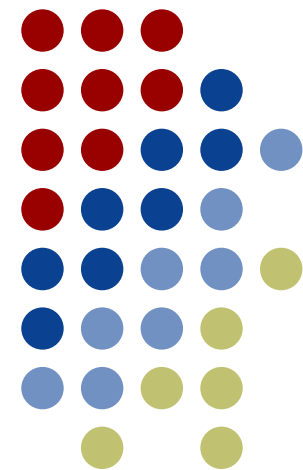


# The Actuarial Profession Strategy Review

Discussion paper  
September 2005



## A letter from the Presidents giving the background to the strategy review

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Dear Member,

The Morris Review is arguably the most important event in the 150 year history of our profession in the UK. We welcomed the final report and endorsed its main recommendations. The functions of the professional body, ie the Institute and Faculty of Actuaries, will continue, subject to oversight by the Financial Reporting Council (FRC), with the important exception of the setting of technical actuarial standards (our Guidance Notes). Responsibility for this function will transfer to the Board for Actuarial Standards (BAS), a body being set up under the FRC. This function represents a significant part of our current workload and its transfer will have a major impact on the role of the professional body.

These changes create both a need to review the role of the professional body and, more importantly, an opportunity to do so. We could decide to continue much as we are, with minimal change. Alternatively, we can use the Morris Review as a catalyst to rethink how the professional body can best serve you, the members, going forward. It is this second approach that we firmly believe is the right one for the profession.

Morris himself encouraged us to embrace change. He wrote of the profession being “at a crossroads”. He saw two possibilities; retrenchment into narrow reserved roles, leading to decline and our eventual demise as a separate profession, or expanding the use of our skills into “a wider remit”, bringing us into increasing competition with others.

If we look at the world around us, it is clear that big changes are taking place. Many other major UK professions are engaged in reviews of their strategy, as are our sister actuarial bodies in North America and Australia. The world in which most actuaries operate is becoming more global, a classic example being the way international accounting standards are supplanting national standards. The economic rise of China and India is mirrored by an explosion in the numbers of actuarial students in those two countries. Nearer at home, risk management has grown hugely in importance, particularly in financial organisations but also in all other sectors of industry and commerce. These are just some of the forces which will shape our futures.

For these compelling reasons, we set in train a strategic review of the role of the professional body ready to begin work as soon as the final report of the Morris Review saw the light of day. The review is being carried out in three distinct stages:

- Firstly, to determine the strategic objectives – where do we want to be in 5 – 10 years time?
- Secondly, to determine the strategic plan – what do we need to do to get there?
- Thirdly, to determine the structures which will best deliver the plan – how do we organise ourselves internally?

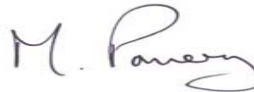
The two Councils of the Institute and Faculty met jointly in May to tackle the first stage and agreed four strategic objectives:

- Restoring confidence
- Increasing market share of talent leaving University
- Increasing value added by actuaries and thereby their influence
- Leveraging global capabilities

We then set about consulting and collecting evidence of where we are today and what we need to do in future to achieve our objectives. We spoke to customers, employers, universities and recruiters. But the most important group we need to consult is you, the membership. So we are now (September 2005) embarking on a consultation exercise with our members. This report contains the results of our evidence collection to date. We hope you find it interesting and revealing – we certainly did. Please let us know where you strongly agree or disagree with any of the evidence.

Towards the end of this report, we set out three possible future scenarios, which we have called ‘Co-regulator’, ‘UK Careers’ and ‘Global Player’. We have deliberately made them different, to concentrate minds on the choices available. But clearly, in practice, these are not three mutually exclusive options. The professional body will continue to perform important functions from each of the scenarios for a long time to come. The real choice is where our priorities should lie. In which direction should we channel our remaining resources? So, we are not asking you to vote for one scenario and reject the other two in their entirety. We are looking for a ‘steer’ as to where our main efforts should go, without neglecting the other areas.

We cannot emphasise too highly that we are still at the stage of collecting views and we really would value your input at this formative point in our process. We particularly want to hear from younger members, whose careers as actuaries are just beginning – this is your future. Only when the membership has been consulted will the two Councils proceed to determine a strategy for the professional body.



Michael Pomery  
*Institute President*



Harvie Brown  
*Faculty President*

# Executive summary

## Background

- The Institute and Faculty are going through significant change, not least because of the removal of certain regulatory functions to the Financial Reporting Council following the Morris Review.
- These changes, together with market changes within the services traditionally provided by members and by other professionals, eg risk managers, have resulted in a review of the strategy of the Profession. This review is limited to the activities of the Professional body (Profession). However since the Professional body exists to support the activities of the membership (profession), it is essential to understand the activities of the membership and how these are changing.
- Discussions in recent joint meetings of the Councils of the Institute and Faculty and their Strategy and Policy Committee indicated the key issues faced by the profession are currently:
  - Restoring confidence in the Profession
  - Increasing the market share of talent leaving University
  - Increasing the value added by actuaries and thereby their influence
  - Leveraging global capabilities
- Any strategy which fails to achieve some or all of the above is unlikely to address the current concerns of the membership.

## The profession today

- At June 2005 the active membership comprised 13,500 professionals. Students now exceed Fellows especially in the Institute. Male dominance is reducing.
- Growth is healthy and the membership is heavily biased towards younger members: 73% of the profession is aged under 40.
- We have become more global, especially at the student level. Much of the growth has been in developing markets, where we apply special overseas rates and are subject to strong competition, eg China and India setting their own exams, or students sitting US or Australian exams.
- Despite concerns expressed by members, the traditional areas of pensions and life assurance do not show any signs of being in decline yet.
  - Growth is not very different to general insurance (7% in both life and pensions compared to 9% in general insurance).
  - Consulting firms are growing faster than insurance companies.
- Approximately 25% of UK Fellows have a practising certificate, but this is dominated by those working in the Pensions sector, where half of all Fellows have a practising certificate.
- There is a mis-match between the work activities of the membership and those of the Professional body which is more focused on compliance activities.
- Net income of the Professional body is dominated by subscriptions. Expenditure is weighted towards compliance activities ie regulation, discipline and practice board (guidance setting) activities. As a result there is a cross subsidy from the broad membership to support the compliance activities of the Profession.

## Executive summary (continued)

### Demand for and Supply of Actuaries

- Customers, as represented by pension trustees and insurance non-executive directors, have a high degree of confidence in actuaries and view them as highly competent, but feel we live to too great an extent in an 'Ivory Tower' and need to interface better with the rest of the business community. Whilst recognising recent improvements, their criticisms revolve around:
  - insufficient real world understanding
  - lack of business judgement
  - patchy and sometimes inadequate communication skills, and
  - a tendency to act as judge and jury
- There is continued demand for actuaries from current employers with no reduction in demand anticipated in the short to medium term, but potentially in the longer term. Strong consistent views from employers that actuaries need
  - much more business understanding
  - far stronger communication skills
  - better ability to work in multi-disciplinary teams.Employers view the supply of potential recruits as healthy, but want more non-mathematicians and better inter-personal skills.
- Input from younger members indicates a high degree of disenfranchisement and a shift of loyalty from the Profession towards the employer. They value reserved roles and the "high standard of qualification" less than older members.
- The supply of students is of a very high standard but remains narrow with a very strong mathematical bias. Universities view the Profession as unknown by non-mathematicians. The length of time taken to qualify is inhibiting to many outside our traditional sources of applicants.

### Generic strategy scenarios

- Whilst it is clear that there is scope to improve our external relationships, customer input indicates that we do not have a fundamental confidence problem among users of actuarial advice. Demand is strong and likely to remain strong in the short to medium term provided we can maintain our influence and continue to add value.
- Considerable scope exists to improve the value we add and our influence by improving the way we apply our skills and interact with the rest of the business world.
- The growth in our membership globally provides additional opportunities and challenges.
- Our ability to increase our market share of talent is linked to our ability to increase our appeal to a wider candidate base, which would be desirable in any event to address some of the concerns expressed by customers and employers.
- The world has moved on in recent decades and whilst other professions have made changes, the Actuarial Profession has not made sufficient changes to ensure actuaries stay equipped with the right skills. The Professional body has already also raised a number of questions about its future role.
- Leveraging what is left of our regulatory activity (particularly in licensing those who have reserved roles through practising certificates) provides a strategic option which we term 'The Co-Regulator' strategy. This would strengthen the role of the Professional body as a regulator and promotion of actuaries would focus on reserved roles.
- Leveraging our role in developing the skills and knowledge of actuaries in the UK provides a second strategic option which we term 'The UK Careers' strategy. The focus here is providing the membership with support to enable them to achieve more in their careers.

## Executive summary (continued)

### Generic strategy scenarios (continued)

- Leveraging the global growth in our membership provides a third strategic option which we term 'The Global Player' strategy. We would actively seek non UK members and provide services to them which make post qualification membership attractive.
- Each strategy could be considered separately but in practice we will continue with elements of all three to at least a minimum extent.
  - Reserved roles exist and we will be expected by government and FRC to support them
  - We must continue to provide initial qualifications and continuous professional development support to UK members
  - We must continue to support existing overseas members
- It is not realistic to expect that we can focus our energies on all three activities equally. We need to choose where we focus our resources. Whilst the scenarios are presented as alternatives, primarily to trigger debate, a clear sense of purpose will enhance stakeholder relationships and organisational effectiveness.

### Consultation

- Over the next few months it is intended to consult as widely as possible with the membership to identify their preferences for the strategy for the Professional body. Key questions for consultation include:
  - Should we be attempting to grow the scope and number of reserved roles?
  - The compliance activities of the Profession are supported by membership subscriptions. To what extent is such a cross subsidy desirable or sustainable?
  - Should we increase our efforts to broaden the profession beyond the traditional areas of pensions and insurance?
  - Would university-only provision of the core technical subjects better serve the Profession, by potentially increasing the supply of good actuarial students and reducing the Profession's dependence on demand from employers as a key driver of growth?
  - Would a two tier qualification better serve the membership? (By two tier, we mean greater emphasis on achieving a broad qualification at Associateship level, with the Fellowship level being a supplementary qualification for those specialising in specific practice areas.)
  - Is it the role of the Professional body to attempt to produce more rounded actuaries and, if so, how should it be done?
  - To what extent should we try to expand overseas membership?
  - What steps should be taken to improve the engagement of younger members with the Professional body, ie to capture better their hearts and minds?

*This paper was commissioned by the Strategy and Policy Committee of the two Councils of the Faculty and Institute and was drafted by Ashok Gupta, Seamus Creedon, Clare Whitlam and Caroline Instance who take full responsibility for its contents and any inadvertent errors it may contain. In gathering evidence we are indebted to David Stanley, a director of Caret Ltd who facilitated the younger members' workshop and Lucian Camp of [cchm:ping](#) who assisted with the market research.*

# Contents

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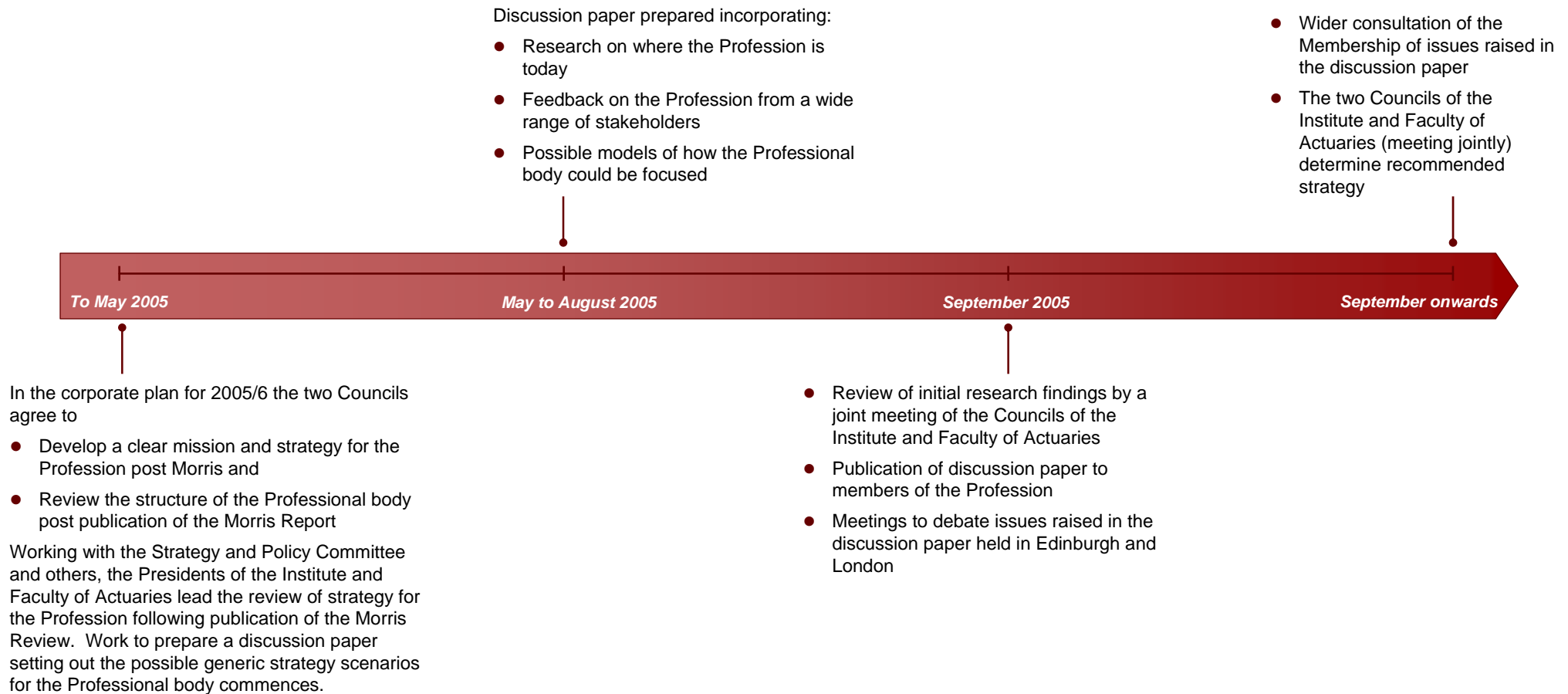
<b>This report is divided into the following sections:</b>	<b>Pages</b>
● <b>Background to the strategy review</b>	<b>7 - 8</b>
● A snapshot of the Profession today	10 - 21
● Demand for and Supply of Actuaries	23 - 34
● Generic strategy scenarios	36 - 43

