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**PROFESSIONAL RESPONSIBILITIES OF THE MEMBERS
OF THE CASUALTY ACTUARIAL SOCIETY****PRESIDENTIAL ADDRESS BY NORTON E. MASTERSON**

As I approach the end of my two years as president of this Society, I have my last chance to deliver or present a privileged paper. These past two years have been adverse ones for most of the lines of insurance embraced by our professional society; thus it is more pleasant to look ahead rather than back. I want to comment on two general subjects. The first will relate to professional responsibilities of the members of the Society, and the second will be a short report on the International Congress of Actuaries meeting held last month in the United States and Canada.

Professional Responsibilities

This meeting here in Philadelphia, a city of historical importance and symbolic of freedom and brotherly love, could provide excellent reasons for exploring professional ethics and actuarial freedom. In fact, if there are analogies between actuarial freedom and academic freedom, this would be my final opportunity to make such exploration since a presidential address is not subject to censorship or review by the Committee on Papers.

Any implication that there is any problem of actuarial freedom in our profession—of the importance and scope of academic freedom in the profession of education—would certainly be an exaggeration. It is important that we exercise the obligation we have to speak or write on matters affecting our business. Just as the industrial scientist is today gaining a new birth of freedom and prestige, so also will this period of adversity spotlight the actuaries qualified to do technical research and communicate thereon.

At the recent annual meeting of the Society of Actuaries, the presidential address by Melvin Davis contained the following significant statements, relative to the professional responsibility of actuaries, which are also appropriate for us:

“The rapid succession of new developments . . . has added greatly to the responsibilities of actuaries. The actuary must determine whether a proposed innovation is sound for his particular company. He must be open minded and progressive. He cannot counsel against the adoption of new ideas solely because

they have not been tested. Therefore, in order to give proper counsel, he must carefully analyze and appraise each proposal, gauging its probable effect on his company.

"In making the necessary analyses, an actuary must use his broad knowledge of facts, principles, and practices. Not infrequently, his recommendation must be negative and may be based on complex considerations which are not readily comprehensible to others and, as a result, he may find himself in an unpopular position. Therefore, he must be able to state his position in terms that can be readily understood. He cannot be effective if others cannot understand him. The actuary must be the most practical of men, but his position must always be based on correct theory, extensive knowledge, detailed study, and sound judgment.

"Once the actuary has reached a conclusion as to the soundness of a particular proposal for his company, he must then set forth his own reasoning and conclusion with the utmost clarity and vigor. Unless he meets this responsibility, he is not worthy of his profession, nor is he continuing the tradition of his predecessors who established the insurance business on its sound and reputable basis."

Our Society also has an obligation and responsibility to come forward with the best thinking and ideas. The basic plan of our Proceedings is to create a scientific literature for our business for current and future use and reference. The long formal paper embracing some actuarial study will always form the core of our Proceedings. But we should not overlook the desirability and importance of the short limited-subject scientific paper which would serve as a communication of a new idea. A short paper read by several hundred people has possibilities of being more effective in instilling desire for further research by others than would be a long paper with limited readership. I would urge some use of joint authorship for certain papers. An example would be a paper under joint authorship of two members of the Society—a busy senior actuary with an idea or a proposition, and a young actuary with the time and initiative for research into the subject.

I would like to review certain aspects concerning us as individual actuaries and as a professional organization as outlined in my three previous presidential addresses. I have commented on the fact that this is a most unique organization as to diversity of membership because it includes actuaries and officials in various fields: fire, casualty, surety and some life insurance companies; stock, mutual, state fund, hospital service and reciprocal organizations, state and insurance company rating bureau, state and federal government department, independent consulting actuarial firms; colleges and universities, and a few non-insurance organizations. I have emphasized the fact that a professional society composed of actuaries of companies, actuaries of rating bureaus, and actuaries of state insurance departments, to-

gether with consulting actuaries can do much to explain our insurance rating or pricing to the public with the objective of securing greater understanding. What better place for us to get together for objective self-criticism than in this city of "brotherly love".

In another address I commented on the place of the actuary and his responsibilities in the insurance business. The timing of price changes is one of the most critical areas where actuaries should function to develop new statistical techniques for the benefit of the companies and rating bureaus. The critical underwriting results during the past two years have re-emphasized not only the need for actuaries but more specifically the need to understand actuarial principles and to apply them in company management and state regulation. Adverse experience resulting from inadequate rates characterizes most of the fire and casualty lines. Based as they are on past experience, current rates do not adequately reflect today's increased costs.

One of the pressing problems of the day is that of establishing insurance rates for the diverse and widely differing coverages being written by multiple line companies. Basically, this critical problem is one of predicting future losses. Any individual loss is a fortuitous or chance event which cannot be predicted individually, or even in the aggregate with large numbers of similar chance happenings, with absolute precision. The task of predicting losses for any future period involves the gathering of data of past insurance events, and the analysis of existing trends in line with the principle that experience in the past, properly analyzed and appraised, is or may be a guide to probable future events.

