



# **The Actuarial Profession**

making financial sense of the future

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## **FLOURISHING IN A CHANGING EMPLOYMENT LANDSCAPE**

ADDRESS

BY THE PRESIDENT OF THE INSTITUTE OF ACTUARIES

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## Flourishing in a Changing Employment Landscape

### 1. A period of renewal

- 1.1 Over the last decade, the UK Actuarial Profession has undergone a period of prolonged and profound renewal. Almost all of that renewal has been reactive to events and necessarily introspective. We have been responding to the closure of the Equitable, the subsequent reports by Penrose and Morris and latterly the move to oversight by the Financial Reporting Council (FRC). We have been responding to the changing pensions environment with rapidly improving longevity, rising costs and the increased volatility in the financial reporting of defined benefit schemes. We have been responding to the public's changing attitude to the professions generally. Once regarded with respect and some deference, the professions are now viewed with suspicion as being more protective of their members than of the public. The role of guardian of the general public has passed from the professions to public bodies such as the Financial Services Authority (FSA) and the Pensions Regulator.
- 1.2 As a result the Profession has spent the last decade responding to those external events, focusing a large part of its energies on its own structure and role. It has moved from being a quasi-regulator of life insurers and pension schemes to becoming an organisation whose primary function is to support and to regulate its own members.
- 1.3 This has led to the strategic review of the purpose of, and the structures supporting, the Profession, resulting in the development of a stronger committee process and a streamlined secretariat, which is better positioned to respond to today's demands from the public, the media and the Profession's new regulatory partners.
- 1.4 It has been a natural consequence of this long period of change and necessary focus on internal structures that members can feel that the Profession is not interested in the concerns of individuals but is only focused on administration and procedure. This is not the case but it is important that this perception is addressed and rebutted. This paper seeks to address the needs of individual members, and their support will be a focus for my term as President.

### 2. Merger with the Faculty

- 2.1 The decade of renewal is culminating in the debate over merger with the Faculty. I am aware of and respect the concerns being expressed by some members of the Profession about this move. However, for many members, myself included, merger is seen as the natural consequence of a renewed and strengthened Profession, ready to prosper and flourish in the new commercial and global environment that is the 21st century. The merger is a genuine opportunity to create sustainable, positive momentum that should not be missed. It will send a strong signal to the public and to the media that we are prepared to embrace the future and that we are not trapped in the past.
- 2.2 That said, whatever the outcome of the merger consultations, the Institute will stand ready to work with the Faculty as closely and as effectively as possible. The Profession will not collapse if a merger does not take place and the two Councils will make the best job possible of moving forward. But an opportunity will have been missed, possibly to be revisited again in the future.
- 2.3 The completion of the period of renewal, with or without merger, allows us to shift our focus away from the internal structures of the Profession and instead to give our attention to the individual member and the changes in the workplace that are affecting her or him. In considering how we can best support the individual, I want to look at the employment landscape in which members are working and what it will take for actuaries to flourish in that landscape.



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### 3. The impact of globalisation on individual members

- 3.1 The first major issue affecting individual members has got to be globalisation. That globalisation is with us is undeniable. Production of material goods has for many decades been moving to the cheapest effective labour markets. Now professional services are also moving. As many of you will know, my job is based outside the UK with a multinational insurer, Zurich Insurance, and so I see these issues every day. In my own company, we have successfully moved our European financial accounting to Poland as it offered for us the best combination of staff costs and educational standards. We will soon consider whether our actuarial processing follows the accounting function. Other insurers are implementing the same structures. Outsourcing professional services is becoming “business as usual”.
- 3.2 The large consultancies have followed the same business models, serving their international corporate clients with international and integrated teams.
- 3.3 There are many consequences of this globalisation but I observe three particularly relevant trends:
- (i) more actuaries will spend time working outside the UK;
  - (ii) the major international actuarial employers are developing their own supra-national business practices that will not necessarily reflect the standards in any individual country; and
  - (iii) we must realise that no-one owes us a living - not something that we would have said when I qualified.  
The Profession must support its individual members in this complex and challenging new environment.
- 3.4 One of the key enablers of globalisation is the ease of international communications. Lotus Notes, PowerPoint attachments, mobile phones and teleconferences promote standardisation at an increasing pace. Not only is change the normal state but the pace of change is accelerating. This has created an intense competitive environment that is based on 24-hour connectivity and an expectation of high personal commitment from all employees. I do not criticise this. It is to recognise how the world is.
- 3.5 In this world the differentiators are often innovation and the talent to innovate, speed and quality of implementation, and an ability to select and present information in persuasive and insightful ways. This requires multiple skills - commercial insight, communication talents and organisational discipline. Corporate competition brings a focus on the recruitment and retention of talented individuals with these skills.
- 3.6 But these same talented individuals, particularly in developed countries, are less prepared to accept this skewed work-life balance. Instead they look to achieve a less structured relationship with their employer. The goal of “a job for life” has been replaced by the desire to work flexibly, perhaps as a contractor. Career breaks and part-time working are common place. The Profession must support its members both when they wish to opt into the competitive maelstrom and when they choose to step back from the full personal commitment this requires.

