

## VI. Structure of the Profession

### Introduction

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

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

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

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

Several unsuccessful attempts have been made to streamline the actuarial profession. In 1975, the Council of Presidents, based on a report from its Joint Committee on Organizational Coordination, recommended that the six actuarial bodies in North America (including the Canadian Institute of Actuaries) be reduced to three: one international body and a separate national body for Canada and for the United States. By 1976, four separate proposals for restructuring the actuarial profession were published in *The Actuary*. In response to the widespread interest, the Board of Governors of the Society of Actuaries appointed a Board subcommittee called the Actuarial Restructuring Committee (ARC). After receiving the ARC's report, which endorsed yet a fifth restructuring proposal, the SOA Board appointed a steering committee to work with the other actuarial organizations to find a compromise. Each organization named a committee to study the proposal and react to it, but little changed in the structure of the profession.

In 1987, the Task Force on Strengthening the Actuarial Profession was organized by the Council of Presidents, as noted earlier, a body composed of the presidents and presidents-elect of all the North American actuarial organizations. This task force issued a comprehensive report in 1988. Although the initial report recommended merging ASPA and CCA, the final report did not recommend merging any actuarial organizations. There were four final recommendations. The report was forwarded to each of the organizations, and all four of the recommendations could be said to have been implemented. As a result of the task force report, a Working Agreement for the Actuarial Profession was established in 1990, the American Academy of Actuaries was reorganized to include practice councils, the Actuarial Board for Counseling and Discipline was established in 1992, and the Academy undertook a program to increase member awareness of public policy issues.

In 1995, another attempt was made to reorganize the profession. This attempt was spearheaded by the president of the CCA through the Council of Presidents. Although this effort was not successful in reducing the number of organizations, it did lead the CCA to open up its admission.

Organizational rivalries from long ago have historically added to the difficulties in consolidating the profession. For example, when the SOA was created in 1949, it was dominated by life insurance company actuaries, and it refused to recognize casualty actuaries. In addition, some actuarial clubs, dominated by life actuaries, refused for many years to accept casualty actuaries as members. In response, casualty actuaries formed their own clubs. An unintentional slight of the CAS occurred as recently as the late 1990s with the launch of *The North American Actuarial Journal (NAAJ)* under the SOA. The CAS already had its own scientific publication, the *Proceedings*, so the CAS declined to participate in the production process of the new journal. Nevertheless, the *NAAJ* solicited articles from casualty actuaries.

Despite the historic differences, the CAS and the SOA have cooperated congenially on several fronts. The CAS and SOA have held joint meetings. The first joint meeting of the CAS and SOA took place in 1978. The two organizations have worked together on examinations since 1963; have provided joint assistance to the NAIC Blanks Committee,

which had been organized by the National Association of Insurance Commissioners to revise the financial reporting blanks of insurance companies; and have participated in the Directory of Actuarial Memberships since 1992. More recently, the CAS and SOA are joint sponsors of the Risk Management Section and cosponsor the annual Enterprise Risk Management Symposium.

## **Analysis**

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

### **Responses to the Survey Questionnaires**

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

- Multiple organizations are needed to serve the diverse needs of the profession, and consolidation might result in specialized needs being lost in the shuffle. Respondents who answered along these lines expressed concerns with the needs of the diverse specialties and subspecialties of the actuarial professional and the ability of the various organizations to meet the needs of their specialty.
- There are four major disciplines — life, health, pensions, and casualty. Respondents who answered along these lines generally felt that the SOA and the CAS are sufficient to meet the needs of these four disciplines.
- Various survey respondents suggested that one or more organizations should be eliminated and, presumably, their functions transferred to other organizations. Only the CAS and SOA appeared to be exempt from the suggestion that they be eliminated.
- The Academy is the political arm, public face, and umbrella organization of the profession. Numerous respondents saw the value of those three Academy functions.
- The CAS and SOA should merge. Respondents who made this suggestion most probably felt that some synergy would arise from the merging of the two testing and credentialing organizations.

- The actuarial profession is too broad and diverse to be consolidated effectively. Typical reasons provided by these respondents were that there is currently some overlap of organizational functions but not sufficient overlap to justify reorganization. Many suggested that there are currently enough organizations to meet individual needs but not so many as to dilute their value.
- The profession is too small to support five organizations. Many of those who responded along these lines felt that having five organizations is confusing to both actuaries and the public. Having five organizations is inefficient, involves too much bureaucracy, and dilutes volunteer work. They typically suggested that five organizations overlap and compete, resulting in an inefficient use of limited resources. They also felt that having multiple organizations means having disparate voices for the public. Having too many credentials confuses the public and detracts from the profession's prestige. Numerous respondents commented that larger professions are able to get along with fewer organizations.
- It is more efficient to have one governing body with different sections. Often those who felt five organizations are too many argued that a single unified organization would maximize effectiveness, influence, and consistency.

### **Responses From the Interview Process**

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

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

- The actuarial profession isn't large enough to support five different organizations. The number of organizations with overlapping areas of interest dilutes the pool of volunteers for committee assignments, speakers at meetings, leaders of workshops or seminars, and other volunteer efforts.
- The current organizational structure inhibits effective discipline of members of the actuarial profession. Although the Actuarial Board for Counseling and Discipline is empowered to investigate cases and make recommendations, it does not have the power to impose discipline. Only the member's organization has the authority to carry out the recommendations of the ABCD.
- The current organizational structure results in excessive time and effort spent by both staff and officers on coordination with other organizations.
- The existence of multiple organizations represents a significant barrier to globalization of the profession.
- The actuarial profession is under assault and needs to strengthen itself. For example, large accounting firms acquired actuarial consulting firms or hired consulting actuaries at least partly so they can better control the role of actuaries in the audit process. In addition, economists feel they are better equipped to provide expertise in areas that have traditionally been considered actuarial.

