


A Critical Review of



THE CRUSAP PROJECT IS OVER, yet it lives on in its product, the final report (available at our website, www.crusap.net). A measure of success can be granted, and I believe is warranted, if the final report is a cohesive and coherent document that makes and supports a number of recommendations to the actuarial profession. If adopted and fulfilled, these recommendations, the task force believes, will enable the profession to do a better job of meeting the actuarial needs of the public.

The CRUSAP project was a lot of work. Considerable care was exercised not only in choosing the task force members but also in selecting the advisory panel, whose job was to bring the breadth and depth of the experience of its members to the discussions and drafts of the task force. Further input into the process of converting the preconceived notions and biased opinions of the task force into supported and fully baked ideas was provided by the hundreds of website survey responses, the scores of books and articles listed in the bibliography, and the dozens of interviews conducted by the task force team.

The August preliminary draft report prompted (in some cases, provoked) input from dozens of organizations and individuals, as did the September draft report. Task force members in 2006 conducted a listening tour of actuarial meetings that stretched from Paris to Napa, with stops along the way at Washington, Boston, Ann Arbor, Cincinnati, Chicago, Palm Springs, and San Francisco.

As the task force set about constructing the final report, we found that we had a wealth of facts and opinions to evaluate and use selectively as building materials. Through it all, howev-

er, an essential subroutine was never knowingly bypassed or compromised: Does this proposed conclusion or recommendation further the goal of helping the actuarial profession to meet the actuarial needs of the public?

If our report is applauded and then put aside to await the coming of the archaeologist, we will consider our success to be small. Happily, we don't see that as likely, due in large part to the actuarial profession itself, and particularly to the North American Actuarial Council.

NAAC is an association consisting of the presidents and presidents-elect of the major actuarial organizations of Canada, Mexico, and the United States. In the fall of 2006, as the final report was taking form, NAAC established the CRUSAP Response Team, consisting of the 10 incoming U.S. presidents and presidents-elect in the association. This is an ideal group for the purpose, since its members generally have the position to implement the report recommendations, and the will to implement those with which they concur.

I'm convinced, having discussed aspirations for our profession with most of these leaders, that they do have the will

the CRUSAP Project

The yearlong effort to produce the CRUSAP report is over, but the real work of shaping the future of the actuarial profession is just beginning.

BY FRED KILBOURNE



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to implement CRUSAP recommendations, or at least enough of those recommendations to yield harmony rather than dissonance with the CRUSAP report. Of such chords is progress made.

Critiquing CRUSAP

Some have observed that the CRUSAP project was run by the inmates. It was conceived and funded by one of those organizations that, taken together, share the conceit that they are the actuarial profession. It was conducted by a few (insert laudatory adjectives here) actuaries who claim to have listened to some other actuaries. And it culminated with a report that serves as a baton to be passed to another bunch of actuaries!

All true—but not the last word on the subject.

The first thing to know is that the report is *not* the product of one or more actuarial organizations. It comprises the supported opinions of the seven highly (notoriously?) independent actuaries who made up the CRUSAP task force. The project could have been turned over to a group of non-actuaries, but it would have been difficult to compose such a group that had sufficient knowledge of actuarial work (not to mention having enough interest) to do the job, especially when an independence filter was imposed to rule out those with an interest in the proffered solutions to the perceived (manufactured?) problems.

A more reasonable criticism is that the task force would have been strengthened by having a non-actuary among its members, but I would counter that our project manager served that role to some extent. (She didn't vote, but she did have influence.) This solution of having one or more non-actuaries become a part of the actuarial process, however, is to be found in the recommendations, and I expect this will become an ongoing element of our actuarial future.

Finally, it should be noted that the CRUSAP Response Team itself, in addition to actuaries, includes an attorney (the president-elect of one of the actuarial organizations) among its members.

Another observation that could be made about the CRUSAP group is that it didn't "look like the actuarial profession," much less like America. There was some diversity of age and experience, but the average task force member had been an actuary for more than 30 years, and even the most callow had nearly 20 years under his or her belt.

Geographic diversity was pretty good, within the United States, but employment diversity wasn't, with consultants dominant. A couple members had stints with government or academia, but none had made a career at an insurance company. Insurance as a practice area was well-represented, but only one member of the group had substantial pension experience.

All true again. But we worked hard, with some success, to reach out to the rest of the profession and beyond as we did our work. The surveys were designed to elicit facts and opinions on pertinent issues from actuaries and others, and we were pleased and enlightened by the responses. We did hear from relatively few young actuaries and people outside the actuarial profession, but these groups were bolstered somewhat by the focus group discussions conducted by the project manager.

The task force also carefully selected a variety of people to be interviewed (see Appendix D) and learned a great deal from the interviews. The literature search (see Appendix F) also yielded a cornucopia of food for thought, including much that was critical of the profession, even though the found literature was heavily from actuarial sources.

