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VI. Structure of the Profession

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Introduction

2913 In attempting to evaluate whether changes are needed in the actuarial profession in order
2914 to better serve the public, it is necessary and appropriate to examine the organizational
2915 structure of the profession. Accordingly, a question regarding the appropriateness of the
2916 profession's organizational structure was included in both the surveys and the interviews
2917 conducted by the CRUSAP Task Force. To provide context for discussion of this issue, it
2918 is useful to review the history of the actuarial organizations in the United States and
2919 previous attempts, both successful and otherwise, to consolidate the profession.

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2921 The organizational structure of the actuarial profession has undergone significant changes
2922 during the history of the profession in the United States. The Actuarial Society of
2923 America (ASA) was founded in 1889. The American Institute of Actuaries (AIA) was
2924 formed in 1909. The Casualty Actuarial (and Statistical) Society (of America) was
2925 founded in 1914 and was renamed the Casualty Actuarial Society (CAS) in 1921. By
2926 1916, with the formation of the Fraternal Actuarial Association (FAA), there were four
2927 organizations of actuaries in the United States. Since that time, the number of
2928 organizations has been reduced by one merger and one dissolution, even as new
2929 organizations have come into existence. Starting in 1924, the ASA and the AIA began
2930 having joint meetings. This culminated in the merger of the two organizations to create
2931 the Society of Actuaries (SOA) in 1949.

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2933 Within a year after the creation of the SOA, the Conference of Actuaries in Public
2934 Practice (now the Conference of Consulting Actuaries, CCA) was incorporated. In 1965,
2935 the American Academy of Actuaries was created. In 1966, the American Society of
2936 Pension Actuaries (ASPA) was established. (In November 2004, ASPA became ASPPA,
2937 the American Society of Pension Professionals and Actuaries.) Then, in 1980, the FAA,
2938 having accomplished its purpose of making fraternal societies actuarially sound,
2939 attempted to have its members absorbed into the SOA. This required approval by a vote
2940 of two-thirds of the Fellows of the SOA, but the proposal was defeated with only 47
2941 percent in favor in the largest vote ever on an SOA issue. In 1980, the FAA was
2942 dissolved.

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2944 In 1974, the enactment of the Employee Retirement Income Security Act (ERISA)
2945 created for the first time a federal government accreditation designation for actuaries
2946 doing work in the area of employer-sponsored defined benefit programs — the enrolled
2947 actuary (EA). This legislation placed unprecedented new responsibilities on the EA.
2948 Notably, membership in the American Academy of Actuaries was not a requirement for
2949 an actuary to qualify as an EA. However, inclusion of EAs who wished to become
2950 members of the Academy was accomplished in a series of steps. A high proportion of
2951 EAs, but not all, became members of the Academy. Even today, there are more than 200
2952 EAs who are not members of any of the U.S. actuarial organizations.

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2954 Several unsuccessful attempts have been made to streamline the actuarial profession. In
2955 1975, the Council of Presidents, based on a report from its Joint Committee on
2956 Organizational Coordination, recommended that the six actuarial bodies in North
2957 America (including the Canadian Institute of Actuaries) be reduced to three: one
2958 international body and a separate national body for Canada and for the United States. By
2959 1976, four separate proposals for restructuring the actuarial profession were published in
2960 *The Actuary*. In response to the widespread interest, the Society of Actuaries Board of
2961 Governors appointed a Board subcommittee called the Actuarial Restructuring
2962 Committee (ARC). After receiving the ARC's report, which endorsed yet a fifth
2963 restructuring proposal, the SOA Board appointed a steering committee to work with the
2964 other actuarial organizations to find a compromise. Each organization named a committee
2965 to study the proposal and react to it, but little changed in the structure of the profession.
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2967 In 1987, the Task Force on Strengthening the Actuarial Profession was organized by the
2968 Council of Presidents, as noted earlier, a body composed of the presidents and presidents-
2969 elect of all the North American actuarial organizations. This task force issued a
2970 comprehensive report in 1988. Although the initial report recommended merging ASPA
2971 and CCA, the final report did not recommend merging any actuarial organizations. There
2972 were four final recommendations. The report was forwarded to each of the organizations,
2973 and all four of the recommendations could be said to have been implemented. As a result
2974 of the task force report, a Working Agreement for the Actuarial Profession was
2975 established in 1990, the American Academy of Actuaries was reorganized to include
2976 practice councils, the Actuarial Board for Counseling and Discipline was established in
2977 1992, and the Academy undertook a program to increase member awareness of public
2978 policy issues.
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2980 In 1995, another attempt was made to reorganize the profession. This attempt was
2981 spearheaded by the president of the CCA through the Council of Presidents. Although
2982 this effort was not successful in reducing the number of organizations, it did result in the
2983 CCA opening up its admission.
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2985 Organizational rivalries from long ago have historically added to the difficulties in
2986 consolidating the profession. For example, when the SOA was created in 1949, it was
2987 dominated by life insurance company actuaries, and it refused to recognize casualty
2988 actuaries. In addition, some actuarial clubs, dominated by life actuaries, refused for many
2989 years to accept casualty actuaries as members. In response, casualty actuaries formed
2990 their own clubs. An unintentional slight of the CAS occurred as recently as the late 1990s
2991 with the beginning of *The North American Actuarial Journal (NAAJ)* under the SOA. The
2992 CAS already had its own scientific publication, the *Proceedings*, so the CAS declined to
2993 participate in the production process of the new journal. Nevertheless, the *NAAJ* solicited
2994 articles from casualty actuaries.
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2996 Despite the historic differences, the CAS and the SOA have cooperated congenially on
2997 several fronts. The CAS and SOA have held joint meetings. The first joint meeting of the
2998 CAS and SOA took place in 1978. The two organizations have worked together on

