



Institute of Actuaries of Australia

Shaping the Future: In a World of Uncertainty

2003 PRESIDENTIAL ADDRESS

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Shaping the Future: In a World of Uncertainty

'Prediction is very hard, especially when it's about the future' – Yogi Berra

1 INTRODUCTION

1.1 It is a privilege and an honour to be the next President of the Institute. I was initially motivated to seek election to Council by a desire to put something back into our profession – the maxim that 'every man is a debtor to his profession' seemed very compelling (if not quite politically correct) after a quarter of a century working as an actuary. I had no specific aspirations to seek the role as President at the time and felt humbled and also excited when I was elected Vice President. I am looking forward to the year ahead, which I hope and believe will see the continued development and growth of our profession.

1.2 In his Presidential Address, David Knox contemplated the purpose of these addresses.

He suggested:-

- 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?

1.3 There are elements of all four points above in this address, inevitably flavoured by some of my individual concerns, interests and experiences. In particular, I want to bring some focus to the changes the profession is currently undergoing, where that leads us, and what we need to do to meet this. It is inevitable that some of the discussion has an inward or introspective focus, but I think it is very important to keep an outward focus, to look from outside the profession and to think through the strategic issues.

2 THE PROFESSION EXPERIENCING GROWTH AND CHANGE

Shaping the Future: In a World of Uncertainty

2.1 This is both the title of my Presidential Address and also the theme for the 2003 Biennial Convention to be held in Cooloom from May 18 –21. That theme for the Convention goes on to add 'Public awareness of the issues and risks surrounding the ageing population, superannuation, investment, health financing, insurance, financial reporting and corporate collapses are at an all time high. Actuaries offer unique skills that can be applied across a broad range of issues and industries to help shape the future, near and far. Where risk and uncertainty exist, actuaries can add value. Now is the ideal time for actuaries to adapt to this changing environment and actively guide companies, regulators and governments with their decision-making in shaping the future.'

2.2 In particular, I believe we need to consider actively what we, as a profession, need to do to be able to help 'shape the future'. We should bear in mind where we have come from, how we have developed to date, and that while being modest in size, we are a growing profession numerically. What do we as individual actuaries and also the Institute need to do to continue to grow and adapt to the changing environment? What new skill sets will we need? What other actions do we need to take?

2.3 It is worth reflecting on the final paragraph in Tony Coleman's Presidential Address.

'Although the IAAust has a vital part to play in this process (of taking up opportunities), it is ultimately up to the members of the profession to make it happen. Indeed one of the best ways of predicting the future is to actively shape and create it.'

This points a way to meeting one of the comments at the top of my address 'Prediction is very hard, especially when it's about the future'.

Overview

Some key themes of my address:-

- Our membership is growing numerically. It is also becoming more disparate geographically, and we are seeing a wider diversity of areas where members work.
- Roles and our importance in various sectors of the industry are changing over time.
- In some areas we have legislated roles, which bring with it certain privileges and obligations. In other fields we do not. We have a mix of traditional and new fields and we need to ensure that as we grow and expand we can remain as one profession, providing appropriate education, continuing professional development (CPD) and membership services to all and so retain and grow our membership. We have to find the middle ground of being able to grow as a vigorous vibrant profession, without overextending ourselves or ultimately becoming a subset of the accounting profession.
- In this process of growth, we need to ensure our value system is not lost.
- We remain mindful that we do not have a monopoly right to any area, but need to build on our strong presence in core areas.
- The Institute is active in public policy and plays an important role in influencing the international profession.
- The role of the Institute office is also changing and evolving. There are pressures and strains on what the Institute can do within its budget and available resources.
- This is against a background of changing regulatory environments, increased focus on corporate governance and financial reporting issues, and some focus now being paid to long term social and financial issues at Government level.
- In terms of four key areas
 - The Institute and its Members
 - Public Policy and Current Initiatives
 - Education and CPD
 - Member Services

I report on current activities and issues, consider where future developments are likely, and make comments or raise discussion points. I have chosen to particularly focus on what the Institute and the profession needs to do to help influence our future going forward in a world of uncertainty.

I am repeating here the Institute's current Vision and Mission Statements, as I will draw upon them later.

Vision

To position the profession so that whenever there is uncertainty of future financial outcomes, actuaries are sought after for their valued advice and authoritative comment.

Mission Statement

The Institute of Actuaries of Australia (IAAust) represents the actuarial profession by creating, expanding and maintaining an environment where the skills of actuaries are widely used and valued.

The IAAust

- establishes and maintains professional standards for the protection of the public
- provides pre-qualification and continuing professional education
- creates forums for discussion about contemporary and relevant issues
- promotes research and the development of actuarial science, and
- contributes to and informs debate on public policy

3 OUR MEMBERSHIP

- 3.1 It is very interesting and constructive to look at the data in the tables below. The first table looks at the growth in our membership over the last few years, and includes a forward estimate as at 2005.

Year	Fellows	Other Members	Total
1992	728	742	1470
1993	789	776	1565
1994	848	786	1634
1995	905	792	1697
1996	958	792	1750
1997	1025	803	1828
1998	1082	963	2045
1999	1122	1117	2239
2000	1177	1179	2356
2001	1227	1308	2535
2002	1258	1396	2654
?2005	?1475	?1625	?3100

- 3.2 The second table analyses the current membership by country.

Country	Fellows	Total
Australia	982	2125
New Zealand	42	74
United Kingdom	80	124
Hong Kong	40	121
Rest of Asia	55	109
Balance	59	101
Total	1258	2654

Fellows in this table and in 3.1 include Accredited members.

3.3 The third table gives a comparative breakdown of the type of areas where our Fellows (this time not including accredited members) work.

Principal Activity	1992	1997	2002
Life Insurance	224	317	314
Superannuation	178	218	154
General Insurance	31	94	140
Investment	32	73	98
Banking and Finance	3	31	43
Health Insurance	3	5	13
Software	5	5	18
Education	10	13	14
Management	63	67	45
Energy Markets			4
Other	58	47	26
Not Known			204
Total non-retired	607	870	1073

As with much actuarial work, we have problems with our data. The 1992 and 1997 details have been taken from a table in John Trowbridge's Presidential Address. The methods and data sources used to prepare those tables did not continue through to 2002. In the case of 2002 data, it is drawn from information requested from members on a voluntary basis. The 'not known' column reflects those who did not complete the form, and who perhaps include a fair proportion of members previously classified as 'Other' or 'Management'.

3.4 The Institute will again be seeking updated information from each member on their area of principal activity as part of this year's annual subscription process. Can I urge all members to complete and return the form? As well as improving our data, it will help tremendously in analysing where our members are working, and help us gain a perspective as to whether there is a shift in practice areas, and perhaps from specific practice areas to roles in different sectors. It will also give guidance to the Institute in planning its activities and services, and areas where the Institute needs to focus its public policy and where it represents the profession.

3.5 There are a number of conclusions we can draw from these tables, many of which members may already be aware of:-

- Overall membership continues to grow. The past growth rates have been 5%pa or more and given the inflow of students into the four university courses, it looks as if we will continue to grow.

- Nevertheless, we are a small profession, particularly when compared to the accounting or legal professions.
- The increasing proportion of our membership overseas. In 1993, 7.6% of our membership was overseas, in 2002 it is 19.7%. In particular, a growing proportion is in Asia. To illustrate, our Hong Kong membership has grown from a low base in 1999 to 57 in 2000 and to 121 in 2002. At present we have members in 37 countries.
- The growing proportion of our membership that practises in the areas other than life insurance and superannuation, and in particular the impressive growth in general insurance. It was at the Sanctuary Cove Convention in 2001 that Tony Coleman reported that the proportion outside life insurance and superannuation had grown above 50% for the first time. The movement of the profession into the 'wider fields' can be discerned from the table, but it is not emphatic. However, the limitations on the data may well be impacting on this.
- The proportion of our membership that are students, and again the current inflows into the universities suggest we will continue to have a significant number of students, particularly in comparison to the number of Fellows.

