked by satellite. Each site's audience offers its views through a discussion leader and electronic polling. Callers viewing on cable TV can call the panelists live on the teleconference. While this puts the guest speakers on the "hot seat," it also offers an unusual opportunity — the chance for real dialogue on a national issue between private individuals and the public figures and experts with the greatest influence.

On Jan. 23, I was privileged to participate in a 10-city nationwide teleconference as a representative of the American Academy of Actuaries. The topic was "What Every Woman Should Know About Social Security." Chaired by first lady Hillary Clinton and Rep. Jennifer Dunn (R-Wa.) and moderated by nationally syndicated columnist Jane Bryant Quinn, the four-hour teleconference brought together prominent experts on the topic. Speakers: women in policy. In their opening remarks, both the first lady and Rep. Dunn offered data indicating that women are more likely to be poor in old age and have lower

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led life insurance offices in England to rely on business-oriented mathematicians called “actuaries” to help assure their solvency. The formal profession has its origins in the organization of the Institute of Actuaries in London in 1848.

Following the Institute’s initial success, growth in national organizations took place in two waves. The first wave came between 1848 and the start of World War I in 1914. Eighteen national actuarial organizations were formed in the major Western European countries, two non-European British colonies (Australia and Canada), czarist Russia, Japan, and the United States. The first U.S./Canadian entry was the Actuarial Society of America, formed in 1889 as the world’s fourth actuarial organization.

The years between the two World Wars, 1919 to 1939, saw few new organizations. A handful of Eastern and Western European countries joined the European actuarial family. Mexico also was added to the international community with the formation of the *Instituto Mexicano de Actuarios* in 1937.

Not surprisingly, the greatest growth in actuarial organizations has taken place since the end of World War II. Forty-one of the 61 IAA members were formed in the postwar era. Most notably, the actuarial profession broke out of its strong European orientation to become a truly international family. New actuarial organizations were

formed in Asia, Africa (including Nigeria in 1983), the Caribbean, South America, and the former Soviet block of nations.

By the end of the 20th century, we clearly can view ourselves as an international profession.

Professionalism

Nineteenth-century actuarial organizations began as associations of people with the “actuary” designation from life offices. By World War I, most of these organizations had adopted trappings that characterize a profession: basic education, continuing professional education, research, discipline, and public policy involvement.

In the United States and Canada, the Actuarial Society of America (ASA) held periodic professional meetings with presentations of papers shortly after its formation in 1889. Exams were introduced in 1896. The first research study was undertaken in 1903: the Medico-Actuarial Mortality Investigation, published in 1912-1914. Provisions for hearing charges of professional misconduct were added in 1906. And, ASA members participated, as actuaries, in public policy debates surrounding the Armstrong investigation in 1905, hearings by the New York legislature on allegations of managerial abuses at the largest East Coast insurance companies. (This led to a push for state laws which could have crippled the insurance industry, but the legislation was toned down

in large part due to the advice of a committee of actuaries.) By the early years of the 20th century, ASA had developed at least rudimentary forays into all of the areas that we associate with our professional lives.

The pace of growth in professionalism varied significantly by national organization. Many other national actuarial groups — for example, those in the United Kingdom, Canada, Mexico, and Australia — also have developed into fully functioning professional organizations. Others are still evolving toward this goal. International organizations From its infancy, the actuarial profession has had an international presence. In 1895, the *Le Comité Permanent des Congrès Internationaux d’Actuaires* was established by actuaries from Australia, Belgium, Canada, France, Germany, Holland, Italy, the United Kingdom, and the United States. This organization, headquartered in Brussels, was formed to arrange the International Congress of Actuaries every four years. Membership was open to actuaries from around the world. Its purpose was to promote discussion of actuarial practice and research topics. In 1968, *Le Comité* was renamed the International Actuarial Association, and in 1997, IAA headquarters moved from Brussels to Ottawa.

The 26th International Congress of Actuaries, held last year in Birmingham, England, attests to

Call for applicants for 1999 Woody Scholarships

The Actuarial Education & Research Fund (AERF) announces the 4th Annual Woody Scholarship Program, which awards four \$2,000 scholarships to undergraduate students with senior standing.

