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Actuary
Australia

Accident Compensation Seminar

Actuary... To Medical Officer

Why Not A Carbon Tax?

Health Reform Unlimited – Part 2


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for Financial Services
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Our subsidiary covers the gamut of the financial services sector, but biased by its parentage, can satisfy all your actuarial needs

Diary Dates 2011

27 Oct	KPMG, Melbourne	**Risk Management in Super**
31 Oct	Challis House, Sydney	**Insights Networking *– Progressing your Investment Career***
3 Nov	Challis House, Sydney	**Risk Management in Super**
7 Nov	Challis House, Sydney	**Insights – *From Accumulation to Decumulation: The Post-Retirement Challenge***
14 Nov	AXA, Melbourne	**Insights – *Essence of Actuary***
16 Nov	Deloitte, Melbourne	**YAP – Actuarial Job Market and Remuneration**
20 - 22 Nov	Sofitel Hotel, Brisbane	**Accident Compensation Seminar *– Changing Times, Continuing Needs***
1 Dec	Melbourne	**Member End of Year Event *– Mark this date in your diary***
7 Dec	Challis House, Sydney	**Member Wine Evening *– Mark this date in your diary***

contents

October 2011

Innovation

I love innovation!!! Partly because I don't have much of a creative bone in my body so I love it when I can see it in others.

A friend of a friend had breast cancer followed by a double mastectomy. Now that she is well again, she has developed a business that sees her taking people on trips to amazing destinations. Effectively a business taking her to her bucket list destinations with other people footing the bill – wonderful innovation from an awful experience.

Change often forces innovation upon us and I am eagerly awaiting what is happening next in the superannuation and insurance industry with MySuper and FOFA (Future of Financial Advice).

With all the focus on commissions recently I was fascinated by an article I saw tucked away in a *Sunday Herald*. It talked about unlocking the commission in your insurance products. I believe the idea was that you nominate this company as your 'advisor' and they split the trail commission on your insurance with you. Realistically if your advisor is not spending time with you, why wouldn't you want this benefit? For the company providing the service – it's money for jam – and the key issue is getting people to understand the benefit you are providing. It was a true life example of innovating to get around product conditions and share the benefits.

There is a fine line between things that help the customer and things that destabilise the industry. What if everyone were to use this service?

In this edition, we have *Deregulating Pricing in the Health Industry* an article from Graham Rogers challenging the way we provide health insurance and describing how he believes it is hindering innovation and encouraging businesses without scale. There is also an article on leadership from Andrew Brown.

So have you been innovating lately? Have you led by example by thinking outside the square? Does that sound scary? You could take baby steps and try doing small things differently and see if it changes your mindset. Let's dust off the creative spaces and give it a go! Then write in and let me know what we actuaries are capable of. ▲

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Actuary Australia

Contributions
Contributions should be sent to the Actuaries Institute, marked to the attention of Katrina McFadyen (Marketing & Communications Manager.) at:
katrina.mcfadyen@actuaries.asn.au
All contributions must conform to our submission guidelines which are available from the Marketing & Communications Manager.

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Actuaries – taking the lead

"It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change." – Charles Darwin

Actuarial professionals work in rapidly changing industries where the need to continually adapt, grow and develop is essential. The ongoing viability and growth of our profession relies on how we lead ourselves, our teams and our profession through such change.

The Institute has a Leadership Committee dedicated to supporting the Institute in nurturing the development of leadership, for itself and for its members. This article summarises the paper the Leadership Committee prepared for distribution at the last Convention.

What is Leadership?

While Leadership has been defined in many ways, there are three common elements:

- How we choose to respond to our circumstances and achieve results (self leadership and results leadership).
- How we engage and influence other people (people leadership).
- How we shape the future (thought leadership and strategic leadership).

People with **effective self leadership** typically can take responsibility for their own career and professional development, and cultivate a deep level of self awareness and appreciation of what is truly important and meaningful to them. For actuaries, that may be the resilience to continue with exams in the face of low pass rates and set backs, balancing integrity and commerciality when providing professional advice, or pursuing personal development opportunities beyond the technical requirements of the education system.

Attributes of **effective results leadership** include delivering results and outcomes consistently and to a high standard, and adapting approaches and priorities to emerging circumstances. For actuaries, that may include developing rules of thumb or techniques that reduce the amount of analysis required, without materially limiting the quality of the analysis.

Attributes of **effective people leadership** includes influencing key stakeholders, mentoring, coaching and developing people, building effective teams, understanding and aligning disparate perspectives, building effective relationships and partnerships or networks and communicating effectively. For actuaries, that may include understanding the needs of clients and demonstrating the importance of actuarial concerns in that context, or developing actuarial capability across a business unit or company.

Attributes of **effective thought leadership** include resolving complex issues or problems, applying principles and practices from one context into other contexts, developing new methods and practices, and effectively communicating these insights.

Attributes of **effective strategic leadership** include identification and creation of new markets, identifying leverage points of change in broader systems, and shaping industry development. Actuaries demonstrating strategic leadership would have deep insight into the many systems at play (social, technological, economic, environmental and political) and a sense of the emerging trends, issues and opportunities in an industry as these systems evolve.

What are the common attributes of the actuarial profession that will mean the profession will both excel at some areas of leadership and have weaknesses or areas of development in others? What are some areas that as a profession we are finding more difficult to make inroads into, and what might this suggest about potential leadership development needs?

Let's start the exploration with a typical newly qualified actuary – Anna.

Anna is in her mid 20s, was in the top 1% in the state when she completed year 12 and is a self starting, highly motivated individual. While Anna can study and work effectively in groups, her quick intellect and self drive has meant that much of her early working career and her high school and university studies has been self guided and her successes achieved independently. When a work problem emerges, Anna's immediate focus is on the technical nuances of the problem, and what analysis or data collection needs to be done to move it forward. **Her self leadership** in taking responsibility for what she can do directly is exemplary.

Anna has already been promoted three times in her five-year career, her last promotion being several grades. Her salary and responsibilities are commensurate with many successful people in their mid thirties with significant more work and life experience. In her current role, she finds herself dealing with senior managers across marketing, distribution and product development with varying levels of understanding or expertise in technical financial matters. She also manages three actuarial analysts.

Anna, if the truth be told, has lost the certainty which has symbolised her career and progress to date. The expectations of her manager and her new peers are very different to the past. While past managers have invited her to explore issues thoroughly and allow her to use her technical skills to full advantage, her new manager is encouraging her to "step back and look at the bigger picture". While her actuarial peers enthusiastically discuss WACCs, DACs and IBNRs, her non-actuarial peers ask her to communicate "in a language that human beings can understand". In short, she feels she is being asked to let go of the very things that have made her successful up to today.

Anna also has frustration with the newest actuarial analyst in the team, and feels that his slow improvement and regular mistakes is not up to the standard she demonstrated at that stage of her career. Her manager's advice that she needs to "spend more time coaching and supporting him" is both infuriating and at a deeper level overwhelming. Surely he is expected to, as she has always done, learn himself and take responsibility for his own development. And at the same time, Anna doesn't have a clue how to support him or coach him; her whole emphasis to date has been around her own learning style, and to delve into the world of understanding and adapting to other learning styles is confronting and something she feels ill equipped for.

When Anna reflects back on her actuarial education and work performance, she can hardly recall communication, stakeholder management, negotiation or leadership being encouraged or assessed. These may be nice to talk about, but not relevant to obtaining her actuarial qualification.

Why suddenly are her very strengths (technical capability) seen as less important? And the very areas she has never been asked to focus on (communication, stakeholder management, negotiation or leadership) seen as central to her success?

Does any of this sound familiar?

In terms of **the leadership challenges facing the Institute**, actuarial professionals are often in a similar category of highly advanced intellectual capability, highly competent and motivated, and having been promoted to senior levels very quickly. Yet the traditional actuarial education system and career paths rarely develop the less technical and more relational aspects necessary at more senior levels.

One way of thinking about it is as a three-legged stool. If one leg is shorter than the other, the stool may fall over. **In an actuarial context**, for our members to accelerate their careers, all three legs need to grow in sync.

Where are some of the areas that we as a profession could do more? The recent Beacon Report commissioned by Council to get feedback from key actuarial stakeholders identified the following perceived development needs:

- Stakeholder engagement – building relationships and communicating effectively in language of the stakeholders.
- While technical problem solving was a real strength, could have a stronger business or commercial emphasis.
- Often seen as focussed on the technical solution rather than strategic implications of an issue.

While these development needs are not unique to the Actuarial profession, there are two major concerns. Firstly, these same challenges have been identified several times in reports commissioned and papers written over the past decade, and little progress appears to have been made. Secondly, these perceptions are having a very real impact on the success and growth of the profession. For example:

- Lack of progress into new fields over the last decade; this may lead to fewer opportunities for our expanding membership and potential major issues that would benefit from an actuarial perspective may not be addressed.
- A significant decline in appointments of actuaries to CFO and CEO roles in financial service companies.
- Brand of actuaries as technical specialists (and that's all) remains.

What are the current initiatives to enhance leadership effectiveness?

The key initiatives to date include a series of presentations from actuaries who have been in senior leadership positions and the actuarial leadership Step Up program, including mentoring of participants in this program. A new leadership forum is also being launched. The question arises: **Will this be sufficient to meet the needs of the profession and its members in developing our leadership capacity and brand? What else could be done?**

The view of the Leadership Committee is that as it currently stands, these are very small drops in a very large ocean. While it may make a positive difference in the careers of a few members, it is unlikely to create sufficient bedrock of leadership capability to shift the profession forward.

The Committee is currently considering how best to apply its resources. **For leadership to become a capability for which actuaries are recognised, the education system, the Institute, the workplace and actuaries in influential positions must all be aligned in supporting leadership development throughout the education and career development of actuarial professionals.** The role of the Committee is to engage with the profession to shape these initiatives. The role of every member of the profession is to engage in and take responsibility for how you can contribute to developing effective leadership. ▲

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Editor's Note

Starting next March, Andrew will be writing a new monthly column that explores different aspects of leadership in an actuarial context, and will focus on upcoming initiatives to build leadership capability across the profession. There will also be case studies of where actuarial professionals and actuarial communities are already building highly effective leadership capability. If you have a great example, please email Andrew.

One actuary – part of the master race!

During July 2011, Melbourne actuary Robert Schwerkolt travelled to USA to compete in the World Masters Athletics in Sacramento, northern California. The World Masters Athletics is held every two years, and attracts the best track and field athletes in the world aged 35 and over. Around 5,000 athletes from 90 countries competed in five-year age bands, including 160 from Australia.

Rob competed over 8 days in heats, semi-finals and finals of both the 800m and the 1500m. Against some pretty intense competition, Rob won bronze and gold medals, coming third in the 800m final (2:00.08) and winning the 1500m final (4:06.91).

Earlier in the year, Rob broke the Australian records for his age group in the 1500m (4:00.2) and the 3000m (8:49). ▲

Rob Schwerkolt
robert.schwerkolt@hotmail.com

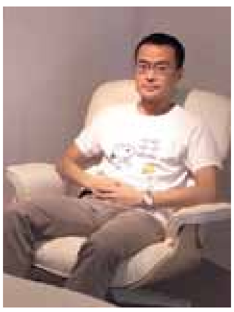
World Masters M45 1500m final

L to R: 3rd Sean Messiter (USA), 1st Rob Schwerkolt (Australia), 2nd Michael Blackmore (USA)

Competition winners

Institute members who updated their membership details online between 26 July and 17 August 2011 were eligible to enter the draw to win one of three Wotif.com vouchers valued at $1,000 each.

Congratulations to **Dennis Chan, Natalie Eckersall** and **Alison Nanson** who were the lucky three winners selected randomly from the 864 members in the draw. ▲



Dennis Chan

Natalie Eckersall

Alison Nanson

Serious or lowbrow?

The blog is up and running and is more successful than most would have expected so that is great. I have had a few complaints ranging from being too serious to being lowbrow! Go figure! Still, I am actually encouraged by the diversity in opinion because it does prove that there is no such thing as a typical actuary. It has not yet turned into a 'nutter magnet' as predicted by some. You can check the blog out via the institute's website.

My first blog was on the question of 'actuarial science' and my view is that there is no such thing! I also claimed that good actuaries do not adopt an 'actuarial method' and there is no actuarial 'theory of truth'. Instead, we have specific training in risk management and related topics and we apply various mathematical and other techniques to problems but the methods and techniques we use vary depending on the nature of the problem.

I actually shudder when people talk up the actuarial control cycle. Yes I know that the whole process of picking and checking assumptions is important, but really, the actuarial control cycle is not unique to our profession and I think we should stop hanging our hat on the, albeit valuable, method as being how we define being an actuary. In fact, I think embedded in the control cycle is a major danger for the profession and that is that we are unable to predict or prepare for unforseen events.