4 THE EXTERNAL ENVIRONMENT

4.1 Against this background I'd like to consider some aspects of the external environment that affect our profession.

- There has been a period of consolidation and convergence in the financial services area. Merger and acquisition activity has been prominent and the old distinctions between sectors are going. For example, we now need to think of financial services groups rather than life offices.
- The financial services sector is becoming more and more global.
- We are experiencing increasing regulatory change – not just locally but changes are coming internationally, driven, for example, by moves to reform solvency and capital adequacy regimes. The convergence in financial services has led to formation of conglomerates and the need to develop new regulatory regimes to cover them.
- There is increasing focus on capital management, and how risk is defined and managed. Companies are focusing on efficient use of capital, identifying, evaluating and managing risks and seeking to eliminate volatility in earnings.
- New international accounting standards are coming – which also bring a changed focus worldwide from revenue based financial reporting to balance sheet based financial reporting.
- A very strong focus is emerging on corporate governance, accountability and financial reporting. We are all aware of the impact that HIH, Enron, the Equitable and others have had in highlighting this issue. While the examples I've quoted are corporate entities, the focus on governance and accountability (and also ethics) also extends to the professions and their associations.

The recently released CLERP 9 Issues paper on 'Corporate Disclosure – Strengthening the Financial Reporting Framework' and the proposed reforms therein are in many respects a direct response to instances of poor corporate behaviour seen both in Australia and internationally.

- There is increased demand for disclosure and transparency in many things - whether it be in terms of the advice we provide or the terms of the products we help produce. Of the latter, we have seen the demise in Australia of 'black-box' type products (eg with profits products) and currently see the scrutiny being placed on fees and charges for superannuation products.
- A greater focus on the individual has evolved– we have seen both governments and employers transfer risk from themselves to the individual, and the decline in systems or products which pool or share risks. The demise of the defined benefit superannuation plan, and the attempts to rein in government social welfare spending illustrate this trend. In a different vein, there is the interaction of the privacy of an individual's genetic make up and the right to underwrite insurance risks.
- At last, some meaningful public disclosure and discussion of some of the long term social and financial issues affecting this country has been generated with the release of the Intergenerational Report as part of the 2002 Federal Budget.
- There is a growing realisation that over the medium to long term, future investment returns (both in absolute terms and in real terms) may well be lower than we have experienced (and become used to?) over the last decade.
- Finally, the after effects of recent terrorist activity and the current state of world investment markets are shorter-term factors, which have produced an environment of instability and uncertainty.

5 THE PROFESSION

What has happened over the last few years in our profession, and what is in store? We can look at this several ways, but initially I will consider it by work areas.

5.1 *Life Insurance*

In many ways, one can draw positives and negatives from this area. On one hand, with the reduction in this sector and the trend to financial convergence, actuaries have lost status in life insurance and many regard the role of the Appointed Actuary as having been downgraded to a form of senior compliance role. The demise of 'black-box' products and the focus on investment management type products have impacted on the range of products that a life office can offer that differentiates itself from a funds manager.

On the other hand, the Appointed Actuary role remains extremely important and, generally, actuaries are seen as the credible experts in life office financial matters. I also suspect in Australia the regulator sees the actuaries as important and credible.

I noticed that in his recent Presidential Address to the UK Institute, Jeremy Goford observed that in the UK 'actuaries are once again occupying some of the most senior executive positions in financial services organisations'. There is some evidence that this is happening here as well. In addition, I believe many of our members in this field are finding work opportunities throughout Asia as the life insurance industry develops there.

5.2 *Superannuation*

With the demise of the defined benefit plan, and the increasing commoditisation of superannuation, the demand for actuaries has changed in this area. This has been partially offset by actuaries widening the range of services they provide, generally into areas where they compete against other professionals. Financial planning may be a growth area here.

5.3 *General Insurance*

This is clearly an area where opportunities are opening up for actuaries with the recent legislated reforms and the legislated role of the Approved Actuary. These are positive developments for the profession (and I suggest also for the industry), although we need to ensure that they don't raise expectations that there will never be any further failures in the industry. The days when general insurance was regarded as a new or 'wider field' are now over and along with life insurance and superannuation it is now a core area for the profession.

5.4 *Funds Management*

We have a growing number of members working in this area, and at the same time have to look at the issue as to whether actuaries bring something new or different or value-adding to the area. Alternative qualifications (such as the Certified Financial Analyst (CFA)) have an advantage as preferred alternatives, and there may be an increasing number of members who do not complete two part III actuarial subjects.

5.5 *Health*

In health, the number of actuaries involved is relatively small and centred on private health insurance. The potential involvement for actuaries in health is growing, particularly with a new set of solvency and capital adequacy rules, the prospect of a form of Appointed Actuary role for health insurance, and the expanding knowledge and experience base promoted by the Institute's Health Financing course.

5.6 *Banking*

There are also a growing number of actuaries in banking – both in traditional banks and in investment banks – working in a range of roles and adding significant value. With the advent of conglomerates, a focus on issues such as risk management, prudential regulation and risk based capital, there are challenges and opportunities for the profession to develop here.

5.7 *Wider fields*

I continue to be impressed with the growing role of actuaries in what is referred to as the 'wider fields' area. It was particularly noticeable from a 'wider fields' presentation that I attended at the International Actuarial

Congress in Cancun that the profession in Australia has embraced new areas of actuarial practice more actively than in most other countries.

5.8 Overall

With the decline in status and roles in the 'traditional fields' and the changing expectation of graduates, do we see a situation emerging where newly qualified actuaries look on their qualification as more of an entry qualification to a company rather than a lifetime career? If so, we need to develop our plans accordingly.

6. IMPACT OF GROWTH AND CHANGE

- 6.1 The widening roles and changing areas in which actuaries have become involved - particularly the changes in roles in life insurance and superannuation and the growth in general insurance, wider fields etc – has led to a pleasing diversity in opportunities for actuaries. It also raises challenges for the Institute in providing education, CPD, member services and public policy support for a widening range of areas. Put another way, how can we ensure the Institute services all areas, including meeting the requirements of the new and emerging areas? We can see that the emerging areas are of growing importance, and yet we know we have to work to attract and retain members practising in some of these areas. It is probably the case that in many emerging areas the Institute needs to be prepared to work with other organisations, participate in other leading industry events, co-brand if necessary, to provide services to members and have an impact.
- 6.2 In something of a similar parallel, we have an increasing proportion of our membership offshore. How do we ensure we adequately meet their needs? One area, Asia, shows particular growth and a strong need for actuarial services. We are co-contributors to the Hong Kong Actuaries Office (along with the Hong Kong Society, the UK Institute and Faculty and the US Society of Actuaries), and there is the potential for growth in mainland China. There may also be growth in our membership in Taiwan, Korea, Japan, India, as well as Singapore, Indonesia, and Malaysia. In this discussion, let's also be mindful of the growing numbers in New Zealand.
- 6.3 There is also another way of looking at our membership – a form of two-dimensional analysis. In one dimension, our membership covers a range of diverse areas – from life insurance, superannuation, and general insurance across to what used to be referred to as the 'wider fields'. In the other dimension, we have actuaries in each area who span the range from specifically actuarial roles, through to those actuaries doing roles they may consider 'non-actuarial' (or where they feel the actuarial qualification is useful but not a pre-requisite) through to senior management or other roles. There are parallels here with the spread of lawyers and accountants into senior management and other roles.
- 6.4 In many of these situations – whether it be in some of the wider fields or actuaries doing roles which are 'non-actuarial' - there may be a sense or question as to whether the actuarial qualification is relevant. I can understand that. At the same time I hope people do not undersell the situation – I would prefer to look at it as 'You may not have to be an actuary to do that role, but an actuary can do it very well. Your skill levels, training, knowledge and experience place you well'.

