

## TRANSACTIONS

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### ADDRESS OF THE PRESIDENT, DONALD R. SONDERGELD

#### THE KEY TO OUR FUTURE: CREATING CONSTRUCTIVE CHANGE

This year, I proudly celebrated my 30 years as a Fellow of the Society of Actuaries. I also completed seven consecutive years on the Board of Governors. The last two years, I served on the Council of Presidents and on the board of the American Academy of Actuaries. And this past year, I was able to devote full time to being your President.

I accepted numerous speaking engagements, both at actuarial clubs and universities, and I had the unique opportunity to visit many actuaries and actuarial organizations in North America and throughout the world. Last November, for example, I attended meetings and the biennial dinner at the Institute of Actuaries in London. I also visited the president of the International Actuarial Association in Brussels. Earlier this year, I spoke to actuarial organizations overseas in Japan, Singapore, Hong Kong, Indonesia, and Taiwan. While in mainland China, I traveled to Nankai University in Tianjin to discuss the education of its actuarial students and the role of the SOA in that process. I also visited Fudan University in Shanghai.

In June, I attended the quadrennial meeting of the International Association of Consulting Actuaries in Vancouver and the International Congress of Actuaries in Montreal. And in September, I attended the meeting of the College of Actuaries in Mexico, where the theme was "The Actuary before Globalization." This last meeting was especially important, due to discussions of the North American Free Trade Agreement (NAFTA), which also is on our program.

What have I learned? First, that the Society of Actuaries, the world's largest organization of actuaries, is extremely well-known and respected. The list of our accomplishments is impressive, especially in the eyes of our overseas friends. We have more than 14,000 members and a budget in excess

of \$12 million. We provide examinations in more than 260 centers worldwide, and we lay the foundation for the advancement of the actuarial profession in many overseas countries.

However, we should and we must play a larger role in “controlling our future,” both on the international level as well as in North America.

The future has been referred to often in prior presidential addresses. In 1974, Ed Lew said: “The future cannot be predicted but can be invented.”

In 1989, Ian Rolland stated that in spite of our successes, our problems are complacency and resistance to change. He specifically expressed concern about membership apathy, citing significant disinterest in professional affairs and the longer-range issues we face.

In 1990, Allan Affleck indicated that, to capitalize on our growth, we need a membership that is receptive to growth and change, together with leaders who can plan.

At the 1989 Centennial Celebration of the actuarial profession in North America, we not only celebrated our past, but also looked at the future.

E. Sydney Jackson stated, “The real challenge of the future is managing innovation and change.”

Tom Bowles remarked, “Change is the requisite for survival.”

The actuarial profession’s seer, James C. H. Anderson, summarized it best by saying, “Our enemy is complacency. Our friend is constructive change.”

That is what I want to discuss today, and I hope my remarks will stimulate and lead to constructive change.

Our keynote speaker, John Naisbitt, discussed his analysis of current trends and their effects on financial security systems in the 21st century.

In *Megatrends 2000*, Dr. Naisbitt presents 10 new directions for the 1990s. Although one must read the entire book, actuaries should be especially interested in two trends, which, by the way, have more pages devoted to discussion than any of the other trends. They are “The Global Economic Boom of the 1990s” and “The Rise of the Pacific Rim.”

The preliminary program booklet for this meeting stated, “Change, increasing globalization, and a new world order are the underpinnings of the topics offered at this meeting.” So we are especially grateful for Dr. Naisbitt’s remarks.

Today, I will suggest constructive changes the SOA should implement in the near future. I believe these changes will benefit our profession, the publics we serve, and our members. They reflect a globalization and new world order in two major areas: organization and education.

During my first 21 years in Ohio, I read about a fellow “Buckeye,” Thomas A. Edison. Tom was an inventor whose business was change. He said, “There’s a way to do it better—find it.” My remarks today are personal ones that, to paraphrase Edison, focus on “finding better ways to do it.”

### *Organization*

The International Association of Consulting Actuaries and the International Congress of Actuaries interface with national organizations of actuaries. This structure, however, does not fit the SOA, since we are essentially binational.