### 4. The decline of discretion in life insurance and pension products

- 4.1 The nature of the life insurance and pensions industries is also changing. The products being sold are becoming steadily less “discretionary” in nature. Both in the UK and globally, regulators are not prepared to allow companies to exercise unilaterally the discretion built into their contracts. The result is that both With Profits and Defined Benefit structures are disappearing and the associated funds are contracting. As With Profits and Defined Benefits require significant and regular actuarial management and oversight, their decline will



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reduce the number of actuaries required in these traditional areas. For the present, the developing requirements for capital management and for the restructuring of the pensions industry towards defined contributions schemes are more than absorbing available actuarial resources. But when these processes are complete, we will see a shift of the focus of the actuarial community away from its traditional heartland of life insurance and pensions.

- 4.2 If this is the bad news, the good news is that the rest of the financial industry will be looking for our skills at just the same time. Our role in general insurance is well established and thriving. There are also at least two further areas, the more formal approach to corporate governance and the greater use of quantitative risk analysis in the wider corporate world, that will require actuarial skills.

## 5. Corporate governance and quantitative risk analysis

- 5.1 Participation in good corporate governance processes has been an integral part of our profession since its inception. But the formality that characterises much of today's corporate governance has arisen only over the last two decades - driven by a series of corporate failures. Those failures exposed, amongst other things, the weaknesses in an informal approach to professional advice and the reliance on individual professionals. The rise of formal corporate governance, and also the current extensive regulatory system, can be seen as a response to the public's perception, right or wrong, that the professions could have done more to avert those failures.

- 5.2 Ironically, or perhaps inevitably, the formal corporate governance process needs to call upon exactly the same professional skills in order to assess and manage the risks to organisations. By virtue of the formality of the process, the use of professional skills is, if anything, more widely and comprehensively applied. While our apparent status as professionals has declined, the demand for our skills in formal governance structures has increased.

- 5.3 Quantitative risk analysis, whether in the form of financial economics, scenario planning and stress testing, Monte Carlo simulation, or 'what if' modelling, has become commonplace in all areas of the corporate world.

- 5.4 In the financial world, the Profession has already made great strides. Our Finance and Investment and Enterprise Risk Management practice areas have become engines for high quality research. I attended their June 2008 conference and was pleased to learn that numbers were up by more than a third over previous conferences. It is a positive sign of what can be done when the Profession sets itself the collective objective to move into new areas.

- 5.5 This success is set to be mirrored in the wider corporate world. Whenever any serious project appraisal is undertaken the risk analysis is extensive. While the expertise required for simple projects is not great, a considerable range of skills is required for more complex situations. Those skills are actuarial skills. Recent stresses in the banking world resulting from the credit crunch have led others to recognise the value of actuarial skills - risk analysis, stochastic modelling, robust provisioning - even if they are not yet aware that it is actuaries who can help. While many people can complete straightforward projections competently, most practitioners find it hard, for example, to adapt statistical techniques to assess contingent liabilities under stochastic conditions. This is at the heart of actuarial skills and the Profession must exploit this opportunity, even if, at the simple end of the spectrum, it will need to compete with non-actuaries. The edges of the actuarial employment world will become wider but more blurred.