2999 examinations since 1963, have provided joint assistance to the NAIC Blanks Committee,
3000 which had been organized by the National Association of Insurance Commissioners to
3001 revise the financial reporting blanks of insurance companies, and both have participated
3002 in the Directory of Actuarial Memberships since 1992. More recently, the CAS and SOA
3003 are joint sponsors of the Risk Management Section and cosponsor the annual Enterprise
3004 Risk Management Symposium.

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3006 **Analysis**

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3008 With this history in mind, we can now discuss in detail the various arguments for and
3009 against making changes in the organizational structure of the actuarial profession in the
3010 United States. In the survey responses the CRUSAP Task Force has reviewed and in the
3011 interviews it has conducted, many arguments have been made both for and against
3012 consolidating the profession. The following discussion analyzes the comments that are
3013 among the most compelling and/or commonly occurring arguments for and against
3014 making changes in the structure of the actuarial profession in the United States.

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3016 **Responses to the Survey Questionnaires**

3017 The CRUSAP Task Force analyzed more than 1,400 surveys (encompassing both a pilot
3018 and a final survey) to learn the opinions of actuaries and non-actuaries regarding the
3019 organizational structure of the actuarial profession. (All the following percentages reflect
3020 the responses to the final survey.) Among actuaries, 34 percent of the survey respondents
3021 felt that the current structure was appropriate and 54 percent felt it was inappropriate (11
3022 percent did not respond to the question). Among non-actuaries, 30 percent felt that the
3023 current structure was appropriate and 40 percent felt it was inappropriate (30 percent did
3024 not respond to the question). If they felt the current structure was appropriate, why was it
3025 appropriate? If they felt it was inappropriate, how should it be changed? Typical
3026 responses to this follow-up question were as follows:

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- 3028 • Multiple organizations are needed to serve the diverse needs of the profession,
3029 and consolidation might result in specialized needs being lost in the shuffle.
3030 Respondents who answered along these lines expressed concerns with the needs
3031 of the diverse specialties and subspecialties of the actuarial professional and the
3032 ability of the various organizations to meet the needs of their specialty.
- 3034 • There are four major disciplines — life, health, pensions, and casualty.
3035 Respondents who answered along these lines generally felt that the SOA and the
3036 CAS are sufficient to meet the needs of these four disciplines.
- 3038 • The Academy should be eliminated (and, presumably, its functions transferred to
3039 the remaining organizations). Some respondents saw no need for a public policy
3040 arm of the profession, and others saw no need for an umbrella organization. The
3041 implication is that they feel other professional organizations to which they belong
3042 can adequately serve their needs at reduced cost.

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- 3044 • CCA and ASPPA should be eliminated (and, presumably, their functions
3045 transferred to the remaining organizations). Typical comments of these
3046 respondents were that ASPPA is not an actuarial organization and that CCA does
3047 not provide for the needs of a specialty within the profession.
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- 3049 • The Academy is the political arm, public face, and umbrella organization of the
3050 profession. Numerous respondents saw the value of those three Academy
3051 functions.
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- 3053 • The CAS and SOA should merge. Respondents who made this suggestion most
3054 probably felt that some synergy would arise from the merging of the two testing
3055 and credentialing organizations.
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- 3057 • The actuarial profession is too broad and diverse to be consolidated effectively.
3058 Typical reasons provided by these respondents were that there is currently some
3059 overlap of organizational functions but not sufficient overlap to justify
3060 reorganization. Many suggested that there are currently enough organizations to
3061 meet individual needs but not so many as to dilute their value.
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- 3063 • The profession is too small to support five organizations. Many of those who
3064 responded along these lines felt that having five organizations is confusing to both
3065 actuaries and the public. Having five organizations is inefficient, involves too
3066 much bureaucracy, and dilutes volunteer work. They typically suggested that five
3067 organizations overlap and compete, resulting in an inefficient use of limited
3068 resources. They also felt that having multiple organizations means having
3069 disparate voices for the public. Having too many credentials confuses the public
3070 and detracts from the profession's prestige. Numerous respondents commented
3071 that larger professions are able to get along with fewer organizations.
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- 3073 • It is more efficient to have one governing body with different sections. Often
3074 those who felt five organizations are too many argued that a single unified
3075 organization would maximize effectiveness, influence, and consistency.
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3077 **Responses From the Interview Process**

