Actuaries in General Insurance - Past, Present and Future
(or The Meaning of GI)

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ABSTRACT

Actuarial involvement in general insurance has grown from a minor role in the 1970’s to a very significant role (including statutory responsibility) over the last 30 to 40 years. The increase in actuarial involvement has seen a substantial increase in the numbers of actuaries employed by general insurance companies as well as a large increase in the breadth of roles undertaken by actuaries.

The growth in actuarial roles has benefited the profession considerably though some actuaries are now querying whether the developments have all been positive.

This paper summarises the past, current and potential future roles of actuarial involvement in general insurance and provides a summary of the key changes to the role of the actuary over time. In addition the paper considers the extent to which actuaries are adding value versus being a statutory burden and looks at the key risks that are expected to be faced by actuaries in the future (and which the doomsdayer predicts will come sooner rather than later).

Monty Python’s The Meaning of Life has been used as the basis for setting the structure of the paper, thus leading to the alternative title, The Meaning of GI. Not having seen the film will not impact on the reader’s understanding of the paper but may result in an unfulfilled life.

Key words: actuaries, general insurance, actuarial involvement, future roles, Monty Python, Collingwood.

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Part I – The Miracle of Birth

The precise timing of actuarial involvement in general insurance is both debatable and largely irrelevant. It is generally considered that “meaningful” involvement of actuaries in general insurance (GI) in Australia commenced in the mid 1970’s. At that stage there were a few actuaries who started to apply their actuarial training and experience in life insurance and superannuation to general insurance business. In the “early” days there were a few consultants providing predominantly reserving advice and some actuaries taking senior management roles within general insurance companies.

Through the late 1970’s and early-mid 1980’s the involvement of actuaries in GI grew quite significantly though off a small base. It is estimated that there were around 25 Fellows working in the area in 1985. Whilst a range of advice was provided, reserving work dominated the landscape. Few companies had detailed technical pricing models and actuaries were typically not used to develop rating structures. A notable exception was the NRMA which undertook technical pricing and had actuaries in their pricing team.

During this period there was no requirement for an insurance company to use an actuary however extreme levels of inflation were placing significant pressure on insurers’ standard basis of reserving relying on case estimates. In particular, periods of high claim inflation in workers’ compensation and CTP meant that insurers had some big loss years and they wanted to understand what provisions they should have, as a first step towards understanding what premiums they should charge. A particular significant driver was the problems of several State Insurance offices – SIO in Victoria had high growth in claims costs without premium growth and looked to have a huge unfunded liability in CTP. Actuarial estimates allowed for inflation and superimposed inflation and hence provided much better estimates of future claims costs.

Most general insurance actuaries worked in consultancies during this time with actuaries within insurance companies tending to be the sole actuary or working in a management/non-actuarial role. Most insurance was privately underwritten though several accident compensation schemes were in the early stages of formation.

The main work undertaken by actuaries was reserving and there was a range of opinion in relation to appropriate methodologies. The methods of prominence were the chain ladder, the inflation-adjusted chain ladder, the separation method and the payments per claim incurred (PPCI) method. Each method was capable of being applied with a calculator and paper.

It is worth noting that most of the actuaries in the early years of GI involvement commenced in areas other than GI (typically life insurance or superannuation) and many did not study the GI course. To some extent the lack of specific GI training reflected the fact that there wasn’t any. Thus, the “founding fathers” were also the developers of the initial GI methodologies and education.
Part II – Growth and Learning

The late 1980’s and 1990’s saw rapid growth in the number of actuaries working in general insurance with most, but not all, of the growth in consulting firms. Numbers of Fellows increased in GI from around 25 in 1985 to 30 in 1990 and approximately 95 in 1997. Of the 95 Fellows in 1997, we estimate that about three quarters were in consultancies.

During this time changes to tax laws and accounting standards saw increased actuarial involvement. In his paper to the 1991 Biennial Convention, Chris Latham noted “We are now in the position where it is common for auditors to insist that their clients seek actuarial advice, and their accounting standards will in future strongly encourage our use...The recent decisions of the two major accounting firms to establish actuarial divisions (admittedly practising in other areas in addition to general insurance) are I believe a testimony to our acceptance by the accounting profession as important participants in the industry.”.