Many of my predecessors have referred to the “bifurcated” actuarial profession in North America. This implied criticism clearly refers to our organizational structure in the United States. While the Canadian Institute of Actuaries (CIA) has its act together, here in the United States we have periodically discussed proposals to improve our organizational structure for more than 20 years, with little progress.

Both yesterday and today, we saw presentations on prediction, chaos, and fractals. Students of nonlinear dynamics know that continued bifurcation ultimately leads to chaos.

Two organizational proposals that over the years have received the most study are the two-body and the three-body structures for the United States and Canada. These were first outlined in the May 1976 *Actuary*. The two-body structure called for two national, cooperative organizations: one in the United States and one in Canada. The three-body structure proposed two national organizations with a third organization whose main function would be education.

Organizational structure also has been discussed by prior presidents. In his 1979 address, Paul Barnhart outlined at length the problems and confusion caused by the number of overlapping North American actuarial organizations.

In 1981, Robin Leckie stated, “While reorganization does not seem to be a front-burner item, ultimately we must deal with the overall organization of our profession in North America.”

At our Centennial meeting, E. Sydney Jackson, a past president of the CIA, said, “I suggest we examine the question of whether, in order to help the Americans solve their problem, the Canadians should withdraw from the

Society.” He thought if that occurred, the SOA would pay more attention to the American problem and work more closely with the Academy and the other U.S. actuarial societies to resolve it. He also thought the CIA was capable of setting its own exams and would move towards more university education and accreditation.

I believe that a professional organization should provide services both to its members and to the public. In the United States and Canada, however, for many actuaries, these functions are provided by separate organizations. The following chart shows membership statistics of those six organizations at the beginning of this year. By the way, these 29,245 memberships were held by 16,529 actuaries.

MEMBERSHIPS	
SOA	13,368
AAA	10,577
CAS	1,807
CIA	1,706
CCA	1,020
ASPA	767
	29,245

About two-thirds (11,181) of these actuaries hold memberships in two or more organizations, with 5,348 actuaries belonging to only one organization. There are 7,956 actuaries who belong to both the SOA and the AAA. However, those actuaries who hold memberships in either the SOA or the AAA represent 97% of the 16,529 actuaries.

My own strong preference for organization is the two-body structure. In April 1991, I presented to the Board of Governors a discussion draft of a proposal that would help move us in that direction. It called for a merger of the SOA and the AAA into a U.S. national body. An important feature was to preserve and continue the three membership classes of FSA, ASA, and MAAA, as “status” is so important to our members. However, I did not receive enough Board support to pursue this as President.

I firmly believe, however, that the problems of merging two organizations, while still very difficult, are easier to resolve than getting three, four, five, or even six organizations to agree.

In an attempt to facilitate agreement among the six North American organizations representing actuaries, three meetings a year generally are held.

These meetings are attended by the presidents and presidents-elect of these six organizations. Given the number of organizations we have, it is essential that a mechanism such as this exists. It facilitates communication and influences better coordination of activities.

For example, in 1991 a joint committee of representatives of these six organizations recommended a common Code of Professional Conduct. However, each organization adopted a slightly different code, resulting in four versions for 1992. An effort is now under way to eliminate or reduce these differences by early 1994. A joint committee will make a recommendation to each board and, based on feedback from each board, will float another recommendation. Through this iterative process, an acceptable recommendation will emerge. This is one example of a time-consuming change given our current structure. And this is a noncontroversial item.

As we all know, it was an actuary who told the emperor that he had no clothes. Then, as now, actuaries are seekers of truth. But they also are human, and they do not like change. Inertia continues to be a powerful status quo force. I believe, however, that the time has come for constructive changes organizationally.

Last year, the American Academy of Actuaries changed its management structure by creating four leadership "practice councils," one each for life, health, casualty, and pensions. In an effort to provide better services to our members and, as a byproduct, to support the Academy's activities on behalf of the profession, the SOA is reallocating the duties of those on the Executive Committee following this meeting. Some will have specific responsibilities for major policy and committee work in four practice areas: life, health, pensions, and finance. However, education and examination and all other functions will report to other members of the Executive Committee.

I personally would prefer more rapid change. However, I believe this management change is clearly a step in the right direction. Like Thomas Edison, we want to find a better way to do it.

