

Presidential Address

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Innovation and Integration

A respected, developing and
contributing profession

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Abstract

The themes of integrity, innovation and integration are the central pillars of this Presidential Address. Each is a necessary priority for the profession as we move into 2000. A reputation for integrity must remain our most fundamental characteristic. This means that we must continue to develop and broaden our high standards of professionalism and skills. Innovation is also necessary. Challenges and changes are coming from many directions and we must respond positively. Finally, increasing our involvement with other disciplines and on the international scene is also essential. If we strengthen our commitment to these concepts, we will become a respected, developing and contributing profession.

Keywords: actuarial profession, professionalism, education, continuing professional development, public policy, globalisation.

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1 Preamble

1.1 An Introduction

Our Institute has established the tradition that the new President, at the beginning of his/her term, presents a written Presidential Address for discussion and comment. As a matter of interest, this is unlike many other national actuarial bodies, but I believe that the process has much to commend it. But, what is the purpose of the Address?

- ⊗ Is it a review of the profession's successes and failures or is it the new President's hopes and strategies for the next year?
- ⊗ Does it lead or does it reflect?
- ⊗ Is there a single theme or is it a ramble through many actuarial topics?
- ⊗ Does it represent the view of Council, the membership or perhaps, a very personal view?

The answer is Yes!! They can be all this and more! Presidential Addresses are, to some extent, framed by recent issues and discussions within the profession, both locally and internationally. However, they also reflect something of the individual President's concerns, interests and experience. This Address is no different. I have raised a number of issues and look forward to your responses, at the discussions in Melbourne and Sydney, and especially from those of you who are unable to attend these meetings.

But first, a parable.

A landowner has three eucalyptus saplings.

The first sapling is planted near the homestead. It initially grows well but, due to its proximity to the homestead, needs regular pruning. Furthermore, the shade from the large home restricts its growth. Some decades later, when a granddaughter inherits the property, the regular pruning has continued and the tree has the same shape as when she first saw it, many years earlier. Eventually, the tree loses strength and needs to be removed.

The second is planted in the 'wild' garden. This is an exciting and adventurous part of the property. Plants and animals are left to survive by themselves. The soil is good and the tree grows very well. However, some severe storms damage branches and leave it rather lopsided. It continues to grow but becomes unbalanced in shape. Many years later, a strong wind blows it over.

The third is planted near the river. The water comes and goes with the seasons. A tree surgeon visits occasionally to remove any diseased limbs. However, the tree grows strongly and becomes the home for birds and spiders, possums and koalas. A cubby house is even built in the tree for the great grandchildren of the original landowner. This magnificent eucalypt has become an integral part of the countryside.

Are there parallels or lessons here for the development of our profession? My hope is that this Address will help us come to a clearer understanding of the key characteristics of our profession and the highest priorities for our Institute.

1.2 The Major Sections

The fundamental requirement of any profession is integrity and this issue is explored in Section 2. Integrity should lead to a high level of respect from all our stakeholders. However, this respect is not guaranteed and we must work at it to ensure that it is both real and perceived. I am therefore suggesting that we need to take some actions to ensure that both perceptions and reality match our desire.

Section 3 highlights the need for continuing innovation within our profession and the activities of our Institute. As exemplified by the control cycle, we must respond to, and anticipate changes in the world around us. This means that we must continue to develop from a profession based on life assurance and pensions to a much more diverse profession, through our education, our professional activities and our broader involvement.

Section 4 develops some of these themes a little further and recommends that we must be more integrated within our society. This is a two-sided call. Part of it is that we, as actuaries, must always acknowledge that others can contribute to our work and understanding. In the past, we have sometimes been inclined to be a little arrogant and superior. Secondly, we must be willing to participate in community debates and to add the actuarial value in a much broader context than has traditionally been the case.

Finally, Section 5 sums up and briefly compares our direction with that of some other actuarial bodies.

1.3 A Personal Note

Before proceeding, I wish to thank you all for the honour of being President in the year 2000. I have always been proud of being an actuary and I am very humbled but delighted to be chosen to lead the profession this year. Nevertheless, even at this stage, I recognise that neither the President nor Council have all the skills, experience or time necessary for the profession's contribution to society and its development within a number of important areas this year. It must be a team effort. Hence, let me encourage each of you to participate, to contribute and to enjoy being part of the actuarial profession.

2 Integrity

It is essential that the actuarial profession maintains and develops its integrity. This must be our highest priority. Without a public acknowledgement and acceptance of the actuaries' high level of integrity, our future credibility and influence will be threatened.

However, before presenting some options, it is appropriate to ask some fundamental questions that provide the framework for the discussion.

2.1 What is a Profession?

As I commenced preparing this Address, one of my first questions was: 'What does it mean to be a member of a profession?' Of course, this begs another question: 'What is a profession as we head into 2000?'

There is no easy answer as an increasing number of groups use the term 'profession'. The term 'professional' is even more confused. Clare Bellis (1998) noted that:

The ideal of the 'professional' is an elusive and shifting concept.

However, let me begin with some definitions.

The first is the oft-quoted one from Sidney and Beatrice Webb:

A profession is a vocation founded upon specialised educational training, the purpose of which is to supply disinterested counsel and service to others, for a direct and definite compensation, wholly apart from expectation of other business gain.

The Oxford English Dictionary (1989) defines profession as:

A vocation in which a professed knowledge of some department of learning or science is used in its application to the affairs of others or in the practice of an art founded upon it.

It goes on to note that the three learned professions were originally divinity, law and medicine.

More recently, the Australian Council of Professions (of which our Institute is a member) has adopted the following definition:

A profession is a disciplined group of individuals who adhere to ethical standards and uphold themselves to, and are accepted by the public as possessing special knowledge and skills in a widely recognised body of learning derived from research, education and training at a high level, and who are prepared to exercise this knowledge and these skills in the interest of others.

It is inherent in the definition of a profession that a code of ethics govern the activities of each profession. Such codes require behaviour and practice beyond the personal moral obligations of an individual.

They define and demand high standards of behaviour in respect to the services provided to the public and in dealing with professional colleagues.

Further, these codes are enforced by the profession and are acknowledged and accepted by the community.