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

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

- The rise and continued existence of five separate actuarial organizations is a function of market forces. Additional organizations would not have come into existence and would not continue to exist if the existing organizations were meeting the needs of a significant number of actuaries.
- In other countries, and in the International Actuarial Association, casualty actuaries often feel outnumbered and neglected. Casualty actuaries constitute only between 10 percent and 15 percent of the profession. When they are in a larger organization, their interests don't receive the same attention as those of the more numerous life and pension actuaries. With 4,000 casualty actuaries, there are enough to justify their own separate organization. While there may be some economies of scale from combining, they wouldn't be large and they are more than outweighed by the advantages of multiple organizations.
- The existence of multiple organizations provides competition among the organizations, and that improves services and effort.
- Even if there is some inefficiency in the current structure, the forces opposed to consolidation are too powerful and the profession would be wasting valuable time, resources, and effort if it were to attempt to consolidate.
- It would not be appropriate to consolidate the current organizational structure because, in the process, the focus on any of the purposes of the existing organizations would be lost or significantly diminished.

### **Summary of the Evidence From the Questionnaires and Interviews**

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

### **Conclusions**

In evaluating the appropriate organizational structure for the actuarial profession in the United States, the CRUSAP Task Force first had to determine what functions the actuarial profession needs to perform in order to meet the needs of the public in the best way. The CRUSAP Task Force believes that the basic functions of the professional actuarial organizations should encompass the following activities:

- Establishing appropriate standards of conduct and qualification standards for members of the actuarial profession;
- Establishing standards of actuarial practice for the various types of work actuaries perform;
- Identifying public actuarial needs;
- Administering discipline to members of the profession;
- Educating new actuaries entering the profession;
- Overseeing and providing continuing education of established actuaries regarding improvements in actuarial techniques, changing conditions, and changes in laws and regulations affecting the work of established actuaries;
- Providing opportunities for actuaries to get together to discuss matters of mutual interest;
- Representing the position of the actuarial profession to governments, international actuarial bodies, and other entities on matters of public interest in which the actuarial profession has expertise;
- Promoting and coordinating research into matters of interest to the actuarial profession;
- Training actuaries in conventional and new applications of actuarial science.

The current organizational structure of the actuarial profession in the United States does result in inefficiencies, but the profession has taken some steps to reduce the level of inefficiency. The Working Agreement for the Actuarial Profession, signed in 1990 by the five U.S.-based actuarial organizations and periodically revised, represents an initiative in this direction. However, the review finds that the Working Agreement does not provide the means necessary to ensure efficient use of financial and human resources within the profession, and does not include any enforcement provisions.

Virtually all of the previous attempts to consolidate the organizational structure of the profession have come from the leadership level. This appears to be because the leaders of the profession are the most acutely aware of the inefficiencies involved in coordinating activities among the various actuarial organizations. The majority of leaders or former leaders of the actuarial profession who were interviewed by the CRUSAP Task Force decried the profession's current organizational structure, and observed that the leaders of the organizations spend as much time coordinating among themselves as they do in accomplishing their goals.

On the other hand, there has not been a grass-roots effort to consolidate the profession or revolt against the inefficiencies of multiple organizations. For the members, the only outward evidence of the inefficiency of overlapping organizations is the multiple dues they must pay to several different organizations. In many cases, it is the actuary's employer who pays the dues, so the individual actuary isn't concerned with the financial impact of paying dues to multiple organizations. Moreover, the multiple organizations give actuaries many opportunities to meet and discuss matters of common interest with their peers, to participate in meetings where they feel their particular interests will be met, and to be a member of an organization where they feel their interests will not be lost in the shuffle.

As of December 2005, there were nearly 40,000 memberships in the five U.S. actuarial organizations. Over 82 percent of these actuarial memberships were associated with actuaries who are members of more than one organization. The number of actuarial memberships associated with more than one organization is 98 percent for the CCA, 94 percent for the Academy, 80 percent for the CAS, 76 percent for the ASPPA, and 72 percent for the SOA. In addition, the figures show that the SOA, the CAS, and the Academy account for over 95 percent of all actuarial memberships.

These figures raise the question of whether the needs of actuaries could be met with fewer organizations. In addition, they raise the question of whether the CCA and the ASPPA should be given the same deference in determining policies for the profession as the CAS, the SOA, and the Academy, since their memberships account for less than five percent of the actuarial memberships and since many of their members are also members of the SOA, the CAS, or the Academy. To further complicate matters, the College of Pension Actuaries (COPA) was established within the past two years. No membership statistics are yet available on the extent of the overlap of this organization with other actuarial organizations.

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

This decision is especially significant because the organizational structure of the profession results in a significant distraction to the profession's leadership at a time when it is facing unprecedented challenges in meeting its goal of best serving the public. In addition to being a distraction to the leadership, the current organizational structure is an impediment to an effective voice for the profession in the internationalization of actuarial practice and in maintaining effective discipline within the profession. Accordingly, we recommend that the actuarial profession establish the consolidation of the actuarial profession as a long-term goal.