The development of the 1988 Practice Note on outstanding claims assisted in the acceptance of actuaries by insurers, regulators and accountants. In addition, the actuarial certification of NSW and Queensland CTP premiums introduced a considerable ongoing role for GI actuaries.

The development of accident compensation schemes across a number of jurisdictions saw actuaries become involved in the determination of premiums and the valuation of outstanding claims liabilities. Schemes tended to use consultants and typically did not have actuaries on staff.

With the increased roles and numbers of actuaries there was also considerable development and bedding down of methods. Technology improvements paved the way for developments in actuarial methodology:

- Mainframe computers allowed more detailed models to be developed;
- The introduction of PC’s added flexibility and speed;
- The availability of detailed databases from accident compensation schemes led to improved modelling and greater demand for granular data;
- Competition in personal lines, particularly domestic motor insurance, and advances in computer processing power led to statistical pricing with actuaries being significant players in these developments.

In addition to technological developments, the education system was advanced by the enhancement of the Australian GI course including the development of the GI text book. On the commercial front, the growth and stature of the biennial GI Seminar and Accident Compensation Seminar provided a forum for actuaries to interact with industry executives and to either share ideas or show their wares.

Whilst the role of actuaries had expanded dramatically and there were a handful of actuaries in senior executive positions, the use of actuaries tended to be reserved for the technical aspects of the business – predominantly reserving, domestic lines pricing, statutory premium certification and the calculation of impacts of scheme changes in accident compensation schemes.

There was considerable consolidation of the Australian GI market over this period yet in several cases it appears that there was limited actuarial involvement. To some extent this is not greatly surprising. The actuary’s role would have been to review the reserves held in the accounts and potentially make some observations about the adequacy of current premium rates. While valuable pieces of information their impact on sale price was minimal and actuaries had limited influence in other areas such as changes to solvency, taxation and accounting standards.
Part III – Fighting Each Other

It is quite possible that there have been some physical tussles between GI actuaries and there have certainly been some verbal stoushes. That, however, is not the topic of this section. By “fighting each other” we are referring to competition:

- competition between consultancies;
- competition between actuaries within insurers versus consultants;
- competition between actuaries for jobs;
- competition between technical and pragmatic.

The late 1990’s and the naughties saw increased growth of actuaries in general insurance though, for the first time, a large part of the growth related to insurance companies rather than consultancies. The quantum of consultants’ fees had encouraged some insurers to develop internal actuarial teams.

The failure of HIH not only resulted in a few actuaries making the news for unwanted reasons but also lead to the introduction of new APRA standards and the Approved Actuary role in 2002 (subsequently “downgraded” to Appointed Actuary). This further encouraged insurers to employ staff actuaries. We estimate that the numbers of Fellows working in general insurance grew from around 95 in 1997 to approximately 300 by the end of 2008. The growth in the actuarial teams within insurers was considerable with many teams growing from a handful of people to 30 or more – the actuarial teams within the large insurers started to outweigh the numbers within the major consultancies.

The relationship between consultant and in-house actuary has varied between companies and over time within companies. Some general insurers have continued to use consultants extensively while others use consultants infrequently and have consistently operated that way. A common path in the development of the “in-house” actuarial team has been to:

- Initially rely on consultants for most technical pricing work and reserving with the in-house actuaries providing the conduit between the consultants and management;
- Develop in-house pricing expertise, leaving the reserving and related work in the hands of consultants;
- Move regular actuarial work to be in-house with consultants used as peer review, resource overload or for specialist knowledge.

A common observation from non-actuaries within insurance companies is that the actuarial teams appear to have a life of their own – “what do they all do?”. It does seem to have been the case that one actuary getting into an organisation has acted as some form of actuarial virus creating continually larger amounts of actuarial work. We consider that a large amount of the work development has been warranted and is valuable to the insurer. We contend, however, that there is an element of this work which is now being undertaken by staff other than actuaries. Business analysts are providing business metrics and reporting that were once the domain of actuarial staff and the internal actuarial teams need to continually look for new ways to leverage their skills and add value to insurance companies.