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## 6. Summary of external pressures

- 6.1 The employment landscape is changing rapidly, driven by globalisation and the transformation of two of our core industries, life insurance and pensions. And the decline of the professions is being balanced by a rise in formal risk management and quantitative risk analysis.
- 6.2 These pressures are moving the Profession to a tipping point where the work of members swings quickly from being secure, well-paid and focused on life insurance and pensions to being based on much wider employment prospects but with markedly less job certainty.

## 7. The strengths of the actuarial community

- 7.1 These then are key features in the employment landscape in the immediate future. What are our strengths that can leverage change in this landscape?
- 7.2 First, we have our own considerable personal talents. As a group, we have self-selected ourselves as intelligent, numerate, analytical and hard working. This is linked to a complementary strength, the quality of our examinations, both content and process, and the respect in which the examinations are held. Our examination process is, in turn, one element of the strong infrastructure and administration that underpins the Profession.
- 7.3 However, these are attributes of many organisations. What sets the Profession apart are three aspects of its culture: its knowledge-sharing, its volunteering and its shared sense of integrity. Major business schools and international corporations spend countless hours and millions of pounds in an attempt to create knowledge-sharing processes, whereas for us it is entirely natural to share our experiences and researches through working parties, seminar papers and conferences. This is a core benefit to the actuarial community which is greatly undervalued.
- 7.4 Alongside knowledge-sharing, there is a culture of volunteering that is extremely powerful. The ability to change quickly, the ability to get things done - these are heavily dependent on self-motivation, which is of course where volunteers win out every time.
- 7.5 Both the knowledge-sharing and the volunteering are made possible by a strong sense of shared values, particularly around trust and integrity. The actuarial community operates as a community because we trust other members not to misuse the knowledge we share and not to abuse the hard work of volunteers for their own ends. As the pressures of commercial life continue to grow, each of us must be very watchful of our own behaviour. If the shared values of trust and integrity start to slide then we will rapidly lose our coherence as a community and the benefits that come with being a member of the Profession will rapidly dissipate. Knowledge-sharing, volunteering, integrity are win-win-win activities, for all of us - we must not be tempted to abuse them.
- 7.6 Of course we are underpinned by our ethical code. We are working closely with the Professional Oversight Board (POB) to strengthen this. But it is following the spirit of that code, not just its words, that is our real advantage.
- 7.7 A final advantage that we have as a national community adapting to global pressures is that we are not alone. Across the world other national actuarial communities are adapting to the same pressures. This is an advantage, but a fragile one, as distance and language mask and undermine our shared values. Much great work has been done in the past to build the international actuarial community. This must be continued if we are to turn our advantage to strength.



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### 8. Practical actions to leverage our strengths

- 8.1 How should the Institute of Actuaries and the wider Profession leverage its strengths to get the best for its members? I will focus on five specific initiatives during my term as President. These are not new and follow naturally from the strategic review but they are areas where additional emphasis will create the greatest advantage:
- the actuarial qualification must become the most relevant financial qualification to which an ambitious, talented, numerate graduate aspires;
  - we must support proactively the quantity and quality of actuarial research, particularly at the boundary where the academic and the commercial meet. We must translate that research quickly and entertainingly into our CPD programme. And we must find ways to make our volunteering as powerful as possible;
  - we must strengthen our social and professional networking within the actuarial community, both here in the UK and internationally;
  - we must find ways to support all our members across all the different work-life balances that our changing work and home lives demand; and
  - we must act as an appropriate partner for the largest corporate financial institutions. We need to engage on a global scale with global employers. Only in this way can we contribute to the interests of all stakeholders in the global actuarial community, the savers, the companies and the members. I expand on each of these areas in the sections that follow.