From these definitions, I suggest that the following characteristics are clear:

1. A profession is based on a specialised set of skills and knowledge. This normally leads to standards of entry, formal education processes, etc
2. In the light of these skills, a profession is recognised publicly as having special responsibility and that members of the profession can be trusted to act appropriately. This places significant responsibility on the profession to uphold and encourage very high standards of competence and standards within its membership and to ensure that this trust cannot be questioned. Such standards also mean that there is a loss of some individual autonomy for the overall good of the profession and society.
3. A profession has a responsibility to engage in a range of activities which are part of its service for the betterment of the society. This means its focus must go beyond the self-interest of its members.

In somewhat simplistic terms, these characteristics could be considered to represent three fundamental questions about any profession, namely:

What is the profession about?

How should the profession, and members of it, behave?

Why does the profession exist?

Let me now use these three broad questions as headings to make some comments and raise some questions for discussion.

2.2 What is our Profession about?

Any definition of a profession assumes that the activities of the members of that profession are based on a specialised set of skills and knowledge. However, this knowledge set does not remain static. It continues to expand and all professions must strongly encourage research to expand their underlying knowledge set and skills.

Traditionally the actuarial profession has not had a strong research focus. There are reasons for this including our relatively small numbers, strong demand for our members in commerce, reluctance by some members to spend the necessary time to understand new developments and, on a world wide scale, relatively few university departments. The result has been that we have lost ground in some areas (e.g. finance) because we have not continued to develop our underlying set of skills. As Paul Thornton (1999) noted in his Presidential Address to the UK Institute:

we have been too complacent that existing techniques are adequate to solve new financial problems.

Of course, we can all make valid excuses. However, the fundamental point is that if, as a profession, we don't keep encouraging research and ongoing professional development we will, in due course, not possess some of the skills necessary to perform our activities in the changing world. As a recent paper to the Board of the Society of Actuaries noted:

A next generation education and qualification system is needed (to respond to these changes) and to move the actuarial profession closer to our vision of being recognized as the leading professionals in the modeling and management of financial risk and contingent events.

This continual upgrading of the required skill set must occur in two broad areas: the initial educational requirements and continuing professional development. Without ongoing developments to our specialised skill set, our integrity will be threatened.

2.2.1 Our Initial Professional Education

Our initial professional education requirements are currently in 4 parts.

Part I — Subjects 1-9

These are the same as Subjects 101-109 from the UK. These subjects have been substantially reviewed and the Australian universities will be teaching the new subjects from 2000. The important changes include:

- the introduction of a subject in stochastic modelling;
- the introduction of a subject in financial economics; and
- a reduction in the emphasis on life insurance.

Some of these changes are overdue and will rectify some of the problems alluded to earlier. In particular, the introduction of more stochastic material and financial economics will provide the new graduates with a stronger educational basis than is currently the case.

However, there is a lesson to be learned from this history. We must be ready to upgrade/redevelop this new set of subjects as developments continue. It is desirable that this is a steady and gradual change rather than a major rewrite of the syllabus every ten years. The importance of the role that universities can play in this ongoing review (including developments in non-actuarial areas) should not be underestimated.

Part II — The Actuarial Control Cycle

This subject was first introduced in 1996 and replaced the previous Ordinary subjects. It provides an important link between the skills taught in the Part I subjects and the Specialist subjects in Part III. Importantly, the framework of the total subject is sufficiently flexible to accommodate new areas of actuarial work without downplaying the traditional areas of insurance and superannuation.

It is also pleasing to note that the Actuarial Control Cycle has been accepted as an important part of our undergirding framework, as indicated by its reference within a number of the papers at the 1999 Darwin convention. In addition, it has made its mark on the international scene, having been included in the core syllabus of the International Actuarial Association, and referred to in Paul Thornton's Presidential Address as a way of explaining what we do.

In Section 3.1, I will discuss the international scene and the importance of the core syllabus. However, for the moment, it should be noted that our Parts I and II are consistent with the international requirements which apply from 2005.

Before turning to Part III, we must recognise that Parts I and II represent the skills that all future actuaries require in their initial training. That is, we must ensure that the core skills and knowledge required by future actuaries are within these parts of our education process.

In addition, we should not rely on the International Actuarial Association or the UK to amend their syllabuses if, we believe, there are core competencies missing. It is essential that we maintain a continuous review to ensure that Parts I and II represent our core skills.

We have not always done this well in the past. Therefore, let me suggest that if you become aware of a skill or development that you believe should be in the core training, then we need to ensure that there is a process to consider all suggestions. Of course, the temptation is always to keep adding without subtracting! We must not do this. However, we should always encourage the ongoing development of our syllabus.

Question for discussion: *What processes or changes should we introduce to ensure that the profession's education requirements are regularly reviewed and respond to the changing needs or recent developments in a timely manner?*

Part III — Specialist Subjects

Currently we require students to complete two out of five Specialist subjects. These subjects should require students to express a level of understanding, application and professional judgement that go beyond those required at the earlier levels.

It is also inevitable, and desirable, that the number of Specialist subjects be increased from time to time. Whilst the most recent addition was Finance, I suggest strongly that we add Health (not Health Insurance) to our Specialist offerings. The need and opportunities for the application of actuarial skills in a range of health related areas is undoubted and growing. As a profession, we are currently well placed to contribute in this area and we need to capitalise on the good work that our health actuaries have carried out in recent years.

Another subject area worthy of investigation is banking. Whilst we have relatively few members employed in the banking sector, the increasing integration of financial services means that we must be able to offer our students the option of pursuing an actuarial career with a banking orientation.

However, the addition of a new Specialist subject does not come without significant costs, including a strong commitment from a section of our members and the appropriate support from the Institute office. Nevertheless, we need to be ready to broaden our education focus in line with our strategic plan of developing the market for actuaries.

Questions for discussion: *Are the proposals to introduce Health and possibly Banking, the most appropriate direction for developing our Part III qualifications? In the longer term interests of the profession, are you willing to financially support their development?*

Part IV — Professionalism

The three day Professionalism course is an important component of our qualification and represents an essential part of our commitment to a profession of integrity. Newly qualified actuaries need to appreciate both the importance of ethics in a business environment (as discussed by Ian Robinson (1998)) as well as the requirement for high professional standards.

It is also possible that we could enhance our professionalism course to include a number of other skills that are best taught in a face-to-face context. For example, some commentators have suggested that actuaries are poor communicators. Whilst I remain to be convinced that this is a major problem for many of our younger members, I recognise that there is a perceived need and there is always room for improvement.