Whilst not exactly fighting each other, the development of in-house actuarial teams has seen the sway of actuarial work move from consultants to insurer-employed actuaries. In many cases this has changed the way that consultants deal with their clients – they are now more likely to present technical information and expect to be more rigorously challenged on points of a technical nature. In several cases this means that there is effectively another link in the chain and the consultants do not necessarily get the opportunity to present or discuss results with (non-actuarial) management or they need to work more closely with senior internal actuaries to present a view that does not jeopardise either the independence of the consultant or the position of the internal team.
The statutory requirement for External Peer Review (EPR) has placed actuaries in a more challenging position. The potential for the EPR to end up a slanging match between actuaries is huge. Fortunately, the EPR professional standard has placed useful parameters around the role of the EPR and this has, to a large extent in the authors’ view, reduced the potential for duelling actuaries. Not surprisingly, some actuaries take a more adversarial approach than others and there have been some circumstances that have been less than glowing for the actuarial profession.

The statutory roles have arguably assisted in the growth of the actuarial teams within at least some of the “Big Four” accounting firms. There also appears to have been a simultaneous “reinterpretation” of the auditors responsibilities which has seen the auditor require an actuary within the audit firm review the provision for insurance liabilities which can lead to the somewhat farcical situation of the provisions passing through three sets of actuaries – the Appointed Actuary, the EPR Actuary and the audit actuary.

It is to be expected that increased numbers of actuaries will lead to increased competition in a fixed market. Several senior actuaries observed that this increased competition is likely to have led to increased specialisation. This has been exacerbated by insurers’ desire to refine pricing models and to maximise capital efficiency.
Part IV – Middle Age

Are we now in the middle age period of actuaries in general insurance? If not, we’re pretty close. Most insurance companies have significant actuarial teams, the growth in consultant numbers has slowed (though not stopped) and accident compensation schemes have pretty much levelled off in terms of their use of actuaries. We haven’t reached saturation point for actuaries in general insurance but the rate of growth has slowed considerably.

Determining exact numbers of actuaries currently working in general insurance is not as easy as one might expect. Discussions with a range of actuaries and information about their organisations has led us to estimate that there are approximately 350 Fellows working in general insurance or accident compensation with a further 400 actuaries/Associates/actuarial analysts (subsequently referred to as non-Fellows). For members in Australia, we estimate there to be around 325 Fellows and 365 non-Fellows.

In terms of various sectors, for members in Australia we estimate that there are:
- 190 Fellows and 200 non-Fellows working in consultancies;
- 125 Fellows and 160 non-Fellows working in insurance companies;
- 10 Fellows and 5 non-Fellows working in accident compensation schemes;

Thus, the balance between consultants and insurance company employed actuaries is approximated 55/45.

Figure 1 shows the current mix of Fellows and non-Fellows in GI by sector pictorially.

**Figure 1 – GI actuaries by Sector**

In terms of type of work being undertaken, we estimate breakdown summarised in Figure 2.
From Figure 2, clearly reserving still dominates the work undertaken by GI actuaries. We note that reserving in this context includes the work associated with the statutory reporting required by the Appointed Actuary and the EPR Actuary – so some elements (e.g. the FCR) are not strictly reserving.

Pricing makes up around a quarter of the work undertaken by GI actuaries. We do not have details but it is likely that a majority of this involvement relates to personal lines pricing and, in particular domestic motor and householders insurance. Nevertheless, actuaries do have significant roles in pricing for CTP and workers’ compensation as well as input into the various elements of prices in commercial lines.

The remaining aspects are small compared to reserving and pricing but arguably more important in terms of the future expansion of the profession in GI. Most of the capital work takes place in the largest insurers and relates to their development of internal capital models. The management roles reflect actuaries “working in the business” rather than part of the actuarial team, while the advisory and non-traditional roles are quite varied but arguably the area with the most potential for expansion.

The range of experience of people working in actuarial roles is considerable. Consequently, the roles that actuaries fulfil are wide-ranging. The range of roles and increased numbers mean that not all actuarial roles will be senior positions – there’s only so much room at the top!