Extremely useful and somewhat diverse input was also found in the responses to the draft reports and on the listening tour, again heavily from actuarial sources.

Largely missing from the contributors to our database, of course, were the voices of people currently doing competent actuarial work yet not (or not yet) credentialed members of the profession. Nor did we hear from the people who might one day hire us if only they knew of our capabilities. Nor did our contributors include the millions suffering (even if not yet) from actuarial need. Here again, the task force worked hard, with some success, using the actuarial skills of analysis and extrapolation, to give voice to all these people.

Among the other criticisms was that the time allotted for response to our draft reports was inadequate. I acknowledge that the response time was limited, but point to the thoughtful and thorough responses we did receive as proof that, at least for some, it was enough. It should also be remembered that the report isn't a compilation of the opinions, supported or not, of a cross section of the actuarial profession. Rather, it's a consensus report of the opinions, supported by the database described above, of the members of the task force.

Having thus disposed of all plausible complaints about the CRUSAP report by others, I now turn to my own. These aren't complaints about the published final report but rather that the task force filtering process required that I keep some of my own comments to myself. Until now.

Quo Vadis, Actuaribus?

Where is the actuarial profession headed? The answer may be found in the question itself, in the essential actuarial quantity QVA. The elements of this foundation of actuarial work are:

- Q, the probability that a future contingent event will occur;

■ V, a factor to reflect the time value of money while waiting for the event to occur and unfold.

■ A, the cost of that event when it does occur;

This is reflected in the first recommendation of the CRUSAP report, which defines actuarial science as “the quantification, analysis, and management of future contingent risk and its financial consequences.” This definition, in turn, not only sets forth the scientific foundation of the actuarial field but also opens up that field to many applications of actuarial science beyond those of actuarial history, such as enterprise risk management.

As it happens, the public (also defined specifically but expansively in the report) sorely needs the application of actuarial science to understand and solve its actuarial problems, which, unless solved, will be crippling or fatal to the country. This is discussed further below.

Where Is Appendix H?

A major strength of the CRUSAP report is that it's the independent consensus document of the task force. This is nowhere more evident than in the recommendations concerning the structure and operation of the profession.

The consensus process involved not only seeking compromise and agreement among task force members but also the evolution of individual members' thinking, based on information (substantially from other actuaries) and reflection (done alone, mostly at night—yes, in the dark).

Take me, for example. I'm comfortable with the subject recommendations (Nos. 17 through 19 in the final report), but I had a much more radical view early in the process. I believed that the U.S. actuarial profession should unify, promptly, substantially emulating the Canadian Institute of Actuaries. I went so far as to prepare a draft outline on the subject.

Others on the task force, however, had other ideas, and so my outline was moved slowly but inexorably down the report, stopping briefly as Appendix H in one draft before departing for good. I now propose this outline for the profession only as part of the discussion leading to a long-term goal, but I do want to place some of its elements in your hands for your consideration or amusement.

The unified organization (in the outline) is the American Society of Actuaries, a corporation domiciled in Chicago, New York, or Washington. An independent affiliate is the Actuarial Oversight Board, with substantial control over the non-actuarial aspects of qualifications, standards, counseling, and discipline. There are semi-autonomous colleges specializing in casualty, health, or life insurance; finance; pensions; or enterprise risk analysis. There are semi-independent sections for such matters as consulting, research, basic and continuing education, and government and international relations.

The outline went on to describe a convention, to work out the details, which survives as an option in recommendation 18. The final report reflects some of these ideas, but by no means all, which is well.

Are Some Actuaries Homeless?

“Homeless actuary” is no oxymoron; there are thousands of people doing competent actuarial work who have no home within the actuarial profession. This is addressed in the report's second recommendation, which calls for bringing those people into the profession so they'll be subject to professional standards, and in order to meet supply demands on an expanding profession.

Who are these people? They include advanced students of the examinations that currently must be passed to gain entrance to the profession. They include others who have stopped taking the exams, or who never took the exams, but who nonetheless are doing competent actuarial work. They also include some who may never have heard of the actuarial exams but who are professionals in their own right, spending some portion of their time doing competent actuarial work within the above definition, whether recognized as such or not. The public will benefit if these people are brought into the actuarial profession, even if it takes a new organization or a subsidiary of an existing organization to provide this new home.

There are at least two reasons for this. First, these new actuaries will become subject to the standards and discipline of the actuarial profession. Second, the profession will grow to a size

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more capable of responding to the demands of enterprise risk management and other new actuarial fields. Both of these reasons meet the requirements of the essential public-interest subroutine referred to above.

Are We Actuarially Doomed?

I earlier mentioned actuarial problems that, unless solved, will be crippling or fatal to the country. These consist substantially of the discrepancy between public and private promises, on the one hand, and the provision to meet those promises, on the other.