One possible way forward is to lengthen our professionalism course to a week and include a number of other skills, that would be appreciated by both the new actuary and their employer. Such skills could include verbal communication, report writing, group work and some general business skills. I envisage that these new areas of the course would be presented by the best available people, who may not be actuaries!

Questions for discussion: *Does the lengthening of the professionalism course from three days to five days represent a practical way of exposing newly qualified actuaries to a number of skills that are considered highly desirable but are difficult to present in a distance education format? How would employers and/or new actuaries react to the extra time, costs and broader scope?*

2.2.2 So, What is an Actuary?

The specialised set of skills, which forms part of any profession's initial education requirements, helps define the profession. This is very clear in the professions of medicine and law. However, it is less clear for the actuarial profession and we have always had a problem in establishing a clear identity.

A major cause of this problem, but one of our important strengths, is that we are multi-disciplinary. We build upon mathematics, statistics, economics and finance (to name a few disciplines) but have relatively few members who can claim to have a deep understanding in any of these particular areas. On the other hand, we use techniques and understanding developed from each of these areas. Indeed, our own Mission statement comments that:

Actuaries' uniqueness lies in their use of judgement and a combination of ... skills'

In Section 3.3, I will comment on some of the threats and opportunities that this diversity presents to us. However, at this stage we need to acknowledge that this multi-disciplinary set represents an important characteristic of our profession.

2.2.3 Summary

As with all professions, our profession is based on a particular set of skills and knowledge. This helps define the profession, as well as its entry standards and education programs. The continuous challenge is to ensure that the skills and knowledge which represent our professional requirements are constantly reviewed and upgraded to reflect changes and developments in actuarial science, related fields (e.g. statistics and finance) as well as the expanding areas in which we expect actuaries to work.

2.3 How Should Members of our Profession Behave?

One of the key characteristics of any profession is that it can be trusted. Bellis (1998) summarises the origins of the concept of professions and notes that the original three learned professions:

were concerned with the well being – spiritual, financial or physical – of individuals, who were obliged to put their trust in members of these occupations if they wished to consult them.

Sharp and Thomas (1998), quoting from a paper on business ethics given to the UK Institute by Dr S Carmichael in 1997, wrote:

Every profession depends upon trust: trust by clients, by Government and by the public. Trust not only to be competent but also to be, and seen to be, behaving 'responsibly'.

What does this trust imply for our profession today? Let me touch on two areas.

2.3.1 Our Disciplinary Process

We must have a proper and independent disciplinary process. The public will not trust us if a complaint is handled internally. It is interesting to note that the International Actuarial Association requires an applying association to have a formal discipline process as follows:

1. There is a complaint process accessible to anyone affected by the member's work and the member's professional peers.
2. There is due process of defence available to the member complained against, and the member's rights are fully preserved.
3. There is an objective formal appeal process independent of the body which has ruled at the prior level.
4. There are available sanctions appropriate to the level of the offences committed.

Whilst this process does not require an external appointment (which may be difficult in some countries), it needs to be widely known and include an appeal process independent of the original decision.

Within the Australian context, I believe that it is desirable that any complaint, as well as any subsequent appeal, are handled by groups that are chaired by non-members of the profession. Without such independence and openness within our disciplinary process, it is inevitable that over the longer term the trust placed in our profession will be questioned.

Council has established a Disciplinary Task Force to review aspects of our current disciplinary processes and to recommend how they should be brought into line with contemporary requirements and expectations.

2.3.2 Continuing Professional Development

The trust placed in our profession must be based on high standards of both behaviour and competencies. If the behaviour of an actuary falls below the standard, then appropriate action is required through the disciplinary process. However, we must also ensure, as far as practicable, that the work of an actuary will be of the highest quality and therefore Continuing Professional Development (CPD) is of the utmost importance. It also represents part of our responsibility in maintaining the trust with our various stakeholders.

Currently we have a Professional Standard that requires at least 70 CPD hours per annum, with a split between core and non-core activities. The recording of the member's CPD is left to the member. To quote from the Standard: 'It is expected that a member will keep a record'. My suspicion is that many members do not keep such a record.

We need to improve our commitment to CPD. Part of our strategic plan is to 'develop the product' — that is, to enhance the skills of the actuary. This is important for the individual actuary and for the profession. It takes time and effort. However without it, the quality of the actuary's work will not keep up with developments at the frontier, both within and beyond our profession. An integral part of our CPD programs must include important developments from outside our profession.

In the past, I have not advocated formalising our CPD requirements and did not believe that a bureaucracy was necessary. I still believe that most members adhere to the CPD standard, even if many do not record their hours.

However, in this era of greater openness and when professions are under increasing pressure, there is a need to highlight our qualities and ongoing standards. We must maintain our public integrity. Both public perception and reality are important. As Bellis (1998) has noted:

The unique credential which only professions can offer is an ongoing warranty that the member is up to date.

With these thoughts in mind, I believe that we must strengthen our CPD requirements. The actual form of the strengthening is open for discussion but I suggest that an annual return from each practising member is not only desirable, but is now needed. The requirement to sign an annual return would also highlight the importance of CPD for all members in a very practical manner.

Such a development would require a major review of our Professional Standard 500. It could also raise the question as to the distinction between core and non-core activities. For example, we may remove this distinction and simply require all practising actuaries to sign an annual statement with their subscription that during the last year (or the last 2 or 3 years) they have participated in at least X hours of relevant continuing professional development. The required X hours could include a minimum level of formal CPD, in contrast to informal CPD.

Part of this increased commitment to CPD must also mean that all members are able to receive high quality and relevant professional development programs. We need to recognise that many members live outside Sydney and Melbourne. The ever changing technology offers possibilities that were not previously available.

Questions for discussion: *What is the best way to strengthen our CPD requirements? Is an annual personal statement sufficient or is a more detailed structure required?*

2.3.3 Summary

A strong commitment to education, research, continuing professional development and high professional standards are all necessary prerequisites if we are to build upon and develop the trust that others place in us. We will then be in a position to meet the opening paragraph of our Mission statement which notes that we are:

committed to promoting the profession and creating, expanding and maintaining an environment where the skills of actuaries are widely used and valued.

And yet, whilst agreeing with these principles, is this sentiment too self-centred? It speaks of actuaries being used and valued but where is commitment to serving the public?

2.4 Why Does our Profession Exist?

A key role of any profession is that of public service. The definition by the Australian Council of Professions mentions:

who are prepared to exercise this knowledge and these skills in the interest of others.