# Background to the strategy review

Summary of observations	
<b>Current status of the profession</b>	<ul style="list-style-type: none"> <li>● The Institute and Faculty are going through significant change, not least because of the removal of certain regulatory functions to the Financial Reporting Council following the Morris Review.</li> <li>● A large proportion of the membership is also going through significant change brought about by the decline of defined benefit pension schemes and a very significant move away from with-profit policies.</li> <li>● Sir Derek Morris observed that the actuarial profession is at a crossroads. He saw two options for it:             <ul style="list-style-type: none"> <li>– retrenchment into narrow, statutory roles</li> <li>– seek to fulfil a wider remit, bringing expertise to a range of less traditional fields.</li> </ul> </li> <li>● Members are facing competition from risk professionals and investment professionals. There is also a perception that the profession is finding it harder to win a share of the brightest graduates from numerate disciplines, especially those with a degree in economics or related subjects.</li> <li>● Public confidence in actuaries (as in other professions) is likely to have fallen, following the persistent media criticism of the profession in recent years, most notably following the closure of Equitable Life and the emergence of deficits in pensions schemes. Actuaries are often blamed for the pensions mis-selling and mortgage endowment fiascos, despite the absence of any proven link between the behaviour of salesmen and the role of actuaries.</li> <li>● As a direct result of the dwindling confidence levels, the influence of the profession is, possibly, at an all-time low.</li> <li>● The above factors resulted in the Presidents championing a major review of how the Professional body is going to operate going forward.</li> </ul>
<b>Morris Review implications</b>	<ul style="list-style-type: none"> <li>● The Institute and Faculty of Actuaries working together as the UK Profession will need to change to respond to the implementation of the Morris Review recommendations. The Financial Reporting Council (FRC) is setting up a Board for Actuarial Standards which will take over from the Profession the role of setting technical standards. In addition the FRC will oversee how the Professional body executes its remaining regulatory functions. “Public interest” discipline cases in future will be investigated and judged through the FRC’s separate discipline arrangements, while the Profession’s Discipline Board will continue to operate our own schemes for all other cases.</li> </ul>
<b>Key issues faced by the profession</b>	<ul style="list-style-type: none"> <li>● Discussions in recent joint meetings of the Councils of the Institute and Faculty and their Strategy and Policy Committee indicated the key issues faced by the profession are currently:             <ul style="list-style-type: none"> <li>– Restoring confidence in the Profession</li> <li>– Increasing the market share of talent leaving University</li> <li>– Increasing the value added by actuaries and thereby their influence</li> <li>– Leveraging global capabilities</li> </ul> </li> <li>● Does this provide a basis for a strategy for the Profession? Whilst this internal perspective needs to be tested against input from other stakeholders such as external customers, any strategy which fails to achieve some or all of the above is unlikely to address the current concerns of the membership.</li> </ul>

# Background to the strategy review

## Timetable for consultation process



# Contents

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● Generic strategy scenarios	36 - 43

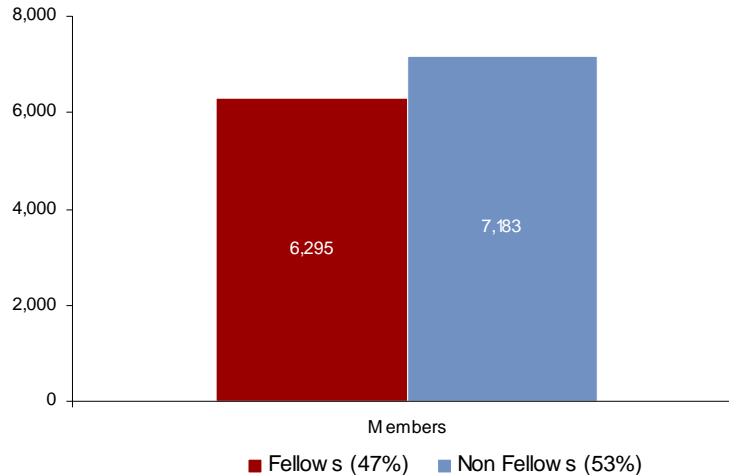
# Strategy report: A snapshot of the Profession today

## Analysis of active membership

Based on a snapshot of the active membership as at June 2005

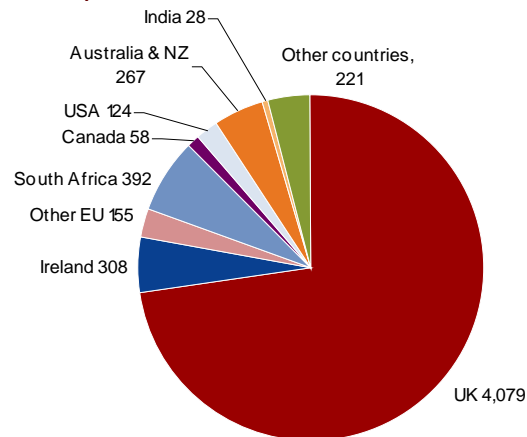
- Out of a total membership of 16,337 the number of active members of the Professional body as at June 2005 was 13,478.
- Of these, broadly half are Fellows of the Institute or Faculty.
- Just over a quarter of the qualified membership are located overseas. Many have taken the UK's examinations because their country of origin did not have an examining body. The trend has been for countries, once there is a critical mass, to set up their own association, then their own examinations.
- Just over 80% of the qualified membership and approximately 70% of the unqualified membership are male. At the younger ages, the balance is more even – with approximately a 60:40 split between males and females.

**Membership split by qualification**



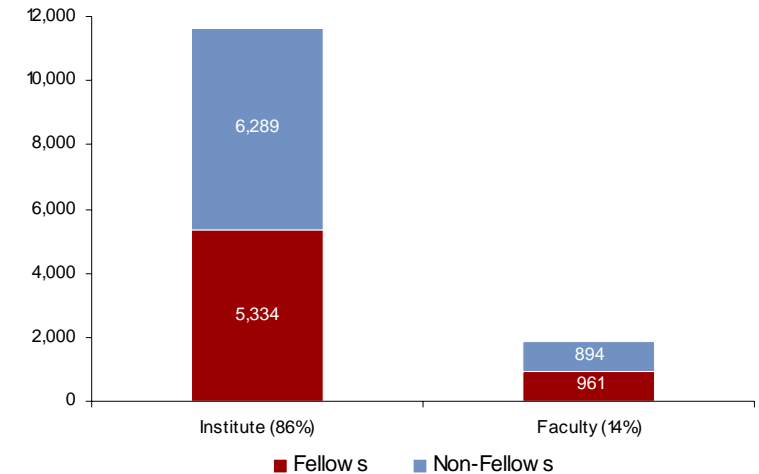
Note: Excludes retired and unemployed actuaries  
Source: Membership database as at June 2005

**All Fellows employment by country (as at September 2004)  
(Active only, no Associates)  
(TOTAL 5632)**



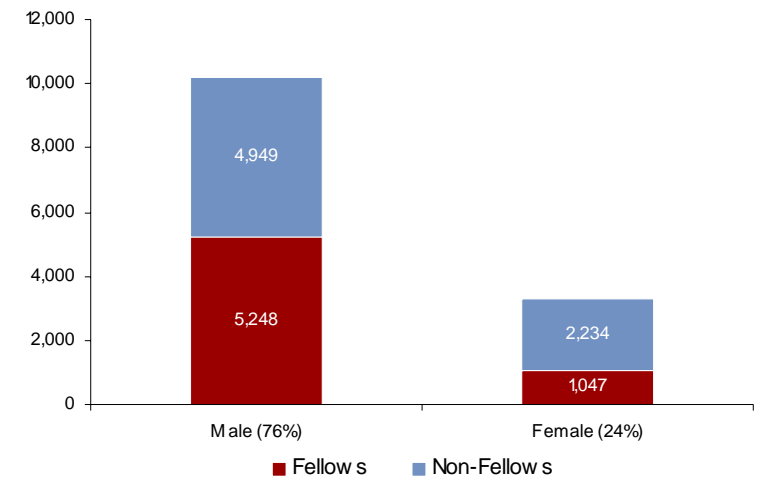
Note: This chart is based on membership data collected in September 2004 where country of employment was notified

**Membership split between Institute and Faculty**



Note: Excludes retired and unemployed actuaries  
Source: Membership database as at June 2005

**Membership split by sex**



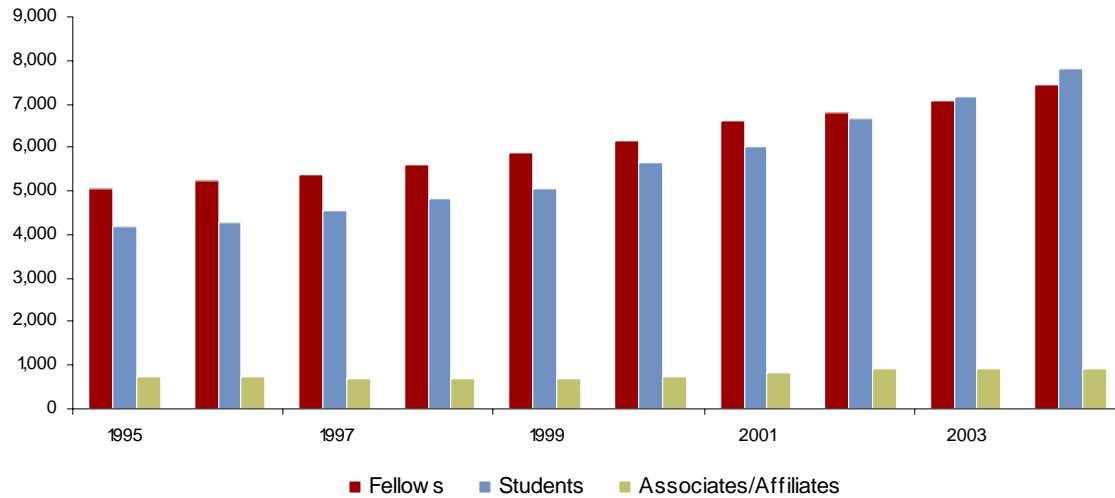
Note: Excludes retired and unemployed actuaries  
Source: Membership database as at June 2005

# Strategy report: A snapshot of the Profession today

## How the membership is growing

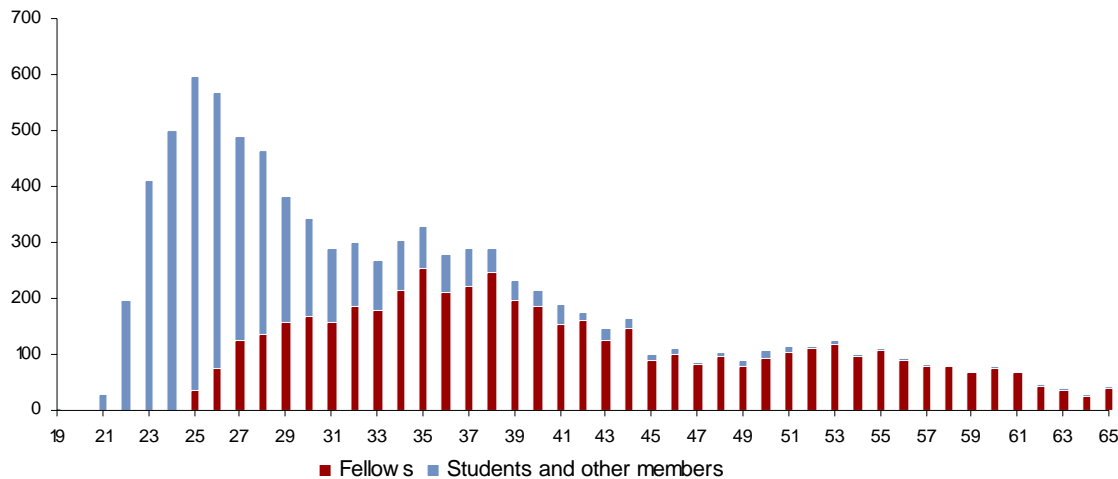
- The total membership has grown steadily in recent years, by an average of approximately 6% a year. This compares with the 3.5% increase in the membership of the Chartered Accountancy Bodies (1998 -2003)
- As a result of higher growth in student numbers the profession is biased toward young members, even if potential non qualifiers are excluded.
- 73% of the active profession is currently represented by members under age 40

**Membership 1995-2004**



- The graph on the left shows the number of Members of the Institute and Faculty for each of the years 1995 to 2004. The % compound annual growth rate for the period is 4% pa for Fellows and 7% pa for students.