Applicants must rank in the top quartile of their class and have successfully completed one actuarial

examination. As part of the application, each student must write a brief essay and be recommended by one of their professors. Students also will be judged on leadership as demonstrated through extracurricular activities. Only one application from each school is permitted.

Deadline for applications is June 30. Winners will be notified by Aug. 31.

Applications are available on the SOA Web site at www.soa.org/educationandexaminations and from Paulette Haberstroh at the SOA office (phone: 847/706-3584; fax: 847/706-3599; e-mail, phaberstroh@soa.org). Information is available from Curtis Huntington, AERF executive director, at his *Directory* address.

the enduring value of international contacts. The 27th Congress will be held in Cancun, Mexico, in 2002.

The *Comite's* success led to its adding two sections. In 1957, the ASTIN section (Actuarial Studies in Non-Life Insurance) was formed to promote the international study of non-life insurance where stochastic modeling is used. Then in 1988, the AFIR section (Actuarial Approach for Financial Risks) was launched to extend actuarial knowledge to the study of finance. ASTIN and AFIR hold their own periodic colloquia.

Global economy

The post-World War II era has seen the rise of a global economy. While globalization has proceeded on many fronts, some areas of development have particular importance for the actuarial profession.

Historical barriers to international trade have been falling. The major worldwide forum for negotiating change are the rounds of negotiation taking place under the General Agreement on Tariffs and Trade (GATT). GATT originally focused on trade in goods. Its major tactic to reduce trade barriers is an agreement among nations joining the treaty to extend most favored nation (MFN) treatment to all members of the World Trade Organization (WTO).

The 1983 Uruguay Round led to creation of the General Agreement on Trade in Services (GATS). GATS extends the MFN concept to service industries, including financial services, insurance, and actuarial practice. While the direction of negotiations under GATS is clear, the pace of change will be slow. Member nations have been making offers to reduce barriers through the WTO in preparation for the next round of negotiations early next century. These commitments are already affecting service professions. For example, accountants across the world are working on international qualification standards based on the principal of mutual recognition of professionalism for individuals meeting minimum national standards.

Growth in international trade and international business create a need for international standards. Financial services is an area with a great deal of recent activity. The first major agreement was the 1988 Basle Capital Accord that established international standards for measuring bank capital and solvency.

The International Organization of Security Commissions (IOSCO) was founded in 1974. National representatives at IOSCO became increasingly dissatisfied with differing, inconsistent accounting standards for multinational companies. In 1995, IOSCO came to agreement with the International Accounting Standards Committee (IASC), formed in 1973, to work on a complete set of international accounting standards to apply to multinational businesses holding cross-border securities listings. IASC has done, and continues to do, extensive work on international accounting standards, including current projects involving insurance companies and employee benefit plans.

Most recently, the International Association of Insurance Supervisors (IAIS) was formed in 1994 to help establish international solvency and supervisory standards for insurance companies. Projects underway at IAIS and IASC are of great interest to actuaries.

Regional organizations have also been at work reducing trade barriers. The European Union (EU) is perhaps the most established and extensive example of this trend. In North America, we have NAFTA, which is a much less extensive agreement, but still one that affects our professional lives. Other regions have their own agreements: Southeast Asia (the ASEAN organization), the former Soviet block, and some South American countries (MERCOSUR) among them. These regional agreements create areas with lower internal trade barriers, which allow freer movement of labor, including professionals. If actuaries gain easier access to other countries, actuarial practices and standards may need to be harmonized.

Regional actuarial organizations

Regional trade areas like the EU and the NAFTA countries have led to the need for regional actuarial organizations to respond to the changes created by lower trade barriers.

Le Groupe Consultatif was formed in 1978 to allow European actuaries to respond to changes coming from the EU Secretariat. The EU is a unified economic area with common laws and regulations, and financial services are rapidly becoming EU-wide. In 1992, an EU directive required mutual recognition of professions. Members of national actuarial organizations are now able to provide their professional services throughout the EU, subject to some nation-specific work supervision requirements. When the EU was formed in the early 1990s out of the former European Community (EC), the pending strengthening of European unification prompted *Le Groupe Consultatif* to adopt its common code of professional conduct. This code was later adopted by the IAA as the minimum code for divisional membership. This is a tangible example of how increased freedom of professional movement between countries could lead national actuarial associations to respond to globalization.