Similarly, the core purpose of the American Medical Association since 1847 has been:

To promote the art and science of medicine and the betterment of public health'

2.4.1 Our Public Role

It is interesting to note that even within our own Memorandum of Articles, three of the objects have a clear outward focus. These include:

- a) To increase the value to the community of the actuarial profession;
- e) To discuss and comment on the actuarial aspects of public, social and economic and financial questions which from time to time may be the subject of public interest; and
- f) To consider the actuarial aspects of legislation existing and proposed and to take such action as is considered desirable.

But what does 'public service' mean for a profession in 2000 and beyond? It is difficult to define and some may even consider it to be an outdated concept. However, without a commitment to the broader interest of the community, I believe that a profession will, in due course, lose the trust of that community and eventually lose influence. But, in practical terms, what does 'acting in the public interest' mean for our profession?

At one level it will mean that decisions taken by the profession will not always be in the best interests of an individual member, or a group of members, or even the profession at large.

For example, a disciplinary process is a necessary part of all professions and its existence should be in the public interest. Whenever a decision is handed down against a particular member, it is almost certain to be contrary to the interests of the individual member. However, it should be clear that such a decision is appropriate for both the public interest and the reputation of the profession.

Secondly, it is likely that certain public positions advocated by the profession could be contrary to the financial interests of a group of members. A recent example is the superannuation surcharge. Many members receive income from doing work involved with the surcharge, and will continue to do so, while it remains. Yet the Institute, with strong support from its membership, has consistently advocated the abolition of the surcharge and a better superannuation tax system. Why? Because, the profession believes (and continues to do so) that the surcharge is bad policy, poor legislation and has long term effects which are contrary to the public interest.

A third example has occurred at the entry stage to our profession. During the last decade, the Institute has increased the number of university programs that it supports financially. It is likely that, over time, the new programs at the Universities of Melbourne and New South Wales will cause a significant increase in the number of Fellows in Australia. On the surface, such an increase may not be in the financial interest of current members. Yet, it is the right decision because it will, in the longer term, bring benefits to the community and the profession as a greater number of very capable students are attracted to the profession.

But, to what extent should we be involved in broader public issues?

2.4.2 Involvement in Public Issues

I believe that it is essential that we are involved in public debate as many issues require actuarial input. As noted earlier, one of the characteristics of our profession is our unique set of skills. As such, we can and should add value to the public debate in a range of subjects, both within and beyond our traditional fields of endeavour.

According to our Articles, part of our public duty is 'to discuss and comment on the actuarial aspects of public, social and economic and financial questions' without, I would add, fear or favour. We must do so impartially and with appropriate research. At times, we may present options but at other times it is appropriate and necessary to present a clear Institute position. Such policies and options represent our profession acting in the public interest.

During the last three years the Council of the Institute has adopted a deliberate policy to raise the public profile of the Institute through a range of activities including greater involvement in public policy and increased contact with politicians, public servants and the media.

Naturally, such involvement brings risks, including being quoted (or misquoted) by the media, in Parliament or by others. However, if the submissions are thoroughly developed, well reviewed and a very high standard, the reputation of the profession will be enhanced by such activity. A recent example is the Institute's submission to the Basle Committee on Banking which the Chairman of ASIC noted to be 'challenging and thought provoking'.

Hence, let me encourage you to participate in our discussions as we develop our contributions to public debate. It represents part of our responsibility and service to the community. Of course, there are also other bonuses such as raising the profile of the profession and the personal satisfaction that one can receive from such activity. However, the real motive, should be to use our skills and knowledge for the betterment of our community.

2.4.3 Some Broader Issues for Our Public Involvement

Thomas and Sharp (1998) have identified a range of actuarial values which they had distilled from actuarial literature. A number of these are reasonably non-controversial and include prudence, conservatism, a pecuniary perspective, equity and mutuality, and a collective as opposed to an individual approach.

However, they also suggested that actuarial comment tended to be disparaging towards the consumer movement and human rights, with most references from the UK. Does this also reflect the Australian actuarial profession? If this is the case, we need to be careful in developing our public policies.

The consumer movement represents an important player within the Australian superannuation and retail investment markets. Their view of our profession is not always positive. I am not suggesting that we should agree with them because they are a key player. However, we must be willing to listen to their arguments and enter into meaningful dialogue with them. The UK profession was implicated in the personal pension selling scandal and we should endeavour to learn from their experience. On such similar occasions, our involvement could mean that the Institute may issue a policy that is contrary to the views of some actuarial employers. Whilst this is clearly not an objective, such an outcome should not overly concern us, if the statement is well developed, peer reviewed and in the public interest.

Our collective view on human rights is unknown, although it is often raised in the context of underwriting. Whilst this subject is a valid concern for many actuaries, it is also important to recognise that social norms change over time. In these cases, we must be willing to accept a societal view ahead of the strict actuarial view. However, it is also important that we present clearly the longer term implications of such a change.

Questions for discussion: *In which areas of public policy should we develop a statement or position? What are some 'traditional actuarial values' that we need to be careful of, as we develop public policy positions?*

3 Innovation

3.1 Increasing Benefits from Globalisation

Our profession is a global profession. Indeed, in some ways it could be argued that we are the most global profession. This development has not happened overnight. The Institute of Actuaries and Faculty of Actuaries from the UK and the Society of Actuaries from North America have been offering actuarial examinations throughout the English speaking world and in other countries for many decades. This development has meant that many countries have not developed their own education or accreditation systems but have relied on these professional bodies. In Australia we commenced our own Fellowship examinations in 1980 and introduced the control cycle in 1996. These examinations are now held throughout the world.

The globalisation of our profession has taken a huge step forward in recent years with the initial establishment of the International Forum of Actuarial Associations (IFAA) and then, the re-configuring of the International Actuarial Association (IAA) in Birmingham in June 1998 as the association of actuarial associations.

The IAA is the international body of actuaries and is establishing important links with other international bodies. In addition, the IAA has established minimum standards for all member associations in terms of a code of conduct, disciplinary procedures (as mentioned in Section 2.3.1), a due process for professional standards and a minimum education requirement that must be in place by 2005. It is feasible that in due course, these minimum education standards (as revised from time to time) could lead to an international 'associateship'.

However, it is also recognised that particular national associations will require a standard in excess of the IAA syllabus for a variety of reasons. In general terms, this is the difference between an Associateship (which must cover the core principles of being an actuary) and a Fellowship, which should allow for some specialisation and require a higher level of understanding and professional judgement.