A surprising number of members agreed but there were a few who contacted me directly most upset that I had just blown up any legitimacy that the actuarial profession had left. On balance though there was a good debate and I think the conclusion for me was that most people who responded agreed they weren't scientists and that it was dangerous to assume that there was an exact answer to actuarial problems. However, it was also made clear that we i.e. the profession, are going through a bit of an identity crisis since there is little agreement as to what our core skills are. One member said that *"I had hoped the profession would develop more from its historical roots in financial collectives – like the traditional 'Friendly' and 'Provident' societies. We would seek to develop and be recognised as having skills in managing inevitably conflicting interests; as people who could be trusted as stewards or advisers to stewards; as experts in 'fairness'; as proponents of rational collectivism; as bulwarks of a decent society"*. This is an important observation. He also said that he did not think that reclassifying ourselves as risk managers was a replacement for what we have lost in the traditional fields.

I am an optimist though. I do not think we necessarily need a clear unambiguous description of what we can bring to society because the plan is to have actuaries working in many different fields and applying a wide range of skills. Whilst we have basic training in risk management and applying complex professional judgement, the idea is to pump out as many actuaries as we can and they will find their place in the world. Just as we can't classify what the core skills of a lawyer or an accountant is, I don't think we should beat up on ourselves so much.

You will now have seen our new corporate identity and hopefully have visited the Institute website to find out more on how we got to this point. The new look certainly grew on me and I can see how we needed to change from the mish-mash of our old logo. We won't get agreement from everyone and in reality, the branding is as much for our buying public as it is for us. I have been involved in a number of re branding exercises in my previous jobs and this was the least painful, and least expensive! Melinda and the team at the secretariat pulled off a masterstroke! ▲

Barry Rafe
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From October 2011, the new Institute branding will be rolled out progressively across the website, stationery, signage and collateral items.

Actuaries Institute

David Gifford

Title…
Executive Manager, Business Intelligence

Organisation…
Transport Accident Commission

My favourite energetic pursuit…
Running (treadmill – getting too old for the road)

The sport I most like to watch...
AFL (go Blues!)

The last book I read (and when)...
Freedom by Jonathan Franzen – finished it last month

My favourite artist/album...
Too many to pick from! At the moment the *Mars Volta*, the *National, Spoon, Animal Collective* and *Nine Inch Nails*

My favourite film...
Being John Malkovich

My interesting/quirky hobbies...
I am obsessed with SuperCoach (fantasy AFL football). I also collect vinyl (LPs) and have recently started collecting wine (which is a very good way to lower the bank balance!)

The person I'd most like to meet...
Christopher Nolan (director of *Memento* and *Inception*)

What gets my goat…
People who won't admit when they have made a mistake

What I wanted to be when I grew up...
Rock guitarist

Why I decided to become an actuary...
I got a scholarship to university and that seemed easier than working

Where I studied to become an actuary...
Macquarie University

Qualifications obtained...
BEc, FIAA

My work history...
Towers Perrin (1994 – 1997) - Superannuation Consulting. MIRA/ Coopers and Lybrand/PwC (1998-2008) – General Insurance Consulting TAC (2009-2011) In House Actuary/ Manager of Reporting and Analytics

What's most interesting about my role...
At various points my role touches the entire spectrum of the TAC, from front line claims officers right up to the CEO and Board. It forces me to be constantly aware of my communication, making sure I don't lose myself in technical detail. Also leading a diverse team of 22 with a wide range of backgrounds, ages and skills is fantastic.

My role's greatest challenges...
Balancing an insatiable appetite for information with scarce resources (i.e. my team) able to provide said information

Who has been the biggest influence on my career (and why)...
Christa Marjoribanks (pwc) – taught me about focus and the importance of personal development
Chris Latham (pwc) – taught me about consideration and wisdom
Dan Tess (pwc/Lumley) – taught me about strong communication
Tracey Slatter (Head of Claims at TAC) – taught me about great leadership

My proudest career achievement to date…
Improving work / life balance by moving to the TAC in Geelong. The 20 minute walk to work sure beats the 1.5 hour commute!

The most valuable characteristic an actuary can possess is…
A logical mind and emotional intelligence

If I was President of the Institute, I would…
Focus on the education system

My most important decision…
Proposing to my wife (right after an emotional episode of *Party of Five*)

I'm most passionate about…
Sansa, Claudia and Dylan (my kids)

I'd like to be brave enough to…
Throw it all in for a couple of years and write a novel

In my life I'm planning to change…
Negative attitudes of others

At least once in life, every actuary should...
Drive around Australia – it is fantastic!

If I win the lottery, I would…
Give most of it to the Wilderness Society and just keep enough to be comfortable

To become an instant celebrity on YouTube, I would publish a video of myself doing….
Break dancing in Pitt Street Mall

My most embarrassing moment…
Can't honestly think of one

If I could travel back in time I would…
Go to the 1970 Grand Final

My best advice for my children…
Respect yourself and everyone you meet. And ignore Andrew Bolt

Four words that sum me up...
Passionate, positive, unconventional, slightly disorganised (okay I know that's five words!) ▲

David Gifford
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The Actuarial Pulse

The Actuarial Pulse is an anonymous, web-based survey of Institute members, run on a monthly basis, giving members an opportunity to express their opinions on a mixture of serious and not-so-serious issues.

Next Survey New questions will be available in November 2011.

What would you like to know? If you have a question you would like to put to the membership, email it to editor@actuaries.asn.au

Results Report generated on 12 September 2011, 331 responses.

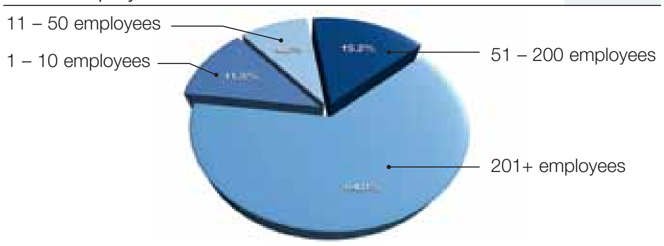
The grass is always greener on the other side of the fence, or is it? One of the many strategies employers utilise to attract and maintain staff is the provision of non-salary benefits, but how do these benefits compare between employers? In this month's Pulse Report, we give readers the opportunity to see just how green the grass is in other workplaces, as we investigate the different types of benefits offered by actuarial employers.

Q1 Which of the following best describes your employer?

Choice	Count	%
Private sector company	169	51.1%
Consultancy	87	26.3%
Public sector organisation	40	12.1%
University or other educational institution	4	1.2%
Self-employed	13	3.9%
I am currently not employed	7	2.1%
Other	11	3.3%

Q2: Approximately how many employees work at your workplace?

Choice	Count	%
1 – 10 employees	38	11.8%
11 – 50 employees	29	9.0%
51 – 200 employees	49	15.2%
201+ employees	206	64.0%



Q3: Where is your workplace located?

Choice	Count	%
Sydney	182	55.5%
Melbourne	59	18.0%
Other Australian capital city	28	8.5%
Australian non-capital city	7	2.1%
Outside Australia	52	15.9%

The first three questions provide a demographic profile of the respondents to this survey.

As would be expected, the majority of respondents work for a private sector company or consultancy, with 50 or more employees, located in Sydney or Melbourne. Nevertheless, other types of workplace, such as very small workplaces and those located overseas, are also represented by the sample.

Section 1

The next three questions look at the types of benefits that are offered by employers, subdivided into three broad categories.

Q4: Which of the following health and wellness benefits are offered by your employer?

Choice	Count	%
On-site vaccinations (e.g. flu vaccination)	217	81.9%
CPR/First aid training	98	37.0%
Lifestyle programs (e.g. Weight Watchers, Quit Smoking program, etc)	83	31.3%
On-site gym/Gym membership subsidy or reimbursement	90	34.0%
On-site fitness classes/groups (e.g. aerobics, walking group, etc)	96	36.2%
Massage therapy services at work	47	17.7%
Heath screening programs (e.g. blood pressure, cholesterol, etc)	118	44.5%
Discount health insurance	144	54.3%
Counselling service	175	66.0%

Q5: Which of the following financial and compensation benefits are offered by your employer?

Choice	Count	%
Life/disability insurance (other than that included in superannuation)	114	38.6%
Business mobile phone for personal use	119	40.3%
Company-owned car for personal use	32	10.8%
Business computer for personal use	66	22.4%
Educational expense assistance	200	67.8%
Employee discounts on company services	135	45.8%
Donations for participation in charitable events	121	41.0%
Company share purchase plan	97	32.9%
Subsidised/free public transport tickets	37	12.5%
Monetary bonus	219	74.2%
Professional memberships	256	86.8%

Q6: Which of the following other benefits are offered by your employer?

Choice	Count	%
Food provided in lunch room/cafeteria	74	25.1%
Coffee making facilities	265	89.8%
Holiday parties (e.g. Christmas)	245	83.1%
Social drinks	207	70.2%
Workplace lunches	127	43.1%
Workplace picnic/bbq	56	19.0%
Other workplace offsite activities	105	35.6%
Birthday celebrations	133	45.1%
On-site games facilities (e.g. video games, pool table, etc)	54	18.3%

Considering the responses to these three questions together, the five benefits most frequently offered by actuarial employers are: coffee making facilities (selected by 89.80% of respondents), professional memberships (86.80%), holiday parties (83.10%), on-site vaccinations (81.90%) and a monetary bonus (74.20%).

Coffee making facilities are, in fact, seen as such a basic right among employees that one respondent commented "coffee machines are not benefits". Among those 10.2% of respondents who do not receive coffee making facilities as a benefit, 24% work at very small workplaces, with 10 or fewer employees.

Comparing the results to these questions by demographic group, the following interesting facts can be observed.

1. Consultancies and private sector companies tend to be more generous than public sector organisations when it comes to providing financial benefits, such as a monetary bonus (76% of respondents employed by consultancies, and by private sector companies and 50% of respondents employed by public sector organisations receive this benefit), or donations for participation in charitable events (consultancies: 48%, private sector companies: 41%, and public sector organisations: 18%).

2. However public sector organisations tend to be more generous when it comes to providing health and wellbeing benefits, such as health screening (consultancies: 31%, private sector companies: 37%, public sector organisations: 53%), counselling services (consultancies: 51%, private sector companies: 53%, public sector organisations: 78%) and CPR / first aid training (consultancies: 30%, private sector companies: 30%, public sector organisations: 48%).

3. Employees at very small workplaces (1 – 10 employees) are least likely to receive any employee benefits, with only 58% of respondents in this group being provided with coffee making facilities, 53% having their professional memberships paid for and 45% having workplace holiday parties. However, it should be noted that this group includes the workplaces of self-employers where the employer and the employee are effectively the same person, so employer benefits are meaningless in this context.

4. Small workplaces (11 – 50 employees) are most likely to celebrate the birthdays of employees (39% of respondents from 1 – 10 employee workplaces, 62% of respondents from 11 – 50 employee workplaces, 41% of respondents from 51 – 200 employee workplaces and 38% of respondents from 201+ employee workplaces have workplace birthday celebrations). However, larger workplaces are more likely to have an on-site vaccination program (1 – 10 employee workplaces: 8%, 11 – 50 employee workplaces: 41%, 51 – 200 employee workplaces: 63% and 201+ employee workplaces: 83%).

5. Respondents from Australian locations other than Melbourne and Sydney are least likely to have social drinks nights at work (70% of respondents from Sydney and Melbourne, 34% of respondents from other Australian locations and 50% of overseas respondents receive this benefit). However, overseas respondents are most likely to receive discounted health insurance (Sydney / Melbourne: 41%, Other Australia: 37%, Overseas: 62%) or life/disability insurance (Sydney / Melbourne: 34%, Other Australia: 3%, Overseas: 60%).

It should be noted, in interpreting the responses to these questions, that not all benefits are directly comparable between companies (for example, the size of monetary bonuses will vary between employers and employees, and as one respondent pointed out, there is a big difference between social drinks in the form of low quality booze once every few months and international beers and spirits every Friday).

Furthermore, several respondents commented that not all benefits their employer provides are available to all employees. Cars and health screenings are two benefits that several respondents indicated are only available to senior employees.

Section 2

Q7: What other non-salary benefits does your employer provide to employees?

Some of the other non-salary benefits provided by actuarial employers include:

- An annual weekend away for staff and families;
- Additional days of annual leave;
- Flexible working arrangements;
- Discount supermarket vouchers and discounts to external companies such as Dell, Apple and holiday companies;
- Movie tickets;
- Reimbursement for corrective lenses;
- An onsite school holiday program for children;
- Time for own consulting (this respondent worked at a University or other educational institution); and
- "The absolute pleasure of working 70+ hours a week."

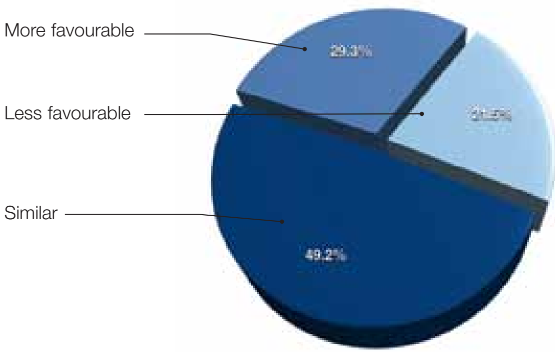
Q8: Did the non-salary benefits offered by your employer influence your decision to work for this employer?