**Membership split by age**



- The number of students starts to decline from age 25 either through drop out or qualification. Approximately 25% of all students decide to leave the Professional body, the bulk of these within the first 3 years.

Note: Includes retired and unemployed actuaries. 65 covers all 65 and over  
Source: Membership statistics to 2004

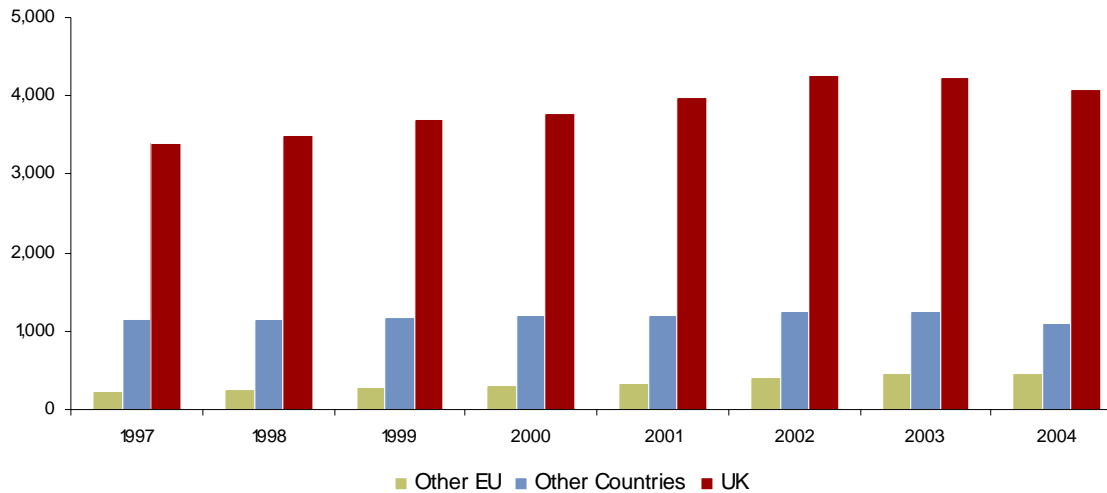
# Strategy report: A snapshot of the Profession today

## Trends in membership: where members are located

- Although the UK predominates as the country for Fellows and Students to be employed, the past few years have seen a significant increase in those employed in other EU countries (including Ireland).
- The numbers employed in more far-flung English speaking countries has, in contrast, been in decline because their own country runs examinations. The only area of significant growth has been the employment of actuarial students in India where there are now 300 employed in 2004 rather than 55 in 1997. Students in India may also take the examinations of other actuarial bodies.

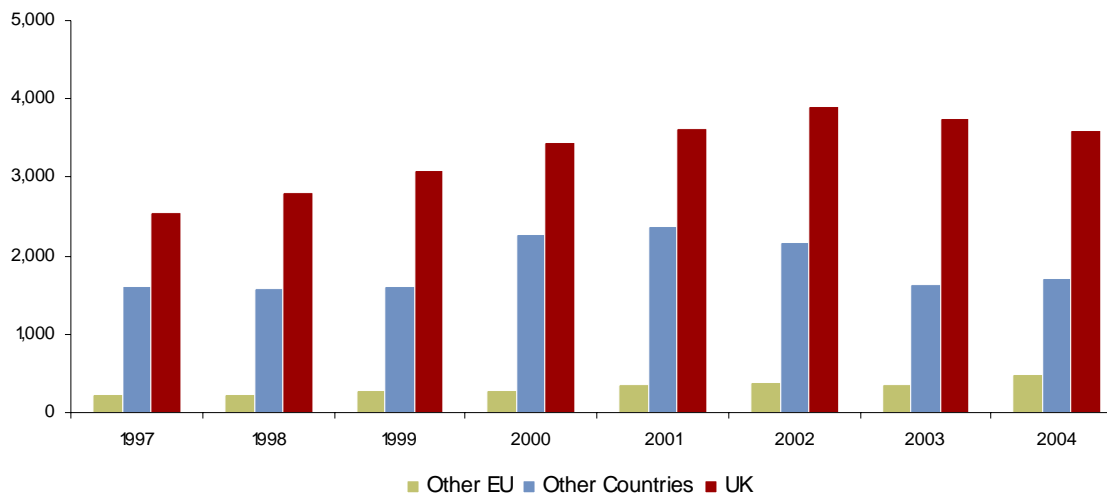
Note: Country of employment data is not present on all member records

**Fellows by country of employment**



- The graph on the left indicates the increase in the number of Fellows working in other EU countries (including Ireland). In contrast, the number of Fellows working in Canada, Australia, New Zealand and India has been at best static.

**Students by country of employment**



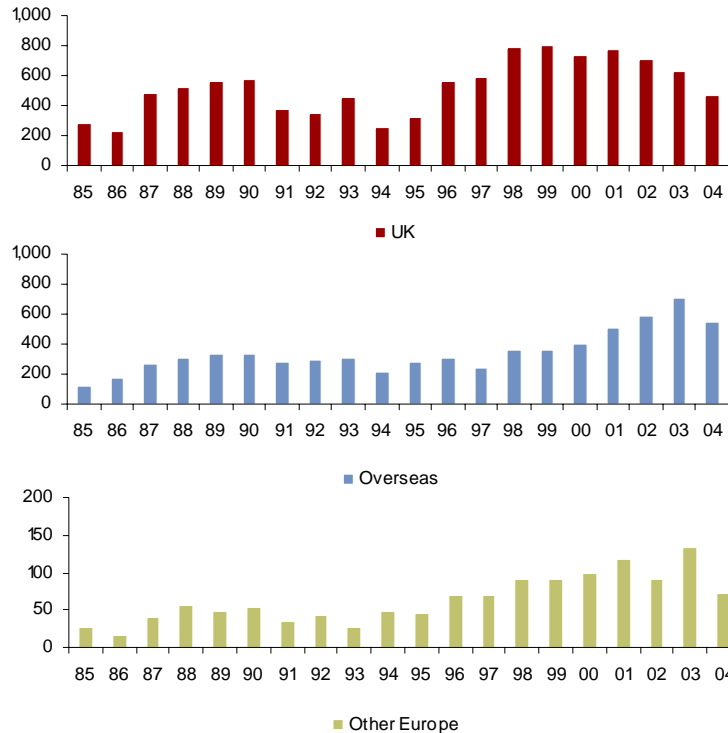
- The graph on the left shows that, for students, working abroad has become more common. Over the period 1997 to 2004 the number of students employed in India, Ireland and other EU countries has increased but the number employed in Canada, Australia and New Zealand has been in decline.

Note: Includes retired and unemployed actuaries  
Source: Membership statistics to 2004

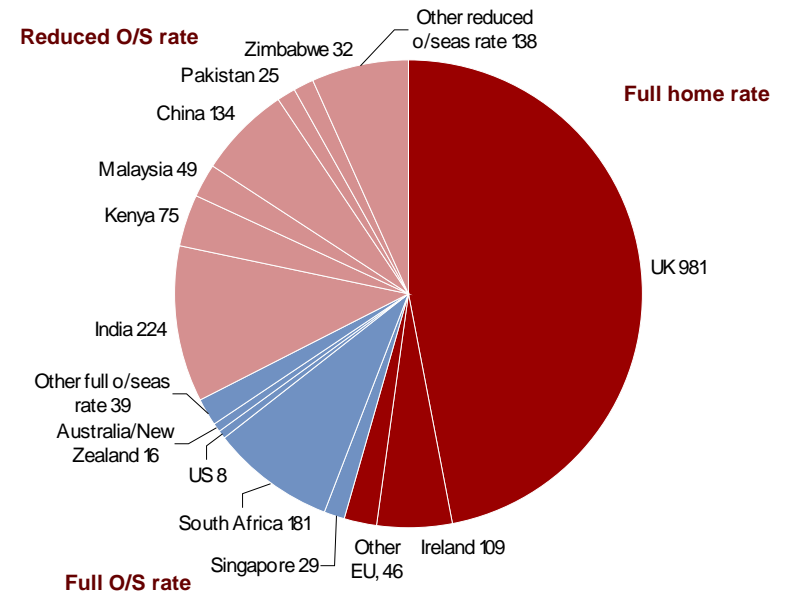
# Strategy report: A snapshot of the Profession today

## How the membership is changing

- A significant proportion of the growth in the membership has been fuelled by students from overseas.
- In the last two years the majority of new students were from outside the UK.
- It is not certain whether these students will all remain in the Profession to complete their Fellowship qualification.
- Globalisation could provide a big opportunity for the Profession but the unanticipated growth in students who qualify for the reduced overseas rate will in time impact on the Profession's finances. The reduced overseas rate is 15% of the full student rate for examination fees and 12% for subscriptions. These rates do not meet the costs of the services provided.



- The graphs above show the entrance numbers for students over the last 20 years. It should be noted that these are the numbers applying for admission each year and, because a proportion will drop-out each year, may not accurately predict the number or location of future qualified Fellows.
- The numbers reflect the cyclical nature of admissions. There does, however, appear to be a trend for an increase in the number of students applying from overseas.
- For home grown students who live and work in the UK, the Profession provides the natural qualification but for overseas students there are other valid options which compete against the Profession. This is particularly true for the US and Australia.



- The graph above shows the split over the last two years between entrants on the full home rate, the full overseas rate and the reduced overseas rate.
- A student qualifies for the special overseas rate if their country of residence has a Gross National Income (GNI) per capita below 30% of the US GNI per capita.

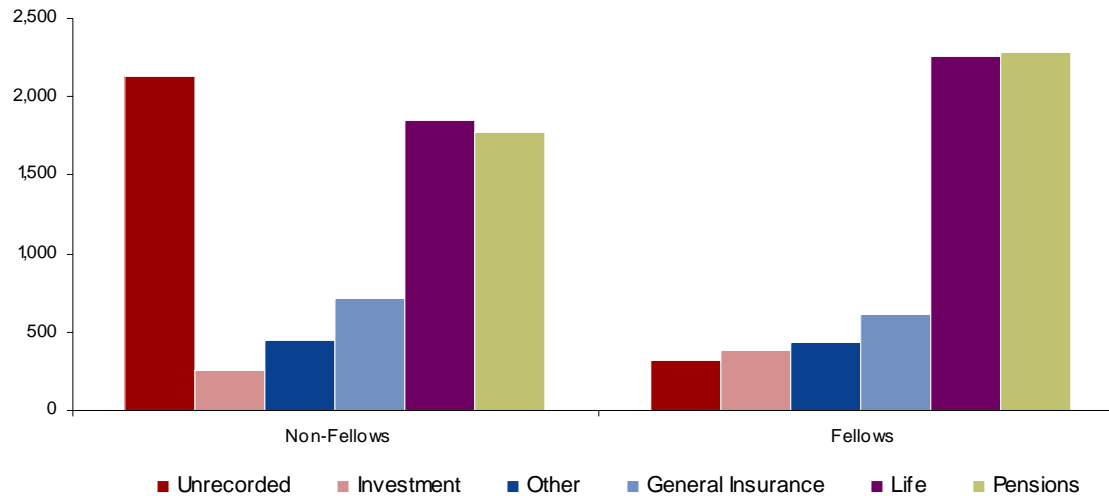
# Strategy report: A snapshot of the Profession today