In my view, it is very unlikely that we will ever move to an international fellowship. However, it is also desirable that, where appropriate, our Institute recognises the fellowship of other actuarial bodies on a bilateral basis. Similarly, we should be working to ensure that the FIAA is recognised as widely as possible and is seen as an actuarial qualification of the highest standard. Of course, such international recognition also imposes a responsibility to ensure that our syllabus, our education delivery and our standards are at the highest level.

Given our desire to increase the international recognition of the FIAA, it was particularly pleasing to hear recently that both the Monetary Authority of Singapore and the American Academy of Actuaries (AAA) have recognised the FIAA. For those who may be unaware, the AAA is the accrediting body for practising actuaries in the USA. It could be considered to be an umbrella body of the many American actuarial organisations. The new recognition means that an FIAA is treated in the same manner by the AAA as an FIA or FFA.

As many members are aware, our Institute is currently having bilateral discussions about mutual recognition with each of the Institute/Faculty of Actuaries, the Society of Actuaries and the Canadian Institute of Actuaries. It is my expectation that these discussions will enable an FIAA, after meeting any residential requirements, to be granted full recognition by that association, as currently occurs in the UK. Similarly, we would recognise their Fellowships by shortening the current three year Accredited Membership period. Such mutual recognition will represent a great step forward in terms of the global opportunities for our members and for the movement of actuaries around the world.

Another outworking of a much closer working relationship between the various national actuarial bodies should be the development of international research projects. Many actuarial problems have an international application and I would hope that our Institute can join forces, with say the UK and North American bodies, to fund joint research projects. This joint approach is working with the new Hong Kong Actuaries Office (established from July 1999) and important joint research projects could be the next step forward. In this era of telecommunications, there is no reason why researchers need to be located in the same continent.

The internationalisation of the actuarial profession has increased significantly in the last five years and will continue to do so. Our Institute must continue to play an important role in the IAA through its various committees and developments. Some of our members have played a very important role in the IAA and we congratulate Catherine Prime, who is the IAA President for 2000.

Thus far, I have not mentioned our New Zealand colleagues. Many Australian companies and actuaries work there and it represents a very special case. Clearly, there are national issues in New Zealand but I believe that we can all gain from developing a stronger link with the New Zealand Society of Actuaries.

Questions for discussion: *With which other national associations do we need to develop special links? How? What is the best way of strengthening our NZ links?*

3.2 Increasing Services from the Institute Office

During the last decade, there has been a significant increase in the demands that we, as members, have placed on the Institute office. This trend will continue as a greater proportion of our activities are carried out by paid employees and some employers are less willing to 'subsidise' the profession's activities. However, this development does not necessarily lead to an increase in subscriptions. Rather, we must make sure that:

- i) the activities provided are focussed on the needs of members; and
- ii) a wider range of income generating activities are conducted.

In particular, an 'education business plan' has been developed which is designed to help actuaries sustain and build on their skills and reputation. The goal is to develop and deliver relevant quality educational programs and services to practising actuaries in a cost-effective manner.

The development of a much stronger CPD program, together with a database of relevant educational programs offered by other professions and bodies, should have a number of advantages. These include:

- helping members find the most appropriate CPD programs for their own development;
- providing a CPD program to all members in all locations, through the use of a variety of media;
- linking with other professions and organizations so that our members have a much greater variety of CPD opportunities;
- offering quality Institute based programs to members and non-members which, in turn, will expand our revenue base.

This strengthening of our CPD offerings and links is also part of our strategy to assist members in broadening their skill base beyond their actuarial training. It means facilitating the appropriate programs so that our members are better equipped to face the challenges in an era of globalised and integrated financial and other services. After all, it is no longer appropriate for some members to rely on actuarial based CPD programs. If we are to encourage actuaries to accept a broader set of responsibilities, we should also be ready to support them in this venture. In many cases, this will mean utilising the programs of other organisations.

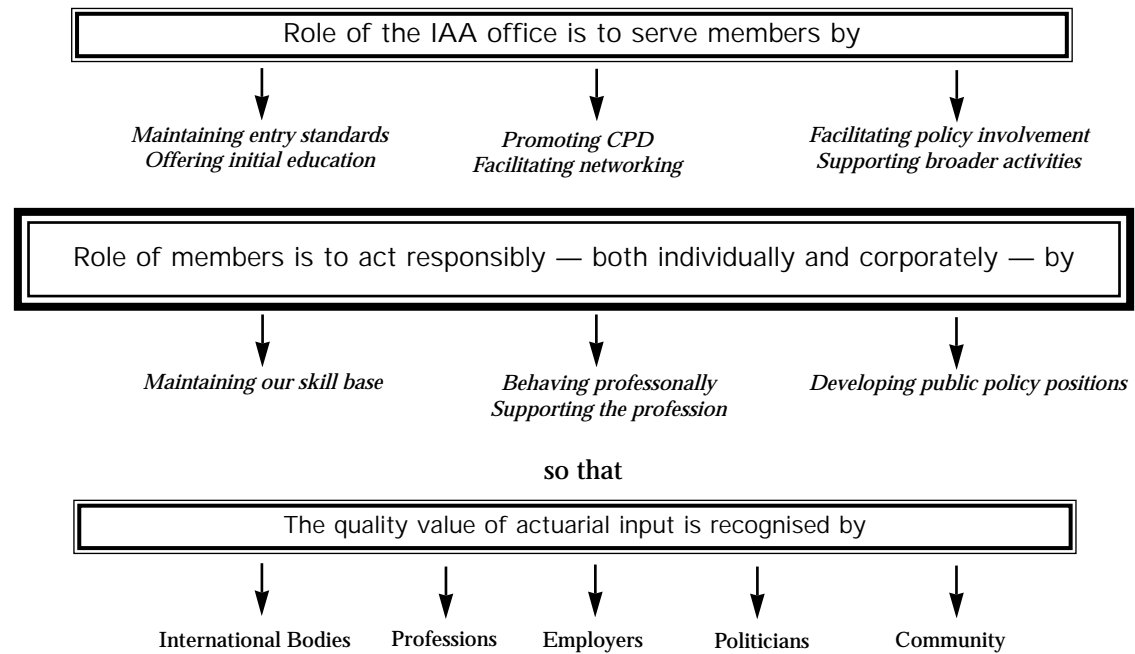
In addition to an improved CPD program, a new website is being developed. This will provide a much greater range of opportunities for member involvement and stronger support of Institute activities and committee work.