There is mixed opinion amongst actuaries about the impact of the expanding roles of actuaries within insurance companies. Several consider that the “need” to accommodate more actuaries necessarily means that there will be increased numbers of actuaries doing relatively menial and/or repetitive tasks. It is a common view that the “good operators” will find their way into senior positions and will be well respected but that these people are becoming a smaller proportion of the increasing numbers of actuaries entering GI.

The current mix of actuaries and with an increased number working within insurance companies as opposed to consultancies raises the question of how professional standards are being upheld. Most consultancies have sign off policies which ensures that at least one senior actuary signs off on all (significant) advice. The structure that can be applied in a consultancy does not work within an insurer. It has been pleasing to find that most insurers have a process for encouraging compliance with professional standards though there is significant reliance placed on the professionalism of individuals compared with the structures within consultancies.
With the increased reliance placed on individuals we anticipated that GI actuaries would seek additional assistance from the IAAust. Interestingly, the large majority of actuaries interviewed consider the IAAust undertake the role of a licensor, as opposed to providing member services. This is at odds with the strategy of the IAAust established around five years ago which sought to move the IAAust from that of a licensor to a member services organisation. It seemed that most actuaries were not overly interested in utilising the IAAust as a member services organisation. What is not clear is whether this reflects:

- the seniority of those interviewed and that they have less “need” for the IAAust in their current role;
- whether the licensor role of the IAAust is what they are used to and have not considered how they might benefit from a member services focus;
- whether member services should be targeted at new/junior members, for education to develop new actuaries and for those actuaries in small organisations who don’t have access to the resources of the larger organisations; and/or,
- the most important aspect is the brand of an actuary and individuals will only remain associated with the IAAust while the brand is of sufficient value.

The recent change to the actuary designations raises some interesting issues in relation to the acceptance of a non-Fellow actuary. Based on our small sample of actuaries it appears that those within insurance companies are relaxed about the designations change – the individual with succeed or fail based on their deeds rather than their qualification. Those in consultancies tended to have an opposing view – that the change is an erosion of the brand of actuary. We consider that the view of the consultants reflects the difficulty individuals (or consultancies) can have in differentiating their skills/products from others. The change in designation muddies the waters with even more actuaries competing for work (and some at much cheaper hourly rates). The recent relaxing of the wording in the Code of Conduct arguably increases the difficulty for consultants to differentiate their services.

Some of the senior actuaries within the accounting firms have observed that there are now a generation of actuaries who have “grown up” in an accounting firm. They observe that these actuaries tend to have more of a compliance outlook and consider that too much of the focus is on compliance rather than ensuring that the answer is both correct and meets the needs of the business. Of course this is a generalisation but it is evidence of a change in the “genes” of the GI actuary.

In terms of where we’ve got to, let’s test how we’ve gone against Chris Latham’s “check list” from his 1991 paper:

- Stronger personal contacts within the various regulatory organisations – tick
- Encourage ISC to ask for actuarial reports on outstanding claims – tick
- Promotion of financial condition reports for general insurers – tick
- Members encouraged to raise issues with the GI practice committee – tick(ish)
- GIPC to be able to respond promptly – tick
- More activity outside of Sydney - ????
- Formulation of standards on reserving – tick
Part V – Live Organ Transplants

The proliferation of actuaries in general insurance and technological developments have seen considerable developments in actuarial techniques in recent years. Increased numbers of students undertaking PhD’s in actuarial studies, competition between insurers and the need for leading edge techniques by consultants will undoubtedly see continued development in actuarial techniques across a range of areas.

In 1954 the first human live organ transplant was successfully completed. At the time many people thought that it was a miracle and certainly not a sustainable practise. Some 50 odd years later, live organ transplants are relatively common place and an accepted feature of medical science.

Just like live organ transplants, new reserving and pricing techniques are considered cutting edge and “too good to be true” by some. Ultimately, however, many new techniques will end up being a standard part of the actuarial toolkit. Examples of “recent” developments include:

- Statistical case estimates
- Statistical pricing
- Dynamic financial analysis
- Data mining
- Price optimisation.