- 6.5 I believe that as the profession grows and diversifies we have to put more focus on what we need to do to maintain our system of values and our professionalism. The capacity of members to meet and discuss issues with other members, the opportunities to develop collegiate type forums or foster mentoring relationships have and will continue to diminish. So we have to put other steps in place. As a profession, we have often been good at building networks, more structured about open communication and exchange of information for the 'general good', rather than building networks focussed on self advancement.
- 6.6 There is also the growing importance of corporate governance. As a profession we believe we have integrity, ethics, a sense of equity and what is fair, and expertise in our field. These days, we not only need to retain those features; we need to show to third parties that this is the case. In this context, the Institute has updated its CPD requirements, overhauled its Constitution and Disciplinary Scheme, and introduced a requirement to have professional indemnity insurance. There is a continuous program of updating standards and guidance notes which we must continue with, and the development of co-regulatory models (eg with APRA on the general insurance changes, and PHIAC on health insurance).
- 6.7 In carrying out its tasks, the Institute's office has needed to grow in size, capabilities and professionalism. While the Institute continues to rely heavily on volunteer support for many of its activities, the Institute's office under Chief Executive Catherine Beall's leadership has put many activities on a more solid footing as well as increasing the range of services provided. We are also increasing the professionalism of each activity and service provided – while clearly we monitor costs rigidly we recognise the need to produce a quality professional product. The Institute operates under a limited budget, and at the same time the growth and spread of activities have placed increasing demands on the office. Given current opportunities I can only see this trend continuing. Clearly this demand is managed in the best way possible within the available budget. However, it is inevitable to me that if the profession is to continue to grow and expand its range of services, further growth in the budget will be necessary.

7 WIDER FIELDS

- 7.1 In response to the growth in the profession, and the reducing influence of the more traditional areas of life insurance and superannuation, the profession has actively embarked on moving into wider fields in Australia. This can range from adding capabilities to existing actuarial work (eg superannuation actuaries adding investment, remuneration planning, risk management) through to new and exciting areas such as climate issues, utilities and infrastructure. Anywhere, where there is uncertainty, actuaries can add value, and, where we can, turn risk into value.
- 7.2 In terms of the future of the profession, the possibilities excite me. At the same time we need to remember that in many of these areas, an actuarial qualification isn't a prerequisite or a necessity to work in these fields. The profession provides an initial education base for people working in the wider fields, and then we have to ask what value does it add thereafter, and what do we need to do to attract and retain these members.

- 7.3 The profession has a core – a heartland if you like – in the traditional areas or those where there is a legislated base. This provides the foundation from which the membership can develop into the wider fields – and I consider that the profession would not be in its present position if that legislated base had not been there.
- 7.4 It isn't a one-way street. The profession provides its members with a central core of skills, which can be constantly updated (via CPD). However, those members working in the more traditional areas run the risk of being too narrow in their focus and not keeping up to date with new developments, new techniques, new methods, new perspectives etc. They need feedback, including that from those members working in the wider fields. I believe this input from 'outside' the traditional areas is very important, as there are many times when people suggest we have lost ground in certain areas because we have not updated our underlying skill sets. Likewise, we lose the benefits and value of diversity if specific practice areas adopt a 'silo' approach.

8 APPOINTED ACTUARY/APPROVED ACTUARY

- 8.1 The Appointed Actuary role has been around in Life Insurance for many years and the role and responsibilities were further defined and codified in the 1995 Life Insurance Act. More recently, the role of Approved Actuary has been established in the general insurance area, and there are moves under way to establish a similar role in the health insurance area. It is worth noting that while there may be around 40 roles for Appointed Actuaries in Australia, there will be around 200 plus roles when the system expands to include Approved Actuaries.
- 8.2 The virtues of the Appointed Actuary system have been promoted internationally, to the extent that there was significant discussion at the International Actuarial Association (IAA) meeting in Cancun (March 2002). I believe the concept had strong support, but a few European countries and the Casualty Actuarial Society (USA) and the American Academy of Actuaries expressed considerable reservations. On the other hand, Canada has actively embraced the system.
- 8.3 I was impressed by the following list of attributes put together by Tom Karp - an Appointed Actuary needs to be:
- Technically and managerially competent
 - Commercially sensitive
 - Insightful problem solver
 - Good clear communicator
 - Objectively independent
 - Resilient

- 8.4 I would add that, at times, courage, negotiation and persuasion skills are needed. I find it interesting that we have seen a belief develop that the role of Appointed Actuary in a life office may have been reduced to a high-level compliance role. The list of attributes above clearly indicates a more developed role than just compliance.
- 8.5 In their Presidential Addresses, both Tony Coleman and David Knox referred to APRA's requirement for deposit taking institutions to provide a series of statements involving a 'group risk manager'. They noted the responsibilities of this group risk manager in a banking group are similar in concept to the Appointed Actuary role. Going forward, I think this may become an important issue for the profession as the process of harmonisation of regulations across different types of financial institutions and conglomerates continues. From time to time, there has also been talk of trying to build a bridge between the profession and those individuals who hold such risk management roles. I don't think this has proceeded very far, but I think it is important. I was very taken by a statement from an overseas regulator at Cancun that yes, the concept of a group risk manager for major financial institutions was important and yes, convergence of regulation across financial services was coming. However, you wouldn't get very far at the moment if you told major banks or major conglomerates that they had to have an Appointed Actuary, or that the risk manager had to be an actuary! There is ground to be made up here.
- 8.6 While we have seen the growth in the roles here in Australia, there is the cloud on the horizon in the United Kingdom with the current FSA proposals to substantially narrow the Appointed Actuary role in life offices. There are differences between the systems here and in the United Kingdom. The 1995 Life Act in Australia made Directors ultimately responsible for many decisions (after taking actuarial advice), and mandated the requirement for Appointed Actuaries to produce a financial condition report. It specifically outlined whistle-blowing responsibilities for the Appointed Actuary and auditor. The need to include policy liabilities in the profit and loss statement meant that a degree of peer review was provided as part of the audit process. Nevertheless, I believe we need to watch developments in the UK with more than passing interest.
- 8.7 Clare Bellis in her paper *Professions in Society* (2000) noted, 'The advantages that the recognised professions have in the market generally derive from the granting of some degree of monopoly by the state'. In that vein it is important to consider the advice from Senator Coonan, Federal Minister for Revenue and Assistant Treasurer, in her speech to the Institute's Financial Services Forum in Melbourne in June 2002.
- 'Statutory requirements to use an auditor or an actuary clearly carry with them significant benefits for those professions. However, Governments do not confer monopoly rights on professionals without expecting some quid pro quo. Governments and the wider community expect auditors and actuaries to take their duties at law seriously and exhibit due care and diligence in the discharge of their duties. These are high expectations and serious reputational risks exist when these expectations are not met.'
- 8.8 So, we have the role of Appointed Actuary and Approved Actuary established in Australia and there is the prospect of it expanding into health insurance. It is also important to include in this discussion the roles and responsibilities mandated for actuaries in the superannuation area under the Superannuation Industry (Supervision) Act 1993.

When considering where we are with these roles, there are some emerging issues that may impinge on the future of them as outlined above.

Senator Coonan went on to add in her speech:-

‘There are three broad areas currently confronting auditors which might deserve consideration by the actuarial profession.

Firstly, as actuaries you should consider how you can safeguard your tradition of ethical conduct. Reputation is of critical importance. The reputation of a profession is enhanced by maintaining high standards of admission and professional development, adherence to ethical rules of conduct and professional standards and by taking disciplinary measures against rogue elements.

Second, actuarial advice must be unbiased. This is critical. Related to this is the question of independence. All of the issues surrounding independence and perceived independence need to be properly thought through.A further challenge for your profession is the potential pressure, which may be exerted on actuaries. The Institute needs to have systems in place which ensure that its members are not only required to, but in fact are able to, provide truly unbiased advice.’