One place where we can better our methods of prediction is in reducing the "time lag". Ours is a futuristic business and when we say our prices are based upon experience in the past, we mean in the casualty coverages, for example, that when we make rates in 1957 we must use data of 1956 and prior, and publish rates for 1958. The greater use of high-speed electronic equipment should be one of our objectives. Perhaps some day the incurring of an automobile bodily injury claim in a western state could, within a short space of time, be reflected and recorded upon an electronic accident statistics board in a New York City rating bureau.

We must eliminate many of the road blocks to successful future prediction. Political considerations disturb the orderly use of statistical trends and sound judgment trends. Political expediency destroys the effectiveness of any statistical tool in doing a good prediction job. Political expediency is inherently inconsistent, and by its very nature causes financial off-balance biased against the financial solvency obligation of the insurance company.

One of the most important fields of prediction in which we need to improve our methods is that of recognizing inflation. We need to classify our various types of casualty and fire insurance as to their vulnerability to inflation and further subdivide those that are vulnerable as between (a) those with premium bases which are flexible to inflation, and (b) those which are relatively rigid.

There is a considerable need for expanded research activity under the sponsorship of the Society. In the Society of Actuaries, significant research papers and tables for the life insurance companies have been developed by groups of actuaries from a limited number of large companies. We have an obligation and opportunity to initiate the research needed to arrive at joint and collective solutions to actuarial problems of our business.

An important "non-mathematical" aspect of the casualty, surety, or fire actuary's job involves the practical use of what is termed "judgment". The dictionary definitions of *judgment* are: "The act or faculty of affirming or denying a conclusion, whether as based upon a direct comparison of objects or ideas, or derived by a process of reasoning," or "the power of arriving at a wise decision or conclusion on the basis of indications and probabilities, when the facts are not clearly ascertained."

The actuarial or rate regulatory aspect of judgment is not a one-way matter. A decision to interpret or project statistical data within broad limits of an established formula is termed the exercise of judgment. However, decisions by an actuary not to use "judgment" or by a regulatory official not to approve the actuary's judgment do not mean that judgment has been eliminated. In the projection of statistical data as a basis for future rates, a decision not to use "judgment" is of itself a matter of *judgment!* The very nature of the trends in loss experience for most of the so-called multiple lines necessitates some *judgment* as a hand-maiden of mathematics and statistics.

Two Fellows of this Society, Mr. T. O. Carlson and Mr. L. H. Longley-Cook, co-authors of the chapters on Ratemaking in "MULTIPLE-LINE INSURANCE*" write as follows about judgment in ratemaking:

"On this whole subject of judgment in rate making there has always been a superfluity of fuzzy thinking and fuzzy talking. The discussion seldom is about judgment unsupported by statistics . . . more often what is at stake is the extent to which judgment may affect the interpretation of statistical data. There is a tendency in these discussions to overlook the fact that every step in the development of a formula is a judgment decision. A formula merely imparts consistency to the interpretation, so that no charges of unfair discrimination may be levied. The demand for formularization can be carried too far. . . . Formularizing is helpful, but it is not a cure-all. Flexibility is as important as the formulas themselves, if equity is to be the goal."

Thus, the intelligent use of *judgment* is an actuarial obligation and responsibility of the highest order.

*By G. F. Michelbacher and Associates—McGraw-Hill Insurance Series

International Congress

The International Congress of Actuaries meeting held in New York, Washington, and Toronto last month was an occasion of importance and significance for our Society. Any international meeting embracing practically all countries of the free world is of itself an historical event. For the first time since 1903 the International Congress was held in the United States and Canada. Actuaries from thirty-two countries were in attendance representing every type of activity requiring the skills of an actuary—private companies, governments, consulting actuaries, and college professors.

The object of the International Congress, which meets every third year, world conditions permitting, is to provide a forum for the world's actuaries in which to discuss new developments and problems, which the actuaries share as a profession.

The most significant aspect of this Congress for the Casualty Actuarial Society, and the reason for including these comments in my presidential address, was the definite and official recognition of the non-life branches of insurance.

In the United States and Canada the Casualty Actuarial Society has been in existence since 1914. A few years ago we expanded the scope of our Society to include fire and allied lines so that today our's is a multiple line organization embracing all but life insurance. In recent years, we have been drawn closer to the Society of Actuaries because of our common interests in accident and health insurance, group insurance, and the impact of government forums of social insurance.

At the International Congress last month a separate section known as "ASTIN" (Actuarial Studies in Non-life) was established on an international basis as a division of the International Congress. This international recognition of our branches of the insurance business will expand the scope of the International Congress in actuarial fields of more direct interest to us than has been true in the past. As has been the case with the International Congress, membership in ASTIN will be basically one for individual action with each member of our Society being eligible to join, participate and pay dues.

The ASTIN management board consists of 7 directors. The representative from the Casualty Actuarial Society for the United States and Canada is Mr. Francis Perryman. Our scientific and editorial representative will be Mr. L. H. Longely-Cook. You will hear more of the ASTIN organization during the next three years prior to the 1960 Congress in Brussels.

This is an opportunity for individual members of our Society to participate in a small way in international cooperation and understanding. The business of insurance or protection against risk is inseparable from the political, social, and economic atmosphere of our own nation, but the risks faced by any nation have international implications.