North America is moving slowly in the same direction. NAFTA allows for recognized professionals to freely cross borders to perform services. The American Academy of Actuaries, Canadian Institute of Actuaries, and *Colegio Nacional de Actuarios* are negotiating with their respective governments to have actuaries recognized as a profession under NAFTA. Leaders of all nine U.S., Canadian, and Mexican actuarial organizations meet regularly in the Council of Presidents. Council members have negotiated standards for recognizing the qualifications of one nation's actuaries to work in the other two NAFTA countries.

For the past two years, periodic meetings have been taking place

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between U.K., U.S., Canadian, and Australian actuarial organizations. This informal group discusses issues of common interest. These discussions are becoming increasingly important, since many multinational insurers and consulting firms are hiring actuaries credentialed in one of these countries to work in another of them. Mutual recognition of actuarial credentials has become an important topic.

Other regional actuarial organizations also are being formed. Most recently, a forum is being created for South American and Central American national actuarial organizations. International Actuarial Association

In the early 1990s, a number of foresighted leaders in the profession recognized a need for an international group consisting of actuarial organizations, not just individuals, from around the world. These actuarial visionaries came from Australia, Belgium, Canada, France, Germany, Japan (representing the Asian actuarial organizations), Mexico (representing the Latin American countries), the Netherlands (representing other continental European countries), Norway (representing the Nordic countries), Switzerland, the United Kingdom, and the United States. This group's efforts led to the 1995 formation of the IFAA as a division of the IAA. Once formed, the IFAA demonstrated a clear need for its existence when it faced two major needs:

- To respond to the international accounting community on actuarial aspects of accounting for pensions, other employee benefits, and insurance

- To develop recommendations for the core actuarial syllabus by the next decade

The need for the member actuarial associations to be directly involved in these deliberations became so clear that, at the International Congress in Birmingham last year, the IFAA was absorbed into the IAA, and the IAA itself was re-formed as an association of associations with the same voting structure as the IFAA. (See "Going global," *The Actuary*, June 1998.) The ASTIN and AFIR sections of the former IAA continue as individual membership sections of the new IAA, with the possibility of adding new sections to advance dialogue in other practice areas.

Today, the IAA's objectives are:

- To develop the role and enhance the reputation and recognition of the actuarial profession and individual actuaries throughout the world
- To promote high standards of professionalism among actuarial associations and among actuaries throughout the world to ensure that the public interest is served
- To advance the body of knowledge of actuarial science and its application
- To further the professional development of actuaries worldwide
- To promote mutual esteem and respect among actuaries
- To provide a forum for discussion among actuaries and actuarial associations throughout the world
- To represent member associations in discussions with international bodies

The IAA is the profession's vehicle for participating in globalization. Its agenda is quite full. Internal to the

profession, we need minimum education standards, a common basic education syllabus, and minimum professional standards. This will ultimately lead to mutual recognition of those who qualify as actuaries under GATS and regional trade agreements as they make national borders transparent to actuarial professionals. Externally, we need to interact with international standard-setting bodies like IAIS and IASC to help develop the actuarial profession and to influence the emerging role of the actuary throughout the world. Changing our professional lives Globalization is profoundly affecting the world in which we live and work. This trend will soon affect our professional lives. Actuaries have historically served a critical role in the growth and solvency of insurance and employee benefit plans around the world. For our profession to continue to thrive and to expand into new financial services' areas that need our skills, we must understand the consequences of globalization and actively participate in the institutions shaping our future.

Web sites

Actuaries can keep in touch with international issues affecting them through the IAA, IASC, and IOSCO Web sites. They are, respectively: www.actuaries.org, www.iasc.org, and www.iosco.org.

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Course 200 seminar at 3 sites

Professor Robert L. Brown of the University of Waterloo will offer three Course 200 seminars this

spring: April 3-8 in St. Louis, April 16-21 in Hartford, and April 23-28 in Chicago. For further information,

contact Brown (phone: 519/888-4567, ext. 5503; e-mail: rlbrown@jeeves.uwaterloo.ca).