- 8.9 I believe we would all accept the points made by Senator Coonan and point to our education, admission and professional standards, our disciplinary scheme, our ethical standards and reputation for integrity, our CPD requirements and our Code of Conduct. However, the role of Appointed Actuary and Approved Actuary is a slightly unusual one in the overall scheme of financial reporting and corporate governance. It is important to be able to demonstrate to external viewers that the system we have does live up to the requirements and does deliver what is expected of it. We need to demonstrate we have adherence to professional standards, compliance with CPD and, as required, a disciplinary scheme that is effective. It is in this context that the discussion on peer review requirements currently being undertaken by the Corporate Governance Task Force is important, particularly as a means of providing a mechanism to help reassure external parties that actuarial advice provided is independent, and resistant to undue pressure.
- 8.10 One final observation on the roles of Appointed Actuary and Approved Actuary. With the trend to financial conglomerates, it is often the case that significant parts of the business may be carried on outside the insurance company – for example, outsourcing, use of service companies. In other situations, companies and boards above the insurance company in the conglomerate may make crucial decisions that can impact on the insurance company. In either situation, the conglomerate could be local or it may be multinational. Because of these changes, the Appointed Actuary’s and Approved Actuary’s position, rights, obligations and advice are not necessarily the same as those envisaged when the relevant insurance legislation was set up, and I believe this will need addressing.

9. PROFESSIONS AND JUDGEMENT

- 9.1 In her paper on Professions in Society, Clare Bellis suggested the required elements for a profession ' could be distilled into three main strands: cognitive, normative and organisational. Cognitive elements include specialised knowledge and long training. Normative elements include such things as ethical standards and a commitment to provide a service for the public good. Organisational elements, such as a national body with disciplinary powers, support the cognitive and normative aspects'. I think we would all believe the actuarial profession meets that definition.
- 9.2 Later Clare adds 'Professions have to justify themselves, and find their monopolies increasingly under pressure'. I think this is an important issue, and perhaps the current discussions in the United Kingdom with the FSA and the role of the Appointed Actuary demonstrate this.
- 9.3 In addition Clare points out 'Professional judgement has, in the past, been a significant factor in deciding whether an occupation was a profession', and 'Actuaries consider the exercise of professional judgement to be fundamental to their work. Every discussion of the education syllabus, for example, re-emphasises the importance of testing judgement'. However Clare cautions that all would-be professions will seek to claim the right to use judgement. She points out that 'We need, therefore, to be on our guard against the temptation to demand the right to exercise judgement for its own sake'. Later she adds 'The concept of professional judgement is in conflict with modern scientific rationalism, which requires that scientific methods be verifiable, and believes that knowledge is accessible to all who have the intelligence to learn'.
- 9.4 Clearly judgement has its place as rules cannot be set out to cover every situation and often a view or decision needs to be taken without all the facts or numbers being available. However the right to exercise judgement has to be measured and appropriate. In this period of increased focus on corporate governance, disclosure, economic rationalism, and the need to meet the external view that our system stacks up, judgement cannot be used as an alternative for obtaining results or methodologies, where available, through scientific reasoning and models. To this end, I see an increasing degree of prescription and guidance, and more reference to formal analysis, in setting professional standards and guidance notes. Peer review is also seen as a way of closing the range of interpretations and possible decisions emerging from a given situation.
- 9.5 Perhaps related to these points is the increasing level of discussion I see questioning or challenging some long held actuarial beliefs. One prime example is the rationale used by actuaries to argue that equities are an appropriate asset to support defined benefit superannuation liabilities linked to wages and salaries – the question being, is there really a valid link between the performance of equities and increases in salaries and wages?
- 9.6 We do not have automatic rights to a legislated monopoly in any area. We have skills, expertise, training, judgement etc that leads us to believe we are well placed to act in certain tasks. If Government agrees with that, we must then do what is required to meet the responsibilities placed on us by Government. We must always be mindful that we may not be the only group that can do this work, and we need to keep the right mix of judgement and rigorous analysis. We need to continue to update our techniques and embrace new methods and techniques as they arise. To help meet this, the Institute needs to ensure we appropriately educate our members (either through the examinations or through CPD).

- 9.7 In my present job, I have come to work with professionals from other disciplines, often accounting or legal. It has highlighted to me the importance of being able to work in multi-disciplinary teams, and also to appreciate that there is often more than one way to look at an issue. I have found on many occasions that these professionals have a different perspective on a particular issue. Sometimes I have found a need to review my perspective, on other occasions I have been able to deepen or develop my particular outlook or judgement.

10 OUR REPUTATION

- 10.1 As a profession we have always believed we have integrity, honesty, ethical standards, professional standards and a view of what is equitable. We hope we are seen to be trustworthy and competent, and able to provide unbiased advice. I was taken by this comment from David Knox when he wrote in his Presidential Address:

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

As our modest (in numbers) profession grows in size, diversity and geographical dispersment, it becomes more and more important that we retain these attributes – other larger professions at times have their image tarnished when this doesn’t appear to always happen in their field.

- 10.2 Public scrutiny of the role of professionals is likely to continue into the near future as focus on corporate governance and financial reporting continues, and as inquiries or commissions investigating corporate failures make their reports. In particular, the Institute has overhauled its disciplinary scheme and must be prepared to properly and fairly apply the processes under that scheme should circumstances indicate it is necessary. We must retain a fair and balanced approach to these matters, and in particular not prejudge. However, we must and will also act (and be seen to be acting) if needed.

11 OUR EXTERNAL IMAGE AND PERCEPTIONS

- 11.1 During 2001 the Institute conducted a survey of our membership, to which 290 members ie 11.5% (172 Fellows ie 14%) responded. I have looked through the range of responses to the question ‘How do you think actuaries are perceived in your industry or sector’, and certain themes kept recurring. Descriptions such as:-

‘professional, intelligent, capable, respected, expensive, poor communicators, clever, often theoretical, technical, numerate, conservative, sometimes not commercial’

A second theme, generally from members in the funds management or banking area, was that being an actuary or not makes little difference to industry perception.

- 11.2 In response to the question ‘what perception do you think the public has of actuaries’, the range of responses varied from ‘who, don’t know’, through to ‘technical experts, insurance mathematicians’ through to some who have a closer appreciation.
- 11.3 Now these results summarise our perceptions of how others see us. Nevertheless there are some important observations we can draw. We need to remain relevant in the world going forward, to not rely solely on our position supported by the legislated roles we have, to adapt to the changing financial environment and to continue the movement into the wider fields. To help do this, I believe we need to both develop and demonstrate our business acumen and also remove the bogey that we are ‘poor communicators’. We need to show we think like business people, present our results in a business context and can be ‘commercial’ while still retaining our high professional standards and reputation for integrity. Some of this may well require a re-examination of our skills and our approaches to solving business problems.

12 THE INSTITUTE AND ITS MEMBERS

12.1 *The Strategic Plan*

The Institute’s current Strategic Plan 2001 was first developed in David Knox’s year as President and was further refined during 2001. Recently, Council reviewed performance against the Plan and found to a reasonably high degree that the Plan had been implemented. This was a pleasing result given that the Plan when originally written was extensive and set out to achieve much, and on occasions we are often more reactive to emerging situations than proactive. Our available resources are also finite. The Plan spans all aspects of the Institute’s activities. I think the plan as written is too lengthy (130 individual action items). During 2003, it will be time to review and update it.

12.2 *International Aspects*

1. The Institute continues to have a heavy investment in international actuarial affairs. We are a very active member of the International Actuarial Association (IAA) and presently have 11 official representatives participating in many of the committees. Under the umbrella of the IAA, there is a strong international linkage across countries between the professional actuarial bodies in each country (and consequently between actuaries as well). This is a feature I suspect actuaries do better than other professions.
2. The IAA meets twice a year – in 2002 this was in Cancun in March and in Barcelona in October. Having representatives present at these meetings does place demands on both the individual members and on the Institute, but I am a strong supporter of this activity. At the present time, Australian actuaries are making significant contributions on many issues, including international accounting standards, prudential regulation and education. Our input is both sought and valued, and the level of our input internationally will continue to be an important part of the Institute’s activities during 2003.