### *Education*

While our educational system has served us well over the years, it and the vision of the actuary have been subjects of much historical discussion, rich in thought-provoking ideas and statements.

Back in 1956, there was a shortage of actuaries—not a trend we are experiencing today. But our President, William Anderson, suggested the

best long-term solution was a broadening of the demand for persons with the education and training our profession provides. Anderson said:

Our profession does not confine itself mainly to these matters which are within the peculiar province of the actuary. Only one-quarter of the syllabus relates to subjects of major interest to actuaries. The remaining three-quarters of the syllabus intersect with the fields of at least a dozen other recognized disciplines and may be said to transgress upon fields which are primarily theirs. As a result, the actuary has come to be a person who may be described as a man of business with broad and widespread knowledge, and with the special aptitude of being able to make use of mathematical techniques for the purpose of carrying out business processes and engaging in business management decisions. On the other hand, the confines of the syllabus have largely restricted our activities to the life insurance business and to other private and public insurance and pension systems.

This thought of broadening the profession and the role of the actuary is not new. As far back as 1851, Dr. William Farr remarked that he looked forward to the day when the profession of actuary would be greatly extended and when no commercial concern of any extent would be without such an officer. Are we not still discussing this concept, almost 150 years later?

It has been said, "An actuary who is only an actuary is not an actuary."

At the 1989 Centennial meeting, a panel was presented on "Tomorrow's Actuary," in which Dr. Jean Lemaire, professor of actuarial science at the Wharton School of the University of Pennsylvania, made several excellent points. I agree with all of them:

- Throughout the world, life and nonlife actuaries are members of the same association and have a common educational background, followed by specialty options. The actuary is the specialist who is uniquely qualified to use technical skills and judgment to evaluate the probability of future contingent events, life or nonlife, and their financial implications.
- The International Actuarial Association already had created a financial section called AFIR, which stands for Actuarial Approach for Financial Risks. He asked if actuaries in the United States would wait for a third group of actuaries to create their own "Society of Finance Actuaries of America," or would we, for instance, induce them to join us by creating an investment track?
- It takes too much time to become an actuary. He hoped that the Society of Actuaries' college credit course experiment, which was under way at that time, "will prove to be a success and be extended to other topics." He reminded us that our British friends at the Institute of Actuaries have

always been more generous than the United States in awarding college course credit, and they have never regretted it.

- There was a “very loose link” between U.S. universities and the actuarial profession and a small number of U.S. academic actuaries contributing to international research. He pointed out that 600 of the 1,800 members of the International Actuarial Association’s section for Actuarial Studies in Non-Life Insurance (ASTIN) are American, but less than 10 U.S. actuaries, on average, attend ASTIN colloquia.

Not much has changed in the past three years. This June, 1,425 actuaries attended the International Congress of Actuaries in Montreal. Only 148 were from Canada and 99 from the United States, in spite of the fact that there are about 16,000 actuaries in these two countries, representing well over half of the actuaries in the world.

However, in the years since 1989, I am pleased to report that the SOA has to some extent heeded Lemaire’s advice, and it has changed. We have provided an increased focus on research. We have moved to strengthen the relationship with universities through research grants and the formation of the new Education and Research Section.

As for investments, the SOA is increasing the level of investment knowledge required to become an FSA. It also has announced a fourth Fellowship specialty track in finance. In addition, we now have a very active Financial Reporting Section and a new Investment Section.

While such constructive changes will help us control our future, there is still more to do. Let me return to Lemaire’s vision of “Tomorrow’s Actuary.” A fellow member of that Centennial panel, Stan Tulin, stated:

If we are the ones who evaluate contingent events and the financial consequences thereof, whether they are future or past, then I submit to you that we are not limited to the insurance industry and pension plans as our only industries. And in fact, we can be a profession that serves many more publics and many more industries than we have touched to date.

And on the life/nonlife subject, Tulin further said, “I thought it seemed silly that I had to choose between life and health and casualty when I didn’t even know what any of them was. I still think that was silly. . . .”