3078 The answers to the interviews conducted by the CRUSAP Task Force were more nuanced
3079 and not subject to statistical analysis. However, it is fair to say that a significant majority
3080 of those interviewed felt that the current structure of the profession includes too many
3081 organizations. This feeling is most pronounced among those who have served in an
3082 actuarial leadership position in the past.

3083
3084 The most common and/or compelling arguments for consolidation of the profession
3085 include the following:

- 3086 • The actuarial profession isn't large enough to support five different organizations.
3087 The number of organizations with overlapping areas of interest dilutes the pool of
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3089 volunteers for committee assignments, speakers at meetings, leaders of workshops
3090 or seminars, and other volunteer efforts.

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3092 • The current organizational structure inhibits effective discipline of members of
3093 the actuarial profession. Although the Actuarial Board for Counseling and
3094 Discipline is empowered to investigate cases and make recommendations, it does
3095 not have the power to impose discipline. Only the member's organization has the
3096 authority to carry out the recommendations of the ABCD.

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3098 • The current organizational structure results in excessive time and effort spent by
3099 both staff and officers on coordination with other organizations.

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3101 • The existence of multiple organizations represents a significant barrier to
3102 globalization of the profession.

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3104 • The actuarial profession is under assault and needs to strengthen itself. For
3105 example, large accounting firms acquired actuarial consulting firms or hired
3106 consulting actuaries at least partly so they can better control the role of actuaries
3107 in the audit process. In addition, economists feel they are better equipped to
3108 provide expertise in areas that have traditionally been considered actuarial.

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3110 • The CCA has served its purpose. When the organization first began, only 7
3111 percent of the members of the SOA were consulting actuaries, and the SOA had a
3112 strong orientation toward life companies. Today, more than 35 percent of the
3113 members of the SOA are consulting actuaries and the SOA has changed its
3114 orientation to serve the consulting actuaries.

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3116 The most common and/or compelling arguments for maintaining the current structure of
3117 the profession include the following:

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3119 • The rise and continued existence of five separate actuarial organizations is a
3120 function of market forces. Additional organizations would not have come into
3121 existence and would not continue to exist if the existing organizations were
3122 meeting the needs of a significant number of actuaries.

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3124 • In other countries, and in the International Actuarial Association, casualty
3125 actuaries often feel outnumbered and neglected. Casualty actuaries constitute only
3126 between 10 percent and 15 percent of the profession. When they are in a larger
3127 organization, their interests don't receive the same attention as those of
3128 the more numerous life and pension actuaries. With 4,000 casualty actuaries, there
3129 are enough to justify their own separate organization. While there may be some
3130 economies of scale from combining, they wouldn't be large and they are more
3131 than outweighed by the advantages of multiple organizations.

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3133 • The existence of multiple organizations provides competition among the
3134 organizations, and that improves services and effort.

- 3135 •
3136 • Even if there is some inefficiency in the current structure, the forces opposed to
3137 consolidation are too powerful and the profession would be wasting valuable
3138 time, resources, and effort if it were to attempt to consolidate.
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3140 • It would not be appropriate to consolidate the current organizational structure
3141 because, in the process, the focus on any of the purposes of the existing
3142 organizations would be lost or significantly diminished.
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3144 **Summary of the Evidence From the Questionnaires and Interviews**

3145 Based on all the evidence compiled by the CRUSAP Task Force, including
3146 questionnaires and interviews, the majority of respondents feel that five organizations is
3147 more than necessary for the actuarial profession in the United States and results in
3148 inefficiencies. Even among those who feel that the current structure is appropriate, many
3149 feel it is inefficient. Among those who feel the profession should be consolidated, there is
3150 no consensus on how the consolidation should occur or the reasons why it should occur.
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3152 **Conclusions**