### 9. The relevance of the actuarial qualification

- 9.1 If the actuarial community is decisively to extend its relevance beyond the pensions and insurance industries - and I believe it must if it is to continue to expand and prosper - then a general qualification, ahead of specialisation in a particular field, will provide a springboard for such an expansion. Comparing the exam subjects required for such a general qualification against the exam subjects covered in the syllabus, this general qualification is broadly in line with the current Associate qualification. Work is currently underway to ensure that the syllabus covered up to the Associate level is sufficiently comprehensive to provide an attractive and relevant first professional qualification, designed to achieve this broader role. This first qualification can either be a foundation for a further specialist track, for example in general insurance or pensions, or be a professional designation in its own right, that is recognised across the widest range of financial employers.
- 9.2 As described earlier in this paper, the areas in which we will be employed will become wider and the boundaries more blurred. We must stake our claim to be part of that wider world if we are not to be pushed out by others. A general professional designation is needed to do that. The extraordinary quality of the specialist exams overshadows the high quality of the earlier papers and, in consequence, drives the external perception that we are very specialised in insurance and pensions. Emphasis on the earlier exams will redress this balance.
- 9.3 I have reservations about the name “Associate” itself and we should work to find a more attractive designation. But whatever the name, this is a qualification that needs promotion by the Profession.
- 9.4 I have already mentioned risk management, both in the broad context in which we have always been involved and in the context of the more formal discipline that has developed more recently. In the more formal context, there is work already being undertaken at an international level to develop a risk management designation and we should actively support effective cooperation with like-minded associations throughout the world to develop this qualification.



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- 9.5 However, changing the syllabus will not in itself achieve the objective of attracting talented and ambitious people to the actuarial profession. We need to engage much more actively with the major employers of actuaries, present and potential, to ensure that our qualifications, research programmes and CPD are relevant. Employers should look to the actuarial community not only as a source of good recruits but also as a continuing partner in the training of their professional staff and a source of excellent and relevant research ideas that can promote their commercial activities. To date our engagement with employers has been made up of good individual initiatives but has not always been as structured and comprehensive as it could be. I believe this to be of sufficient importance to ask the Management Board to take the lead in developing a full programme of engagement with both current and potential actuarial employers with the clear goal of driving the relevance of our qualifications, our research and our CPD.
- 9.6 There is a further and most important element to achieving the objective of attracting talented and ambitious people to the actuarial community - and that is reaching the people themselves. This means reaching out to the business schools, to the universities, to the schools and through the internet. The Secretariat are already well linked into these institutions and we can build on these links to promote the new first qualification. I would like to find more resources to broaden and strengthen those links.

### 10. Membership support

- 10.1 When we have attracted these talented and ambitious people, what can the Profession offer them when they qualify? The new recruits will want the qualification to be relevant to their employer and this is discussed above. The new recruits will also want flexibility and adaptability from their qualification. If globalisation speeds change, so their qualification must allow them to adapt to succeed accordingly. And the new recruits will want powerful and extensive professional and social networks.
- 10.2 Of course not only people at the start of their career want this. All actuaries want a qualification that remains relevant, flexible and networked. Therefore, we will be supporting all our members by strengthening knowledge-sharing, facilitating social and professional networking, and by supporting members through their careers to change direction if they want or need to.

#### Strengthening knowledge-sharing

- 10.3 One of the most effective demonstrations of the benefit of the Profession is the insightful and relevant sessional papers that the Profession has published and promoted. Many other actuarial societies produce research of equal quality. The way we have harnessed the power of the volunteers who produce these papers is highly effective and much valued. I would like to find some tangible and direct way in which we can showcase all the researchers who dedicate personal time to the benefit of the profession as a whole. I have in mind an event to which the media, education institutions and employers are invited at which we recognise the quality and range of ideas being developed. I will ask the Secretariat to develop specific initiatives to encourage research, volunteering and knowledge-sharing, and to consider whether an event to celebrate this work publicly is possible.

#### Facilitating social and professional networking

- 10.4 Effective and enjoyable professional and social networking is an essential part of our future success. Business schools invest significant amounts of money and effort to achieve their networks which are nothing like as solid as our own. Here I am concerned that we are not progressing, but retreating.



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Anecdotally, the traditional ways of networking such as regional societies, sessional meetings, dining clubs, are not as well attended as previously. This is not to criticise the organising committees who work tirelessly to keep those events going. But we lead busy lives and it is difficult to make time to invest in our personal networks. I will ask the Member Support Executive Committee to look at best practice both within and outside the Profession to see what steps can be taken to promote the Profession's networking.