3. At the International Actuarial Congress in Cancun, Australian actuaries were prominent amongst the speakers. It was also pleasing to see the positive reception that the paper 'Genetics in Society 2001' (presented at our 2001 Convention at Sanctuary Cove) received when every attendee at Cancun had a copy delivered to his or her room. To balance this, it is worth noting the contribution by members of our Institute of written papers to the Congress was more modest.
4. It is also pleasing to report that the next meeting of the IAA will be held in Sydney on 14-17 May 2003, immediately preceding our 2003 Convention in Coolum.

12.3 *Level of Participation and Support*

1. In her Presidential Address, Helen Martin focussed on the value and importance of member participation in the profession. Given the growth issues emerging for the profession and the widening level of member services, CPD and education likely to be needed in future, I must add my support for her message to everyone who read her Address to 'participate and be involved'.
2. I am conscious that many younger members, having recently spent considerable effort in qualifying may be reluctant to turn round and participate in Institute activities. I was certainly in that position – for years my contribution to the Institute was modest. I am delighted to see that many younger members do make a contribution to our education process. I would like to encourage more participation – it is certainly one of my regrets that I did not increase my participation until later in my career.

My experience now strongly supports Helen's comment that 'we gain most value as a profession if more Institute members are active in all of the Institute's activities. This allows more sharing of ideas, increased innovation and creativity, greater development of intellectual capital, wider networks of business and personal relationships, and a stronger ability to influence public policy.' The benefit isn't just to the profession, it is also to you as the individual!

3. One pleasing feature that has started to emerge is the increasing involvement of actuaries who – for want of a better term – are over 50 and have either recently retired or changed or downscaled significantly their work activities. They bring a wealth of experience and thought leadership, have the available time and are starting to provide very effective contributions to Institute Committees. I encourage any actuary in this position who is not doing so and wishes to contribute to come forward.
4. At various times the concept of a mentor or a mentoring system is mentioned. For a while it was an important part of our value system. It is one of the informal features that have fallen away as the profession has grown and diversified. I believe mentoring can play a very important role in the development of an actuary, and I would be interested in views of the membership as to whether the concept is seen in this light, or 'part of the old ways'. Certainly with the increasing number of 'over 50' actuaries we may have a suitable mentor base to start with.

12.4 Council and Presidential Group

1. The Institute is actually constructed legally as a company limited by guarantee, and so elected councillors have the same responsibilities, liabilities, obligations and privileges as directors under the Corporations Law. In addition to Council, there is the role of Chief Executive Officer, plus the President, the Senior Vice President and the Vice President. In terms of division of responsibilities, our present system differs from a normal company structure with its division between Chairman and Managing Director in that the President(s) carry out a more active role than a Chairman would. While Council is the ultimate decision making and policy making body, the Presidential Group (the President plus the two Vice Presidents together with the Chief Executive Officer) act as a form of executive team in considering many second level issues or carrying out other responsibilities such as signing off submissions that have to be issued before there is time to submit to a full Council meeting.
2. Having observed and experienced our four year process of Vice President, Senior Vice President, President and Immediate Past President I believe the process works very well. It helps ensure that by the time a President takes office, he/she is fully up to speed on issues and processes and also has the capacity to draw on the advice, assistance and counsel of three others. I also believe strongly that we have it right in selecting our President from Council members rather than by direct election.
3. When one first explains to others overseas that we have a two year preparation period for a one year presidency it seems a little odd, but I believe it really works. The only down side I can see is that it does increase the overall time demands made on the individual. My belief in Australia is that being Vice President can take up to 20% of your working time for two years and being President up to 40% for a year.
4. In that vein, I noted with more than passing interest, Peter Clarke's comments in his Presidential Address where he observed in the United Kingdom that more and more Presidents were 'consultants' rather than drawn from life offices. (In the UK, Presidents have a two year term and it appears the time demands are greater than for an Australian President). While Peter talked in terms of life offices, I prefer to consider the issue in terms of actuaries employed by companies and actuaries working for consultancies. In this context, the time demands (both in terms of the amount of time committed and other factors such as the level of domestic and international travel expected of a President) does become an important consideration for anyone (employed or consultant) in considering whether to take on the Presidency. If the time demands continue to grow, I see it less and less likely that employed actuaries will be forthcoming to seek the Presidency.

13 PUBLIC POLICY AND CURRENT INITIATIVES

13.1. Institute's Approach to Public Policy

1. The fifth leg of the Institute's Mission Statement states the Institute 'contributes to and informs debate on public policy'. I am a strong believer that the Institute should contribute to public policy in those areas where we can make a meaningful contribution in an unbiased and impartial way. Our contribution has to be non-political and not in the nature of lobbying.
2. The only times I have reservations as to whether the Institute should contribute is firstly, where an issue is highly political. In this case we either refrain, or focus on contributing analyses of the likely outcomes and implications of particular issues rather than commenting on the issues or policies themselves. Secondly, I have concerns in situations where the membership is deeply divided on an issue.
3. One strong skill we bring to this area is our ability to look at options and issues and assess their future impact, particularly in relation to alternative policy responses. Furthermore our reputation for integrity and high professional standards increases the chance our submissions will be heard, and thus leads to a positive contribution to the final outcome. In addition I believe that provided we continue to produce high quality submissions, our reputation and standing with Government and the community can only improve, with consequent benefits to the profession and its members.
4. 2002 has been another active year for producing submissions. Following the departure of the Director of Public Affairs, (Jane Ferguson), we actively sought to fill the position with an actuary as part of the Institute staff. Unfortunately, despite considerable effort we reached the disappointing position where we were not able to secure a suitable candidate. We have now decided to adopt a different approach.
5. Early in 2002 the Institute appointed Buchan Communications, a well established Melbourne based consultancy, to assist with public policy strategy and advice for the Institute. To date, I believe this has been very successful, with Buchan demonstrating a strong understanding of our public policy requirements, providing well considered advice, and demonstrating a strong network of contacts in Canberra.
6. Catherine Beall has taken a more active role in public policy, including support for the Public Policy Council Committee, which under Graham Rogers' chairmanship has had a very active and productive year. In addition, when it has been necessary to find additional technical resources to help prepare a submission, the Institute has selectively brought in an actuary who is a specialist in the field concerned. Consequently, through this change of plan and expansion of available resources, we have changed the way we carry out the public policy function.

13.2 *Preparing a Submission*

1. No two submissions are the same, and each submission inevitably follows a slightly different process, dictated by what the issue is, who the submission is for, what the time frame is, what information or research is available, and so on. The basic approach is a consultative one, often with the initial work sourced from the relevant practice committee or task force set up for the issue. That is then reviewed by the Public Policy Council Committee and then by either Council or the Presidential Group. Major submissions will have several iterations, and may be exposed more widely if the issues are really significant. The process sets out to draw on the experience and knowledge of members who are expert in the area with an overview process involving Council and/or the Presidential Group. On many occasions the time frames become tight and catch up with the process, and often either the Presidential Group or Council makes the final judgement on the content and style of the submission taking into account feedback obtained to date.
2. The process is not perfect, and the Council and Presidential Group are aware of the need to consult with the membership on major issues. Where possible, draft submissions will be posted on the member-only section of the Institute's web site while being developed to provide an opportunity for interested members to contribute.
3. During 2001, there were occasions when the Institute made a submission, which some members in the particular field did not agree with. It may be the case that the views of these members were perfectly valid – technically and theoretically strong. The submission presented by Council and/or the Presidential Group modified those views to gain a better chance of being accepted in the real world. In other words, Council and/or the Presidential Group took into account political realities. The decision was to make a submission that was more likely to be acknowledged, and one, which was able to make pragmatic comments and provide advice on what the government was trying to achieve.
4. While our submissions need to be impartial and unbiased, there will be times when our submission will advocate a stronger role for actuaries, and so appear to be promoting our own interested position. While the Institute always needs to be mindful of looking after the best interest of our members, we must continue our existing approach of always being comfortable that the arguments we are making for a particular proposal are there because we believe them to be in the public interest.