## In which practice areas do we operate

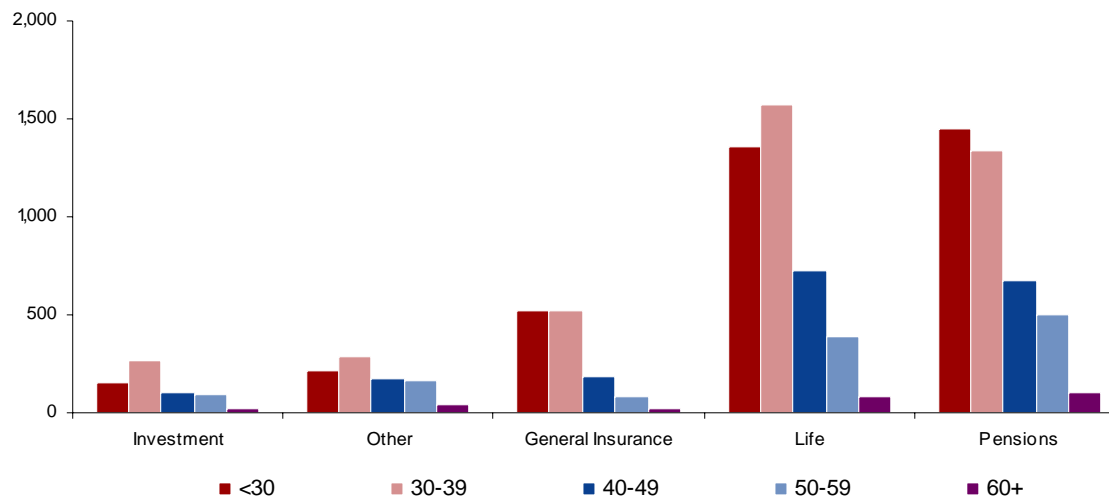
Based on a snapshot of the Membership as at June 2005 summarised on this page and this section of the paper:

- There are more unqualified than qualified members
- There are more male than female members
- The average age of the membership is 36
- There are more members working in the UK than overseas
- There are more Institute than Faculty members
- There are more members working in life assurance and pensions than other work areas
- There are more members without practising certificates than members who do hold one.
- All areas of practice have similar proportions of younger members

**Actuaries by work area**



**Age profile of membership by main work areas**



*UK employed actuaries only  
Source: Membership database as at June 2005*

**The Profession is still dominated by the two traditional areas of life assurance and pensions. However for unqualified members:**

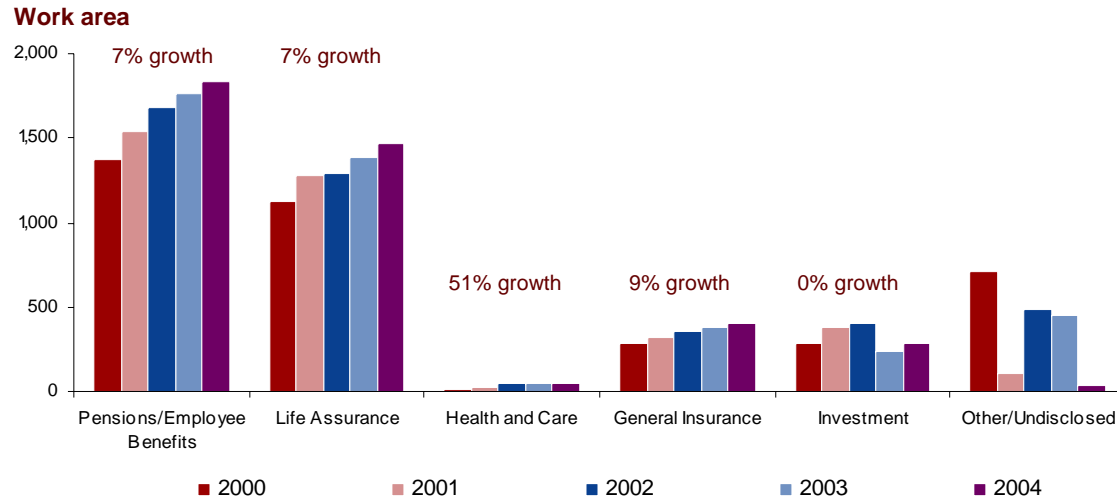
- General insurance is a more significant work area.
- A high proportion of unqualified members have not yet determined a specific work area.

Work area	% of Membership under age 40
Investment	65%
Other	57%
General Insurance	65%
Life	71%
Pensions	69%

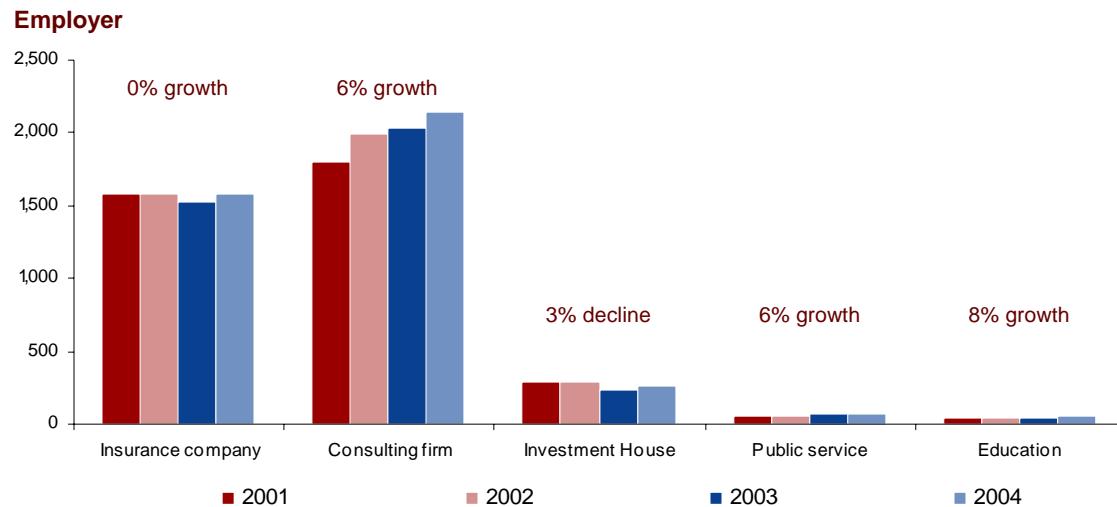
# Strategy report: A snapshot of the Profession today

## How are the roles the membership perform changing?

- Anecdotal evidence indicates an anticipated reduction in the numbers of actuaries employed in the traditional areas of pensions and potentially life assurance, resulting from the decline of with profits and final salary pension schemes.
- The statistics suggest any anticipated decline has not yet started.
- There appears to have been no sustained growth in actuaries being employed in the investment field in the last five years.
- The actual trends are clouded by a shift in the type of employment from insurance companies into consultancies.
- Consultancies represent the prime area of growth within the profession



- The graph on the left shows the trend in the major work areas performed by UK Fellows. Other than investment, all work areas showed an increase in the numbers working. The area with the most significant growth rate was health and care insurance consulting where there was a 51% annual growth rate; albeit from a very small base.



- The graph on the left shows the trend in employers for UK Fellows. The major growth in employment appears to have been through consulting firms. This type of employer has seen the number of UK Fellows employed rise by approximately 6% a year whereas the numbers of UK Fellows employed by insurance or reinsurance firms has remained fairly static.

Note: Employed UK actuaries only (There are some inconsistencies in the data for work areas and employers because of differences in the collection of data. This means that there are differences when comparing absolute growth figures but the relative levels of growth appear valid)

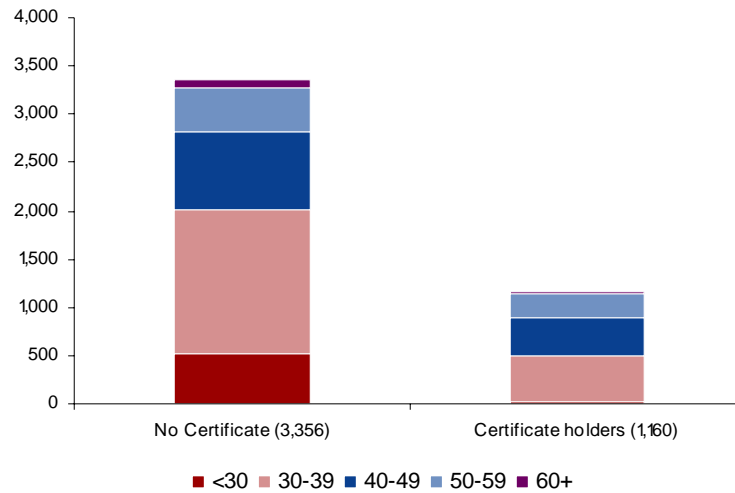
Source: Membership statistics to 2004

# Strategy report: A snapshot of the Profession today

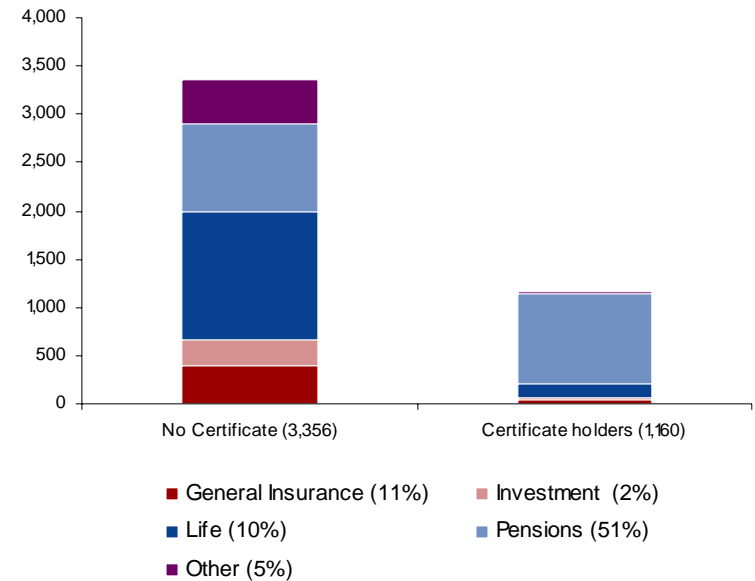
## The importance of Regulated Roles for UK actuaries

- The snap shot data has been analysed to determine whether the profile of practising certificate holders differs markedly from the non certificate holders.
- There are 4,516 active UK Fellows and 1,160 (26%) of these are holders of practising certificates. A very small number of practising certificate holders are based outside the UK. Only 9% of the total active membership have practising certificates.
- Holders of practising certificates in the UK are concentrated in the pensions work area where such certificates are required for the scheme actuaries of final salary schemes.

**UK based Fellows split by age**



**UK based Fellows split by work area (showing % of certificate holders)**



- The graph above shows a comparison of the age profile of certified and non-certified UK based Fellows.
- The graph to the right shows the split of work area between certified and non-certified UK based Fellows.
- The lack of a certificate does not necessarily mean that the member does not undertake regulatory type work. For example, in the 2001 survey of members' work areas, 34% of UK Fellows working in life assurance worked in the Appointed Actuary's department.

*Note: Excludes retired and unemployed actuaries  
Source: Membership database as at June 2005*

# Strategy report: A snapshot of the Profession today

## What the Profession does

### Structure of the UK Professional Body

The Profession has a complex structure involving hundreds of volunteers who work for the Profession in their own or their employer's time.

- The UK Profession is governed as a joint operation by the two Councils of the UK professional bodies: Faculty (membership of 27) and Institute (membership of 30). The Councils meet jointly 4 times a year. Since 1996 operational matters have been delegated to the Faculty and Institute Management Committee (FIMC). This has a membership of 16 including the Chief Executive, split broadly 2/3rds Institute, one third Faculty.
- There are 15 boards and free standing committees with a total of 43 committees reporting to boards
- 10 Faculty-only committees and 4 Institute-only committees.
- Governance of the separate bodies is underpinned by charters which can only be changed with approval of the Privy Council.

### Corporate planning

The corporate plan (available on the website) is developed from the strategic direction given by the joint Councils of the Institute and Faculty of Actuaries. However, detail is developed bottom up from Board activities which tend to be practice specific. It is organised under sections based on what the Professional body (as defined in the charters) is here to do.

### Regulation

- Guidance notes (MAP)
- Professional Conduct Standards (PCS)
- Discipline
- Practising certificates (licensing)
- Revalidation

### Promotion

- Liaison with government and regulators
- Careers
- Media relations
- Public interest issues
- Marketing the actuary brand to business

### Innovation

- Research
- Actuarial papers
- Knowledge transfer (libraries, website)

### Community and companionship

- Sessional meetings
- Network events
- Special interest groups
- Conferences

### Education

- Initial qualification
- Specialist certificates
- Life long learning –CPD
- Seminars

### How the Professional body operates

- Most of the business is generated from the activities of the Boards. Tradition is valued, changes when they occur tend to be evolutionary. Limited resources are expended on promoting the profession to either potential new student members or the business community. Liaison with government and regulators tends to be reactive. There is lack of clarity over our international strategy and most member services post qualification are UK centric. Over time more activities and services have been organised on a joint basis between the two bodies. In 2005 subscription rates for the membership of both bodies were brought together. There are linked, but separate, entities which sit alongside the Profession such as the CMI and SIAS (who produce *The Actuary*).