Developments likely to be observed in the short-term include:

- Stochastic reserving and monitoring
- Automated monthly reserving
- Text mining
- Practical application of copulas
- Social network mining.

There are elements of the actuarial profession that are still unconvinced by the stochastic approach to solving problems. There is even greater resistance from the traditional insurance executives within the insurance industry. These “blockages” have restricted the prevalence of new methods in the current actuarial landscape but they will not, ultimately, be able to prevent them. This will particularly be the case as the availability of data increases and the technology available to analyse the data improves.

Whilst the move to more advanced techniques is, in the authors’ view, inevitable, actuaries must ensure that methods do not extend beyond the level of complexity warranted for the issue being assessed. Further, actuaries must maintain (or improve) the level of understanding of the underlying business and ensure that model outcomes are both relevant and practical.

It is worth noting, however, that many of the technical developments will be like live organ transplants in that they fix or improve a localised issue. Actuaries must be careful to not focus too heavily on “fancy” techniques but consider their place in the whole picture. Similar to there being no point focussing on lung transplants if the population is encouraged to smoke cigarettes, there is little point developing a complex reserving model to deal with a $1 million liability.
Part VI – The Autumn Years

As the actuarial profession reaches old age in the general insurance industry how will it fare? Does the outlook for market over the next 10 to 20 years look much different to today?

The views of senior members of the general insurance actuarial community vary, although there are a range of areas where views are surprisingly consistent.

As highlighted previously, views about the impact of designations changes vary. Interestingly, there tends to be a negative view from actuaries working in consultancies verses a neutral to positive view from actuaries in insurance companies. We hypothesise that this reflects the relative importance placed on professional standards and firm reputation. An insurance company has staff with a broad range of backgrounds and experiences and individuals are judged on their performance, more so than expectations of their output. Consultancies survive or thrive based on their reputation – most place some restrictions on the signing of advice requiring a partner, principal or director to sign off on all material advice. The small “a” actuary has placed pressure on the consulting firms to review their practices however they have little, if any, impact on the actuaries within insurance companies.

Views about actuarial involvement in general insurance over the next 5, 10 to 20 years tended to be reasonably consistent:

- The numbers of general insurance actuaries will continue to increase, although saturation point will be reached in the short to medium term. Insurance companies with small internal teams will most likely grow until a majority of actuarial work is undertaken in house. As a result, consulting firms will either cease to grow (or even contract) unless they move into new areas (which may, or may not be, within general insurance). The consulting firms will be utilised to provide specialist advice or secondment resources;
- In the short term, new and additional regulatory requirements introduced by APRA will lead to additional actuarial roles, not least due to the additional complexity and the need for actuaries to be able to interpret and explain the implications to management. Further, if and when, new accounting standards are implemented, actuaries will be required to determine their implication;
- The increase in “technical” actuaries will see increased involvement in catastrophe pricing, capital management and determination of risk appetite though it is not clear that actuaries will have a role in the policy setting or decision making and could be limited to providing the inputs to those making the decisions;
- Actuaries will move further into business roles where they do not undertake traditional actuarial work. There is potential for the technical actuary to be “pushed” into a back room role while the management actuary works “in the business”. This will place increased pressure on those individuals to understand and interpret the boundaries between commercial advice and the requirements of professional standards;
- Actuaries will fulfil a broad range of roles and will have quite varied skills. There will be “technical” actuaries and “management” actuaries and there will be good and poor actuaries in each “bucket”. The days of “buying” an actuary and getting a one-size-fits-all actuary are gone. Purchasers of actuarial services will need to be more discerning to be able to understand the qualities of the actuary that they are getting;
- The roles that actuaries play will come down to their individual personalities and strengths. At the end of the day, the actuaries filling senior roles will be more than actuaries and be able to be general managers. As with much of the population there will be those that are able to make the transition and others who will be better suited to being the expert specialist. Neither is a bad role;
• The expectations of technical actuaries will grow in terms of them being expected to be able to explain results. i.e. even technical actuaries will be expected to be competent and inspirational people managers, reliable managers of budgets and resources, productive participants in strategic discussions, and generally knowledgeable about a range of business and economic issues – that is if they want to be able to maintain relatively high levels of remuneration;
• There will be increased pressure on actuarial managers within insurance companies to justify the use of their actuarial team and why some tasks should not be moved to capable but much cheaper resources. This will ultimately have the impact of reducing actuarial salaries for those actuaries/analysts who work in these areas;
• Actuarial advice to accident compensation schemes is likely to remain similar to the current situation unless national accident compensation schemes are introduced. The relationship of these schemes with Governments and the political desire for an independent assessment will prevent schemes from taking their actuarial valuations fully in-house. That said, there is some potential for the bulk of the work to be done in-house and with an external actuarial sign off
• “New” actuaries will not have the same level of respect as their counterparts entering a decade ago. The new actuary will typically lack the work and life experience of their predecessors – a fact of becoming an actuary almost straight out of university as opposed to the best part of a decade studying whilst working. The starting salary for new actuaries will decline and the new actuary will not be “guaranteed” a path to a senior role and/or high salary;