For the majority of respondents, non-salary benefits did not influence their decision to work for their current employer. However, employers should not take this as an invitation to cut back on benefits. Several respondents commented that, although the non-salary benefits offered did not influence their decision to join their employer, they have provided incentive to stay with that employer.

Q9: How do you think the non-salary benefits provided by your employer compare with those provided by other employers in your industry?

The purpose of this question was to see whether respondents' perception of how the non-salary benefits provided by their employer compared with those provided by other employers in their industry was consistent with reality. Comparing the responses to Questions 4, 5 and 6 of respondents in each of the three categories for this question, it appears that respondents in each group do, in general, have a reasonably accurate view of how their benefits compare with those of others.

Choice	Count	%
More favourable	87	29.3%
Less favourable	64	21.5%
Similar	146	49.2%



Respondents who selected 'more favourable' for this question do, in fact, receive more benefits than those who selected 'similar', who in turn receive more benefits than those who selected 'less favourable'. Furthermore, respondents in the 'more favourable' group are more likely to receive some of the more unusual benefits than those in any of the other groups (for example, 26% of respondents in the 'more favourable' group have on-site games facilities at work compared to 18% of respondents in the 'similar' group and 6% of respondents in the 'less favourable' group).

Q10: Which benefits not currently offered by your employer would you most like to receive?

In general, the respondents to this survey seem to be reasonably content with their lot in life, with a number of respondents to this question commenting that there were no additional benefits they would like to receive from their employers. Of those respondents who did name a desired benefit in this question, the most popular responses were gym membership or an in-house gym; free or subsidised public transport tickets; and free or subsidised health insurance. This suggests that the most desired benefits are ones that assist in reducing an employee's cost of living.

One respondent commented that he or she "would like to see the employer NOT offer support for school fees for people with children (why should they be paid more just because they CHOSE to have children?)." Other less common responses to this question include:

- Long service leave;
- Exam-passing bonus/benefits;
- Free showers;
- Cheese;
- Being able to accumulate frequent flyer points when travelling for business reasons;
- Days off in lieu after working long hours; and
- Free exam passes.

(Un)Fortunately, I suspect that the final suggested benefit is not going to be offered by any actuarial employers any time soon. ▲

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20 – 22 NOVEMBER 2011 • SOFITEL BRISBANE

ACCIDENT COMPENSATION SEMINAR

CHANGING TIMES – CONTINUING NEEDS

The Institute of Actuaries of Australia will hold the 2011 Accident Compensation Seminar at Sofitel Brisbane on **Sunday 20 – Tuesday 22 November 2011.** The theme of the seminar is 'Changing Times – Continuing Needs'. The Seminar is a pre-eminent industry event for practitioners and leaders in accident compensation schemes in Australia and New Zealand. This year the Seminar will have a diverse program covering a wide range of topics including NIIS, NDIS, Claim Trends and Emerging Issues, Claims Management Strategies, Scheme Governance and Monitoring, Scheme Design Factors, Outcome Measurement and Injury Management.

www.actuaries.asn.au/ACS2011

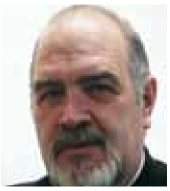
Institute of Actuaries of Australia

Plenary Sessions

A major theme of the conference is the 'changing times'. In this light, Monday morning commences with a double plenary session devoted to canvassing various perspectives on the National Injury Insurance Scheme (NIIS). The NIIS was proposed in the recent Productivity Commission Inquiry Report into Disability Care and Support as a scheme which would cover the lifetime care and support needs of people who acquire a catastrophic injury from an accident.

The NIIS was proposed alongside a larger National Disability Insurance Scheme (NDIS) which would provide insurance cover for the long term care and support needs of all Australians in the event of a significant disability. While smaller in size than the NDIS, the NIIS would have a more direct impact on the existing accident compensation schemes across Australia.

Julie Evans – Manager of Actuarial Services at WorkSafe Victoria will begin by summarising the recommendations from the Productivity Commission report which will set the scene for a robust dialogue between various affected stakeholders. Julie joined WorkSafe Victoria in 2008. Prior to joining WorkSafe she spent 15 years working as an actuarial consultant, including numerous stints abroad. Having always been fascinated by the dynamics of accident compensation schemes, Julie's current role provides ample opportunity to work closely with the business to help develop practical responses to operational challenges.



David Bowen – Executive Director for the Lifetime Care and Support Authority (LTCSA) of NSW, was also a member of the expert panel advising the Productivity Commission during their recent review. David can provide a unique perspective on lessons learned in the establishment of the LTCSA, particularly with respect to interactions with the underlying NSW non-catastrophic bodily injury CTP scheme. Prior to establishing LTCSA in 2006 David was the General Manager of the Motor Accidents Authority from 1998 until 2009.

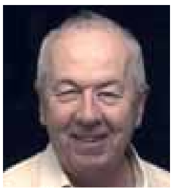
He is qualified as a barrister with expertise in administrative law, insurance law and compensation systems. He has most recently been heavily involved in the development of the national disability insurance proposals, serving on the Independent Panel established to provide advice to the Productivity Commission and the Commonwealth Government. David is also a member of the Boards of CareFlight, the Asbestos Injury Compensation Fund, and the Sargood Centre.

Liz Cairns – Manager of the National Serious Injury Service at the Accident Compensation Corporation (ACC) New Zealand also has a wealth of experience in understanding catastrophic injuries. Liz has a social work background and 22 years experience in the health and disability sector. She started working for ACC in 1992 in a variety of roles dealing with rehabilitation and injury management. She had a three-year stint as Manager of the MidCentral District Health Board Needs Assessment and Service Co-ordination agency before returning to ACC in 2004. Liz was appointed Manager of the National Serious Injury Service in July 2007, and the service was established nationally in March 2008. In 2010 she visited the world's leading injury rehabilitation facilities in Scandinavia and the United States courtesy of the Personal Injury Education Foundation's study tour prize for Outstanding Contribution by an Individual in the Injury Management Sector.

Neil Singleton – Insurance Commissioner for the Motor Accident Insurance Commission (MAIC) can provide a perspective from the Queensland CTP scheme. What are the implications for MAIC? The additional funding required for the NIIS would come from existing insurance premium income sources, but how will this work in practice? How will the NIIS engage with the existing state based compensation schemes? And how will insurance providers be affected? Neil is responsible for regulation and strategic leadership of the Queensland Compulsory Third Party scheme in accordance with the Motor Accident Insurance Act 1994. As Insurance Commissioner, he is also responsible for management of the Queensland Government Insurance Fund and general advice to Government on all insurance matters.

Neil comes to Treasury with over 30 years insurance experience across a broad range of management and executive roles with particular emphasis on personal injury insurance.

Matthew Kayrooz – NSW CTP Manager at Suncorp Insurance will be able to present an insurer's perspective. Matthew has worked in the insurance industry for over 30 years, with senior management experience across product and claims management, customer service and dispute resolution. Matthew has worked for several insurance companies and has been with Suncorp for more than six years. Matthew has over 15 years experience working in various roles in compensation insurance, in particular Compulsory Third Party (CTP) insurance. He is also currently a Board member of TAD NSW, and a member of the Sydney Leadership Team for Youngcare.



Richard Madden – Professor of Health Statistics at the University of Sydney is concerned that there are coverage gaps between the NDIS and NIIS, and that the Productivity Commission proposals fall short of what is required, both in scope and speed of implementation.

Richard has been at the University since January 2006. Prior to that, he was Director of the Australian Institute of Health and Welfare for 10 years. From 1992 to 1995, he was Deputy Australian Statistician. He has had wide experience across the Australian health and community services sectors, including as Deputy Secretary of the NSW Health Department and as head of the Disability Programs Division in the then Commonwealth Department of Health and Community Services. He was also Head of the Treasuries of the Northern Territory (1983-86) and the Australian Capital Territory (1989-92). Richard is Chair of the House with No Steps, a major non-government provider of disability services in NSW and Queensland, and is a Board member of the Royal Rehabilitation Centre Sydney. He has had a continuing interest in injury compensation reform since working for the Woodhouse Committee in 1973-74.

In 2002, he was Australian Actuary of the Year, and has been awarded the Public Service Medal in 2003 and an Honorary Doctor of Science degree from the University of Sydney in 2005.

John Della Bosca – Campaign Director for the NDIS, understands the political landscape as well as the needs of people with disability and catastrophic injury and the needs of their families and carers. He believes that Australia's approach to disability services is crisis-driven and welfare-based and that a National Disability Insurance Scheme (NDIS) will change this by providing funding for essential care, support, therapy, aids, equipment, home modifications and access to the community, education and training.

John joined the Australian Labor Party in 1973 and held numerous executive roles including, 15 years on Labor's National Executive and 11 years as NSW General Secretary. During 11 years in the NSW Legislative Council as Deputy Leader and Leader of the Government, John was responsible for all major human services and statutory insurance portfolios, as well as the Finance and Commerce ministries. John initiated a number of important reforms including the Stronger Together initiative in Disability Services. He resigned from Parliamentary Service in August 2010 and joined the NDIS campaign.

David Nathan – CEO of Avant Insurance, is able to present from the perspective of a provider of medical indemnity insurance. What are the issues, and how should they be addressed? David started his legal career in Melbourne in 1983 defending motor vehicle personal injury claims before acting for professional indemnity insurers and then developing a mixed practice in product liability litigation for pharmaceutical companies and commercial dispute work. He moved to Sydney in 2000 to become National Managing Partner of Baker & McKenzie. In 2006 David joined the medical indemnity industry as CEO of United Medical Protection that merged in 2007 with the Medical Defence Association of Victoria to become Avant. He is a graduate in Law and Science (Pharmacology) from Monash University.

David Butler – The theme of the conference also recognises the 'continuing needs' of injured people within the various accident compensation and medical indemnity schemes across Australia. In the final plenary session on Tuesday afternoon we will hear from David Butler, Director of the Neuro Orthopaedic Institute and author of numerous articles on the nervous system and pain. David will address issues of chronic pain and claimant behaviour and will present his perspective on important aspects of injury management of these typically high cost claims.

David is a physiotherapist, an international freelance educator and a senior lecturer at the University of South Australia. He is also a director of the Neuro Orthopaedic Institute. His professional interests focus around the integration of brain sciences into clinical decision making and public and professional education in pain, stress and performance management. He is the author of numerous book chapters and articles and the texts 'Mobilisation of the Nervous System' (1991), 'The Sensitive Nervous System' (2000) and a co-author of 'Explain Pain' (2003).

Ian Cameron – Professor of Rehabilitation Medicine at the University of Sydney will continue the discussion by providing his initial observations from the first (baseline) phase of his study of health outcomes of injured people. Ian is Head of the Rehabilitation Studies Unit, Faculty of Medicine at the University of Sydney and has the Chair in Rehabilitation Medicine at the University of Sydney. He is conducting a number of studies investigating recovery after motor vehicle crashes.

Lorraine Mackin – Executive Director at Ernst & Young will discuss models of care, spanning from the time of accident to the time that the injured person returns to the community. Fragmented care models with limited governance can result in poor patient outcomes and higher costs. Lorraine will define an end-to-end model of care framework and describe how current models can be improved, particularly with reference to international best practice. Lorraine will present alongside David Bowen who will describe how this work has been used to improve the delivery of services for the catastrophically injured within the Lifetime Care and Support Authority (LTCSA). In 1993 Lorraine was closely involved in establishing the Disability Living Allowance and Carers Service for the UK Government where she was brought in to streamline and improve claims management. She has maintained that focus on health, disability and human services ever since, helping a range of clients improve their service delivery models and models of care. She moved to Australia in 2010 and has since helped the LTCSA to review models of care for people with Spinal Cord and Acquired Brain Injury with a focus on improving early intervention and the continuum of care, reducing lifetime care costs and improving outcomes for participants. Lorraine is currently providing pro bono support to Spinal Cord Injury Australia to develop a spinal cord injury strategy.

Concurrent Sessions

There are a great variety of concurrent sessions available, catering to a wide range of interests. Claim trends and associated emerging issues are a major theme that will be examined through a variety of lenses, including UK motor bodily injury claims. We will be looking at what can we learn from the UK experience that can be applied in the Australian market. Another topical area is trends in workers compensation claims and what happens to claims during natural hazard events. It will be interesting to see whether the recent data that has emerged supports longer term hypotheses.

Claim management strategies have a key impact on the bottom line and a number of the concurrent sessions cover different perspectives on this issue. TAC provides a useful case study while we are also invited to hang onto our common sense in a session titled 'Never Entirely Outsource your Brain'.

Scheme design and scheme governance are both critical factors in maintaining effective and sustainable schemes. We will consider issues such as incentives mechanisms and funding mix. There will also be sessions on dynamic risk modeling, moral hazard, superimposed inflation and New Zealand experience.