The present value of that discrepancy is now over \$50 trillion, or several times our annual gross national product. Well over half that amount is attributable to our major social insurance programs, Social Security and Medicare, using a closed-group valuation basis (rather than a 75-year projection period, which fails to recognize a substantial amount of benefits already promised). The balance is attributable to other discrepancies such as those of the unfunded, or underfunded, public and private pension and retiree health care plans. My hometown of San Diego, for example, with a population of about 1 million, has a pension plan deficit that is now recognized to be nearing \$2 billion and counting.

It's hard to find plausible scenarios under which our national

actuarial discrepancy can be resolved, and a solution becomes ever more implausible with the passage of time. When the crippling begins, in a decade or two, who will be blamed? Surely the politicians and others who mortgaged the future without regard to actuarial balance will be blamed, as they should. But won't the actuarial profession, discovered by the public and the media too late for action other than recriminations, also be blamed, fairly or not? Will your neighbor be assuaged by your protestation that you're a casualty actuary and knew no more than he did of the looming actuarial crisis of future retirees?

The third recommendation of the CRUSAP report encourages individual actuaries to gain sufficient knowledge, even if outside their own practice areas, to speak out on actuarial elements of major public issues.

Can We Really Tell the Future?

Maybe we're not doomed. A January *Wall Street Journal* article, entitled "Economics Is Not for Actuaries," posits that beneficial forces such as technology and productivity will overwhelm the actuarial naysayers who foresee an inevitable crippling of our economy, the implausibility of the scenario be damned.

Maybe the author is right. Surely many of us, actuaries and others, were wrong a generation ago when we projected adverse trends in inflation and unemployment, coupled with a perceived national retreat in both foreign policy and domestic economics, into a dismal future. But is the future simply unknowable? And if so, should we actuaries just turn in our certificates and seek honest work?

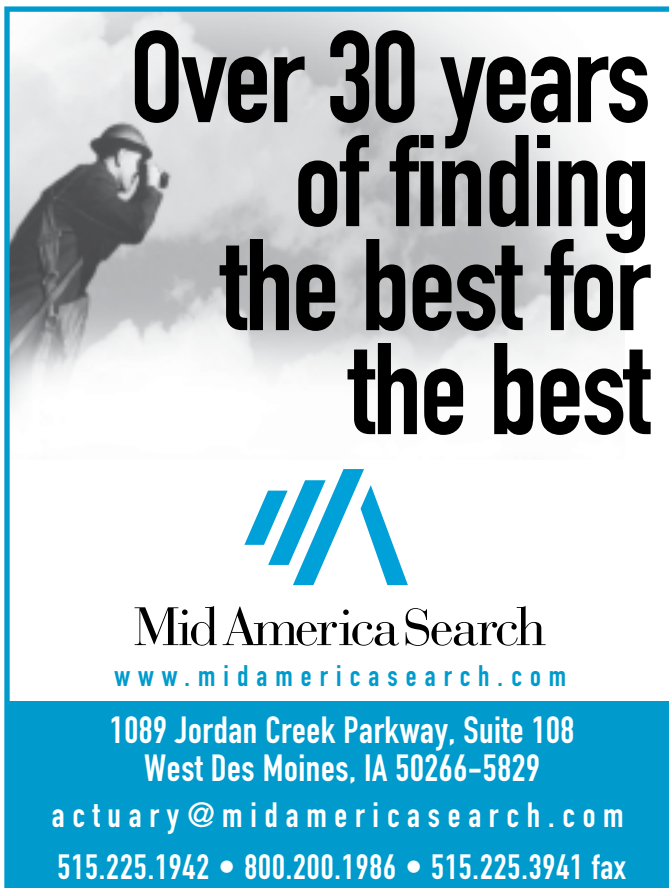
I think not, or not entirely. I see the future as a willful child, the product of her parents (the past) and of her environment (the present) but with a mind of her own, and who is sometimes neither rational nor predictable.

Actuaries are expert, and useful to the public, in analyzing past experience in the light of present evidence and in predicting the rational future that (may) follow. We may even be able, by observing our own history, to gain some understanding of the willfulness that only seems to be random.


Accordingly, my final recommendation to my fellow actuaries, and especially those who are substantially my juniors, is that you keep a running tab on the unfolding, over time, of all your actuarial estimations. In that way, you may learn things that will reduce the uncertainty in your future estimations and thereby do better at your chosen job of meeting the actuarial needs of the public.

And so the CRUSAP baton has been passed. I wish the new runners well. I look forward to following on the course that they, and others, will chart for the profession. I remind them to take off their organizational hats, from time to time, and to peer bare-headed into the future while looking for solutions to the actuarial needs of the public.

FRED KILBOURNE is president of the Kilbourne Co. in San Diego and served as chairman of the Critical Review of the U.S. Actuarial Profession.



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