Finally, I must emphasise that the Institute office exists to serve all our members, including Fellows, Associates and students, and to support the profession in its full range of activities and objectives.

The following diagram may be of some interest. It highlights that the primary responsibility must rest with each of us, as members of the profession. However, as suggested, the Institute staff are there to support us in each of the three areas of developing the profession, promoting professional behaviour and serving the public.

Question for discussion: *What activities or programs could be commenced that would provide a better service to our members and/or generate income for the Institute?*

From Section 2: • What are we about? • How should we behave? • Why do we exist?



Integrity, Innovation and Integration

3.3 Responding to Some External Threats

As mentioned earlier, the three original professions had very clear areas of expertise and practice. Indeed, they initially generated monopolies in each area. Bellis (1998) goes so far as to suggest that:

The idea of a profession involves a monopoly of knowledge ... the actuarial profession claims that only an actuary can decide whether an insurance company is solvent.

However, she goes on to note correctly that:

Professions ... find their monopolies increasingly under pressure.

Examples are many. For instance, if one returns to the three original learned professions: the clergy are no longer perceived as the only source of spiritual wisdom; medical doctors are losing their share of the health market with a range of alternative practices becoming more popular; and lawyers are also losing ground in some areas, with conveyancing being an obvious example. Recently, the President of the Australian Institute of Architects has noted the challenges faced by his profession when he wrote that:

Questions are being asked as to the value of using an architect when 'someone else can do that for half the price'.

Do we face similar pressures? I think the answer is yes.

Our traditional areas of monopoly could be considered to include the financial position of life insurance companies and defined benefit superannuation schemes. Both have the support of the law. However, there is pressure as the financial operations in both areas have become simpler and more transparent. Some of the actuarial mystique has been removed. This should be seen as a positive step in an era of consumerism and greater disclosure.

How should the profession respond?

First, we must recognise that we do not have ownership rights in any area. On the other hand, it is proper to recognise that we have certain skills and expertise that are very helpful in certain tasks. However, to say that we are, for instance, the only group that can understand the accounts of a life office is arrogant and short sighted. In this age, we should encourage that these accounts are understandable by all investors and analysts.

Second, if the Government or others believe that we are the best group for a particular responsibility, then we should encourage that endorsement. We cannot demand it. As an example, the role and responsibilities of the Appointed Actuary has been given to members of this profession and the government expects Appointed Actuaries to carry the tasks associated with this role with full professionalism and independence. If this does not occur, then the trust placed in the profession by the Government is at risk.

The recent paper discussed at Darwin suggested the legislative roles of Appointed Actuary could be extended to other financial institutions. This could have real advantages for the regulator and community but we must earn that respect.

The recent Policy Discussion Papers issued by the Australian Prudential Regulation Authority in respect of the general insurance industry are a good example. Whilst these papers do not advocate the establishment of an Appointed Actuary role in this industry, there is no doubt that the proposals respect and enhance the role of actuaries. It is possible that the well-developed concept of the Financial Condition Report in life insurance could be used in this industry. However, we must also recognise that to require it for smaller general insurance companies each year would be unreasonable in terms of costs and benefits.

The third response by the profession is a more proactive one. We need to ensure that our members are appropriately trained and continually educated so that, as the opportunities arise, they are the best people to take on responsibilities associated with modelling, analysing and managing financial risk in a range of organisations. These organisations should not only include insurance companies, superannuation funds and banks but a range of other institutions.

The introduction of the Actuarial Control Cycle represented a beginning along this track but we must continue to develop this paradigm shift. I look forward to the day when major industrial companies deliberately employ actuaries and actuarial graduates as part of their strategic and financial risk divisions.

Questions for discussion: *How can the Institute respond to these external threats? Is it a gradual process or are there particular actions that we should take?*

3.4 Introducing a Motto

Many professions, universities, schools and other bodies committed to education, research and the dissemination of knowledge have a motto that highlights their focus or *raison d'être*. Whilst I readily acknowledge that some mottoes may be lost in antiquity or considered irrelevant, they can, if chosen appropriately, send a very clear signal to all members (and to student members, in particular) about the fundamental foundations of their profession and the meaning of belonging.

For instance, those of us who were student members of the UK Institute remember that part of the Institute's motto, quoted from Francis Bacon, is:

I hold every man a debtor to his profession.

And so, as we enter the new millennium, as we celebrate the centenary of our country, as we host the Olympics and as we continue to grow and mature as the actuarial profession in Australia, it is timely for us to try and find a motto that encapsulates some of our most basic principles.

What should these be? Let me suggest that the element of high quality service and professional standards must be present together with an outward looking focus. Such a motto could be included in relevant publications and would, over time, start to affect the ethos of our profession.

Here are four to start you thinking.

Integrity without knowledge is weak and useless, and knowledge without integrity is dangerous and dreadful.

Samuel Johnson

The service we render to others is really the rent we pay for our room on this earth. It is obvious that man himself is a traveller; that the purpose of this world is not 'to have and to hold' but 'to give and serve'. There can be no other meaning.

Sir Wilfred T Grenfell

For anything worth having one must pay the price; and the price is always work, patience, love, self sacrifice – no paper currency, no promise to pay, but the gold of real service.

John Burroughs

The improvement of understanding is for two ends: first, our own increase of knowledge; secondly, to enable us to deliver that knowledge to others.

John Locke

No doubt there are many other options; some traditional, some modern. If you have a suggestion or any opinions, please let me know before the end of January, so that the February Council meeting can consider the issue.

3.5 Integrating with Other Professions

Section 3 has thus far discussed some possible responses to the ongoing changes that are currently occurring within our society. These changes also mean that we can no longer operate in isolation from other professions or bodies. Each one of us is working within an environment where old boundaries are becoming blurred and many problems cannot be treated from a single perspective. A more holistic approach is often needed with input from several disciplines. This is a positive development as the ultimate solution is normally a better one than would have occurred from one perspective.

As a profession we need to recognise this development and further enhance our relationships with other professions. Traditionally, we have had links with the accounting profession. These should be maintained and developed. However, we need to lift our horizons and be ready to cooperate with a larger number of professions and organisations. This can help us understand a wider range of perspectives and views and, in turn, contribute an actuarial perspective to a much broader set of issues. Some particular possibilities of integration are discussed in the next section.