Finally, injury management is critical to obtaining good outcomes for those affected, as well as building sustainable schemes. Sessions will be looking at what return-to-work really means, and how we can describe effective injury management.

The real issue will be choosing which sessions to attend in person, and which to catch later by webcast.

Networking

Delegates are also invited to attend two networking dinners – the perfect opportunity to catch up with colleagues and meet new friends. On Sunday 20 November the Seminar will kick off with a casual Welcome Dinner at the Sofitel Brisbane.

The Ernst & Young Gala Dinner will be held on Monday 21 November at Victoria Park, the evening will be fun filled and delegates are encouraged to dress with a touch of sparkle. We look forward to seeing you! ▲

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Topic Snapshot – *Subject to change*

Scheme Updates

- Workers Compensation Scheme Updates
- CTP Scheme Updates

NIIS and NDIS

- The Long, Long Tail
- Implementation Considerations Related to the National Injury Insurance Scheme
- Costs Risks in the Proposed National Injury Insurance Scheme (NIIS)
- Treat Disability Related to Injury the Same as Other Disabilities: Abolishing Fault Based Compensation

Claim Trends and Emerging Issues

- Lengthened Workers' Compensation Tails – Implications for Self-Insurers
- The Magic Pudding: Motor Accidents in the UK
- Emerging Themes in Accident Compensation Schemes
- Repeat Workers' Compensation Claims: Risk Factors, Costs and Work Disability
- An Examination of Accident Compensation Claims During Natural Hazard Events
- Study on Long Term Continuance Rate

Claims Management Strategies

- Evaluation of the TAC Recovery and Independence Claims Management Initiatives
- TAC Claims Management Transformation
- Never Entirely Outsource Your Brain
- What is Working in Managing High Cost Claims: A Strategic Approach, Results, Data Design, Decision Guides and Individual Claims Estimates
- ACC – The Winds of Change

Scheme Governance and Monitoring

- Superimposed Inflation – An Elusive Concept
- Scheme Governance and Financial Management
- Dynamic Risk Modelling – A Case Study
- Retrospective Reinsurance - Unlocking Value in the Balance Sheet

Scheme Design Factors

- How System Design Impacts the Funding Mix for People Injured in Accidents
- New Zealand Accident Compensation – What's Happening?
- Moral Hazard and Workers' Compensation: Time for a Rethink?
- Does Compensation Lead to Worse Health or Does Worse Health Lead to Compensation? Why Both Possibilities Should Be Considered
- The Role of Incentive Mechanisms in Accident Compensation Schemes
- Empirical Evidence of Ex Post Moral Hazard in the Australian Market for Comprehensive Automobile Insurance
- The Potential to Use Insurance and Other Markets to Reduce Road Trauma

Outcome Measurement and Injury Management

- What Does Return To Work Really Mean: Looking Through A New Lens
- Effective Injury Management
- Information-based Interventions for Injury Recovery: A Review
- Four Outcome Measures of Return to Work After Compensation for Work-Related Injury or Disease: Insights from WorkSafe Victoria Claims Record
- Burden of Injury in Australia: Identification of Sources of Injury Outcomes Data

The 46th Actuarial Research Conference

Connecticut, USA

Or: how I learned to stop worrying and love networking…


Image courtesy of University of Connecticut

I was recently fortunate enough to attend the 46th Actuarial Research Conference that ran from 11 to 13 August at the University of Connecticut in the United States. The conference is held annually and brings together the actuarial academic and practitioner community from North America and elsewhere to share the latest in research developments and educational innovation. At this conference, I presented a paper on actuarial education prepared by Brian Chu, John Shepherd and myself.

Whilst jet setting to present research and meet actuaries from all over the world might sound like a great junket experience, teaching commitments at the Australian National University meant I was limited to less than 96 hours on the ground in the U.S., which seemed a little thin based on the 7 flights and 60 hours travel time to get there and back….not to mention the horror of clearing security at U.S. airports. Luckily, the conference was hugely rewarding from both a professional and personal perspective.

What made the conference a success?

Rather than provide a summary of the conference, I thought I'd briefly discuss the elements of what made the conference a success.

Variety of academics and practitioners

This conference succeeded far better than most that I have been to in bringing academics and practitioners together. The integration of research and practice is vital for our (and any other) profession, so any event that succeeds in this goal is to be commended.

Presentations accessible to the majority of participants

The variety of backgrounds of the delegates meant a great variety of presentations. The best presentations came from a variety of topics, but had one thing in common – they demonstrated why the research was vital to our profession and to society.

I am constantly amazed at the amount of technical material that comes under the banner of actuarial research that I am completely unfamiliar with – the best presentations are those that demonstrate the importance of the research whilst keeping the technical material to a level that can be followed by the majority of the audience and then investigated to a greater depth at a later time by those who are interested.

Collegial atmosphere

Not being the most confident networker, I was a little nervous about being so far away from home, but I was made to feel very welcome by everyone I met at the conference. A bit of 'good ol' American friendliness and hospitality does wonders for the atmosphere of a conference.

Staying on site

There is a lot to be said for having most of the delegates working, eating and sleeping in the one place for the entirety of a conference. The most memorable parts of the conference for me were chatting about teaching practice or microbreweries of the U.S. at the hotel bar after dinner with people I'd met only two days earlier.

The ulterior motive

So why write to *Actuary Australia* about a conference in North America? Well… since 2008 we have held an equivalent symposium in Australasia, which is to be held at the Australian National University in Canberra in 2011 (see below). I'd like to encourage as many of you as possible to attend this year, particularly practitioners, to make the Australasian conference a similar success to that in North America. ▲

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2011 Australasian Actuarial Education and Research Symposium – Invitation

The Australian National University is hosting the 2011 Australasian Actuarial Education and Research Symposium on Thursday 1 and Friday 2 December 2011. In addition to sessions where academics, students and practitioners can present their research, a panel session on education with invited participants will be held during the symposium.

Registration is FREE, with a deadline of 14 November 2011. Further information, including a registration form, can be found at **cbe.anu.edu.au/schools/fas/aaers.asp.**

Actuary...to Medical Officer!

Even though most actuaries follow a traditional career, many use their skills in broader areas of business and do not necessarily work in roles which would be typically known as actuarial. There are also a small group of actuaries who move into careers that are completely unrelated to anything of an actuarial nature. This is the first in a series of articles where we talk to actuaries or ex-actuaries who fit into these latter two groups.

Introducing Katelyn Priester

Katelyn is a resident medical officer based in Albury on the New South Wales / Victoria border. Prior to undertaking her medical degree, Katelyn completed a four year actuarial studies degree including an honours year and then worked at Ernst & Young in Sydney. During her time at EY, she worked in the General and Health Insurance practice areas.

Why the Change?

Throughout high school, Katelyn always thought she wanted to have a career in medicine. She can't really recall when she gave up on it, but by the time the HSC came round and was completed, medicine didn't seem to be an option. She loved maths and liked economics, so her economics teacher suggested actuarial studies. The program at Macquarie University was stimulating and enjoyable and Katelyn chose to do an honours year research project. Even though she had a fantastic job at EY with (mostly) interesting work, Katelyn couldn't shake the feeling that she would regret it if she didn't give medicine a shot and within six months of joining EY, Katelyn started thinking about changing her career.

Making a Move

Taking advice from some great mentors, the scene was set for a change to medicine after working as an actuarial analyst for just 12 months. But this was not before Katelyn had completed her first Part III subject (General Insurance). I asked whether there was a specific catalyst for the move, but there wasn't – just a long lasting desire that wasn't going away. Katelyn adds that the move to medicine wasn't easy and she often wondered whether she had made the right decision. So with this uncertainty as an influence, Katelyn completed her actuarial qualifications in her second year as a medical student.

Her Current Role

Katelyn works as a resident medical officer and is based at a public hospital in Albury. While most of us might be familiar with the requirement that interns rotate through medical areas within hospitals, this is also the case for resident doctors. At this stage in her career, rotations are 10 weeks long and at the moment Katelyn is commencing a rotation in paediatrics which will be followed by a rotation in intensive care. Being based in a rural hospital means that she also needs to undertake some rotations in Sydney and thus spends, at this point, around 40% of the year away from Albury. Although it is early days she has interest in intensive care and anaesthetics as potential future specialist areas.

The work environment is certainly very different. No longer does she reside in a quiet and structured office where everyone has their own space and regular work hours. Now it is night and evening shifts and weekends on call and although the choice of a rural hospital was her own, the time spent between Sydney and Albury is also a challenge. Apart from missing the ability to remain in one place for more than a few months at a time, Katelyn misses her Sydney friends and colleagues along with the civility of an office work place. Although medicine is mentally challenging, she sometimes misses the unique type of intellectual challenge offered by actuarial practices.

While the shift work is challenging, it has advantages. One of the more practical aspects is that when you are not rostered on during the day, you can attend to those personal house keeping tasks that most of us struggle to get done otherwise.

Medicine Versus Actuarial

Medicine is different every day. It is difficult and it is challenging and it makes a very real difference in people's lives. It is also constantly changing, so Katelyn sees there is little possibility of ever becoming bored (she adds with fingers crossed). When queried about whether she would be able to use any of the skills gained during her actuarial studies to assist her in her medical career, Katelyn hesitates. At some point in her career she would be very interested in being involved in clinical trials and associated research. This is an area where her past skills could be utilised but there seems little other opportunities to use actuarial skills in medicine.

Katelyn has no regrets about heading down the actuarial path before finally ending up in medicine. However she does note that she may have preferred to arrive where she is via a shorter route. Perhaps this goes back to that original advice from her teacher all those years ago. Regardless of her choices, Katelyn is proud to have obtained her actuarial qualification, but is quite certain that she will never return to a job where actuarial fellowship is required. Katelyn stated that for a lot of people, an actuarial career is a great job and she has many friends who are very happy as actuaries. There is a lot going for it so of course she would recommend it as a great career. But for Katelyn medicine was the right choice. I put to Katelyn that actuaries may be so wrapped up in numbers that the human side of what we do and the consequences of our recommendations to individuals could get glossed over or forgotten about. So therefore I wondered how much of her decision to move to a medical career related to the people side of the career versus the intellectual challenge.

While she admits to being a people-person Katelyn was quick to ensure that I wasn't making her out to be a future Nobel Peace Prize winning humanitarian. Really, she said, it is probably the same sort of person who is attracted to a medical career as is attracted to actuarial – both are problem solvers and have strong analytical skills.

In the actuarial world it is all about how to solve a problem and "what is the best practical solution?" Implementation of the solution follows, but it is often secondary to the process of coming up with the solution. In medicine, the solution may not be obvious and could certainly be more difficult to implement with a considerable degree of uncertainty. Interestingly Katelyn said that sometimes as a junior medical officer you don't always feel like a part of the solution.

Maybe Just One Regret...

Katelyn had mentioned to me that she was not technically an actuary anymore, and that it is something she was disappointed about. Katelyn had kept up her membership as a non-practising member, and did enjoy occasionally reading articles in the magazine and journal and keeping herself broadly apace / aware of the actuarial world. She has also occasionally helped out at Macquarie University marking papers for the actuarial studies department.

Earlier this year however, with the change in fee structure, she was given a choice to pay the full Fellow fee (the same as everyone who is working in the field, including people doing statutory work), or to resign from the Institute. She would have loved to have taken a middle road (e.g. that of a non-practising member), but this was no longer an option. In her new career, there was zero benefit from being a member so she would have been, in her words, crazy to pay full fees. As a result and after much deliberation, Katelyn resigned as a member of the Institute. It wasn't an easy decision and she was disappointed that the Institute was not able to be more flexible. She imagines that this could apply to lots of people in 'wider fields' jobs, and that the Institute / actuarial community are potentially losing out on what they would be able to offer.

In Summary

Although Katelyn expressed regret about feeling slightly rejected by the Institute, she remains upbeat about the profession. There is no doubt that she is proud of her achievement in qualifying but also very proud of her career in medicine.