13.3 *Current Initiatives*

1. 2002 has built on a successful year in 2001 and the Institute has continued to increase its profile and the profile of actuaries generally with a range of politicians and their advisors, senior public servants, and the media. There are a number of significant issues around at the moment where the Institute and actuaries are and can continue to make valuable contributions. The opportunity to do this is probably better now than it has been for some time.

2. In the general insurance area, the passage of the General Insurance Reform Bill, 2001 introduced new prudential standards and the requirement for insurers to appoint an Approved Actuary. The Institute worked in close consultation with APRA throughout the process developing the regulatory framework and draft prudential standards leading up to passage of the legislation. The Institute has also produced a new Professional Standard on Liability Valuation for General Insurance (PS300), which applies to actuarial valuations under the Bill. A supporting Guidance Note (GN353) is due for release late 2002 to replace APRA's Guidance Note 210.1.
3. The role of Approved Actuary in General Insurance has similarities with the role of Appointed Actuary in Life Insurance. I am aware some members felt the Institute should have pushed harder to bring the roles into closer alignment – for instance in life insurance actuaries have a much greater legislated role in premium rate setting. However, the two industries are not the same. I am aware of concerns that transferring some aspects of the life role to general was not practical. We also need to be mindful that we do not appear to give the impression that because of increased actuarial involvement there will be no future cases where companies get into difficulties.
4. The HIH Royal Commission continues to draw prominent media exposure. The Institute established a task force under Tony Coleman to continually monitor the hearings and emerging developments. In addition, the Institute made a detailed submission to the Commission in July where it made a number of comments on current accounting standards. These comments centred around the concept that insurance is inherently a stochastic business while current accounting concepts are basically deterministic, and linked this in with the concept of fair value accounting and the current APRA prudential requirements.
5. In addition, the submission expressed support for the direction and nature of the revised prudential requirements introduced under the General Insurance Reform Bill, and at the same time recommended a number of refinements to the prudential framework. Two issues of major importance discussed in the submission were the strong view that the Approved Actuary of a general insurer should be independent of the Approved Auditor, and an initial discussion on whether there is the need for independent peer review of the Approved Actuary's work.
6. The question of peer review has become one of the first matters being considered by the Corporate Governance Task Force formed during the year. The terms of reference of this Task Force cover the areas of independence and accountability of the actuarial profession and the role of the Institute in providing support for its members, particularly in terms of their professional standing and in discharging the profession's public responsibility. It will assist the Institute to develop position statements regarding the role and effectiveness of actuaries in prudential regulation and corporate governance.
7. The Task Force held well-attended Horizons meetings on several issues including peer review and is currently working through these issues. Peer review is a major and significant issue for the profession. My own view is that, in this time of greater focus on governance and financial reporting, third parties will look for reassurance in respect of work done by an actuary.

This will be particularly the case where the actuary is employed, but I believe it is also the case where a consultant is involved (and even where peer review of some form already exists). Whether a fully independent detailed peer review by an external actuary on every occasion is the best, most cost effective solution is another matter. It is likely that the 'best' solution varies depending on the circumstances – eg is the review of the calculation of a set of liabilities the same as a review of a major philosophical stance? I await the further deliberations of the Task Force with interest.

8. In terms of financial reporting, the Institute has undertaken, or is currently undertaking, practical and technical guidance for methodologies for the:

- Economic Valuations of Financial Entities
- Valuation of Executive Options
- Valuation of Employee Entitlements

The Economic Valuations of Financial Entities opens up opportunities for us to expand our techniques beyond valuations of life offices to valuing any entity in the financial services area (and even beyond). The Valuation of Executive Options is an excellent example of applying our techniques into a newer area assuming importance in the light of current corporate governance and financial reporting concerns. In the wake of company collapses, in particular, the valuation of employee entitlements and the identification of appropriate funding for such liabilities becomes a matter of public interest and potentially an area where actuaries can add value.

9. The Institute is also active in its contribution towards the international development of new International Accounting Standards by 2005 and the consequent development of fair value accounting. This is a major change coming down the line, particularly in the life insurance area where the system has differences to Margin on Services (MoS). While the new accounting system will also apply to general insurers, the new APRA requirements have been designed bearing in mind the changes likely to come.
10. Financial reporting is a subject where currently there is a focus on auditing and corporate accountability and improved transparency in financial reporting.

Based on the work the Institute has done in respect to the HIH inquiry, the work on valuations of financial entities, valuing executive options, and the new accounting standards, we are now evaluating the linkages between these initiatives and what opportunities exist for a more influential role for the profession.

11. There is a second area where I also believe we need to bring focus, but I am not sure we are currently doing so. That is the area of risk management. Actuaries are well equipped to contribute to this area – indeed some would claim we are the experts in the area of risk – but I sense we have left this field to others whether it be in superannuation, insurance or other financial services entities.

We should be in the unique position of understanding the full range of risks, and being able to treat them holistically. This is an area where I would like to bring additional focus in 2003.

12. A third area that seems to have temporarily slipped off the radar is the concept of triple bottom line reporting. Increasing attention is now being focussed on the first element (accounting profit). The second element (environmental contribution) and the third element (social or community contribution) should not be forgotten, and in particular, the contribution the profession can make to help quantify these elements.
13. Medical Indemnity and Public Liability have also featured prominently in the press this year. The Institute's Medical Indemnity Task Force made a major presentation at the Medical Indemnity Forum in April this year and has continued to be involved in the ongoing consultation process. It produced a 'roadmap' which steps through the range of factors that need to be addressed to properly resolve the current crises and is making presentations of this 'roadmap' to governments and stakeholders. In terms of Public Liability, actuaries played a key role in the Public Liability Forum in March and the Institute made a submission to that Forum. The Institute was also a contributor in the process leading to the introduction of legislation providing for structured settlements.
14. Superannuation and standards of living in retirement have also been in focus this year and I expect this will continue into next year. The prospect of a major overhaul of our complex superannuation taxation system and its integration with our social security system appears still to be some time off. Nevertheless, the Institute made a submission to the Senate Select Committee on Superannuation on the adequacy of the tax arrangements for superannuation and related policy to address the retirement income and healthcare needs of Australians.
15. The Institute's Ageing Australia Task Force has been active in recent times bringing focus to the areas of our ageing population, long term retirement incomes, health care policies and equity within and between generations. The publication by the Government of the Intergenerational Report 2002-03 provides us with a major opportunity to further our contribution in this area.

The Institute in its recent initial response to the report highlighted the value of assessing alternative scenarios, and through more specific investigation of the underlying assumptions, test the impact of alternative policy responses. The whole area of demographics, long term trends, and retirement incomes is one where the Institute can make a significant contribution, and one where I look for considerable work and development to occur. On a more technical note, the area of demographics is one that traditionally actuaries took an active interest in, but in recent times, with one or two noted exceptions, we have left others to develop that field.

16. One of the highlights of 2001 was the publication of the comprehensive paper *Genetics in Society 2001*, and genetics featured prominently at our 2001 convention at Sanctuary Cove.

Since then the Australian Law Reform Commission and the Australian Health Ethics Committee have established an inquiry into the protection of human genetic information. The Institute made a major submission to that inquiry. Public discussion on genetic issues and their interrelationship with financial services has receded in recent times, however, I believe this issue is a sleeper and will resurface some time in the future. The Institute needs to continue the work it is currently doing in this area so that it is prepared to contribute to the public debate when that occurs. To that end, a publication issued by the Institute in 1994 (Insurance & Superannuation Risk Classification Policy) is currently being updated and rewritten to reflect current attitudes and issues. I am also looking for an increased involvement by the Life Insurance Practice Committee in this matter

17. The role of actuaries in government has also been under consideration, with the view of convincing the Federal Government to strengthen the involvement of actuaries in providing input to Government and Government departments on a broad range of public policy issues. The Institute is currently active in progressing this matter.
18. Actuaries already play a significant role in health insurance, and the Institute has established a high level Health Financing Task Force to identify where actuarial disciplines can add value in the area of health financing.
19. Finally, we need to keep in mind the option of linking into other groups when developing policy positions and making submissions. These links can increase our influence on major policy issues, increase the resources available for research, allow for a sharing of resources and ideas, and importantly allow us to benefit from alternative expertise and perspectives on crucial issues. We must always be mindful that there may be a range of views and perspectives on some issues in the community, and we are better for it if we can understand and consider the alternatives. My only reservation on the question of linking into other groups is that, in any emerging work, it is crucial for the Institute to retain its independence and role as an impartial adviser, and be seen to be doing that.