4 Integration

4.1 Working with Other Groups

As mentioned in Section 2.2.3, one of the identifying characteristics of our profession is our multi-disciplinary set of skills. This can be a real advantage. However this diversity also presents the profession with some difficulties.

First, and as mentioned earlier, it means that our education requirements need to incorporate developments from a number of related disciplines. We therefore need to ensure that our education reviews are sufficiently broad.

Second, in an era of specialization, it may mean that we get squeezed out from some work areas as our members do not have the specialization expected. Parts of the finance industry represent a recent example.

Third, we must recognise that in many cases we are not specialists in each of the related areas. We must be humble and be ready to recognise our shortcomings and to act to overcome them. An example is the senior financial management roles within some organisations offering a range of financial services. The actuarial qualification is a beginning but individuals must be willing to encompass skills and approaches used in other parts of the business, if they wish to be considered for broader managerial roles.

Of course, these difficulties are not all bad news. They also represent opportunities. Let me make some brief comments to each of these challenges.

First, as mentioned above, we must continue to improve our education programs. Greater international cooperation and communication should assist this objective.

Second, whilst acknowledging the need for specialists, I believe there is a real opportunity for the ‘big picture’ person at all levels in our society. So many decisions are concerned with the next 3, 6 or 12 months, the longer term is often forgotten. Whilst the longer term may not be as long as it was in the past, there is a great opportunity for actuaries to be involved in many corporations, both within and beyond the financial services sector.

Third, our links with a number of disciplines provides us with opportunities to lead. As Rinnooy Kan (1992), in discussing the actuarial profession, noted:

It is a very broad discipline indeed ... The actuarial profession has interfaces everywhere, and it is only proper to train Actuaries in full awareness of the importance of these interfaces.

We need to develop further these interfaces and, in so doing, broaden the activities and input of the profession. I am not suggesting that this will be easy. We have been talking about the wider field for many years. However, there is an increasing awareness within our community that we need to recognise the value of multi-disciplinary approaches. Furthermore, some of these areas are relatively new and there is no dominant profession or group. There are opportunities to take the initiative and, whilst working with other groups, to further the understanding of longer term risks and to develop possible solutions.

For instance, we may be well placed to establish multi-professional committees in a number of areas that cross normal traditional boundaries. Possible examples are many, but could include:

- The impact of genetic technology on commerce, insurance and society;
- The impact of global technology and markets on the finance industries;
- The long term implications of certain environmental decisions;
- The impact of the reform of our taxation system on the level and type of medium-long term savings;
- The financing of the ageing population as it affects health and aged care;
- The development of a fair and sustainable health system; and so on.

In these cases, the Institute would recognise the multi-disciplinary nature of the problem and work with other groups in the long term public interest. Depending on the issue, we could be involved with accountants, doctors, economists, engineers, environmentalists, finance professionals, geneticists, health professionals, lawyers, statisticians, etc. A recent illustration from the UK is the establishment of the UK Forum for Genetics and Insurance with representatives including actuaries, consumers, geneticists and insurers.

Such a project, in just one or two of these areas, could be very exciting and rewarding, for the individuals involved, the profession and the community. Naturally, it would take time and effort. However, in my view, the profession must be ready to support such activities as the longer term benefits may be very significant.

Questions for discussion: *In which areas, should the Institute explore establishing a multi-professional task force or forum to tackle future problems? Which organisations should we work with? Are you willing to participate in these new ventures?*

4.2 Broadening our Membership

Traditionally, membership of the Institute of Actuaries of Australia has indicated that the person has acquired a set of skills and knowledge by passing a set of actuarial examinations, set or accepted by our Institute. In the mid 1980s we acknowledged that Fellows from certain other actuarial organisations (such as the Institute/Faculty or Society) had similar standards and that after a prescribed residential period in Australia and attending our professionalism course, these members could become Accredited Members and then Fellows of our Institute. No more examinations were needed.

As mentioned above, the concept of mutual recognition is now broadening and I would expect this trend amongst actuarial bodies to continue. The benefits of a global community are considerable.

However, the more difficult issue is to consider whether, and if so how, we should broaden our membership beyond those who have completed a set of actuarial examinations through a similar organisation.

The UK Institute and Faculty have introduced two new membership categories. They are:

- Honorary Fellows (Hon FIA/FFA) who would be individuals operating in a field related to or impacting on the actuarial profession; and
- Affiliates who would be professionals, academics or managers working in actuarial or associated fields.

The motivation behind this change was to create a larger and stronger profession and, in particular, to change 'to a profession offering expertise in the practical application of financial modelling and risk quantification in all areas of business.' It is also suggested that these invited individuals 'would kick-start the involvement of the next generation of actuaries in wider fields'.

We have not had a debate on this topic within the Australian profession in recent years. However, let us note how the Australian Prudential Regulation Authority (APRA) expressed the role of internal experts in its 1999 Policy Discussion Papers on the general insurance industry.

Of the four regimes currently supervised by APRA (life insurance, authorised deposit taking institutions (ADIs), superannuation and general insurance) the general insurance framework places least responsibility on internal experts. Life and superannuation have statutory roles for actuaries while ADI prudential regulation requires a series of statements involving a 'group risk manager.'

As highlighted by the formation of the integrated regulator APRA, we must recognise that our previously distinct financial services industries are integrating at a rapid rate and that this trend will continue. As a profession we have had a long term responsibility in respect of life insurance, have had responsibilities in respect of some forms of superannuation and are likely to be given a growing responsibility in general insurance. However, we have been given no responsibility in banking and have very few members employed directly in that sector.

Yet, the work and responsibilities of a group risk manager in a banking group have many similarities with those of the Appointed Actuary role in life insurance. Furthermore, with the growing trend towards financial conglomerates, the role of the group risk manager may become the senior management position in terms of financial risk management in these multi-industry conglomerates.

It is recognised that individuals who are group risk managers in ADIs have a variety of education, background and experience. As a group they do not belong to a single profession, and are therefore not subject to a particular professional code of conduct.

In contrast, Appointed Actuaries are subject to our Code of Conduct and Professional Standards and these represent an important factor in the willingness to give Appointed Actuaries significant responsibilities.

I believe that, as a profession, we need to establish ways to link up with these individuals who clearly have the training and experience to accept the significant responsibilities associated with group risk management roles. I therefore propose to establish a short term Task Force to explore ways of how we could amend our membership such that these individuals can join our Institute with appropriate recognition, and receive the corresponding benefits.