The stethoscope Katelyn wears in the photo was purchased after she left EY using a gift voucher which was part of her leaving gift. That stethoscope has taken her through Uni, internship and she still uses it today. Therefore, in the chaos of her day to day job, there is always a reminder of her actuarial beginnings. ▲

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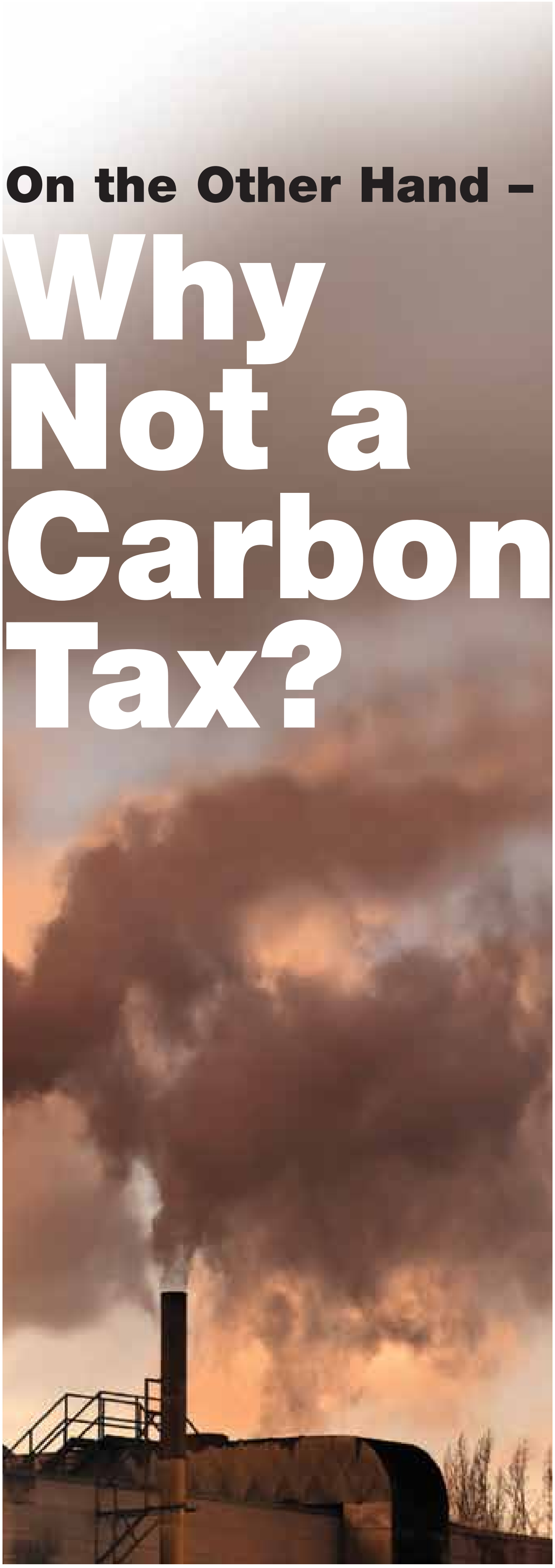


On the Other Hand – Why Not a Carbon Tax?

I have been asked to resurrect my *On the Other Hand* series to cover the controversial issue of carbon taxes. I must confess that the carbon tax is an issue of which I have had, at least until now, no interest in whatsoever. Once I got to the carbon section of the Institute daily news feeds I quickly hit the delete button.

I've always believed in climate change, that it is largely man-made and that carbon is a big part of the problem. As the son of a scientist, it was hard for me to think otherwise. My issue was always – So what! I guess we need to think about future generations – my children, children's children and… well how far do you go? After all, at some point the sun is going to explode and engulf the whole planet so my very distant descendants are in for a rather worse time of it than what scientists say we are in for over the next century if climate change continues at the current rate. But I digress.

The first stumbling block of the argument is that we should try to do anything about it in the first place. Once this has been agreed upon, then how best to do it. Seems that this carbon tax thing is how the current Australian government has seen fit to do it.

Why are actuaries interested in it? Lots of risk management issues, projecting uncertain financial impacts of the future and lots of juicy number crunching, I guess. Anyway, if you're anything like me and have taken a bit of a head-in-the-sand approach to the Carbon Tax, here's an overview of what it's all about.

What is a Carbon Tax?

A carbon tax is a tax on energy sources which emit carbon dioxide. It is a pollution tax, which some economists favour because they tax a 'bad' rather than a 'good' (such as income). Carbon taxes address a negative externality. Externalities arise when an individual production or consumption activity imposes costs or benefits on others.

By placing a cost on these negative externalities the underlying purpose of a carbon tax is to reduce emissions of carbon dioxide and thereby slow global warming. It can be implemented by taxing the burning of fossil fuels – coal, petroleum products such as petrol and aviation fuel, and natural gas - in proportion to their carbon content.

I was recently amazed to find out that carbon taxes have actually been around for over twenty years. The first carbon tax was imposed in Finland in 1990, with a small tax on fuels (except for biofuels). Norway, Sweden, and Denmark followed, implementing carbon taxes in 1991 and 1992. Germany implemented an 'ecological tax' on heating fuel, petrol, natural gas and electricity in 1999.

In 2001, Japan introduced a tax on high-polluting vehicles while reducing the tax on low-pollution vehicles to encourage the development and purchase of greener vehicles. Japan also restructured its energy taxes to reflect the environmental impact of carbon dioxide emissions, including a new tax on coal.

The United Kingdom implemented a 'climate change levy' in 2001 that adds about 15% per cent to the cost of electricity. The revenues are recycled by reducing the National Insurance contributions of those who pay the levy. Part of the revenue is also used to assist businesses adopt energy efficiency measures.

So, I'd better get down to the pros and cons of the Carbon Tax. My assumption is that climate change is real, is largely man-made and is due to too much carbon, and we need to do something about it. The best alternative to a carbon tax (other than do nothing), is usually cited to be a market-based emissions trading scheme.

A perfect and long overdue solution to the problem of climate change...

A carbon tax is clearly the best method to use to fight climate change, as evidenced by all those other countries that have successfully implemented it over the years.

It basically encourages companies and consumers to develop more efficient processes or to use alternative solutions. In addition to reducing the amount of carbon-dioxide in the atmosphere, this also has a number of knock-on effects - it might encourage more people to cycle or walk to work and thus would have health benefits such as lower risk of heart attack (and so medical costs are lower).

This could make it more feasible to generate electricity from green sources (e.g. solar power). If we develop more green sources it will also make us less reliant on oil (which I reckon won't be around by the next century).

From an economics point of view, it leads to a socially efficient outcome as it makes people pay the social cost.

Carbon taxes put a limit on the costs of emissions reduction and can be implemented very quickly (once our political leaders agree on it). Also, the costs are predictable. Relatively stable price signals can help business and consumers plan energy spending and provide greater certainty for investments in energy efficiency that have large initial costs.

Carbon taxes are a permanent incentive to reduce emissions. The price of pollutants does not change, as with the operation of a market-based emission trading system. They are not susceptible to 'strategic behaviour' by firms and non-government organisations that could distort any market for trading emissions – such as purchasing a large number of permits and reselling them later at a profit. They are economically efficient in that they are transparent, simple and can have a wide coverage. They can be implemented across a wide variety of economies and therefore are a suitable instrument for coordinated international action on reducing greenhouse gas emissions.

They are a revenue source. They could result in other taxes being reduced, or the proceeds of the carbon tax could be redirected to those most affected to ensure that the introduction of a carbon tax remains revenue neutral.

Carbon taxes are an excellent idea, we should go ahead with them as soon as possible!

Totally the wrong way to go about solving climate change...

Carbon taxes as a means of controlling greenhouse gas emissions is a very bad idea. Any new tax is very costly to administer – not least this one with the added complexities of the subsidies to certain business and consumers. Also, as with any tax, there is the possibility of tax evasion – higher taxes may encourage firms to hide carbon emissions.

The level at which the tax is set to produce the best outcomes cannot be known in advance. Thus the tax may have to go through several changes before having the desired effect. In other words, it is difficult to know the level of external cost and how much the tax should be. This makes it politically vulnerable and it would take so long to get through that it'll be too late for any reduction in carbon to have any benefit.

Consumers dislike new taxes and often don't believe that they will be 'revenue neutral'. This is not an economic argument, but it is a political reality and explains why it is often difficult to implement.

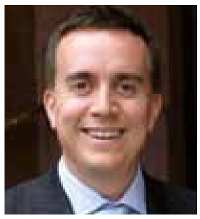
Where such taxes have been implemented in other countries, lobby groups have been successful in gaining exemptions for highly affected industries. This reduces the effectiveness of these taxes.

Carbon taxes are potentially regressive, with the impact of a flat carbon tax potentially highest on the lowest income households. This effect is offset by the higher consumption by wealthier households, i.e. as they consume relatively more energy than low income households, they may be paying a higher rate of tax.

It is likely that a carbon tax that is successful in reducing emissions will be set at far too high a level to be politically sustainable. This is because the activities on which the tax must be levied to reduce emissions (such as emissions from coal-fired power generation) may be linked to goods and services that the consumer simply will not do without (such as electricity).

Indeed, there are no guarantees that emissions will decline if consumption of the goods and services that produce carbon emissions remains unresponsive to price increases. Activities that are particularly vulnerable to it may relocate to a jurisdiction that does not have such imposts, i.e. production will shift to countries with no carbon taxes.

Carbon taxes are a bad idea and should not be implemented! ▲



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Footnote: My thanks to the Australian government website for providing me with the background on this issue – enabling me to get up to speed quickly.

Please note that the views expressed in this article are the author's own and do not represent the views of the profession or the author's employer. Indeed, in many cases the views are not those of the author either. The author is merely attempting to flesh out the issues in a way to generate discussion within the profession.

Boulderdash (AA162 Solution)

The solution to the letter drop puzzle given in AA162 is: WHAT IS THE NAME OF THE LEAD ACTOR IN THE MOVIE SCHOOL OF ROCK?

33 correct answers were submitted. The winner of this month's prize, selected randomly from among the correct entries, was **Andrew Teh**, who will receive a $50 book voucher.

The Logical Graveyard

"It looks like a graveyard," said Katherine, "but who are the people buried here?"

"They are the people who came before you, in search of King Solomon's Mines, and failed," said a voice. Allan and Katherine spun around to find themselves face to face with the keeper of the graveyard.

"Can you tell us something about them?" asked Allan.

"There were five of them. Each carried a different weapon and each died in a different manner, in a different year."

"But who died when and how, and what weapon were they carrying?"

"Let's see if you can figure that out for yourself," said the graveyard keeper. "I'll give you some clues, of course."

Clues:

1. The adventurer who carried a blunderbuss was Henry Curtis.
2. Either the person who was trampled by elephants or the person who was crushed by a giant snake took a knife on their quest.
3. The adventurer who carried a laser gun died before the person who was mauled by a lion.
4. The person who was flattened by a boulder never owned a laser gun.
5. Jesse Huston died before the person who was mauled by a lion.
6. Of Karen Ross and Jesse Huston, one died in 1995 and the other was eaten by cannibals.
7. The person who died in 1985 was not eaten by cannibals.
8. Elizabeth Maitland died before the adventurer who brought along a whip.
9. The person who was crushed by a snake did not carry a knife or a sword.
10. The person who died in 1937 was trampled by elephants.
11. The five people were: the person who was mauled by a lion; the adventurer who brought along a whip; the person who died in 2004; Flynn Carsen; and the person who was trampled by elephants.

For your chance to win a $50 book voucher, determine the name, weapon, and means and year of death of each of the people in the graveyard and email your solution to: inthemargin@actuaries.asn.au. ▲

		Means of Death					Year					Weapon				
		Boulder	Cannibals	Elephants	Lion	Snake	1937	1950	1985	1995	2004	Blunderbuss	Knife	Laser Gun	Sword	Whip
Name	Elizabeth Maitland															
	Flynn Carsen															
	Henry Curtis															
	Jesse Huston															
	Karen Ross															
Weapon	Blunderbuss															
	Knife															
	Laser Gun															
	Sword															
	Whip															
Year	1937															
	1950															
	1985															
	1995															
	2004															

Linked to the mob...

I have been accused of being somewhat old-fashioned with my emphasis on face-to-face communication so today I would like to attempt to join the 21st century. It has been proposed that LinkedIn represents a 'professional' social networking site and so it may be worthwhile discussing some aspects of this communication medium. Let me state at the outset that I am a user but not an expert and so I would welcome correspondence which adds to my understanding – and that of the other readers. Similarly, the purpose of this column is not to promote membership of LinkedIn but to promote understanding of its potential use. (So you can stop reading now if you are not at all interested in LinkedIn.)

Let's start with a fundamental question: why bother joining LinkedIn? I think that there are several benefits, essentially related to the theme of facilitating communication with other people:

- It can help to build a virtual, electronic network that allows you to reconnect with past business colleagues and/or follow their career path.
- It can provide some useful information about another person that you may not be that familiar with. Depending upon the level of detail in their profile, for example, you may be able to learn about their previous roles, organisations and education.
- It may also be interesting to understand who else they know, by reviewing their connections. This is not just to expand your direct network. It may be valuable, for example, to know what competitors your client is connected with.
- There is an option to join specific groups which may help you connect with special communities that share views and expertise.

With those benefits in mind, here are some tips that may be useful:

1. Be clear on your own purpose for joining. If your purpose is clear it should be easy to answer common questions like: Should I invite friends as well as business colleagues? What groups should I join? How frequently should I visit the site?

2. Construct and maintain your profile carefully. Depending on your purpose, for example, it may (or may not) be helpful to include a photo. Think about how much detail you would like to provide about your work history, given that your profile may be used by recruiters, employers and clients. I would be particularly wary about quoting your full date of birth – unless you are confident that it will evoke birthday presents every year.

