

Not a Presidential Address -

An Amble Through the Actuarial Countryside

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Introductory

This paper originally appeared as a two-part article in *The Actuary*. The title and subtitle which have been retained for this presentation were an attempt to gain attention in a periodical which is not always perused closely.

The paper:

- sets out some thoughts on definitions of actuaries and some associated matters,
- advocates urgent action to reduce qualifying times,
- suggests that the concept of an “appointed actuary” has been found wanting and needs to be replaced by a more rigorous system,
- argues that CPD is unnecessary busyboding by the professional bodies,
- comments on the proliferation of standards and guidance notes,
- questions whether actuaries can or should worry about public interest, and
- suggests that a less onerous examination system would produce actuaries with the vitality required to foray into non-traditional areas of practice.

The articles in *The Actuary* evoked limited but generally favourable responses, largely from actuaries of the same generation as the author. The author welcomes the opportunity to hear other reactions, particularly from those with wider horizons.

Presidential addresses

In the course of writing this paper I have dipped into a number of recent addresses of the Presidents of London and Australian Institutes and the Faculty and there are references to three of them below. These browsings pointed me to some random samplings from the more distant past. It was surprising to find, as Paul Thornton did in preparing his Presidential address, how relevant some of the comments made by Presidents in very early days are to the problems facing the profession today. It is less gratifying to find, as Peter Clark has done, how slow the profession has been to respond to problems which troubled his predecessors.

What is an Actuary

Many actuaries appear to enjoy the aura of mystery surrounding a small profession with an unusual name but at the same time crave for better recognition amongst the broader community. This split personality manifests itself in a strong interest in the search for a simple definition of what an Actuary is. Some high flown and inflated views of actuarial characteristics, roles and responsibilities have been generated. There have often been attempts to paint our small, narrow and specialised craft as something much broader.

Seeing visions

As a result of this search for identity and for recognition the Institute has taken a number of initiatives. No one can object to the various councils and committees having objectives which they wish to achieve in their term of office. But there seems to me to be something slightly ludicrous when for example the Australian Institute mimics the corporate fashion and try to encapsulate the wider objectives in vision and mission statements. Visions and missions are more the province of the Joan of Arcs and Doctor Livingstones of this world than of a body which paints itself as a learned profession.

Other embarrassments are in the field of public relations where for example the Australian Institute amongst other things recognise an Actuary of the Year. It has been disrespectfully suggested that this initiative may go unnoticed and could be improved on by increasing the frequency of the award and recognising the Actuary of the quarter or more ambitiously the Actuary of the month. A more imaginative thought was towards an Actuary of the Millennium. More seriously, it seems difficult to see how such endeavours to raise the profile of the profession have anything but marginal effect.

Making financial sense of the future

Another borrowing from the prevailing fashion in commercial organisations is the adoption of a slogan and as a result we are continually assailed with the words "The Actuarial Profession - making financial sense of the future". Few could argue with T S Shucksmith who in his contribution to the discussion of the Clare Bellis paper "Professions in Society" described this bold statement as being "too glib, too general and not literally true". Over ambitious claims of this sort are not going to earn the profession the respect of level headed observers in the financial community.

Some unkind thoughts

T S Shucksmith also echoed my view that the profession in recent years at least has been party to the encouragement of two commercial activities which can be painted in a far from flattering light.

The first of these is a life insurance industry which has promoted the sale of inappropriate contracts with high lapse rates to uncomprehending customers. Too frequently the only result of this process was the transfer of wealth from the pockets of policy purchasers to the pockets of high pressure salesmen.

The second is, or perhaps more accurately was, a pensions industry which could be described as a mechanism for providing disproportionately generous bonuses to senior or long serving employees at the expense of those with broken service.

The fact that both of these worlds are passing away is not at the initiative of the actuaries.

More unkind thoughts

This unkind picture can be further expanded. On the one hand demutualisations have shown that time and time again the amounts set aside on the advice of the actuary to ensure the security of mutual insurance companies have been excessive, sometimes exceedingly so. On the other hand are the difficulties facing the oldest UK mutual. Even in an institution with a long tradition of careful actuarial management, members of the profession were not effective in ensuring that adequate reserves were established to protect the position of policyholders against clearly identified contractual options.

So what

I am sure it will be contended that the previous two sections paint a highly coloured picture. But equally over-tinted are some of the self flattering descriptions which others wish to adopt. A more balanced view would present actuaries as having specialist skills which they can apply in a practical manner to appropriate statistical and financial problems without giving an air of mystery and of infallibility.