Some of those interviewed made observations about the current state of play without drawing a conclusion about where the issue might head in the future:
• Actuaries have the skills to lead accident compensation business operationally but don’t. Does that reflect a skill base that is missing or is it more reflective of the sacrifices that are required for a senior actuary to take on such a role?;
• The IAAust has tended to be reactive in relation to submissions and public policy. Will the IAAust be able to maintain relevance with such an approach going forward?
• The skills of GI actuaries are suited to a range of areas outside of insurance. Will they have the soft skills to be able to succeed in other areas and how will they compete with competitors who are able to provide services at a significantly lower cost?
• The “founding” GI actuaries are now at the stage where they “should” be moving out of executive roles and into directorships. Will the founding GI actuaries be able to develop a path to Boards for subsequent generations of actuary to follow?
• The characteristics of students attracted into the university courses do not match the characteristics of what is envisioned as a “good” actuary. Can we expect the future of actuaries to develop beyond the “backroom” without significant changes to the types of students attracted to actuarial studies?
Part VII – Death

There are actuaries who believe that Father Time on the President’s medal is the Grim Reaper and that he will strike down on actuaries in general insurance with devastating consequences in the not too distant future. These actuaries look at the fate of actuaries in superannuation and life insurance and see limited ongoing roles for actuaries in general insurance.

On the other hand, there are some actuaries who do not believe in mortality, or at least not the mortality of the profession. They consider actuaries to have the skills and training that will always be required by general insurance companies and that the future is secure.

The reality is that the future is dependent on the market, and actuaries’ ability to adjust as markets change and to develop new paradigms. Actuaries did not adjust to the move in superannuation from defined benefit to defined contribution or at least not sufficiently to be seen as key advisors in the defined contribution landscape. Life insurance actuaries arguably failed to adequately identify a reducing market via improvements in technology and mergers in the local market.

What about general insurance actuaries? Have the problems in other practice areas been exacerbated by actuaries’ reliance on statutory roles? Have actuaries lacked the flexibility to keep up with the market? Recent developments in general insurance are positive with respect to actuaries’ involvement. BUT, what about the hundreds of actuaries (and actuarial analysts) involved in the statutory reporting – is that sustainable? Is it sustainable at actuaries’ current salary levels? What about all the actuaries working in technical pricing? How much does getting the technical rate correct to the nearest dollar matter compared to positioning premiums in the market?

In terms of reserving it seems that the increased focus by regulators, increased compliance reports, and the need to meet ever tightening deadlines, is making the reserving process in many companies verge on becoming robotic. An element of process is required, however, many actuaries consider that the focus on delivering figures for the accounts or statutory returns is reducing the ability for both decent investigation/analysis and the opportunity to adequately interact with the business and put forward the key messages from the valuation. Few young actuaries indicate a preference for reserving over pricing or other roles which is of great concern. Reserving is the cornerstone of actuarial involvement in GI (and one with statutory recognition). If there is a stigma attached to reserving then the brightest new actuaries are likely to choose another area to work in. This leads to a weaker level of actuary undertaking reserving and ultimately lower quality reserving. It is not impossible to see this lead to a downward spiral in terms of the statutory roles for actuaries. One could argue that this is similar to the experience observed in the UK actuarial profession whereby the standard of actuarial advice did not keep pace with the times.