3. Even if you have a clear distinction between your use of this site and other networking sites, it would be important to ensure that your profiles are broadly consistent. You may inadvertently be confusing people if the message they obtain from your LinkedIn profile is vastly different to that evident from your CV, your Facebook or the reference to you on your company's website.

4. Again, depending on your purpose, it may be worthwhile cultivating some references. I don't have personal experience here, but I know that some people have benefited from personal testimonials being included on their profile.

5. If you are using LinkedIn as a communication tool, think about at what point you forgo the 'message' option and use a telephone or traditional email with one of your contacts.

It is clear that LinkedIn is not for everyone. Here are some concerns that you might like to consider before you join the network:

- It takes time and, especially if you lack discipline with your use of time, it may be too great a distraction.
- If you already feel overloaded with information then this will only add to your burden.
- If you already feel that there are too many people in your mobile phone or personal organiser then you probably don't want to add even more names to keep track of.
- Not everyone enjoys being tracked down by past business colleagues. If you are not good at saying no to invitations you might think twice about being open to contacts from 'old friends'.
- If you are by nature a closed, confidential type then you may be uncomfortable with the sharing that others may expect from you. You may also be unhappy with the potential for less scrupulous types to misuse your information.

It takes more than maths to use social networking effectively – even allegedly professional sites such as LinkedIn. I would welcome other thoughts, tips and experiences. ▲

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This is the second of two articles. In the first article, published in the September edition of *Actuary Australia*, my investigation into the breakdown of the reported cost of obesity **($58.2 billion)** revealed that the biggest part was the non-financial cost of the 'personal impact of the loss of wellbeing/quality of life' **($49.9 billion)**. An investigation into the 'cost of smoking to society' (**$31.5 billion)** in Health Minister Nicola Roxon's media release on 'plain packaging' proposals found that the biggest part was the 'psychological costs of premature death' **($19.5 billion)**. In each case, the driver of such non-financial costs was the 'value of a statistical life' (**$6.35 million** for the obesity report and **$2.75 million** for the smoking report in 2008 dollars). This article provides some background to this concept, and considers the arguments for its use in terms of justifying regulatory action, and how results from its use are presented in media reports.

Value of a statistical life (VSL)

In 1987, the US government decided to lift the countrywide speed limit of 55 miles an hour (introduced during the 1970's Oil crisis) to 65 miles an hour on certain roads. Over the next few years, statistics were gathered which showed that, on average, people drove 2 miles an hour faster on these roads than they did when the speed limit was 55 mph. Based on average salaries, researchers Ashenfelter and Greenstone were reported by Princeton University in 2002 to have estimated how much that time was worth to society. Their analysis also showed that, taking into account an overall trend towards fewer traffic fatalities, the number of highway deaths increased by as much as 35 percent on roads with the increased speed limit. The researchers then simply divided the dollars saved by the number of lives lost and arrived at the figure of $1.54 million per life, say **$2 million** today.

This is an example of 'revealed preference' analysis for the 'willingness to pay' (WTP) method generally favoured by economists for determining the 'value of a statistical life'.

Some History

The determination of the 'value of a statistical life' using WTP methodology was developed in the 1960's and 1970's in the US, with a paper by Kip Viscusi, an undergraduate of Harvard University, winning a prize. (The rather cold expression 'statistical life' was used in an attempt to avoid the inevitable controversy over placing a monetary value on a human life). Such a concept was needed to justify the spending of money on improving safety – particularly in transport and workplaces. Since that time, there have been many such studies. Many of these are 'wage/risk' studies, which focus on wage differentials between workers with different risks of death according to location or employer. A simplified example is as follows:

The wages of blue collar workers at two plants are compared. One pays an average of $2,000 per year higher than the other. However, records show that the former also has an average of 1 death per 1000 workers per year more than the latter.

Economists would suggest that this indicates that the lower paid workers have effectively shown a 'willingness to pay' $2,000 a year for the one chance in a 1000 lesser risk of death. This means that they have valued their lives at $2,000/(1/1000) = ***$2 million*** *each.*

Of course, an exercise of this nature is never this simple. Extensive study and analysis of the data is required to adjust for the many other reasons that will exist for workers choosing to work at one plant or another.

Value of a Statistical Life Year (VSLY)

This is described as the value of one year of life, usually calculated by dividing the VSL by the average expectation of life of the whole population, (around 40 years), and sometimes adjusted for discounting.

Use in USA

Public focus on the use of the 'value of a life' is generally by government agencies and departments. According to a report in the New York Times, the Environmental Protection Agency (EPA) used a value of **$9.1 million** in proposing tighter restrictions on air pollution. The Food and Drug Administration (FDA) declared a life was worth **$7.9 million** last year (up from **$5 million** in 2008) in proposing warning labels on cigarette packages featuring images of cancer victims. The Transportation Department used **$6.1 million** to justify regulations requiring stronger roofs on cars. As may be expected, industry representatives called upon to incur greater costs from regulatory changes object to the numbers.

Public controversy also goes the other way: media reports that a 'value of a life' was reduced by the EPA a few years ago caused a public outcry.

Use in Australia

No such media coverage here! I have never seen reference to the 'value of a life' or the 'value of a statistical life' in the Australian media and neither have any of the people I have asked (admittedly a small sample). Despite actuaries' general interest in 'lives', there appears to be no reference in local actuarial literature either.

In practice, government departments and lobby groups involved in health and safety have used a range of values to justify arguments for regulation or other action. The Office of Best Practice Regulation (part of the federal Department of Finance and Deregulation [not a misprint!]) issued a Guidance Note in 2008. This noted that, ideally, the 'value of a statistical life' would be estimated for the particular regulation taking into account the types of risks addressed and people affected. However, it also noted that the US EPA considered this likely to be too costly to be undertaken for individual regulatory proposals.

The OBPR recommends departments and agencies use **$3.5 million** for the 'value of a statistical life' (in 2007 dollars). This was based on international research and practice. Evidently, whatever had been carried out in Australia was considered of minimal use. The **$6.35 million** adopted for the obesity report in 2008 (*The growing cost of obesity in 2008: three years on* by Access Economics for Diabetes Australia) was determined from the results of international studies ranging from **$3.7 million** to **$8.1 million** (in 2006 dollars). (Being written for Diabetes Australia it was not subject to the government guidelines).

The smoking report (*The costs of tobacco, alcohol and illicit drugs abuse to Australian society 2004/05* by David J Collins and Helen M Lapsley) was written in 2005, i.e. before the issue of the guidelines. Its **$2 million** in 1996 dollars was described as at the low end of a range of results in existing literature. A summary of the VSL's and VSLY's adopted in this article, adjusted for inflation to 2008, were:

	VSL	VSLY
Obesity Report	$6.35 million	$266,843
Smoking Report	$2.75 million	$73,275
Government Guidelines	$3.5 million	$151,000

Relevance

Most of the international studies to which all reports refer appear to be of the 'wage / risk' type. Accordingly, at best, they tend to focus only on workers. The results vary significantly and decisions for adoption for different purposes appear arbitrary.

Certainly, the obesity and smoking reports simply refer to the existence of a range of studies without suggesting that the numbers chosen are particularly relevant to their afflicted population. There must also be some doubts as to their relevance to Australians.

This paper makes no comment on the use of these studies for assessing workplace and transport safety measures. However, it is questionable whether they are really relevant to health measures. Unfortunately, where attempts have been made to assess 'willingness to pay' for health improvement or avoidance of disease, the studies appear to have been generally considered unsatisfactory for government use.

Obesity Report – Observations

1 Costs to Society

A previous 2005 report by Access Economics on obesity adopted a VSL of **$3.7 million** (at the 'low end' of international studies). No reason was given for the decision to move to 'an average' $6 million in the 2008 update report, (**$6.35 million** in 2008 dollars).

2 Relevance of International Studies

Most of the international studies relate only to workers and then largely focus on premature death. Obese people are a proportion of the whole population, i.e. including children and retirees, as well as many of working age who do not have jobs. Moreover, the focus of the report is mainly about the disability consequences of obesity, rather than premature death. The weaknesses of the valuation processes are acknowledged in the reports.

Some people are obese as a result of genetic disorders; others suffer forms of addiction to certain types of food. However, for many, their weight is a personal choice matter: they have the option to pursue well established diet and exercise remedies. Some may benefit from the disciplines of such remedies carried out at clinics. In addition, various slimming drugs are available through medical practitioners.

Some of these remedies could be funded by the government to a greater extent than currently. In addition, regulation of possible further restrictions on the sale and promotion of food deemed to be 'unhealthy' would involve substantial government and industry costs.

The issue is: is it reasonable for taxpayers and businesses to pay costs associated with such actions on the basis of possible alleviation of the very large costs related to a doubtful 'value of a statistical life'?

Smoking Report – Observations

1 Costs to Society

The methodology adopted by the authors is quite different from that for the obesity report. As they state, the definition of costs adopted was:

'The value of the net resources which in a given year are unavailable to the community for consumption or investment purposes as a result of the effects of past and present drug abuse, plus the intangible costs imposed by this abuse.'

This results in numbers which bear no relationship to the actual costs being incurred as a result of current smokers' indulgence, which are surely the target of the 'plain packaging' proposals. Accordingly, the use of the total **$31.5 billion** without explanation in Nicola Roxon's media release on 7 April announcing the proposals was inappropriate and highly misleading to the public (and the media, as there does not appear to be any comment on this issue). What makes this more disgraceful is that the authors had supplied budget impact numbers in the same report!

2 Relevance of International Studies

The VSL adopted for this report (**$2 million** in 1996 dollars) was described as at the low end of a range from existing literature. No reason was given for this choice, nor any comment provided as to why a more up to date survey was not used. (Indeed, the use of numbers from a 2005 report seems surprising as the basis for a 2011 initiative).

As with obesity, some smokers are addicts, but many would be able to take well known remedial actions. In addition (further) restrictions on promotion, sale and consumption of tobacco could be introduced. Again, the issue is: is it reasonable for taxpayers and businesses to pay costs associated with such action – including for taxpayers to pay possible compensation for loss of 'brand' – on the basis of the misleading costs?

Health Reform Unlimited?

Neither report pursues a cost/benefit analysis of possible remedial action. However, the use of the 'costs to society' number in media reporting suggests that it is this number that the government is focusing on in justifying the costs of any action to both government and business. It is not suggested that this is the aim of the obesity and smoking reports referred to in this article. However, given a single number for media reporting without qualification, I would expect most members of the public to attribute this to the impact on the federal and state budgets – or at least the impact on Australia's GDP.

The danger is the extent to which politicians and the media believe that these high and highly variable 'costs to society' numbers represent reasonable benchmarks for assessing Health Department expenditure on research and remedial action. Assuming the Government Guideline of **$151,000** for the 'value of a statistical life year' leads to a sum for the whole population of Australia of **$3.5 trillion dollars** – over two and a half times our annual GDP! Arguably this justifies almost unlimited health reform expenditure.

In practice, the ability to levy taxes limits the extent of actual government expenditure. Even so, the numbers may encourage unreasonable diversion to health reform from other government department budgets which have strong claims to meet needs – like those dealing with poverty, education and infrastructure.

> **Actuaries are trained in the financial consequences of life, death and risk. We should be able to add significantly to analyses of government measures to support health improvement.**

Actuaries' Involvement?

Improved Cost/Benefit Analysis

The uncertainty surrounding the use of a 'value of a statistical life' derived from existing literature that is old and largely based on worker safety studies in other countries makes one uncomfortable about its impact on guiding public health policy in Australia.

When allowance is made for the fiscal 'benefits' to society of premature deaths (in terms of saving Age Pensions and Age Care costs), and in the case of smoking, taxes levied on tobacco, it can be demonstrated that the taxpayer costs of obesity are relatively small (i.e. somewhat less than the **$8.3 billion** financial costs in the report), and in the case of smoking, negative!

However, it is equally clear that the community do want more support for health reform. They also want to see advancement in health sciences to give as many people as possible the opportunity to live to their life expectancy in reasonable comfort. Accordingly, it is in society's interests for the government to support medical and pharmaceutical research to achieve this objective. The issue is: how much in total and how much to allocate to each project?

Actuaries are trained in the financial consequences of life, death and risk. It would seem that we could add significantly to the development of robust methodology for cost/benefit analyses of government measures to support health improvement. To facilitate this development, it may be possible for the Institute, from time to time, to fund a research project for an actuary making a submission on a public health policy issue.

Call for meaningful numbers with explanations

To avoid misleading the public, media releases for government health initiatives and lobby groups' 'calls for action' should provide a breakdown of costs – at least into 'impact on budget' and 'other'. I urge all actuaries seeing 'costs to society' in media and other reports which appear misleading, to demand this type of breakdown, with appropriate explanation, in the public interest. ▲

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Deregulating Pricing in the Health Industry

At present, whilst premiums are set by the individual health funds on the basis of actuarial advice, the Government exercises negative control by reserving the right to disapprove increases in premiums in the annual review round.