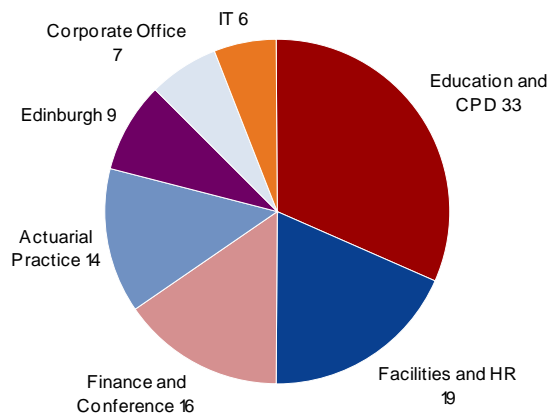
# Strategy report: A snapshot of the Profession today

## What the Profession does

### Staff

- There are 104 staff posts split over three sites (London, Oxford and Edinburgh) who support the activities of the Professional body. They are organised into the divisions below. The heads of division and Chief Executive form the senior executive team (CEG).
- **Education and CPD** (support for E&CPD Board and its committees, library, website, publications careers and Institute sessional meetings)
- **Facilities and HR** (reception, building services, telephones, meeting servicing, despatch organisation, post)
- **Finance and Conference**
- **Actuarial Practice** (support for the practice boards and their committees)
- **Edinburgh** (Faculty administration including sessional meetings, support for the Professional Affairs Board and its committees, discipline investigation, membership and practice certificate administration)
- **Corporate office** (Institute, meetings of the two Councils, FIMC administration, communications/PR, discipline infrastructure, project management)
- **IT**
- Staff time is the biggest driver of cost.

### Split of staff between divisions



### Opportunities for Change

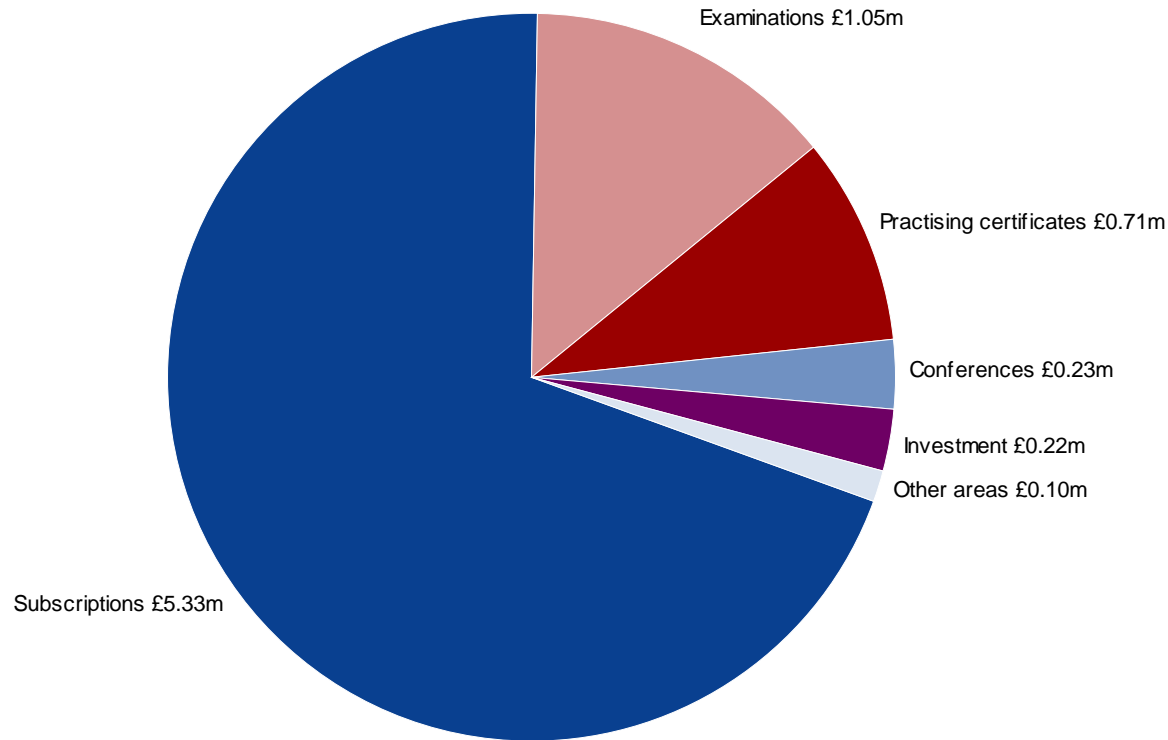
- A joint meeting of the two Councils set up a working group to look at improving the effectiveness of the structures and governance of the Professional body. The problems with the current structures were described by the Effectiveness and Governance Group in a report to a joint meeting of the Councils on 14 June 2004 as follows:
  - confusion (in practice) over roles and accountability
  - lack of clear delegation
  - too much duplication and overlap
  - silo thinking
  - too many committees and too much bureaucracy
  - a structure which makes us slow to react or unable to be proactive
  - too much time spent on technical detail at the expense of strategic thinking
  - apparent weak connections with the real needs and requirements of the membership
- It was decided to consider structural change only after the outcome of the Morris Review was known.
- Once we have a clear vision of the strategy going forward we can build a modern governance structure to support it, building on its past strengths but not replicating its perceived weaknesses. This will be the third stage referred to in the Presidents' letter.

# Strategy report: A snapshot of the Profession today

## The finances of the Profession: Net income

- In the financial year 2004/5 the total income for the Profession was £12.85m and expenditure was £12.37m.
- For illustrative purposes the planned net income and net expenditure for 2005/6 has been analysed by activity.
- The bulk of the net income for the Profession arises from general subscriptions. Net revenues from practising certificates are 13% of subscription revenues. A substantial contribution also is expected to come from examinations activity, although it should be borne in mind that this is before indirect and overhead costs and before any allowance for a return on the significant investment in implementing the new education strategy introduced in 2004/5.
- Note: The amounts on this and the following page are based on adjusted budgets for 2005/06, with payments to the pension scheme fully allocated. The contribution from income-generating activities has been stated net of the direct costs associated with such activities. Similarly (on the following page) activities which give rise to net outlays have been stated net of any offsetting income. Figures have been rounded. No cost has been attributed to commitment of volunteer time.

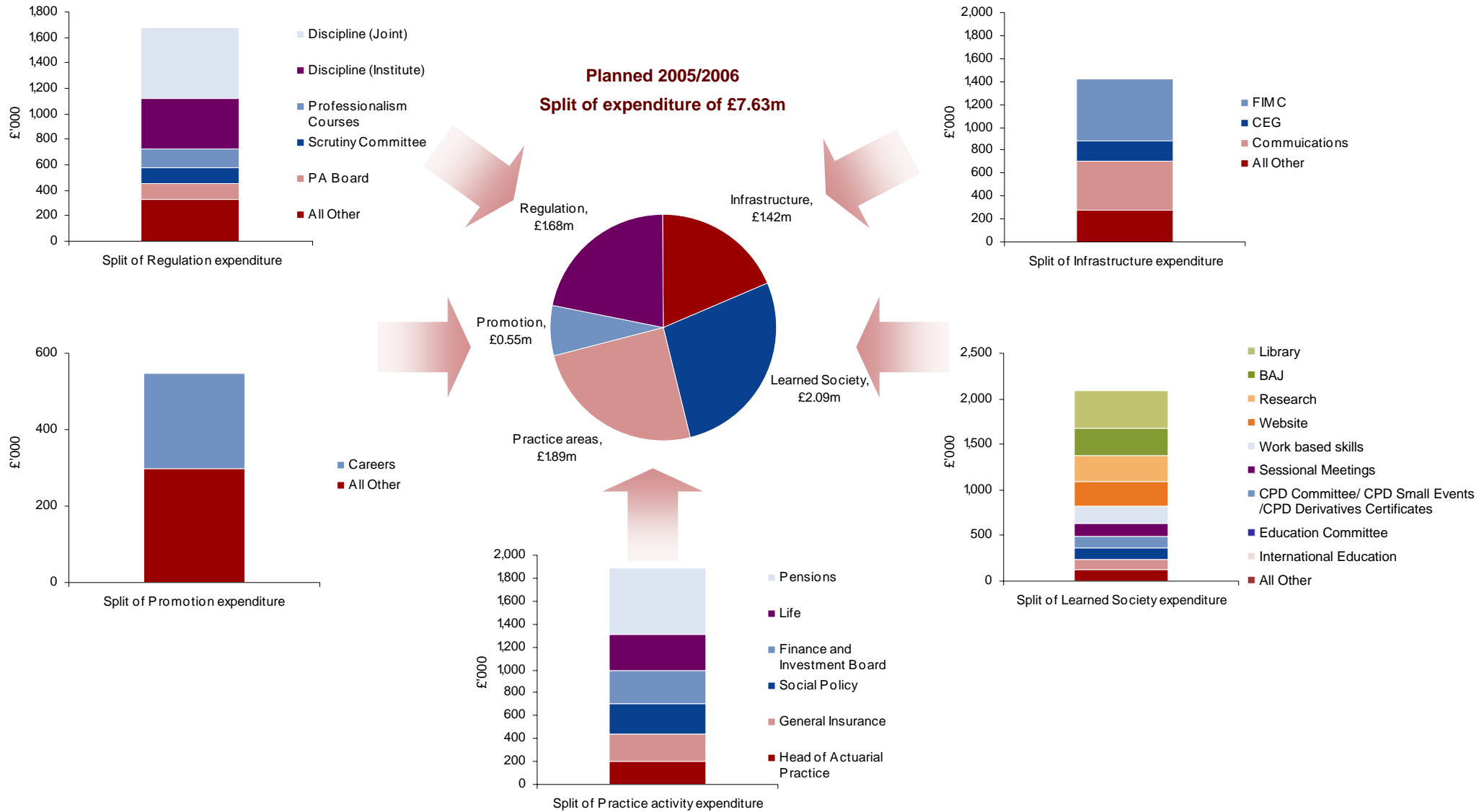
### Planned 2005/2006 Split of net income of £7.64 million



Source: Analysis of projected income and expenditure by the papers authors

# Strategy report: A snapshot of the Profession today

## The finances of the Profession (continued): Expenditure



# Strategy report: A snapshot of the Profession today

## Summary Conclusions

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### Summary Conclusions

- Students now exceed Fellows especially in the Institute. Male dominance is reducing.
- Growth is healthy and the membership is heavily biased towards younger members: 73% of the profession is aged under 40.
- We have become more global especially at the student level. Much of the growth has been in developing markets, where we apply special reduced rates and are subject to strong competition (eg China or India setting their own exams, or students sitting US or Australian examinations.
- Despite concerns expressed by members, the traditional areas of pensions and life assurance do not show any signs of being in decline yet.
  - Growth is not very different to general insurance (7% in both life and pensions compared to 9% in general insurance.)
  - Consulting firms are growing faster than insurance companies.
- Approximately 25% of UK Fellows have a practising certificate, but this is dominated by those working in the Pensions sector, where half of all Fellows have a practising certificate.
- Net income is dominated by subscriptions.
- Expenditure is weighted towards compliance activities ie regulation, discipline and practice board activities.
- As a result there is a cross subsidy from the broad membership to support the compliance activities of the Profession.