As previously mentioned, several senior GI actuaries foresee actuarial involvement GI peaking in the near future and actuaries moving into more specialist roles. As part of this comes the death of the “generalist” – the actuary who works across a broad range of areas. The “generalist” will effectively be an actuary in management as opposed to an actuary performing a range of different technical tasks. The “generalist” as now exists will not be specialised enough in any particular area to compete with the specialised actuaries.

Some GI actuaries see the expansion into non-insurance as being the realm of GI actuaries. The types of modelling undertaken for personal lines pricing can be (once suitably modified) utilised across a broad range of industries – if they’ve got data there’s a fair chance the methods can be utilised. Banking, utilities, telcos and mass retailers are some examples of areas where some inroads have already been made.
It seems that the mantra of modern businesses is that there is a need to keep growing in order to become or remain successful. Certainly this is the current thinking of the IAAust – that the profession is not sustainable at its current (relatively) low level of members. Computer technology and consolidation in the Australian insurance market has reduced the scope for senior actuarial positions, particularly in life insurance. Is growth in the profession possible when the roles that we might fill are potentially reducing? Expansion to new areas is likely to benefit the profession if done by suitably qualified individuals. Of course, the reputation risk if expansion is done poorly could severely inhibit future growth. Growth within GI companies is also fraught with danger. Actuarial departments have expanded rapidly in recent years and having an actuarial team is not cheap. With companies constantly looking to reduce/control expenses, the actuarial department will come under increased scrutiny and could fall out of favour if adequate value is not being provided (or perceived to be being provided).

An example of movements in actuarial roles has been observed in the UK where actuaries undertaking personal lines pricing have been, to some extent, replaced with statisticians – who are cheaper and, in many cases, better qualified to undertake the technical work. This also highlights one of the key challenges facing the profession – the ability to justify actuarial salaries in light of cheaper competing professions.

One question a number of senior actuaries have been asking is whether the current education system is driving us to where we want to go. The entrants to the Australian university courses are predominantly those with an interest in mathematics and an increasing proportion are interested in “back room” roles. There is a very high intake of overseas students and many of the local students have English as a second language. It has been argued that the increase in numbers of students has tended toward the purely technical, theoretical based candidates and that this conflicts with the desired path of the profession.

The medical profession made the observation several years ago that the candidates that they were attracting were not necessarily those who went on to become good doctors. Several universities instituted an interview process to filter the candidates based on personality qualities deemed necessary to be a good doctor.

Many actuaries have commented that actuaries need to be commercial in their thinking and decision making as well as having good communication skills to get the message across. Is it controversial to state that the current university education is not providing those skills? If it is not then the current system needs serious reassessment. Do the entry requirements need a substantial overhaul? Are we destined to a future actuarial profession with no chance of changing the stereotypes associated to actuaries and limited ability to extract ourselves from back room roles?

Death of a profession is typically not instantaneous. It will occur, however, if there is insufficient birth of new suitable professionals to match the decrement via retirement, resignation and life termination. One would expect that this is fairly obvious to actuaries.

The comments above highlight areas of concern which clearly place the profession at risk of a life threatening illness, if not death, unless they are suitably addressed.

To quote again from Chris Latham’s 1991 paper (and not because a current Councillor has indicated that Chris reminds her of John Cleese):

“However we must not be so presumptuous as to believe that our profession is the source of all wisdom – social, political, philosophical. Our wisdom is I am afraid very narrow.”

Whilst the GI actuarial profession has expanded and developed new skills, technology, competition and the developments of other professions mean that Chris’ observation is just as relevant now as it was 20 years ago (hope that doesn’t make you feel too old Chris!).
The comments received from many actuaries appeared to echo these views. Richard Fitzherbert has lamented on the lack of actuarial paradigms. In a very practical manner, others have highlighted that a weakness of actuaries is focusing on pure technical work and that one MUST understand the business.