Rather than ensuring that there is a reasonable ceiling on health fund costs, this approach, instead, removes the pressure of real competition in pricing to the detriment of the consumer, and indeed, to the detriment of real innovation in health provision.

The current approach to pricing leads to a 'cost plus' approach in which current ways of operating and the current competitive model are generally accepted, and the price is purely a professionally calculated outcome of this model. Worse still, it creates a climate in which the health fund can feel satisfied that its pricing has the stamp of government approval.

This approach also removes one major aspect of real competitive pressure on funds to seek the benefits of consolidation into larger and more effective units, since the pricing process for any given health fund accepts its current size, whilst the regulatory process focuses primarily on the percentage increase in the premiums rather than the absolute level. Finally, the approach of resetting pricing yearly removes competitive tension.

Consider the alternative, in which pricing is free of government control, subject only to the constraint of still requiring a community rating approach.

Under this alternative approach, underlying costs become a real competitive element in which health funds are forced to look for real changes in their business models, either through consolidation, more efficient ways of operating or through more innovative approaches to health delivery, so that they can deliver competitive pricing to their customers. The freedom of any fund to set or reset prices at any time would also remove the current comfortable situation of annual reviews.

Predatory or irresponsible pricing would still be governed by requiring professional certification of pricing and by the continuing oversight of PHIAC. This approach would also provide the opportunity to remove the involvement of central government in the micro regulation of health insurance offerings, which adds little or no value to those offerings or to the good order of the industry.

Over time, this could lead to a situation where the private health industry is a major innovator in health delivery. Such innovation would be a major benefit to the public health system, since it could provide alternative models for delivery, which the public health system could then take up. It should be recognised that one of the greatest barriers to broad innovation in health delivery in the public system is its size and central planning models of operating, under which any innovation has to go from experiment to nationwide (or state wide) delivery in one step, with all the attendant political risks.

In private industry, generally innovation is undertaken at the enterprise level, and if successful, quickly adopted at the industry level. In health, this could mean that the private health industry provides an innovative working model for the public system to watch and adopt if appropriate.

It is recognised that the removal of government involvement in health fund pricing would probably not have populist support, and in the current financial climate, would be counter to general concerns over deregulation. Nevertheless, the cost of health provision in the community is already one of our greatest government expenditures and this will explode as the population ages. Incremental changes in delivery of care will not be sufficient to counter the explosion in cost

The private health insurance industry is in good health and is well regulated. The deregulation of pricing would encourage [force] greater innovation and better business models, including consolidation, which in turn could lead to the private health industry fulfilling a greater leadership role in the provision of health care. ▲

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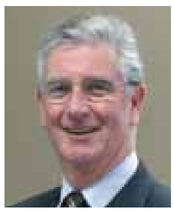

The author was Deputy Chair of PHIAC from 1998 to 2004, is an independent director in the health and financial service industries, has been a CEO in the life and general insurance industries and is an actuary by profession.

Enterprise Risk Management Seminar

– 100kph through the Minefield

Tuesday, 20 September 2011 • Sydney

Institute CEO Melinda Howes welcomed delegates to the 2011 ERM Seminar and following a brief introduction, keynote speaker Professor Ross Garnaut opened the discussion on uncertainty in the context of climate change. He stated that "uncertainty lies at the heart of all public policy and business decision-making," highlighting that many of the struggles in the debate over climate change emanated from the uncertainty of the future cost of inaction over climate change, against the more certain short term mitigation costs.

Of more broad application, Professor Garnaut highlighted some valuable human behavioural insights:

- the tendency to place greater weight on items more easily quantified,
- the tendency to judge the analysis based upon the palatability of the outcome; and
- the pace of change and innovation when incentives were right.

These cultural insights and more were to become a theme of the seminar throughout the day.

Mark Legge of Standard & Poor's (S&P) noted the value that they place on ERM capability and that it was one of eight areas they assess when rating a company. S&P looks at a company's capacity to absorb losses and the complexity of its risks but specifically how it deals with emerging risks; the quality of its risk monitoring, subsequent risk management and its risk learning. Mark concluded with a general health check on the state of Corporate ERM within Australia noting that overall Australia ranked well with a bias towards a strong ERM rating.

Erik Maranik, an engineer working in the field of critical infrastructure set the scene for discussion on disaster recovery planning. Erik spoke of the diversity of the stakeholders and the complexity of the decision-making process in which investment decisions on critical infrastructure are made and how to recognise the signs of operations moving from BAU to extreme stress – it's not always obvious! Erik discussed the importance of the context in planning, but particularly stressed the need for a logic construct for analysis of the risks without which our planning for future risks will be constrained by our past experiences of risks.

'Complexity Science' we heard was one such logical construct! Neil Cantle described how the use of neural networks had been successfully used not only to identify the key risk drivers, but was adaptive and useful in removing subjectivity and identifying gaps in the understanding of risks. The essence of the application of Complexity Science being that a complex system can be simplified into manageable chunks capable of ownership by the business. The panel discussion that followed outlined further key points and some challenges:

- human interactions are key to Risk Management and disaster recovery planning;
- the need to consider upside maximization in addition to downside protection;
- the need to practice decision making, and
- the level of saturation of advice in the field of ERM and the value actuaries could bring through a more rigorous approach than currently present

After lunch hopes of a post-prandial kip were dashed by an alarming short video reminding us of the significant operational risks that accompany the use of technology, focusing on some well-known recent systems and security failures in financial services and beyond.

With that message resonating, we were treated to a dynamic presentation by Rod Farmer focusing on 'Trends in Mobile Technologies and Social Media'. Rod presented mobile technology as the largest niche market in history, and one which is growing at an astonishing rate. He drove home the point that designing for mobile requires a very different approach, and one that recognises that mobile is all about the interaction between people, places and platforms. With that in mind, he looked at three key attributes:

1. **Continuous experiences –** mobile takes us beyond 'multi-channel' to a point where customers can seamlessly move from one channel to another, for example starting a transaction on a mobile device and finishing it face-to-face.
2. **Personalisation and adaptation –** the sheer volume of information that can be collected by mobile devices means that the mobile experience can be personalised to an extent not seen previously, through sensing, data mining and social network integration. On the flip side, this means that identity management is also more important than ever before.
3. **Mobile banking and payments –** it has the potential to fundamentally disrupt the current state of play if the technology and interface can be mastered. We saw some fascinating examples of how small independent service providers are providing the innovation in this area.

David Howard-Jones had the task of making the topic of 'Data' sound interesting. And he succeeded, pointing out the huge hidden cost of sub-optimal data, which could be 15-25% of profits for insurers and even more for large banks. David identified the root cause as being a mismatch between the motivation of the data creators and the requirements of the multiple data users and the twofold solution. Firstly increased understanding of the data creators as to why data matters and the impact of poor data, and secondly to put in place appropriate incentives for improving data

Barry Rafe, Melinda Howes, Ross Garnaut, Tony Coleman and Wayne Brazel

Barry Rafe, Elizabeth Sheedy and Simon Longstaff

Mark Legge

Erik Maranik

Josh Corrigan

Wayne Brazel, Rod Farmer Chris Connolly, David Howard-Jones

creation, such as charging for data cleaning and data errors, and allocating the cost of operational risk capital etc.

Chris Connelly then discussed how leading companies were moving from thinking about disaster recovery to focusing on business resilience. He presented an overview of a business resilience blueprint, which includes understanding what the interdependencies are between different business processes, and made the case for establishing a Business Resilience Office comprising a small number of people with a good mix of attributes. During the presentation Chris shared some highlights from the latest IBM Risk & Resilience Study, which suggested that while some companies had made significant progress in this regard, the vast majority had it on their radar and expected to have a resilient business within three years.

With the importance of an organisation's risk culture having been emphasised in nearly every presentation, there was much interest in the next topic 'culture and behaviour'.

Elizabeth Sheedy, kicked off by focussing on recent research into the link between remuneration practices and risk-taking in senior executives. The research found that remuneration is most problematic where:

- options and/or cash bonuses are involved,
- shareholders are focussed on short-term results, and
- there has been a significant wealth accumulation.

In response to the GFC, new regulations have been proposed to limit executive pay, such as the Dodd-Frank reforms in the US, and the Basel III regulations which allow national regulators to review the compensation policies of banks.

Simon Longstaff, from the St James Ethics Centre, followed with an engaging talk about the importance of culture in influencing behaviour at all levels of an organisation, using the military concepts of control and command. It was estimated that 'control' systems (e.g. rules of engagement, chains of command) only do 15% of the work towards achieving the desired objectives, whilst the 'command' side (i.e. lower-ranking soldiers making decisions) contributes 85%.

Simon pointed out that this makes investing in enriching the culture much more important, so that everyone has the ability to make the correct decisions ('command'), even when the more traditional systems of 'control' break down.

With that the Seminar drew to a close, having heard from experts in risk management from many diverse backgrounds. Our thanks go to **Towers Watson** and **Milliman** for their support and assistance in making this event more accessible to a wider audience. The Organising Committee would like to express its thanks to the Institute staff for the great support they provided and their contribution to the success of the event. ▲

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The Institute would like to thank the members of the Organising Committee and in particular Wayne Brazel and Eric Cheng for their hard work in putting the seminar together.

Learning about Contextualisation –

the CAP Course – of course

As I sink into my padded sofa, a mug of green tea in one hand and notebook in the other, I recall the last time I felt sorry for myself. Why, it was only a few days ago that I was forced to drag my blistered feet and numbed legs out of bed and pack, pack, pack for a week of intense study camp with 54 other would-be actuaries. After a weekend of walking 100km in the Oxfam Trailwalker, exhaustion and fatigue had well and truly taken over, and painfully staggering about to collect my luggage proved very poor sport for a Sunday evening. But the prospect of failing the final Part III Commercial Actuarial Practice (CAP) course proved even less appealing – so I duly went about this uncomfortable business and four hours later, checked in at the Travelodge Hotel, North Ryde.

The next thing I recall is 8.00am Monday morning, navigating my way through dozens of excited actuaries collecting their name tags in the Macquarie Graduate School of Management foyer. Many were familiar, and several long-lost friendships were rekindled. Oh, seeing old friends delight in each others' company brought tears to my eyes! Or perhaps it was just the pain in my legs. I did my best to walk normally, but many still asked if I was crippled.

That aside, we filed obediently into our first lecture. David Service, a fearless and fabulous presenter as we would soon learn, took to the lectern and explained why we were there. It was all because of one nasty word: 'Contextualisation'. Now, I won't go into the details of this pervasive word, as future students should have the luxury of learning it themselves when their time comes, and past students no doubt have this word drilled into their minds for as long as they shall be actuaries. But on a very high level, we were there to learn how to become very good actuaries by giving tailored, useful and meaningful advice to our clients. This is to be achieved by considering the context in which the client and their problems exist. We were to learn how to provide this hallowed advice not only in our fields of work, but also in non-traditional areas.

So over the next four days, we would be split into two streams and each would undertake sessions tackling case studies via contextualisation in the areas of Banking, Enterprise Risk Management, Environment, Health and Investment, as well as one of General Insurance, Life Insurance or Global Retirement and Income Systems, depending on the students' field of work. Each session would last the entire morning or afternoon, so we would get through two case studies per day. There were also sessions on Business Contextualisation and Communication to provide us with the best chance of passing.

But it wasn't to be all work and no play. Over the following days we discovered the joys of morning and afternoon tea breaks complemented with delicious cakes and pastries, fruit and coffee. We frolicked in hour long buffet lunches and made optimal use of free unlimited Mentos. But the icing on the cake was a very generous drinks and canapés session on Monday evening. David Goodsall, Senior Vice President of the Institute graced us with his presence and encouraged us to become not just actuaries, but commercial ones. He planted the idea in many to give back to the profession as volunteers, and I think most of all, dazzled us with his admirable dress sense. (As an aside I had happened to read the August 2011 Financial Review BOSS magazine the week before and spotted David on page 12 promoting the use of colourful ties and pocket squares. True to form, he was the envy of all with a purple pocket square on the night.)

The drinks turned out to be too much for some young actuaries to handle, with many retiring for an early night. Some insisted they needed to work on their GI-B assignment which was due in a few days. However, the socialising kicked on for many groups, with some heading into the city, some to Macquarie Centre and others to nearby Eastwood. In fact, over the next few days, stories emerged of wild partying well into the night at Travelodge, and of disgruntled victims in adjacent rooms unable to sleep until the commotion was over. A short compilation of activities that took place, oblivious of course to our lecturers include:

- Card games of all sorts including 'Squirrel', 'Pig' and 'Snap' accompanied by copious amounts of alcohol and ridiculous dares for the losing player.
- Extremely vocal and increasingly devious rounds of 'Mafia'.
- Ice-skating at Macquarie Centre.
- Ultimate food safari in the city by our Melbourne travellers to Din Tai Fung, Chat Thai and Hurricanes. How they managed to pin down the best of Sydney I have no idea.
- Travel into the city to catch up on work for some poor souls.