# Contents

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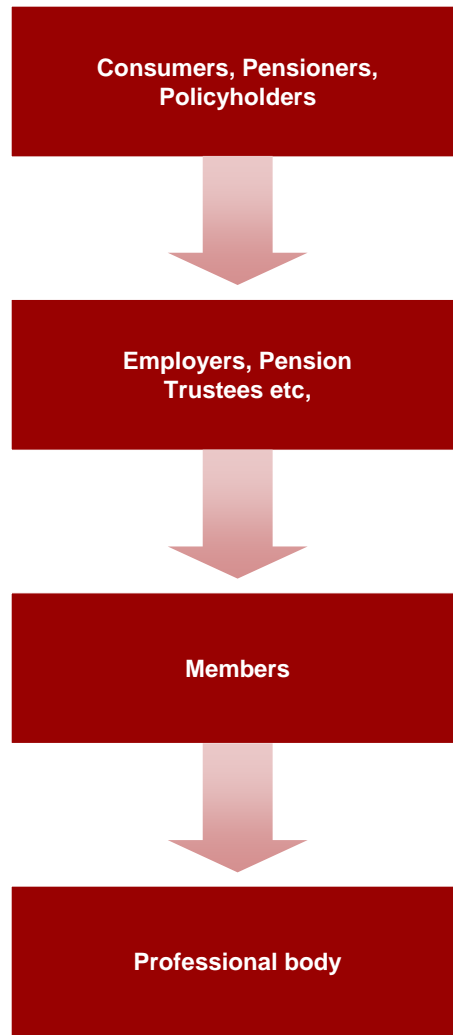
<b>This report is divided into the following sections:</b>	<b>Pages</b>
● Background to the strategy review	7 - 8
● A snapshot of the Profession today	10 - 21
● <b>Demand for and supply of actuaries</b>	<b>23 - 34</b>
● Generic strategy scenarios	36 - 43

# Strategy report: Demand for and supply of actuaries

## The Professional body lies at the end of a lengthy supply chain

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### The supply chain for actuarial services

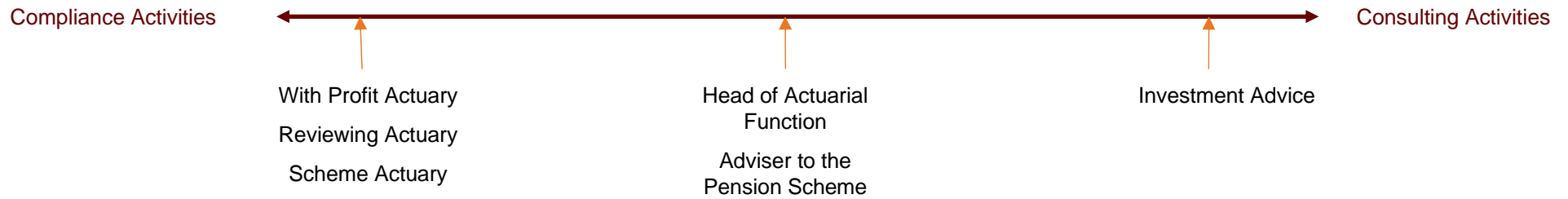


- Any strategy must provide benefits to each link in the chain if it is to be effective.
- This study is concerned with developing a strategy for the Professional body, not one for the membership. The Profession's strategy must however support the needs of the membership.
- Any strategy for the Professional body must be developed in the context of an understanding of:
  - the demand for and supply of actuarial services
  - competition between actuaries and other disciplines
  - factors influencing the demand for and supply of actuaries and their actual and potential roles.
- Currently demand for actuaries is led by employers, whose views are key. They are not however the ultimate customer and it is therefore essential to also take input from insurance company directors and pension scheme trustees in part as a proxy for the ultimate customer (as Sir Derek Morris did in his review).
- Supply dynamics can be identified through input from students who have recently chosen to become actuaries and those involved in the recruitment of potential actuaries (Universities and HR Professionals).
- This section of the report analyses input from elements of the supply chain on supply and demand to identify the current and potential future strategic positioning of the membership. From this the potential strategic positioning options for the Professional body can be identified. Generic strategy scenarios are considered in the final section of the paper.

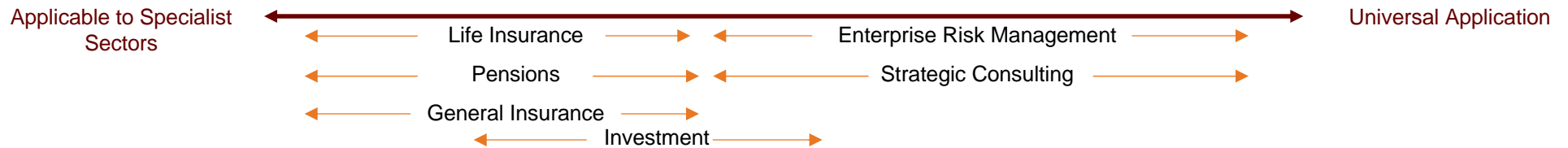
# Strategy report: Demand for and supply of actuaries

## Strategic positioning of the Membership and the Profession

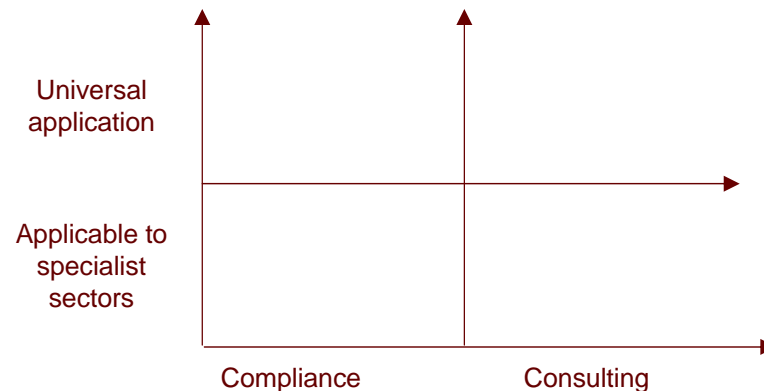
Actuarial roles can be viewed as spread along a spectrum



Actuarial skills can be applicable narrowly or widely



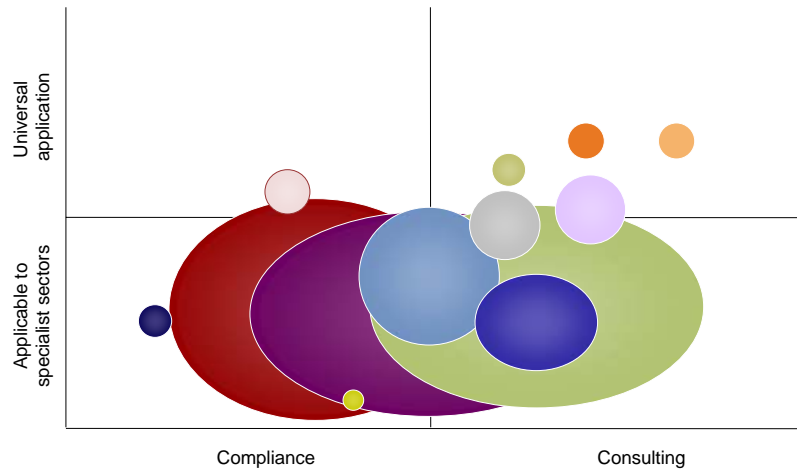
These two axes combine to define the space with in which the membership operates



# Strategy report: Demand for and supply of actuaries

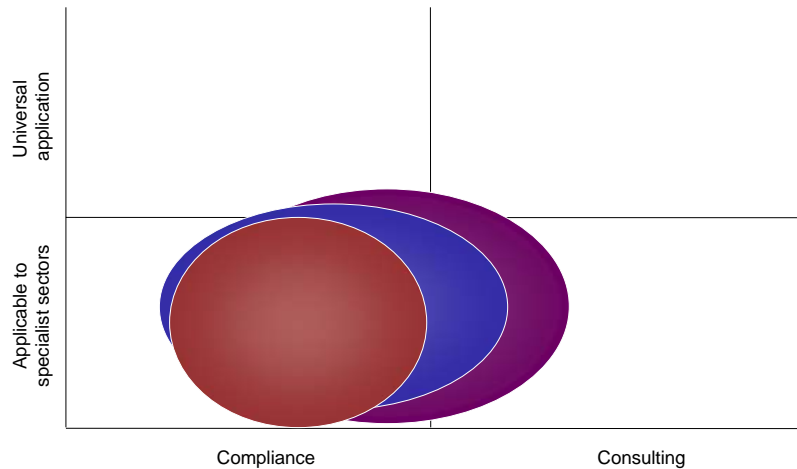
## Strategic positioning of the membership and the Profession

- The current membership can be distributed within the space roughly as shown to the right.
- Although for many years there has been an aspiration for actuaries to work in 'wider fields' the difficulties in achieving this should not be underestimated.



- Appointed Actuary team
- Client adviser – Pensions
- General management
- Pricing
- Risk Management
- Systems
- Strategy
- Other
- Compliance
- Scheme administrator
- Project appraisal
- Financial planning
- Investment

- The current activities of the Professional body can be distributed within the space roughly as shown to the right.
- There is a mis-match between the activities of the membership and the activities of the Professional body.
- If the activities of the Professional body do not support the activities of all of the membership we run the risk that a proportion will feel their subscription does not represent value for money.



- Regulation
- Practice areas
- Learned Society and Promotion

# Strategy Report: Demand for and supply of actuaries

## The feedback from customers

- It was thought important to take into account the views of those who have close experience of working with, and receiving advice from actuaries as colleagues and/or in consulting roles, fulfilling both statutory and other functions.
- Research was undertaken by Q<sup>2</sup> research and consultancy on behalf of the Profession.
- Interviewed were 8 pension fund trustees and 7 Non-Executive Directors and Chairmen of leading insurance companies
- The key areas on which views were sought were:
  - The knowledge and experience of actuaries;
  - How is the demand for actuaries changing
  - The competitive perspective versus other professions
  - What the future holds for actuarial services

Note: A full report from Q<sup>2</sup> is on the website.

<p><b>What is currently good about actuaries?</b></p>	<ul style="list-style-type: none"> <li>● The feedback on this was that actuaries are perceived as:                             <ul style="list-style-type: none"> <li>– Having high intellect – very, very bright</li> <li>– Mathematical wizards</li> <li>– Technically, probably the cleverest of all professions</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>● Historically give impartial advice</li> <li>● Not overloaded with layers</li> <li>● The better actuaries communicate well</li> </ul>
<p><b>What are the more negative issues that should be addressed?</b></p>	<p><b>The major issues facing actuaries were:</b></p> <ul style="list-style-type: none"> <li>● Lack of real world understanding                             <ul style="list-style-type: none"> <li>– Not keeping on top of trends, updating assumptions</li> </ul> </li> <li>● Lack of business judgement                             <ul style="list-style-type: none"> <li>– Actuarial judgements must not exist in a vacuum and need to be tailored to different industries</li> </ul> </li> <li>● Not all good communicators</li> </ul>	<ul style="list-style-type: none"> <li>● Not standing by their own opinions                             <ul style="list-style-type: none"> <li>– Want to caveat everything; lack of clarity on long term trends and ranges of possible answers</li> </ul> </li> <li>● Lack of impartiality                             <ul style="list-style-type: none"> <li>– Often act as both judge and jury</li> </ul> </li> <li>● Over protective of knowledge base</li> </ul>
<p><b>How does the influence of actuaries compare with other professions?</b></p>	<ul style="list-style-type: none"> <li>● The views on this point were:                             <ul style="list-style-type: none"> <li>– Relative influence has been very strong historically</li> <li>– There is high influence in tightly defined categories (Pensions and Insurance)</li> <li>– Specific influence on technical issues</li> <li>– Few actuaries on the boards of major public companies</li> <li>– Some signs of influence declining</li> </ul> </li> </ul>	<p><i>“As far as our scheme is concerned, they have a significant input into the way the scheme is funded.”</i></p>

*“They find it very hard themselves to live with risk.”*

*“They need to:  
Understand the actuarial techniques,  
Have a good grasp of the regulatory framework,  
Understand how the market is developing,  
Understand significant arguments about the principles involved and the assumptions made,  
Apply that in a practical way to difficult situations,  
Understand and be able to manage the conflicts in terms of who their masters are”*

*“I think they been a bit slow to realise the increased longevity of people.”*

# Strategy Report: Demand for and supply of actuaries

## The feedback from customers (continued)

<p><b>What is level of confidence in actuaries after Equitable Life?</b></p>	<ul style="list-style-type: none"> <li>● The feedback was that:             <ul style="list-style-type: none"> <li>– Divisions were beginning to show for the more involved – eg those with pension funds in deficit</li> <li>– Not always sufficiently prudent</li> <li>– No worse than other industries</li> <li>– Confidence of clients, in the main, holds good</li> <li>– Confidence has not been inspired by not standing by own opinion</li> <li>– Until recently, press coverage has been reasonable, but now that has changed</li> </ul> </li> </ul>																												
<p><b>What is the likely future demand for actuaries?</b></p>	<ul style="list-style-type: none"> <li>● Typical responses were:             <ul style="list-style-type: none"> <li>– Demand may exist in other industries that could use actuarial skills eg healthcare, complex financial modelling, investment management, applied mathematics</li> <li>– Demand may be fuelled by the need for help by boards and directors to meet regulatory standards</li> <li>– Actuaries may be required to serve the growth of defined contributions schemes</li> <li>– Growth in the short term arising from legislation</li> </ul> </li> </ul> <div data-bbox="1262 651 1837 938" style="border: 1px solid black; border-radius: 50%; padding: 10px; margin-left: 400px;"> <p><i>“There is a huge opportunity now for people who understand the way the various assumptions interact together and the implications of that for business decisions.”</i></p> </div>																												
<p><b>How do actuaries compare with other similar professions?</b></p>	<table border="1"> <caption>Comparison of Actuaries, Accountants, and Investment Consultants</caption> <thead> <tr> <th>Trait</th> <th>Actuaries</th> <th>Accountants</th> <th>Investment Consultants</th> </tr> </thead> <tbody> <tr> <td>Disciplined</td> <td>6</td> <td>3</td> <td>1</td> </tr> <tr> <td>Clever</td> <td>6</td> <td>2</td> <td>4</td> </tr> <tr> <td>Introverted</td> <td>6</td> <td>2</td> <td>0</td> </tr> <tr> <td>Communication skills</td> <td>2</td> <td>4</td> <td>6</td> </tr> <tr> <td>Process Driven</td> <td>6</td> <td>4</td> <td>1</td> </tr> <tr> <td>Mathematical</td> <td>6</td> <td>3</td> <td>1</td> </tr> </tbody> </table>	Trait	Actuaries	Accountants	Investment Consultants	Disciplined	6	3	1	Clever	6	2	4	Introverted	6	2	0	Communication skills	2	4	6	Process Driven	6	4	1	Mathematical	6	3	1
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Mathematical	6	3	1																										