Twenty-five years ago, our President, Harold Lawson, in speaking about the SOA and the Casualty Actuarial Society (CAS), stated that after completing the first two jointly sponsored examinations, the student presumably must decide whether his or her lifework should be in the life or property

and casualty field. He indicated this was not a satisfactory arrangement. He concluded that the SOA should broaden its horizon and unilaterally, if necessary, extend its education and examination system to include property and casualty insurance, the work of consulting actuaries, and additional Canadian material.

In 1985, President Preston Bassett suggested changes in education. They were:

- We must rely more on colleges and universities.
- We should include life, health, pension, and casualty in the educational background of the ASA, whom the public is now accepting as a qualified actuary.
- We need more specialization at the FSA level, which should include a casualty track.

Looking again at our Centennial meeting, in a panel entitled “The International Actuary,” Henry Siegel urged us to “make use of the common basis of all actuarial work and consider developing an internationally accepted examination and recognition system to assure common understanding and opportunity for all.” This subject also was discussed at an expanded Council of Presidents meeting held in conjunction with the ICA this year. It is not a new suggestion. In fact, at the 1964 ICA, the possibility of a basic set of examinations for all actuaries, irrespective of country, was discussed.

I have quoted many people, and I agree with what they have said. It is ironic that some of the issues discussed so many years ago are still being studied today. Our predecessors have left us a legacy rich in its own right with the core ideas for us to advance our profession. How futuristic they were. And yet, so much time has gone by, and so little has been done.

The Society of Actuaries is the world’s largest organization of actuaries. We are well known and respected. We have the resources to make a difference. And I believe the time has come for the SOA to be more proactive, to make change happen, and to create the actuary of the future, or the actuary of the future will be invented by others.

### *Ideas for Constructive Change*

First, the Society of Actuaries needs to take a leadership role both in North America and in worldwide actuarial affairs. I urge our new International Section to address ways to most effectively accomplish this.

Next, we need to revisit the college credit experiment or alternative qualification methods. Actuaries are properly concerned about equity of examination results. Before going forward, it is necessary to convince our members of the advantages of further strengthening the actuarial profession's relations with universities. The use of college credit also could result in a reduction in the time it takes to become an actuary or in a replacement of subjects.

Third, we should continue to modify and improve our syllabus of examinations to enable our members and potential members to operate both on this continent, which includes Mexico, and in a world rapidly changing due to increased globalization.

Fourth, we must broaden our base, which historically has been life insurance. Although the CAS does an excellent job in developing specialists, the SOA needs to develop generalists with basic training in all lines of insurance and investments. Specialization can then occur at the Fellowship level.

And finally, we need to better equip our members to operate in this rapidly changing world. Specifically:

- We should support the recommendations of the Task Force on Strengthening the Educational Level for Associateship, so it is parallel to the seven exam levels required by the CAS (that is, from 200 credits to 300 credits).
- We should revise our Associateship syllabus to include basic education in life, health, pensions, investments, and casualty. The result would provide the all-lines, basic actuarial training our profession and our members need. An increase in casualty material could be easily accomplished by giving credit directly for appropriate CAS exams. We also should grant full credit for all other CAS exams as electives.
- If it is not easy for an Associate of the SOA to become a Fellow of the CAS, we might eventually consider adding a casualty specialty track to our Fellowship examinations. This would further broaden our base and help remove the actuarial wall that now exists in North America.
- We should offer Associateship status to all Fellows of the CAS. This is consistent with what we currently do for Fellows by examination of the actuarial organizations in the United Kingdom, Scotland, Australia, and New Zealand.

These things will not be easily accomplished. Creating constructive change is difficult, but it is the key to our future. We stand to risk much in maintaining the status quo. I hope my thoughts today will prove helpful to the greatest profession in the world.

I want to thank you again for the honor of electing me to this office. It has given me the opportunity to travel widely and to make additional actuarial friends. We all know that actuaries are the best people in the world. Like Will Rogers, I never met an actuary I didn't like.

Let me give special thanks to James G. Bruce for his guidance in my early years at *Hartford Life*, where I spent 26 years of my 36-year career as an actuary.

I have been privileged to work with your Board of Governors and many dedicated and hard-working committee members. John O'Connor, our executive director, and his staff are a tremendous resource. They do make a difference.

Walt Rugland, my successor, has been a friend of mine since our early days at *Connecticut General* and will do an excellent job next year. The profession is in good hands.