Let us recognise that the origins of the profession were in a very narrow field - that of developing techniques for deriving information from and making calculations in respect of large volumes of data in days when these matters had to be dealt with without mechanical and electronic aids. Certainly the understanding required and acquired meant that early actuaries were given a leading role in the direction and management of early life offices and this is a role which they have continued to play. But the jump from the backroom to the boardroom are the result of personal characteristics rather than actuarial training.

Another vision

Peter Clark quotes from the 1946 Presidential address of A H Rowell, in which he describes the ideal actuary of the future in the following terms:-

"The newly qualified actuary must be young. He should emerge stimulated by his course of training and examination, not exhausted by a long-drawn struggle; alive and alert enough to wish to contribute by his further studies to the vitality of the profession."

Rowell's address was largely devoted to discussing the report of a subcommittee set up in 1944 to review the educational and examination structures. The changes to the system introduced as a result of the review were intended to shorten the time taken to qualify and to bring about a state of affairs which was closer to the Rowell ideal.

The outcomes

The changes introduced in the late 1940's did not have the desired results. Further changes came following the Usherwood report in 1958, the Skerman Report in 1967 and there have been numerous other reports and changes at regular intervals since. Hugh Scurfield in his 1991 Presidential Address sets out some dismal statistics which showed that despite all this there had been no improvement in the time taken to qualify or in pass rates.

Even without delving more deeply into the subject, I think it can safely be asserted that the constant call over more than 50 years has been to reduce the time taken to qualify but that the changes made to achieve this end have had no noticeable effect. My own limited observations lead me to believe that the profession is turning away promising talent because of the daunting prospect of a long period of study with a low probability of qualification. Likewise we are losing good students who have what it takes as employed actuarial trainees but who fail to jump the hurdles put in the way of actuarial qualification.

Possible reasons

Why has nothing effective been done to get us closer to the A H Rowell ideal?

One possible explanation is that, underneath it all, the profession prefers to retain that aura of mystery and inaccessibility. The knowledge that qualification is extremely difficult marks an FIA as a superior being.

If that uncharitable explanation is not valid and the many changes over the years have genuinely been intended to shorten qualification times, one is forced to the conclusion that, even in an area as close as their own training, actuaries are not good at managing things towards a stated objective.

An urgent problem

In his Presidential Address to the Faculty David Kingston said, "We should be able to improve our examination success rates". To my mind this statement lacks a sense of urgency - the "should" should be a "must". Unless a more purposeful line is taken we will recede still further from that splendid picture of the bright-eyed, newly qualified actuary painted by Rowell nearly 60 years ago.

Starting points

What follows is based on the following assumptions.

First, that in most places, with-profit life insurance and final-salary pensions are becoming things of yesterday and that nowadays any reasonably numerate person with a personal computer and a spreadsheet can perform miracles of calculation which until relatively recently required a great deal of skill and care. These changes remove applications for many of the more arcane actuarial techniques.

Secondly that, unlike the medical and legal and, perhaps to a lesser extent, the accounting profession, we do not usually advise unsophisticated individual members of the public. Our employers or clients are almost without exception financial institutions of some substance. They should be quite capable of deciding whether they need a bright-eyed youngster or a wiser grey head as an employee or consultant and of assessing the ability of their adviser. They do not need a professional body to do this work for them.

Thirdly that the Institute should try to limit the degree to which it tries to guide and monitor the activities of members.

Finally, that there is no way of preventing occasional cases of members going astray so that disciplinary problems cannot be avoided and will always present difficulties.

Education

Financial institutions still need the services of people with statistical training and experience combined with a knowledge of the world of finance and investment. A specific qualification and membership of a body which offers such advice to its members, together with a system of standards and disciplines, must serve a useful purpose.

A new regime of requirements for qualification should be evolved. My picture is one in which graduates from appropriate university courses would be required to have worked in an approved actuarial environment for say five years and to have passed maybe three or four examinations. The examinations would place emphasis on judgement and the ability to express oneself clearly rather than on a detailed knowledge of current legislation and current techniques.

The above is a very broad specification and I recognise that just to define an approved actuarial environment would on its own present formidable difficulties. However, a serious attack on qualification times must be mounted and radical thinking and hard work are required. A collateral benefit from a less onerous examination system would be a lightening of the burden of tuition and examination setting and marking which must absorb a great deal of energy from members of the profession.

Appointed Actuaries

The appointed Actuary concept was evolved in the United Kingdom to strengthen the supervisory structure without departing too far from the principle of freedom with publicity. By putting responsibility on the shoulders of a named actuary the system was intended to provide the regulatory authorities with reliable and timely information in a flexible and light-handed manner. This system has been painted as being more effective than more prescriptive regimes but as avoiding the costs and difficulties of most alternative approaches.