# Strategy Report: Demand for and supply of actuaries

## The feedback from employers

### Interviews were arranged with some of the key actuarial employers. The feedback indicated that

- The demand for actuaries is generally perceived to be stable or growing
- There is general satisfaction with the quality of recruits to the profession.
- There is a general satisfaction with actuarial training, but a requirement for more rounded actuaries

### Employers interviewed

#### Insurance Companies

- Aviva, L&G, Prudential, Standard Life

#### Accountants

- KPMG, PwC

#### Consultants

- Hewitt, Mercer, Tillinghast, Watson Wyatt

<b>Demand for actuaries</b>	<ul style="list-style-type: none"> <li>• Generally stable or growing ...</li> <li>• BUT initial signs of reduction at trainee actuary levels, due to increased pressure on costs, leading to greater automation</li> <li>• Lot of work now in pensions and insurance and in short term</li> <li>• Impact of decline in defined benefit pensions delayed up to ten years</li> <li>• Continued demand for high level skills</li> </ul> 
<b>Supply of actuaries</b>	<ul style="list-style-type: none"> <li>• General satisfaction with high quality of recruits at graduate entry and later</li> <li>• General feeling that we are still producing too many 'techy' qualified actuaries and too few "rounded" actuaries</li> <li>• Length of time to qualify may deter the potentially more rounded candidates</li> <li>• One firm reported negative feelings towards actuarial career amongst existing and potential trainees</li> </ul> 
<b>Training and Development</b>	<ul style="list-style-type: none"> <li>• General satisfaction with actuarial training</li> <li>• Learning "on the job" equally important as passing exams</li> <li>• Much more business understanding is needed</li> <li>• Communication, Communication, Communication!</li> <li>• Ability to work in multi disciplinary teams is needed</li> <li>• Mixed views about full time one year post-graduate course for the core technical subjects</li> <li>• General support for concept of Associateship as a goal, with Fellowship as an "add on" deeper qualification</li> </ul> 

# Strategy Report: Demand for and supply of actuaries

## The feedback from employers (continued)

- Employers were also asked for their views on how actuaries can develop into wider fields, how actuaries can increase the value they add for their clients and employers and how the Profession can restore confidence and increase its influence.

*"It is difficult to get actuaries out of their box".*

<p><b>Wider roles</b></p>	<ul style="list-style-type: none"> <li>Majority currently perform actuarial roles, but significant minority do not, eg             <ul style="list-style-type: none"> <li>Insurance: general management, risk management, including operational risk</li> <li>Pensions: investment consultant, HR consultant</li> </ul> </li> <li>Potential exists for transfer of actuarial skills, especially problem solving</li> <li>BUT need to add business understanding and communication skills, to succeed in a multi disciplinary environment</li> <li>Highly dependent on individuals' aspirations and drive</li> <li>"Look at Australia" mentioned twice</li> </ul>	<p><i>"We would like to do more to integrate actuarial teams into other parts of our business, but they prefer to report to another actuary – someone who speaks the same language"</i></p>
<p><b>Adding Value</b></p>	<ul style="list-style-type: none"> <li>How can actuaries increase the value they add for their clients and employers?             <ul style="list-style-type: none"> <li>More business awareness</li> <li>Better communication skills</li> <li>Better able to work in multi disciplinary teams</li> </ul> </li> <li>Pensions actuaries need greater understanding of risk, including operational risk</li> <li>On insurance side, skills have been upgraded to meet new regulatory demands</li> <li>Generally, lots of scope to expand actuarial skills into closely allied fields</li> </ul>	<p><i>"Actuaries no longer 'rule the roost' as they did 20 years ago"</i></p>
<p><b>Restoring confidence and increasing influence</b></p>	<ul style="list-style-type: none"> <li>General encouragement to raise our profile with media (but selectively) and policymakers (more importantly) and to "speak out" more.</li> <li>Support for FRC / BAS — tighter standards, independently set, would restore public confidence.</li> <li>Feeling that actuaries are still held in high regard by clients and other professionals, despite bad press and attacks from politicians.</li> <li>Improving image of the Profession is key to graduate recruitment.</li> </ul>	

# Strategy Report: Demand for and supply of actuaries

## Views from younger qualified members

- Earlier in the summer, a group of younger members of the Profession were asked to attend a workshop to give their views on the future of the Profession.
- The group consisted of 12 members, generally recently qualified and under age 30, who worked for a range of major employers and in various disciplines
- Many of those attending had strong views about how the Profession was perceived and how it could be improved.
- The main points made are summarised here.

<p><b>Although they felt disenfranchised, they cared enough to want to change this</b></p>	<ul style="list-style-type: none"> <li>• It was remarked that the Professional body needs to re-engage with the rank and file membership. The image of the Professional body needs to be improved and modernised. Comments were made that the Professional body is out of touch with members, particularly those working outside the traditional roles. Although encouragement was given prior to qualification, little support was given thereafter. It was thought that changes to the governance of the Professional body would help, as would more active promotion of the actuarial profession.</li> </ul> <p><i>"The Profession lags 5-10 years behind commercial reality"</i></p> <p><i>"It needs to re-engage with its members. It is an old-school gentleman's club."</i></p>
<p><b>Loyalty has shifted from Profession to Employer</b></p>	<ul style="list-style-type: none"> <li>• One issue to come out of the discussions was that the shift in loyalty from Profession to the employer. The competitive nature of provision of actuarial services and shift towards consultancy makes it difficult to share actuarial knowledge. Some suggestions were to offer genuine rewards for involvement with the Professional body, and to embrace current commercial thinking.</li> </ul>
<p><b>Reserved roles are thought of as a millstone</b></p>	<ul style="list-style-type: none"> <li>• Comments were made about the removal of reserved roles. In particular:             <ul style="list-style-type: none"> <li>– If pension schemes were not required to have an actuary, they would still need one for advice;</li> <li>– Removal of Reserved roles would result in a beneficial shift from managing downside risk to managing upside risk;</li> <li>– It could result in actuaries having to develop closer relationship with the end customers which should improve public perceptions; and</li> <li>– It would reduce the remoteness of the Profession.</li> </ul> </li> </ul> <p><i>"The Profession has lost the hearts and minds of the younger generation."</i></p> <p><i>"Statutory roles are simply a box ticking exercise"</i></p>
<p><b>They want to contribute but do not know how</b></p>	<ul style="list-style-type: none"> <li>• The current forums for the membership to become involved were thought to be inhibiting and dominated by older members. Improvements could be made to the flow of information between members and the Professional body.</li> </ul>
<p><b>The value of a 'gold standard' of professional qualification was questioned</b></p>	<ul style="list-style-type: none"> <li>• It was thought that the 'gold standard' of the Fellowship qualification was not always valued highly. The Professional body might be better offering a qualification which covered a solid generic range of skills and for employers to provide additional relevant training. The Profession is evolving and should be more open to the opportunities available to the profession beyond the traditional roles.</li> </ul>

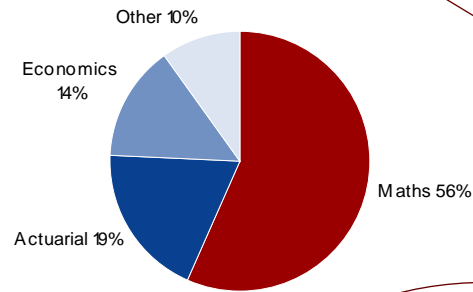
# Strategy Report: Demand for and supply of actuaries

## The supply of new students

An analysis of the questionnaires from 99 new students entering the Profession this year gave the following results:

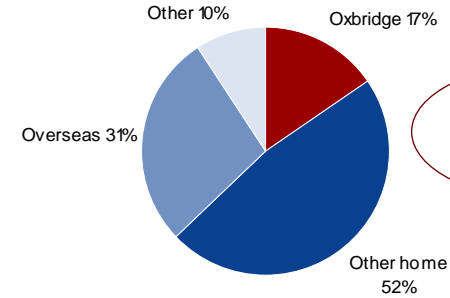
- The academic quality of students is high
- Most students cited the ability to use maths as a reason for joining the profession
- Most students have 1st or upper second class degree
- A significant proportion of students have obtained a further qualification
- Maths is still the most popular degree choice followed by a degree with some actuarial content
- A high proportion of new students have come from overseas
- Concerns are already apparent about the Profession's profile at careers fairs and with the general public

### First degree: main content



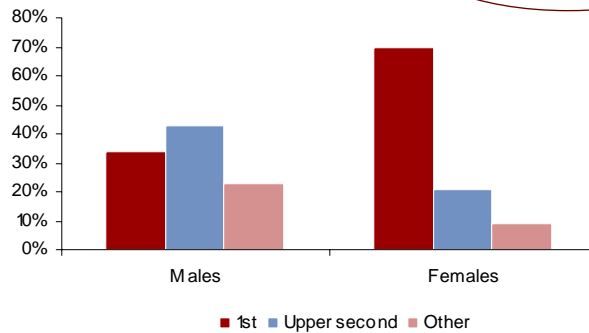
*"Even some maths graduates are vague about the profession."*

### Where students were educated



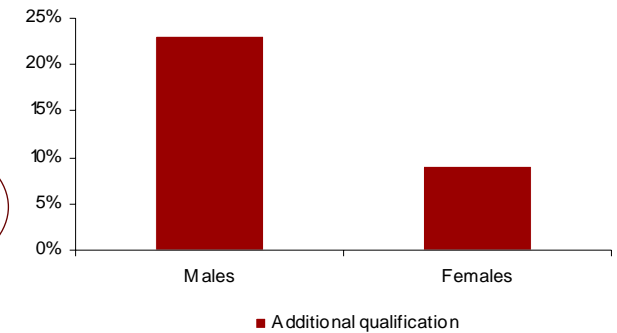
*"Long qualification time off putting."*

### Class of degree



*"Need to work harder to redress the negative stereotypes."*

### Education beyond first degree



*"The exams discourage students and actuaries are perceived as boring."*

### 23% of new students have an additional qualification including:

- Post Graduate diploma in Mathematics
- PhD in Law
- MSc in Actuarial Sciences
- M Phil in Statistical Science
- MBA Marketing

### Reasons for joining the profession (by popularity)

- Uses maths knowledge
- Career opportunities
- Money
- Intellectual challenge
- Prestige
- Professional qualification
- Security

Source: Analysis of 99 new student questionnaires from 2005

# Strategy Report: Demand for and supply of actuaries

## Interviews with recruiters of trainee actuaries

- There is a healthy supply of graduates for posts as trainee actuaries.
- Most accepted applicants come from well regarded universities.
- Employers do not like taking on trainees with many exemptions.
- Employers like a variety of disciplines but most applicants are mathematicians.
- People skills are becoming a key criterion for appointment.
- Demand for trainees seems to be rising slightly.
- The Profession is well regarded as a career by applicants but thought of as boring