Such a move could have significant benefits for our profession as it could immediately expand the practical definition of actuaries whilst also giving us a much closer relationship with the banking sector. As suggested by the UK Institute/Faculty, it may also lead to input into our education and CPD programs with significant long term benefits. However, I also hope that the group risk managers would see some benefits from joining our Institute and becoming subject to professional standards.

Questions for discussion: *Would you be willing to support a change in our membership definitions to accept group risk managers in banks and financial conglomerates as full members of our Institute? What criteria would you suggest?*

4.3 Recognising our International Membership

We are an international professional body. We are not only increasing our international links but an increasing proportion of our membership resides outside Australia and New Zealand. The following table shows how this proportion has developed over the last 12 years.

Table 1
Membership Outside Australia and New Zealand

Year	Fellows		Acc. Members		Associates		Students	
	No.	%	No.	%	No.	%	No.	%
1987	32	6.4	0	0	12	6.3	7	1.2
1993	58	7.6	7	23.3	32	9.6	22	5.0
1999	160	14.7	8	27.6	63	13.1	13	5.7

These figures show a very clear and significant trend. It is evident that not only are Australian actuaries working overseas but there is also an increasing number of graduates from our University programs who are working outside Australia. Indeed, when we add the New Zealand members, 19.5% of our non-retired Fellows and 20% of our members work outside Australia. We must recognise that our Institute is an international actuarial organisation. As at September 1999, our members lived in 34 countries with 82 members in the UK, 70 members in New Zealand, 55 members in Hong Kong, 24 members in the US, 23 members in Singapore, 16 members in Malaysia and so on.

I find this development very exciting. However, it also brings with it new responsibilities for our Institute and for Council in its deliberations. Whilst Australia remains our major focus, we must always remember that we have professional responsibilities and opportunities beyond Australia. In particular, we need to work closely with our members in the East Asian region.

With this in mind, it is important to note that tensions can exist when educating students who are going to work in a range of different environments. For instance, while some functions of actuaries are reducing in one country (say Australia) they may be continuing or increasing in another. As an example, very little traditional life insurance is now sold in Australia and it is therefore very tempting to remove references to it in our education material. However, such products represent the backbone of the life industry in other countries.

Therefore, as we recognise our increasingly international orientation, with both increasing numbers of overseas students and Australian members operating in other countries, we must ensure that our education is broader than Australian customs or markets. We are now, both an actuarial educator on the international scene and an international professional body.

Questions for discussion (*especially for our overseas members!*): *What is the best way of supporting overseas members of our Institute? What services are most valuable and/or can be improved? Are there elements in our education process that place non-Australian students at a significant disadvantage?*

5 Summary

5.1 Our strategic direction

During the last three years, the Institute has developed and adopted a strategic plan. Whilst any strategic plan must be a dynamic document, the six key issues are worth repeating. They are:

- Customer focus of the Institute for members and the profession for clients;
- Market penetration of existing markets: i.e. more services to existing clients;
- Market development: i.e. applying our services and contribution in a wider range of industries and fields of endeavour;
- ‘Product’ development – where the actuary is the product, and skill development enhances our marketability;
- Role of the profession represented by the Institute and its members; and
- Role of the Institute in extending our influence – there are significant policy issues where we have a valuable, and in some cases, unique contribution to make.

The issues raised in this address are consistent with this overall strategy. For example, a stronger emphasis on continuing professional development will enhance the ongoing development of actuarial skills and subsequently, an enhancement of actuaries’ marketability. Similarly, increasing involvement in public policy issues and interaction with other professions will improve the public role of the profession as well as helping, over time, the market for actuarial skills. Likewise, increasing our involvement through the International Actuarial Association and with our overseas members will enhance the role of the Institute on the international scene. Finally, we must ensure that the services provided by the Institute are consistent with the needs of our members and with our overall strategy.

However, before concluding, it is worth noting that there are some common trends between our direction and those being adopted by the actuarial profession in many countries.

For instance, the 'Vision and Values' document, published by the Institute of Actuaries and Faculty of Actuaries in December 1998, stressed the following two implications:

- *We will apply our skills across a much wider range of businesses.*
- *We will have a strong reputation for being a profession which is concerned with the public interest.*

Similarly, the Society of Actuaries is adopting an approach that seeks to:

- develop new practice areas;
- broaden the attractiveness of actuarial education; and
- improve the visibility of the profession.

Finally, Peter Kuys, the well-known European actuary, speaking to almost 400 delegates at the 10th East Asian Actuarial Conference in October 1999, highlighted the following areas of professional challenges:

- seek roles in integrated financial services;
- focus on unique selling points, namely integrity and professionalism;
- competition from other disciplines;
- get ready to be re-educated and earn trust; and
- PR and marketing of the profession.

Again, the themes are very similar. Whilst the actuarial profession in each country has a different history and structure, with its own strengths and weakness, a common direction is very clear.

Currently, I believe that the Australian Institute is relatively well placed when compared to many other national actuarial bodies. This is a credit to our leaders from previous years. For example, there are established actuarial programmes in leading Australian universities; actuaries are working in a number of non-traditional fields, although not as many as we may desire; and we have witnessed increasing reputation and respect, both with the Federal Government and the community. However, the need to tackle these topics continues and it is therefore appropriate that they remain very important elements of our strategic plan.

5.2 Conclusion

As we move into the year 2000, our profession cannot afford to rest on its past record. There are many challenges. However, I am confident that we can respond. To do that, I have suggested three essential features for our profession.

- ⑨ Integrity is fundamental. We must maintain our high standards of professionalism and skills and ensure that, as far as practicable, these are developed and broadened throughout an actuary's career. Our integrity, including our public roles, remains our most fundamental characteristic.
- ⑨ Innovation is necessary. We must be ready to respond to the challenges at all levels. Some of these will come from other disciplines, others will come from governments, whereas others will have a global flavour. Without positive responses to these challenges, our profession will be threatened.
- ⑨ Integration is needed. We cannot afford to be inward looking, either to ourselves as actuaries or within Australia. We must be willing and ready to cooperate with others, both in multi-disciplinary activities and internationally.

If we continue to strengthen our commitment to these concepts, we will become a respected, developing and contributing profession. As a result, we will be serving the public interest and the world will be a better place. If that is not the outcome, we will have failed as a profession.

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