The way the system was supposed to work is pictured by Peter Clark in his presidential address when he recollects his experience as appointed actuary to Vanbrugh Life. He talks of how he "took tea" with Edward Johnson and one has a cosy picture of him toddling along for an improving fireside chat with his actuarial Uncle Ted.

But the system which is said to rely on the credibility, integrity and personality of the individual actuary was not robust enough to identify the problems at the Equitable and in due course will surely be found wanting in other circumstances. This must be particularly true if, as Peter suggests, the status of the Appointed Actuary in many UK life companies has fallen.

There is no perfect system of protection against foolishness, carelessness, determined roguery or just bad luck, but a more detailed and rigorous system than Appointed Actuaries is needed.

Actuarial audits

As a result of the troubles at Equitable Life, the Institute is to undertake an inquiry into the Appointed Actuary arrangements in the UK. The starting point for such a review should be a recognition that the existing regime has failed and that it will not be sufficient to elaborate on what is already there by, for example, tacking on a peer review requirement. Much less emphasis should be placed on specifications for the person producing a report and much more on a requirement for an independent review or audit report to be published in the same way as with audited accounts.

The argument for actuarial audits seems quite simple. Actuarial reports are to a life company or similar institution as the accounts and balance sheet are to any other commercial enterprise. The work of the company accountants is subject to scrutiny and certification by independent auditors. The work of the company actuary should be subject to equivalent review.

Audits would provide more cost-effective protection both for the public and for the reputation of the profession than an Appointed Actuary system and would have the added advantage of freeing officials in insurance regulatory offices from responsibility for overseeing the soundness of life companies.

C P D

I hope it is not just because I am, if anything, in a state of continuing professional decline that I find attempts to impose requirements to demonstrate continuous professional development a piece of unnecessary busy-bodging by the Institute in the affairs of members.

The only coherent argument put forward for the imposition of CPD is that it is needed if we are to hold our heads up in the company of other professional bodies. For my part the fussing about with CPD is too high a price to pay just so that when attending meetings of associations of professional bodies our various Presidents can say that we also have requirements for CPD. I suspect that those other professions would be less impressed if they were aware of the meaninglessness of our system of self-recording and self-classification. CPD has as one of its aims the development of "personal, business and management skills". There are not many sporting or social activities which could not legitimately be recorded as assisting towards that broad aim.

Standards and Guidance Notes

In recent years user manuals in the form of Standards and Guidance Notes have been written to cover most areas of actuarial work. Many of the guidance notes are merely checklists of things which an experienced practitioner would or should carry out automatically. These checklists no doubt serve a very useful purpose as a guide for those in unfamiliar territory or as a final check when signing off an important report. However the trend is towards ossifying the way things are done and reducing the room for judgement by producing prescriptive instructions. I have a feeling of unease at this increasing intrusion of the professional body in the details of how members go about their work.

One argument put forward to support the need for both CPD and more detailed standards is that they are of help in pursuing cases of professional misconduct. I have no experience on which to base a gut feeling that even the most detailed prescription in an actuarial standard will be of little help in a serious case of misconduct.

Public interest

At various times there has been a call for actuaries to have regard for the public interest in going about their work. This seems to be an example of the profession taking itself far too seriously. The pursuit of the public interest should not be elevated much beyond a broad responsibility not to pursue ones personal interests at the expense of those of the general public. In the absence of yet another guidance note, more ambitious definitions will create problems for some of us in deciding where the public interest lies in individual cases.

Wider fields

The final area where I think our professional bodies are misdirecting their energies is in the endeavour to encourage practitioners to work in non-traditional areas. Any initiatives to apply actuarial expertise in wider fields must come from individual actuaries or from their clients. The best way to ensure that potential employers and clients in those wider fields look to actuaries to help them with their problems is to evolve a system which produces newly qualified Fellows who fit the Rowell description and are young, bright eyed and eager to explore new fields.

Last words

I am afraid that this paper may sound like the sour comments of one of yesterday's men. It certainly gives me no satisfaction to take a critical line. I am also aware that there are signs of change in at least some areas which may answer my carping.

However there are also signs that I am not alone in feeling that intrusion by our professional bodies in the way members conduct themselves should be kept to a minimum. Inflated claims as to the abilities or importance of actuaries create discomfort. There is a real need for people with a combination of mathematical and financial expertise and the ability to apply those skills to practical problems. Those of us who acquired those characteristics through actuarial training would like to see the profession retain that role. To do so requires urgent and effective action particularly in simplifying and updating the requirements for qualification. I hope that this paper will make a contribution towards stimulating such action.