3153 In evaluating the appropriate organizational structure for the actuarial profession in the
3154 United States, the CRUSAP Task Force first had to determine what functions the
3155 actuarial profession needs to perform in order to best meet the needs of the public. The
3156 CRUSAP Task Force believes that the basic functions of the professional actuarial
3157 organizations should encompass the following activities:
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- 3159 • Establishing appropriate standards of conduct and qualification standards for
3160 members of the actuarial profession;
3161 • Establishing standards of actuarial practice for the various types of work actuaries
3162 perform;
3163 • Identifying public actuarial needs;
3164 • Administering discipline to members of the profession;
3165 • Educating new actuaries entering the profession;
3166 • Overseeing and providing continuing education of established actuaries regarding
3167 improvements in actuarial techniques, changing conditions, and changes in laws
3168 and regulations affecting the work of established actuaries;
3169 • Providing opportunities for actuaries to get together to discuss matters of mutual
3170 interest;
3171 • Representing the position of the actuarial profession to governments, international
3172 actuarial bodies, and other entities on matters of public interest in which the
3173 actuarial profession has expertise;
3174 • Promoting and coordinating research into matters of interest to the actuarial
3175 profession;
3176 • Training actuaries in conventional and new applications of actuarial science.
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3178 The current organizational structure of the actuarial profession in the United States does
3179 result in inefficiencies, but some steps have been taken by the profession to reduce the

3180 level of inefficiency. The Working Agreement for the Actuarial Profession, signed in
3181 1990 by the five U.S.-based actuarial organizations and periodically revised, has been an
3182 initiative in this direction. However, the review finds that the Working Agreement does
3183 not provide the means necessary to ensure efficient use of financial and human resources
3184 within the profession, and does not include any enforcement provisions.
3185

3186 Virtually all of the previous attempts to consolidate the organizational structure of the
3187 profession have come from the leadership level. This appears to be because the leaders of
3188 the profession are the most acutely aware of the inefficiencies involved in coordinating
3189 activities among the various actuarial organizations. The majority of leaders or former
3190 leaders of the actuarial profession who were interviewed by the CRUSAP Task Force
3191 decried the profession's current organizational structure, and observed that the leaders of
3192 the organizations spend as much time coordinating among themselves as they do in
3193 accomplishing their goals.
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3195 On the other hand, there has not been a grass-roots effort to consolidate the profession or
3196 revolt against the inefficiencies of multiple organizations. For the members, the only
3197 outward evidence of the inefficiency of overlapping organizations is the multiple dues
3198 they must pay to several different organizations. In many cases, it is the actuary's
3199 employer who pays the dues, so the individual actuary isn't concerned with the financial
3200 impact of paying dues to multiple organizations. Moreover, the multiple organizations
3201 give actuaries many opportunities to meet and discuss matters of common interest with
3202 their peers, to participate in meetings where they feel their particular interests will be met,
3203 and to be a member of an organization where they feel their interests will not be lost in
3204 the shuffle.
3205

3206 As of December 2005, there were nearly 40,000 memberships in the five U.S. actuarial
3207 organizations. Over 82 percent of these actuarial memberships were associated with
3208 actuaries who are members of more than one organization. The number of memberships
3209 associated with more than one organization is 98 percent for the CCA, 94 percent for the
3210 Academy, 80 percent for the CAS, 76 percent for the ASPPA, and 72 percent for the
3211 SOA. In addition, the figures show that the SOA, the CAS, and the Academy account for
3212 over 95 percent of all actuarial memberships.
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3214 These figures raise the question of whether the needs of actuaries could be met with
3215 fewer organizations. In addition, they raise the question of whether the CCA and the
3216 ASPPA should be given the same deference in determining policies for the profession as
3217 the CAS, the SOA, and the Academy, since their memberships account for less than 5
3218 percent of the actuarial memberships and since many of their members are also members
3219 of the SOA, the CAS, or the Academy. To further complicate matters, the College of
3220 Pension Actuaries (COPA) was established within the past two years. No membership
3221 statistics are yet available on the extent of the overlap of this organization with other
3222 actuarial organizations.
3223

3224 In evaluating the extensive and conflicting evidence we have accumulated regarding the
3225 structure of the actuarial profession, we have not taken lightly the advice we have

3226 received — from actuaries whose judgment we greatly respect — and who oppose
3227 restructuring the profession. These actuaries have advised us that the subject of
3228 consolidation of the profession is too politically controversial to be successful and that
3229 the profession should not be wasting its valuable time and energy on a project that will
3230 probably fail. We have taken this advice very seriously and believe it is wise and far-
3231 sighted. However, we feel it is the duty of the CRUSAP Task Force to recommend the
3232 actuarial profession review its structure and functioning and adopt changes in the
3233 structure if those changes are in the best interests of the public.

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3235 This decision is especially significant because the organizational structure of the
3236 profession results in a significant distraction to the profession’s leadership at a time when
3237 it is facing unprecedented challenges in meeting its goal of best serving the public. In
3238 addition to being a distraction to the leadership, the current organizational structure is an
3239 impediment to an effective voice for the profession in the internationalization of actuarial
3240 practice and in maintaining effective discipline within the profession. Accordingly, we
3241 make the recommendation set forth in the Recommendations section of this report that
3242 the leadership of the actuarial profession should hold a convention in 2007 intended to
3243 review the structure and functioning of the profession.
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