In spite of all these tiring activities, there were also 6.00am jogs around Macquarie University on the menu for the health conscious and disciplined. Keen eyes would also have noticed surprisingly smaller class sizes on Thursday. I was indeed very curious where our missing friends were, and employed covert investigation techniques to discover that a naughty few had given into the temptation of the Sydney Fish Markets.

As each day progressed, we became more and more familiar with the tricky business of contextualisation. The lecturers helpfully handed out examples of past students' solutions which they had graded a 'clear pass' or 'fail'. I know, picking out which paper is the 'clear pass' may sound like an easy thing to do, but in the early stages of the course only half of us were able to tell which the better solution was. By the final session, almost everyone in my stream correctly identified a passing solution. Clearly, the residential course had been invaluable and the point of the sessions began to dawn in our minds.

Now, I must confess that at certain times throughout the week, my brain would succumb to a strange haziness and my mind would wander to non-CAP thoughts. Let me share some with you. The first of my observations was that for every four males there was only one female actuary. Upon realising this I experienced a mild shock – it has been a long time since university when the ratio in my graduating class had been roughly two to one, and at the time I had thought that was biased. Ladies, we really must stick together!

A second thought was how glad I was to be here and to have made so many new friends. It was clear to me that over the course of the week I had gotten out what I had put in. So future CAP students, make the effort to get out there and meet new people! A small (and unscientific) poll I conducted on the last day showed overwhelmingly that going out to dinner and socialising with others after class will significantly improve your CAP experience than watching TV in your room. Unless, of course, you have not completed your pre-course work and must now cram.

On behalf of all the students, I thank all our lecturers who put in numerous hours to help us pass, as well as Philip Latham and the staff from the Institute who were always on site to make life in a foreign place easier. It really was a most enjoyable week.

So back to my padded leather couch, I am oh-so-comfortable and pleased that my article is nearing completion. But a faint memory of work has just started to stir.. oh dear, a week of contextualisation has almost flown me off to another world. It's time to go back to work and put in practice what we have learnt, for we are all on the path to becoming better actuaries. And by the way, for any readers who were concerned, sometime during the week my legs stopped feeling as if they were on fire. It must have been because of CAP, of course. ▲

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1. Bruce Edwards and Philip Latham.
2. CAP Course attendees.
3. David Service and David Goodsall talking to participants at the drinks session

The Pay-As-You-Go Pension Problem

What would happen if nobody could die? The popular TV show *Torchwood – Miracle Day* poses this interesting hypothesis. Setting aside the fact that all of the actuaries would be out of a job; life insurance would become worthless, pension funds would go bankrupt in a matter of weeks and generally, despite something which is mostly a benefit to humanity, the financial world would self-destruct.

Although this is an extreme example, Miracle Day highlights a serious problem faced by the UK and other European countries today. Increasing life-expectancy, combined with falling birth rates and early retirement ages, is stretching their public pension systems almost to breaking point. Many of these countries have not accumulated enough funds to pay their future liabilities.

The majority of public pension schemes run on a pay-as-you-go system, where each generation's retirement benefits are paid directly by the workers of the following generation.

There has been no problem with this in the past, when contributions from the current workers easily outstripped the benefits paid to retirees. Now, however, the demographic changes experienced by Europe are increasing the benefits, as pensioners retire at the same age but live longer, and the contributions from new/future members cannot keep up. Though similar changes are happening in Australia, it is less of an issue here due to the advent of private fully-funded superannuation.

Unfortunately the solution isn't as simple as switching to privately-funded superannuation, as this would mean the current workers must save twice – once to finance the current retirees, and again to finance themselves.

When the schemes were enacted, the first generation of retirees will have received a free pension having contributed nothing or very little. So now, in order to switch away from this system, benefits would have to be taken away from today's generations. In a world free of politics there would be a number of potential solutions for these pension schemes – all of which are bad for one of today's generations. Amongst these is increasing the retirement age, thereby forcing would-be benefit receivers to remain contributors for longer. A second is to increase the contributions through higher taxation, and a third is to decrease the benefits paid to retirees.

The issue is we do not live in an economics classroom and so any of these solutions are extremely hard to implement. If you try to change things for long-term benefit at a cost to one generation, that generation of voters are going to be extremely unhappy. The French situation is a prime example, where President Sarkozy attempted to raise the retirement age by two years. The resulting riots were plastered all over the news.

With the baby boomer generation approaching retirement age it is clear that something needs to be done. The majority of governments' responses incorporate a number of these different measures – and though they are extremely controversial, they are necessary.

James Capretta outlines in his report *Global Aging and the Sustainability of Public Pension Systems* the ways in which different governments are tackling this issue:

Belgium's plan is to run sustained budget surpluses for a number of years in order to save for the time when their pay-as-you-go pension scheme runs at a massive deficit. Though this is one way to go about it, if the savings are used by future governments in other areas this could lead to disaster! In addition to this, all the money that European countries are needing to contribute to bail out the banks and the weaker members of the European Union are making saving much more difficult; but that is another story.

The Spanish government's response has been to largely ignore the problem, despite having one of the highest expected costs of any pay-as-you-go scheme in the world.

Italy, as one of the countries most at risk with its rapidly aging population and generous retirement benefits, has been successfully implementing reforms to scale back benefits since 1992. There is, however, a tendency for these reforms to have a very long transition period to protect current and near-retirees, thus minimising short-term political fallout, which causes the desired results to be a long-way down the track.

Unfortunately the current situation is such that it will take rather radical reformations to these pension schemes in order to maintain their viability under the new demographic conditions. It remains to be seen whether the various European governments successfully implement their respective strategies, or whether they back down under the intense political pressure. ▲

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Why I hated the Institute

When I started studying the Part III exams I hated 'The Institute'. They were the faceless men (and they were mostly men back then) who failed me in those exams year in, year out when I was studying harder than I had even studied before. I had never failed an exam in my life up until the Part III exams (which I started studying in third year Uni) and I failed each of these four subjects – some numerous times.

I had this mental image of a bunch of middle aged male actuaries in suits sitting around a conference table smoking cigars (yes, they used to smoke in the workplace back then – showing my age!) and laughing as they consigned another student to the 'Failed' pile. They would rub their hands together with glee and count their fat salary cheques. "That's another one we won't have to compete with for a job" they'd say.

I did persevere (after giving up for a year at 25 to have a life for a bit) and eventually passed all of the exams. Over the next few years, like many new graduates, I decided to pitch in and volunteer to help with the Institute's education – more out of pity I think for those others who I knew were going through the system. I thought that I could improve the process and make it easier for people to pass. At least I could tell them what not to do (i.e. what I did during all those years of failing).

Over the next five years I wrote course material, and was also a chief tutor. Whilst I was not involved in exam setting and marking (beyond contributing the odd question) I did see what went on.

What I realised was that 'The Institute' education system was run by people just like me – people who wanted to serve other members and to make things better and easier. I did not see examples of people with self-interest wanting to prevent others from passing. What I saw were dedicated, hard working people with busy day jobs who gave up a huge amount of time for little or no remuneration. Sure they were interested in keeping the quality high, But with that proviso, the people I worked with would have been ecstatic if more students met that high standard.

My conspiracy theory was blown.

Why members love to hate The Institute

But there is an underlying problem here. Since I started in this role I have been trying to work out why so many members seem to have a mistrust and suspicion of 'The Institute'. Why are attitudes so negative?

I think I have hit on the answer – and it's partly to do with members' experience in their first few years of membership.

I cannot think of many other businesses where the first experience a customer has is that the organisation tries to stop them becoming a customer. After several years of backbreaking work, interspersed with a fair dose of humiliation for many of us, 'The Institute' consents to let us become a 'fully fledged' customer i.e. an Actuary or a Fellow.

Then we have to keep being members in order to retain our qualifications. The annual fees are hefty. Many members are not aware of, or do not utilise, the many services provided, so do not see the value proposition for membership.

As members progress in their careers, 'The Institute' becomes the police force. They audit members for compliance with CPD. They run the disciplinary process for members accused of unprofessional behaviour. They issue professional standards and guidance. They liaise with the regulator to make sure they are happy with what actuaries are doing.

Looking at this it's no wonder these negative perceptions abound.

So that's one way of thinking about things. But what I have realised since working here over the last couple of years, is that there is another way of thinking about the Institute.

You are The Institute

'The Institute' is not a bunch of faceless men (or women). It's not the 20-odd staff in the secretariat (none of whom are actuaries except by chance the current CEO). It's not some committee or Council – although they do represent you.

The Institute is **you**, and your study-mates from university or professional studies, and perhaps your colleagues, your boss and your staff. It's your professional network, the people who are most like you in skills and knowledge.

And what is 'The Institute'? It's the place where we come together to help each other out. To train each other, to share ideas and techniques, to socialise and network.

What can you do?

So if you find yourself railing against 'The Institute' I would ask that you stop and reflect. If there is something you are not happy about then please firstly let me or someone at the secretariat know about it, and secondly ask yourself "what can I do?"

There has been an interesting discussion thread called "Adopt an Accountant" on the Presidents's Blog (fairly new at the time of writing but no doubt well established by the time this goes to print – refer http://www.actuaries.asn.au/PublicPolicyAndMedia/PresidentsBlog.aspx). In this discussion one blogger exhorted Barry to 'do his job' i.e. get our name known out there and create a whole lot of jobs for actuaries. I am not sure what this person thinks Barry can do about this. Whilst Barry is President and also Chair of the Public Policy Committee that has been working very hard on this exact thing (with 48 media articles published in the June quarter), in the end one man, or even 12 Councillors, or even a few dozen people on committees, can only do so much.

I agree with Barry's response on his blog that actuaries themselves are those best placed to create a positive brand image.

If you are reading this it's most likely you are a member of the Institute. So what are you doing in your daily work to promote the brand image of an actuary? Each of us can publicise the skills of an actuary to those we work with, whether that be by adding value beyond the statutory role in a traditional area, or telling your colleagues in a 'wider fields' role that you ARE an actuary. (Your natural brilliance will then complete the brand image enhancement).

What can The Institute do?

Having said that it's mostly up to you, myself and the secretariat staff plus Council and a number of volunteers are working very hard on improving the brand of actuary – in particular focusing on our recognition by senior business leaders as valuable employees. This is one of the three planks of our current strategy (please refer to the home page of the website).

We are doing this through initiatives such as:

- our stepped-up media program including opinion pieces, aimed at positioning actuaries as valuable business advisers;
- surveying senior business leaders on their views of actuaries;
- targeting some of our major events to the broader business community (e.g. next May's Financial Services Forum in Melbourne);
- piloting a business lunch where you can invite clients, key executives within your organisation or other non-actuaries;
- inviting non-members to some *Insights* sessions;
- our more proactive public policy positions in four key areas;
- re-vamping our corporate image to be more up-to-date and to work on electronic media; and
- continuing to improve our web services so that regardless of location, our members can access information to assist them to do their job, and be part of a professional network. (It's not really a physical network any more – with members in 35 different countries it's more of a virtual network these days).

In the immortal words of Rachel Hunter: "It won't happen over-night, but it will happen!"[1] ▲

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1 With thanks to Pantene shampoo. For those too young to remember this ad, please refer to http://www.youtube.com/watch?v=7EweM_ILVt4

notice

Institute of Actuaries of Australia

Disciplinary Proceedings against a Member

On 19 July 2010, a complaint was made against a Member under the Disciplinary Scheme by Ms Melinda Howes in her capacity as the Chief Executive Officer of the Institute of Actuaries of Australia.

The complaint arose out of four convictions of the Member by the Court of Appeal for indictable criminal offences involving aggravated sexual abuse and assault of a minor by the Member. The relevant Court of Appeal, in accordance with established Court of Appeal practices, anonymised the Member's name in order to protect the identity of the victim. Consistent with that practice, the Member is herein referred to as 'NFP-1' (not for publication).

On 2 November 2010, an Investigating Sub-Committee of the Institute prepared a report (under Rule 6.1(a) of the Institute's Disciplinary Scheme) for the Tribunal. The Sub-Committee determined there was a *prima facie* case of Actionable Conduct (as defined in Rule 3 of the Scheme) having been committed by NFP-1, namely:

(a) pursuant to Rule 3.2(d)(i) of the Scheme, as enumerated *prima facie* evidence of Actionable Conduct; and

(b) pursuant to Rule 3.2(a)(iii) of the Scheme, as conduct likely to bring discredit upon the Institute or the profession of Actuary.

Professional Conduct Tribunal 10.01 was then established to determine the matter. On 3 March 2011, the Tribunal determined that NFP-1 had engaged in Actionable Conduct (following written admissions to this effect by NFP-1) and that he be expelled from membership of the Institute.

On 19 April 2011, NFP-1 lodged a notice of appeal against the Tribunal's determination. Appeal Board 11.01 was then constituted and, following a hearing on 20 June 2011, unanimously determined that the Tribunal's determination be affirmed.

Accordingly, with effect from 30 June 2011, NFP-1 was expelled from membership of the Institute.

This notice is issued by order of the Council of the Institute of Actuaries of Australia made on 6 September 2011 ▲