### Supporting members through career changes

- 10.5 The third area for supporting members is as they change direction in their career. It used to be said that the actuarial qualification was a meal ticket for life. It is still the case that the qualification provides a great chance of finding employment but, with globalisation, full-time employment is not a certainty. Also many people do not desire full-time employment with its long hours and heavy commitments. The Profession has for a long time provided support for people changing jobs, providing advice on CVs, interviews and the like. This deserves continuing support.
- 10.6 This should be extended to include support for actuaries who choose to operate as individual contractors. Examples might include advice on how to get one's own consultancy started, making standard contracts available, help with simple business disciplines, and advice on obtaining professional indemnity cover and IT support. Importantly, there should also be advice on achieving effective peer review. The Profession should also explore whether it could act as an intermediary in some way to facilitate individual contractors coming together to form teams to carry out larger pieces of work.
- 10.7 As working lives become more hectic, stressful and disjointed, a renewed focus on all forms of career support will help members to achieve more flexible work/life balances.

### Seeking ideas to support members

- 10.8 The Profession's strategy of supporting members in their careers will be given further impetus when the Member Support Executive Committee launches a survey of members' needs later this year. It is important that everyone takes time to complete the survey so that the leadership of the Profession can identify and implement new ideas.

### The relationship with international corporations

- 11.1 Many multinationals regard the patchwork of national actuarial associations and actuarial standard setters as an inconvenience and even as an irritant. In consequence the actuarial profession loses its influence internationally and, as the multinationals become more powerful, ultimately nationally as well.
- 11.2 Some of the internationally-minded actuarial consultancies are now providing their own internal standards to which they work, often gold-plating national standards. These initiatives are to be welcomed but ultimately can be undermined by competitive pressures. If the actuarial profession is to maintain and enhance its reputation with international employers, on which many actuarial livelihoods depend, the international coherence of the actuarial profession needs to be strengthened. The IAA Secretariat does an excellent job but is under-resourced, particularly in technical areas, relying instead on highly dedicated volunteers who have their own "day jobs" to manage as well. In consequence, its work is largely reactive. Groupe Consultatif is in a similar position.



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- 11.3 In the meantime what could be considered as technical actuarial standards are effectively being written, by default, by the International Accounting Standards Board. Insurance Accounting and Pensions Accounting Standards have for all practical purposes become standards to which actuaries work. Those involved know that these standards only saw the light of day because of the actuarial input received behind the scenes by the non-actuarial standard setters. Nonetheless, it is easy to see how the existence of such standards can leave the actuarial profession apparently following the accounting profession in what many regard as the actuaries' own heartland.
- 11.4 If we are to avoid this, it is important that we support the work of the Board for Actuarial Standards (BAS). The Chief Executive, our observer on the BAS, will be encouraging the BAS to work closely with the accounting bodies to ensure it is the BAS that leads on actuarial technical matters. If this is achieved, then the BAS can achieve influence also in Europe and internationally. It is a possibility to be welcomed that the BAS could become the foundation for an "International Board for Actuarial Standards"

## Working for the Profession's stakeholders

- 12.1 The majority of this paper has focused on the needs of individual members but we must not forget our other stakeholders. The FRC, BAS and POB are key stakeholders, as are also the FSA and the Pensions Regulator, and the others with whom we work closely across the disciplines. Our relationships with these stakeholders are on sound and positive footings and we will of course work actively to support their work.
- 12.2 The Profession's ultimate stakeholder is the general public. The Profession's role on matters of speaking out in the public interest is being discussed at the moment with the POB. The results of these conversations are expected to be sensible and workable. My personal opinion is that the Profession has a duty to highlight those issues on which actuaries are qualified to speak and that patently threaten the public interest. Individual actuaries can then take a lead from the Profession. However, the Profession should not actively seek out issues on which to comment simply to gain publicity.

## Summary

- 13.1 The Profession has been through a long period of introspection and renewal that is now nearing completion. Completion should involve merger between the Faculty and the Institute, which I would strongly welcome. But merger is not essential. What is essential is that attention is paid to the new employment landscape that will face individual members in the coming years. The Profession must find practical ways of supporting individual members in that environment. The Profession is reaching a tipping point in the nature of actuarial employment. Our skills will continue to be in demand provided we are prepared to be flexible and expand the horizons of our employment.
- 13.2 In closing, I wish to record my gratitude for the support of my employer, Zurich Insurance. The Profession is deeply appreciative of the support it receives from all the employers, such as Zurich, that allow actuaries to participate in the Profession.
- 13.3 The future has always been the landscape of the actuary. The Profession must support individual members to grow and prosper in that ever-changing landscape.