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THE CAS IN THE NEW MILLENNIUM

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*In the field of observation, chance favors the prepared mind.*

—Louis Pasteur

This will be the last CAS meeting of the old millennium, at least by the way most people count it. It seems an appropriate time to look back at our roots as well as forward to the new millennium.

Eighty-five years ago last Sunday a new actuarial society was born. Led by a Russian immigrant, Dr. Isaac M. Rubinow, the new society was named the Casualty Actuarial and Statistical Society of America. The name was shortened to the Casualty Actuarial Society in 1921.

The founders of the new society, our forefathers, were innovators and pioneers of a new form of insurance called workmen's compensation insurance, certainly a nontraditional area of practice at that time.

It is interesting to note that the initial examination syllabus set in 1915 had six exams, four Associateship exams and two Fellowship exams. Another early priority of our Society was the appointment of a committee to address new methods of reserving for liability and compensation losses (in other words, research). Thus innovation, research, and education have been hallmarks of our Society from its earliest days.

Eighty-five years ago, our roots were formed.

Eighty-five years ago...

Where will the new millennium take us? Let me offer my predictions of what we'll see in the next ten years and beyond.

*Globalization*

Globalization—an overused word. But it's a fact that we are seeing actuaries from North America relocating to London, Zurich, Hong Kong, and the Far East. U.S. and Canadian companies are becoming global. European and Asian companies are marketing in the U.S. and Canada. My prediction is that in the next ten–twenty years we will see a globalization of business far beyond anything we've seen to date. A truly global world and world economy, where a flight from New York to London or Paris will be as common as a flight from New York to Chicago is today. A world where actuaries move freely from country to country as part of a typical job progression in getting to know their company.

*Convergence of Insurance and Financial Services*

Secondly, I see a continuation of the blurring of lines between insurance companies and other financial services. Many insurance products are already a mixture of traditional insurance and financial products. Banks and thrift institutions want additional sales opportunities related to their savings and lending activities. Consumers, borrowing money for a car or house, are likely to be in the market for car and house insurance. Banks and thrifts can use their existing facilities to offer these new products with minimal additional capital expenditures for office space and to an existing client base. Insurance companies want additional marketing outlets and access to the established client bases of financial institutions.

It remains to be seen who will come out on top in these mergers. If it's the banks it is critical to our future that the bankers and investment people become familiar with actuaries and what we can do for them.

*Mergers and Acquisitions*

Not only are we seeing banks and insurance companies merge, we are seeing an ever-increasing number of mergers within the

insurance industry and elsewhere. As the number of insurance companies become fewer with these mergers and acquisitions, we will see actuarial jobs eliminated and consolidated. This has not been a big problem for casualty actuaries in the past. It is becoming one today for casualty actuaries and will continue in the future.

*Competition from MBAs and Financial Engineers*

A major activity of the CAS this year was a series of interviews with CEOs of insurance companies, reinsurers, brokers, and consulting firms to identify the needs of potential employers of actuarial services and to explore how actuaries could meet those needs. You will be reading about the results of these interviews in the coming months, but I want to focus on one aspect of the findings. The general consensus of the CEOs was that actuaries need to develop better general business skills and a broader business perspective.

We are also hearing about a new profession called financial engineers who are finding employment on Wall Street and Bay Street doing things like pricing options, derivatives, and futures.

If actuaries are to become broader-based problem solvers in the field of risk, we will face competition from MBAs and financial engineers. We will also face competition to *recruit* the best and brightest actuarial students from MBA schools and financial engineer programs. If you were a bright, talented math or business student with the opportunity to work on Wall Street now for a large salary versus taking a series of nine very difficult exams, which way would you go? All I can say is, "Thank God for the *Jobs Rated Almanac*." Compare a two-year MBA program to the five–ten years it takes to achieve Fellowship. Again, thank God for the *Jobs Rated Almanac*. But we can only ride that horse so long.

*Technology*

Technology today is truly amazing. I could spend this entire address talking about the Internet, hand-held computers and other communication devices, and where technology is going. We are able to optimize class factors using generalized linear modeling and computer techniques that were impossible ten years ago. We can now run out multiple reserve projections at the touch of a button. Who can predict what new technologies will be able to do ten years from now? What I can predict is that technology will continue to advance at a head-splitting rate, and actuaries must be at the forefront of these advances or we face the danger of irrelevance.

The scientist Louis Pasteur once said, “In the field of observation, chance favors the prepared mind.” Chance favors the prepared mind. I think the truth of this pearl of wisdom goes far beyond the observational sciences. I believe this quotation is relevant to the actuarial field generally and to our position at this moment in time, particularly. Far be it from me to suggest that our exam process might be subject to chance. Some of you might say that, but I would never say it. However, I think that most of you would agree with me that chance does favor those whose mind is well-prepared for the actuarial exams. From my experience with actuarial work after the exam process, again chance favors those who prepare well and prepare hard.

Speaking of pearls of wisdom, one of the job requirements for CAS presidents is that they must read all of the past presidential addresses going back to Isaac Rubinow. I dutifully read through them. In fact I read one a day each night, just before bedtime.

Now, how are Pasteur’s words relevant to our actuarial society at this particular juncture in our history? We have just received a very important report from a CAS Task Force on Non-Traditional Areas of Practice. This Task Force report identifies several potential new areas of practice for casualty actuaries and skill sets needed by future actuaries. The opportunity is there but, only if

we prepare our actuaries through a determined effort of education and research to move into these areas. We must seize the initiative and begin immediately on both fronts, or the opportunities will surely be lost, perhaps forever.