14 EDUCATION AND CONTINUING PROFESSIONAL DEVELOPMENT

14.1. Education Reviews

1. The second leg of the Institute's mission 'provides pre-qualification and continuing professional education'. Early this year, Council adopted the new syllabus for Part II (Actuarial Control Cycle) for implementation by accredited universities in 2003. Supporting this change is the production of the Actuarial Control Cycle textbook, currently scheduled for production for the 2003 academic year.
2. Following on from Part II, there is the review of Part III currently under way. The Part III Review team presented its initial report in May which was published on the Institute's website and presented in Melbourne and Sydney as a part of the Horizon series in June.

Overseas actuarial bodies were also invited to review the draft and provide comments. Following the feedback, Council endorsed the final report and the direction of the proposals at its August meeting. However, Council also set up a task force under the Council Education Committee (CEC) to manage the process of development and implementation, and to make a final report to Council in April 2003.

3. The August report from the Part III Review team maintained the same general direction and thrust as the initial report. In particular, feedback support was generally expressed for:
 - The compulsory investment module (which I support given the level of investment content in Part II – and the importance of asset/liability matching)
 - Moving to one specific practice area subject (which I note is also proposed by UK Institute and has been adopted by the US Society of Actuaries)
 - Moving to split the subjects covering specific practice areas into two modules
 - Improving in teaching, and to a degree, assessing communication skills (but rejecting a specific communications course)
4. Implementation and resourcing were identified as significant issues to be resolved prior to the adoption of the recommendations. In addition, there was concern (which I shared) that we need to better define the objectives and content of the proposed business applications course. Council, in endorsing the report, recognised that work still needs to be done by the task force set up to address these and other issues.
5. There are several desirable objectives of the proposed new structure that I support. One is the aim (although is it a long hoped for dream that may prove challenging to deliver) to shorten the time taken to qualify. Another is to set up a structure that more easily facilitates the introduction of new courses or alternative methods of delivering education and/or assessing students. I am a strong believer in actuaries developing business acumen and demonstrating their work and results in a business context. Communication skills also play a part here. Hence I can see much merit in the concept of the business applications course – but we need to get the execution right.
6. The Part III Review and the general issue of the profession experiencing growth and change leads naturally to three other features of our present education system we need to think through. The first is the heavy use we make of willing volunteer labour in our education process – in exam setting, exam marking, tutoring, course review and development, and across a widening range of locations. The number of students sitting Part III exams shows an uneven upward trend rising from 286 in 1999 to 309 in 2000, 300 in 2001 and 333 in 2002. The 2001 number looks a little out of line with the trend, and may not be a totally accurate indicator of the underlying growth rate, but likewise I doubt we are seeing the full impact yet of the increased student numbers coming through the four universities.

Can we continue to rely on willing volunteer labour to maintain and develop our program? I believe we will have to accept the need to supplement this from other sources (and at a cost).

7. We now have four accredited universities and a continuing flow of new students into the university programs. I suspect we are likely to have many more students who choose to do composite courses and also have an increasing number of students completing the university actuarial program but not carrying on to do Part III (and perhaps not Part II as well). In looking forward, and in considering the impacts of the changes to Part III on our resources, I believe it is time to update our previous work on the likely flow of student numbers into Part III over the next few years. This work can then be extended, in combination with the data sought from members over their areas of principal activity, to look forward at the likely flow of future Fellows and the trends emerging as to their areas of interest and activity. In a sense this leads to an update of the work in 1995 by the Marketing Committee when it produced a Marketing Audit of the Actuarial profession and I believe we need to consider doing this in 2003.
8. The second feature we need to be mindful of in considering our education system is the role of the universities. I think we would all acknowledge the very positive role they have played in helping attract high calibre students and starting the education process. The process continues both with growing student numbers, and with further universities indicating an interest in offering actuarial courses. Council recently approved an accreditation policy developed by CEC to be used for existing university programs, for new programs in Australia and for overseas programs. The Part III Review team expressed the strong view that the Institute determines the structure and content of Part III and that the assessing of students should remain the direct responsibility of the Institute (which I agree with). Nevertheless, it did canvass a range of options that could involve the universities more in the process and delivery of Part III. Finally, the Institute provides financial support to three university foundations (this is a different process to accrediting a university) and the future structure and purpose of that funding needs to be considered as well when its time for review arrives.
9. The third feature is the international aspects of the education process. With mutual recognition and the growing globalisation of the profession, the need remains to ensure our education process retains the high regard it currently enjoys internationally. Both the Institute and Faculty in the UK and the Society in the USA are revisiting their course structures. A fairly common theme was an initial core technical stage (replacing the Part I structure as we know it, or forming the basis of a possible new qualification Quantitative Risk Analyst (QRA)).

The second stage would be a Core Applications Stage (which has similarities to and draws on our Actuarial Control Cycle) and a third Specialist Stage. We need to ensure our education process accommodates international developments and requirements, and in fact continues to be a leader in many areas.

10. The Institute is a very active contributor to the international education process, and I see this continuing. We have a representative (previously Clare Bellis, and from October, David Service) involved in the overseas reviews of the course structures and also on the Education Committee of the IAA. We have an Asian Education Strategy Task Force primarily focussed on education opportunities in Asia, (as have some of the universities), and we are always seeking to widen the recognition of the FIAA qualification in this area. As our membership in Asia grows (perhaps helped by Asian students returning there after attending university in Australia) we need to provide support and ongoing services so that we retain these students.

14.2 *The Need for More Research*

1. Both in the context of developing our public policy positions, and in the general improvement in our education system, we need to undertake research. The fourth leg of the Institute's mission statement says 'promotes research and the development of actuarial science'. In fact we undertake quite a lot of research, but there is no formalised process around this, and not enough finds its way into the Australian Actuarial Journal. Overall I doubt we are doing enough in this whole area as an Institute. We have seen some excellent research papers presented at our Horizon's meetings, but have there been enough? Clearly research is undertaken at the universities, but this is often published elsewhere (for reasons I understand), and much research carried out within companies or in consulting firms may not be released for commercial reasons. If we are to maintain and update our skill levels, and not lose ground to other professionals, we need to keep up our research effort and keep up to date with new techniques as they emerge.
2. In the past, the Institute has attempted to put some money in its budget for research, but finances have dictated the amount be very modest. When the Institute reviewed the financial support provided to the universities in late 2001, it proposed specific funding for research as part of the overall funding process. How attractive that is to the universities remains to be seen as the amounts available for each piece of research are not large. In addition, I do not see the universities as the only place to undertake research, nor necessarily the appropriate one for all types of research.
3. Often, of necessity, much of our research has been reactive in nature – ie. when a submission has to be done and there needs to be supporting research. That will continue. At the same time I think we need to review whether we initiate and manage more research projects, noting our resourcing is limited and taking into account what is available internationally. We should also look at whether we develop more partnerships with other organisations to fund and undertake more research. The whole issue of the Institute and research is currently the subject of a review paper being prepared by Carolyn MacLulich, Director Professional Development. Research is one area where I would like to see more focus (particularly if we continue to grow our public policy role) and where increased financing needs to be made available.

14.3 Continuing Professional Development (CPD)

1. I am a strong supporter of CPD. I work in an area populated with lawyers and accountants and have been impressed with the level of ongoing training and continual updating they undergo. It would be much more than 20 hours of core CPD per year! Some of this training is more related to current developments and may not be strictly comparable with our concepts of CPD, but the example is clear to me nevertheless.
2. When the Institute updated its CPD requirements recently, it also decided to seek confirmation from members when paying their annual subscription that they complied (or were in a category that exempted them from complying). As well as putting this requirement directly in front of members, it also raised concerns for some members that they may not be able to comply. This was particularly the case where members saw themselves as doing 'non-actuarial' work and thought the requirements meant they had to do some CPD in the more usual actuarial areas. The concept of activities meeting the requirements of PS 500 intentionally envisaged that 'non actuarial activities' may provide core CPD – the objective is to maintain, improve and broaden knowledge and skills and to develop and maintain the personal and professional qualities needed in an actuary's working life. In this environment of governance and accountability, it is essential that the profession maintains a suitable CPD requirement, and reviews it from time to time.
3. I see CPD programs as one way of helping members evolve and change, and improve their skill levels and help 'shape the future'. It isn't the panacea, but it will help. For instance, if we are able to suitably package programs, we can assist members to switch from one practice area to another, to foster developments in new practice areas, and to help keep members up to date with developments (technical and otherwise) relevant to their areas. A well targeted, well packaged and well marketed CPD program is a plus for the Institute and the profession both internally (leading to increased participation) and externally (improves the perception held by others, including employers).
4. The third leg of the Institute's mission statement says 'Creates forums for discussion about contemporary and relevant issues'. In 2001, we introduced the Horizons meetings, replacing the existing Sessional meetings and the ETDG meetings, offering them in variable formats to cover research papers, workshops and topical items. These have been successful with increased attendances at the meetings and some increase in participation by members, although there continues to be room for improvement. An alternative is to hold some or all of these meetings at lunchtime where the feeling is that some members who cannot make the early evening meeting time will be able to make a lunchtime meeting. I can see merit in the suggestion, providing we can structure it suitably. Another alternative is a breakfast meeting.

14.4 Associate, Affiliate and Specialist Certificates

1. As part of the review of Part II and Part III, the Institute commissioned a consultant to assist in the development of capability statements to describe and distinguish between an Associate and a Fellow. These were adopted by Council in late 2001, and since then I think it is fair to say there has been little further consideration given specifically to the role of Associate. This is understandable, given the attention the Part III review had taken, and the introduction of the new Affiliate category of membership.
2. At the 2001 AGM, the new Constitution was adopted, which included the category of Affiliate membership. This membership is designed for people interested in becoming a member of the Institute and establishing or retaining an association with the profession without becoming or studying towards Fellowship. Affiliates can include actuaries qualified overseas who have not been admitted as a Fellow of our Institute or other professionals wishing to partake in some of the Institute's education or CPD courses or for those working in related fields wanting to be a member of the Institute.
3. Given the new Affiliate membership, I think it is much more likely the Associate membership will tend to remain as a step on the pathway to being a Fellow. Between this qualification, and the Affiliate membership, we will have designations for those who choose not to pursue the qualification of Fellow to enable them to be or remain members of the Institute. In either case, we will need to convince these members that there is value in being such a member, in particular by providing services, CPD activities and opportunities to participate in Institute activities that they value. This will become an increasingly important area over time. We will have more and more members who do not complete or aspire to Fellowship, particularly if they move to work in the investment area, funds management or 'wider fields' and particularly given the present flow of students into the actuarial programs at the universities.
4. At times, the question is raised as to whether we can alter the status of Associates by giving them some signing rights, or even the label of 'actuary'. I have to say I am a strong believer that the 'actuary' label or brand, and the related signing rights and obligations, belong to a Fellow. To me an actuary is one expected to provide legally reliable professional advice, and to me that is a Fellow. I have an open mind on the concept of an 'associate actuary' label in a similar way to the universities where we have Professors and Associate Professors.
5. I observed during the international meetings in Cancun some pressure on the Society of Actuaries to introduce more specialist and country specific material earlier in their course with the objective of more quickly producing members (not necessarily Fellows) who were able to sign certificates in their specific area. There was no automatic guarantee these members would complete their fellowship, rather the need was to get these people into a position where they could sign quickly. While I can see the commercial reasons for this approach, I strongly believe it is far more important for actuaries to learn general actuarial concepts and develop a broad understanding across a range of areas and issues before specialising.

In a similar vein, Australia does not require practising certificates for particular practice areas. While I believe that is preferable, this matter is being discussed within the Institute at present and it may also be that in future legislators and regulators decide otherwise.

6. Both the structure of our education program, and our CPD need to bear in mind these developments, plus always keeping an eye on international developments in this area to ensure our qualifications remain relevant and comparable. In addition I support the suggestions that we repackage Part III for CPD to support Fellows who want to change practice areas.
7. Two other points to finish off with. Firstly, a current, encompassing education strategy has been finalised and endorsed by Council. Secondly, we have and continue to need to keep an open mind on working with other professional or industry organisations, when appropriate, in the delivery of our education and CPD programs.

15 MEMBER SERVICES

- 15.1. One initiative introduced this year was a series of informal 'lunches with the President' in both Sydney and Melbourne with each lunch including a group of 10 to 15 members in a specific practice area. This is an initiative I intend to continue next year. One theme that has emerged has been the desire of members in specific practice areas to have a regular forum (say every quarter). At these forums, members could meet informally and discuss issues, exchange views, catch up with what is happening and perhaps receive an update on current issues and activities from the relevant Practice Committee. The Institute is currently developing a new program of informal meetings to address this need.
- 15.2. Another initiative that has just been set in motion is to hold a series of lunches with employers of actuaries (CEO lunches if you like) to enable the Institute to get feedback on the employer's perspective of our profession. At this stage I have little feedback to pass on, although it is clear in many fields there is a need to generate greater recognition by employers of the value of actuaries. A third initiative introduced in 2002 was an 'e-mail the President' facility to enable any member to ask questions or make comments or suggestions. I will be maintaining this facility and I encourage members to use it – the email address is president@actuaries.asn.au
- 15.3. The Financial Services Reform Act (FSRA) has now come into operation in Australia. This legislation has provided challenges in trying to come to understand its impact on the profession and our members. The Institute had two task forces in operation and had legal assistance in working through the legislation. However, the complexities of the legislation, and the need to understand how ASIC would implement it in practice, made it very difficult to provide simple, clear and succinct advice to members early on. I believe in more recent times that the picture and consequently our communications have become clearer.

- 15.4. One idea that had its genesis in FSRA was the establishment of a Small Actuarial Enterprises Committee to support small actuarial groups (typically less than 5 members) and provide a point of contact for advice, networking and communal support for FSRA and for other issues.
- 15.5. I have already referred earlier to the Member Survey conducted in 2001. I believe it would be very valuable if the Institute repeated that survey towards the end of 2003, although I think it needs to be shortened. The Institute's website is now fully operational and provides members with a much wider access to information and material. The website is a valuable additional resource, but it is not always a replacement. Members do not always routinely access it to find out 'what is new' – it is often best to put a reminder in front of them either electronically or through the mail if some new important material is placed on the site. It's interesting to note that a high majority of members reported in the Members Survey that if Actuary Australia was in an online format, they would be less likely to read it.
- 15.6. In addition to servicing the needs of members in Sydney and Melbourne, the Institute has been conscious of the needs of members in other centres. Steps taken to help address this issue include arranging President's dinners, videoing Horizons meetings and some tutorials, establishing local committees (eg recently in Hong Kong and Singapore), establishing the website and recording proceedings on CD Rom. I look forward to visiting many of these centres and seeing what else may be possible.

16 THANKS

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17 CONCLUSION

In summary, I leave you with these thoughts

- The profession is experiencing growth and change.
- Our roles and importance in various sectors is changing over time, and new fields are continually being explored.
- We need to retain our core values and our reputation.
- The Institute undertakes a high level of activity in education, public affairs and member services. This will continue and will need to continually adapt and grow to meet the ongoing requirements of the profession and its members, recognising there will be differences in these requirements across the sectors our members work in. This will place pressure on available resources and funding.
- The Institute cannot do it all – we as actuaries need to also adapt and change to meet the future and help shape the future in a world of uncertainty.

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