We must embrace change. As LeRoy Simon said in his address to the new members: “Make change a partner, not an enemy.” Change is hard. It is much easier to sit back and say we’re doing okay; why should we change what’s worked well for casualty actuaries over the years? There are certainly some things we don’t want to change. We don’t want to lower our standards for admission to the Society. We don’t want to change our fundamental principles, standards of practice, and discipline procedures. However, the changes I’m talking about are in the areas of education, research, technology, and development of new areas of practice.

Early in my presidency, I was asked by an actuary, “Why should I care about growth of the CAS and actuaries generally? After all, that will just mean more competition for existing jobs and consulting work.” It seems to me that this is shortsighted. While growth may bring some increased competition, I think that growth of the CAS is in all of our interests.

- It gives the profession a louder voice with policy makers and others.
- It brings in new ideas and approaches.
- It opens up opportunities in nontraditional areas of practice, because if the supply of actuaries is not growing, employers will look to others to meet their needs.
- It keeps our organization alive and vital. I say that the day that we quit growing is the day we begin contracting. The day we quit expanding our markets is the day our markets and demand begin to shrink.

So I propose several CAS initiatives to prepare our minds and ourselves for the new millennium:

1. A mobilization of our research and education efforts in the identified priority areas of nontraditional practice as we did so successfully with our DFA effort a few years ago. It will require our CAS committees to make some major changes in our education and research priorities. It will require a major effort of time, commitment, and funds for the CAS.
2. A broadening of our educational process to make our actuaries broader-based business problem solvers. We should make our education more like an MBA program with emphasis on team building, negotiation, and communication skills. And we must find a way to shorten our examination system, particularly in the basic education area. We should rely more on universities, without lowering our standards or giving up examination on key areas of actuarial practice.
3. A major effort by the CAS, perhaps in combination with the SOA, to develop additional strategic planning tools for actuaries that can be applied to the financial services industry.

If we can do these things, I firmly believe the future will be bright indeed for casualty actuaries. It will expand our actuarial horizons and allow actuaries to move into roles of strategic planning and other leadership positions in the insurance and financial services businesses, and it will make our profession more attractive to the best math and business students.

Earlier I poked a little fun at our presidential addresses. But there are indeed some shrewd insights and words of wisdom in those prior addresses, and some common themes. Perhaps the one overriding theme was best expressed by Al Beer. I think he speaks for all of us when he said that he hopes he *made*

*a difference.* I hope that each of you here today will endeavor to make a contribution to the CAS and make a difference. The profession will be better for it, and you will be better for it. For the many, many of you who are already making a contribution, I thank you for it.

I previously spoke about the increasing globalization of the actuarial profession. The CAS now has 112 members outside the U.S. and Canada. We are committed to playing a more active role internationally. The CAS recently appointed a new Vice President–International, and we are becoming more active and visible in the IAA, the International Congress of Actuaries, and meetings of the international presidents of actuarial societies in English-speaking countries. We were recently asked for assistance by the Actuarial Society of India to help them set up a general insurance course there. I believe that these and other activities are vital to our long-term success. It provides better service to our members who are overseas and will lead to expanded opportunities for our North American members who would like to work overseas.

Perhaps the most controversial issue I have had to deal with in my year as President was Mutual Recognition. This was a proposal which arose out of the international presidents' meetings. Under the proposal, Fellows of other actuarial societies outside the U.S. and Canada (such as in Australia and the U.K.) who had achieved their Fellowship by examination, who established residency in the U.S. or Canada, and who met certain other requirements would be granted FCAS status. By the same token CAS Fellows who, for example, went to Australia would be automatically granted Fellowship in the Institute of Actuaries of Australia.

During the year, we have had a CAS task force studying this issue, and I have spoken about it to many of you at CAS Regional Affiliate meetings. Many of you expressed sincere concerns about this proposal. After carefully studying and giving

full consideration to member concerns, the task force has recommended that automatic Fellowship not be granted due to the high degree of specialization in the CAS in general insurance compared to the other actuarial societies. A factor in the task force's recommendation was that actuaries from other companies can get practice rights in the U.S. via the American Academy of Actuaries. The task force is recommending an increase in our waiver policy, from the current five exams to seven or eight for Fellows of the Institute of Actuaries who have achieved their Fellowship in general insurance under the current syllabus. A similar policy is likely for the Institute of Actuaries of Australia.

Yesterday the CAS Board agreed with this recommendation, subject to additional information by the CAS Education Policy Committee on specific exam waivers.

This has been a difficult issue. With your help, I think we have reached the right conclusion. More than anything, I think it demonstrates the sensitivity of the CAS Board and leadership to membership concerns.

It has been my good fortune to inherit the reins of the CAS from the capable hands of Mavis Walters. Mavis, I'd like to thank you for your efforts on behalf of the CAS and say it was and is a pleasure working with you. I will also be leaving the CAS in the capable hands of Alice Gannon, and Pat Grannan after Alice. I would also like to thank the Executive Council of the CAS—Bob Miccolis, Kevin Thompson, Gary Dean, Dave Chernick, Abbe Bensimon, and Alice Gannon—who have worked very hard this last year and often don't get the recognition they deserve. And to Howard Bolnick, immediate past president of the SOA, for his friendship over the last two years. Also, Tim Tinsley. Tim, I don't know how I could have done it without you. Thank you, and I'll miss working with you. And my wife Judy, who has put up with the travel and long hours that go with the presidency. Thanks for your patience and your support. And to the members of the CAS, thanks for the memories. I've gotten to meet many of you at Regional Affiliate meetings and other meetings of the

CAS. It's truly been the highlight of my professional career as an actuary.

And finally, to my son Todd and the new members of the CAS. I'd like to close with the inspirational words of Stan Hughey, CAS President, 1974:

*Keep your roots deep in the CAS fundamentals. Soar with the wings of new developments which provide better solutions.*