<b>Supply of Applicants</b>	<ul style="list-style-type: none"> <li>• There are no problems with the number of applications received or in recruiting suitable trainees. A minimum of a 2:1 degree in a numerate subject is expected. Increasingly, a 'rounded person' is required rather than a highly technical person with a 2:1 and interpersonal skills being preferred to a 1st 'techy' candidate.</li> </ul> <p><i>"The MORSE course at Warwick is highly regarded"</i></p> <p><i>Applications can be as many as 100 per training place</i></p>
<b>Sources of Applicants</b>	<ul style="list-style-type: none"> <li>• Most trainees come from a small range of well regarded universities such as Oxford, Cambridge, Warwick and LSE. Heriot Watt and City graduates with an Actuarial Science (AS) degrees are common but not universally well regarded (see below). Applicants tend to use the Profession's website and Inside Careers as sources of information. Most recruiters prefer a wide range of subject disciplines but most apply with AS, Maths or MORSE (Mathematics, Operational Research, Statistics and Economics: Warwick) with fewer from Statistics, Economics, Physics or Engineering. Some prefer a non-AS background.</li> </ul>
<b>Exemptions</b>	<ul style="list-style-type: none"> <li>• None of those interviewed liked applicants to have too many exemptions with the 8 core technical subjects being the most to be acceptable. Some actively prefer a non-AS background because of the need for in-office experience and an expectation by such candidates that they should have an advantage over other, non-AS candidates as a matter of right. Their expectations may be too high and there was a reported perception that they do not qualify more quickly.</li> </ul> <p><i>"It is a 'proper' career that parents would approve of."</i></p> <p><i>"No more than the 8 core technical subjects are required by recruiters"</i></p>
<b>Positives for Applicants to the Profession</b>	<ul style="list-style-type: none"> <li>• The Profession is well regarded and applicants are reported as seeing the work as more than a job ie a career for the longer term. By the time they are interviewed, the exams do not put applicants off and if they do not take a job offer it is because of going to a rival firm rather than choosing an alternative career. In large employer firms, the opportunity for international travel, training and support and working with colleagues at the same stage in the exam process, were all quoted as positive factors.</li> </ul>
<b>Negatives for Applicants to the Profession</b>	<ul style="list-style-type: none"> <li>• Location could put some applicants off (if outside London) and the reputation as being a boring profession and less well known than accountancy and investment banking were given as negatives. There was a concern expressed that trainees would leave at qualification. One instance was noted of a trainee who left to take an MSc in AS because it was thought to be an easier and quicker route to qualification.</li> </ul>

# Strategy Report: Demand for and supply of actuaries

## Interviews with University careers advisers

*"We need a stronger presence and profile on campus"*

### Interviews were arranged with careers guidance teams at leading universities. The feedback indicated that

- Those actively seeking information on becoming an actuary are predominantly maths or Actuarial graduates
- The perceived characteristics of a good actuary are good numerical and interpersonal skills
- Non maths graduates often do not go into the Profession because they do not find out about it
- The image and the exams put students off becoming actuaries
- Numerate graduates might choose accountancy or investment banking instead of actuarial work
- A post graduate actuarial course was perceived as being unattractive due to cost
- The popularity of actuarial work has not been affected by Equitable Life or the Morris Review

### Universities interviewed

- University of Cambridge
- City University/CASS Business School
- Heriot-Watt University
- University of Nottingham
- University of Oxford
- University of Warwick

<p><b>Actuarial Profile</b></p> <p>Questions covered issues such as what type of person seeks information on becoming an actuary, what type of people do and don't make good actuaries, what is unique about actuaries?</p>	<ul style="list-style-type: none"> <li>● We appeal mainly to Maths graduates but also to highly numerate similar degrees. There is relatively little appeal to engineering and physics graduates and they tend to know little of the profession unless they have a family connection. Economics graduates tend to be of the numerate type, mainly econometrics, and again tend to know little of the profession.</li> <li>● Whereas many 16 year olds who are potential recruits to the profession will know of the 'Big 4' accounting firms, they are highly unlikely to know of any actuarial firms. On campus, big graduate recruiters such as Mars, P&amp;G and Unilever have a presence, the actuarial firms do not. Similarly, investment banking has a high profile reinforced by TV and films.</li> </ul>
<p><b>Competition</b></p> <p>Questions covered issues such as what other major careers options exist for numerate graduates, how attractive are these other options relative to actuarial work, what puts students off?</p>	<ul style="list-style-type: none"> <li>● Accountancy has the advantage of being a much larger profession with a wider variety of jobs and with the larger firms being well known. It is also seen as offering a clearer and more direct route to senior management. The exams are perceived as easier than the actuarial exams and hence are not seen as a big disadvantage. The main disadvantage is that accountancy is not held in such high regard as the actuarial profession in terms of prestige and reputation. Investment banking and management consultancy are both seen as glamorous with no exams to do and the long hours culture is accepted by those seeking rapid success in financial terms. The perception is that responsibility is given earlier in a new graduate recruit's career with high financial reward for success. However, investment banks are seen by some new graduates as 'too corporate' and with high burn-out but offering high short term financial gain for hard work.</li> </ul>
<p><b>Profession</b></p> <p>Questions covered issues such as what are the perceived pros and cons of being an actuary and would the profession have greater appeal with a post graduate course before finding an employer.</p>	<ul style="list-style-type: none"> <li>● The positives for the profession are; job security, well paid, work with others with an interest in numbers, similarity to academic life, the intellectual rigour of the training which offers another challenge, the portability of the qualification internationally, the elite aura and the high regard and importance of the profession. There were mixed views about whether students would want to stay on to take a Masters course which gave exemptions from our professional exams. The arguments against were the high risk unless sponsored and the need to earn money after running up debt as a student. The current route prevailed in terms of attractiveness, ie get a job and let the employer pay for training.</li> </ul>
<p><b>Demand for Actuaries</b></p> <p>Questions covered issues such as has the demand for actuaries risen or fallen since Equitable Life/Morris review?</p>	<ul style="list-style-type: none"> <li>● The Morris Review and Equitable Life were reported as making little difference to demand from students who had not registered it on their radar and were reported as not reading the financial press. Finally, offering internships in the summer before the students' final year was seen as a good step to take as it was thought to work well for banks and accounting firms in terms of leading to employment on graduation.</li> </ul>

*"If Goldman Sachs wanted to recruit actuaries, there would be a long queue"*

*"16 year olds know of the big 4 accounting firms but no actuarial firms"*

*"Equitable Life may have increased demand from students by making the image less boring!"*

# Strategy report: Demand for and supply of actuaries

## Summary Conclusions

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### Summary Conclusions

- Customers have a high degree of confidence in actuaries and view them as highly competent, but feel we live in an 'Ivory Tower' and need to interface better with the rest of the business community.
- Whilst recognising recent improvements, their criticisms revolve around:
  - insufficient real world understanding
  - lack of business judgement
  - patchy and sometimes inadequate communication skills, and
  - a tendency to act as judge and jury
- There is continued demand for actuaries from current employers with no reduction in demand anticipated in the short to medium term, but potentially in the longer term.
- Strong consistent views from employers that actuaries need
  - much more business understanding
  - far stronger communication skills
  - to develop the ability to work in multi-disciplinary teams.
- There is a mis-match between the work activities of the membership and those of the Professional body which is more focused on compliance activities.
- Input from younger members indicates a high degree of disenfranchisement and a shift of loyalty from the profession towards the employer. They value reserved roles and the 'high standard of qualification' less than older members.
- The supply of students is of a very high standard but remains narrow with a very strong mathematical bias. Universities view us as unknown by non-mathematicians.
- Employers view the supply of potential recruits as healthy, but want more non-mathematicians and better inter-personal skills.
- The length of time taken to qualify is inhibiting to many outside our traditional sources of applicants.

# Contents

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<b>This report is divided into the following sections:</b>	<b>Pages</b>
● Background to the strategy review	7 - 8
● A snapshot of the Profession today	10 - 21
● Demand for and supply of actuaries	23 - 34
● <b>Generic strategy scenarios</b>	<b>36 - 43</b>

# Strategy Report: Generic strategy scenarios

## Need for change in strategy

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### The strategic objectives

Reverting back to our original key issues

- Restoring confidence
- Increasing market share of talent leaving University
- Increasing value added by actuaries and thereby their influence
- Leveraging global capabilities

From the evidence we have gathered, it is clear that

- Whilst there is scope to improve our external relationships, current users of actuarial advice still have confidence in their actuarial advisers
- Demand is strong and likely to remain strong in the short to medium term provided we can maintain our influence and continue to add value.
- Considerable scope exists to improve the value we add and our influence by improving the way we apply our skills and interact with the rest of the business world.
- The growth in our membership globally additionally provides both opportunities and challenges.
- Our ability to increase our market share of talent is linked to our ability to increase our appeal to a wider candidate base, which would be desirable in any event to address some of the concerns expressed by customers and employers.

### Changing environment

The world has moved on since the Profession was founded (1848/1856)

- Expanded and activist Government
- Educated and sceptical consumers
- From paternalism and solidarity to individualism
- Globalisation of markets and firms
- European Union
- Development of university and private education
- Growth in computing and the Internet
- Reviews of professional bodies
  - Morris (actuaries)
  - Clementi (solicitors and barristers)
  - Carsberg (surveyors – voluntary)
  - Smith (doctors)
- There are different expectations from society of professional bodies.

**The Professional body has been thinking about the need for change and issues have been raised albeit in a fragmented way, such as**

- Should we re-trench around core activities or are we going to position ourselves as an inclusive educational body whose members can add value in a wide range of disciplines?
- What is our role in relation to risk management?
- How do we fit in a global context?
- How can we attract increased numbers of new students without relying on current employers to control our intake?
- When there is an independent Actuarial Standards Board as part of the FRC, what activities can the Profession stop doing, if anything?
- Should the Faculty and Institute merge after 2006?
- The Morris Review interim report indicates the Profession would benefit from more lay input: what areas should we do this in? (As we have seen from setting up the Scrutiny Committee this would increase costs.)
- The Profession will have to pay a proportion (as yet unknown) of the costs of the running of a Board for Actuarial Standards and oversight by FRC. How will we afford that and continue with the current range of activities?

**Any future strategy needs to be coherent**

- The oversight regime welcomed by the Profession in responses to Morris is potentially at variance with self-regulation as advocated by the International Actuarial Association (IAA) with our apparent support.
- The Profession aspires to cosmopolitan attributes and membership yet remains in its infrastructure resolutely UK-focused (with the partial exception of education and examination).
- The Profession espouses high ethical standards in its Professional Conduct Standards (PCS) but operates limited compliance monitoring.

# Strategy Report: Generic strategy scenarios

## Considering potential strategies

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In developing strategic models for the professional body we looked at the needs for the compliance or consulting type roles of the membership discussed earlier and considered which of the activities (strengths) currently undertaken by the Professional can be built upon.

- Leveraging our regulatory activity (particularly in licensing those who have reserved roles through practising certificates) provides a strategic option which we term 'The Co-Regulator' strategy. This would strengthen the role of the Professional body as a regulator with promotion of actuaries focusing on reserved roles.
- Leveraging our role in developing the skills and knowledge of actuaries to suit the UK financial sector provides a second strategic option which we term 'The UK Careers' strategy. The focus here is providing the membership with support to enable them to achieve more in their careers.
- Leveraging the global growth in our membership provides a third strategic option which we term 'The Global Player' strategy. We would actively seek non UK members and provide services which make post qualification membership attractive for them.

The strategic scenarios ('straw men') were developed in parallel with the data gathering activity so we need to decide if that evidence leads us to choose a preference for one particular direction.

### Co-Regulator Strategy

Builds on the reserved roles and compliance activities of the Profession to ensure competence and integrity of actuaries in the UK financial sector

### UK Careers Strategy

Builds on developing members with a range of skills and knowledge focused on quantitative risk to meet the evolving needs of the UK financial sector

### Global Player Strategy

Builds on our current global presence to develop a world-wide community of UK trained actuaries

Each strategy could be considered separately but in practice we will continue with elements of all three to at least a minimum extent.

- Reserved roles exist and we will be expected by Government and FRC to support them
- We must continue to provide initial qualifications and continuous professional development support to members
- We must continue to support existing overseas members

It is not realistic to expect that we can focus our energies on all three activities equally. We need to choose where we focus our resources. Whilst they are presented as alternatives primarily to trigger debate, a clear sense of purpose will enhance stakeholder relationships and organisational effectiveness.

Each of the generic strategy scenarios are considered in this report under the following headings

- Purpose; key success measures; stakeholder perceptions; implications; key competencies/assets for the Professional body; risks and issues

Other professional bodies have adopted the approach represented by each scenario.

# Strategy Report: Generic strategy scenarios

## Co-Regulator Strategy

<b>Purpose</b>	<ul style="list-style-type: none"> <li>The principal purpose of the Actuarial Profession is to serve stakeholders including its own members and the public by sustaining high standards of competence and integrity in the management of various forms of financial service entities managed in the UK.</li> </ul> <p><i>(This is the approach being followed by the Law Society and (implicitly) by the ICAEW)</i></p>
<b>Key success measures</b>	<ul style="list-style-type: none"> <li>Increased public confidence in the security of various classes of financial services (including pensions).</li> <li>Growth in scope of reserved roles expected to be filled by appropriately qualified members of the Actuarial Profession.</li> </ul>
<b>Stakeholder perceptions</b>	<ul style="list-style-type: none"> <li>UK regulators (FRC, FSA, and TPR) see the Actuarial Profession as a valued partner in sustaining high standards of competence and integrity in regulated entities.</li> <li>Members see continued membership as an assurance of competence and integrity with associated privilege.</li> <li>Employers see actuarial advice as a cost-effective input to compliant management.</li> </ul>
<b>Implications</b>	<ul style="list-style-type: none"> <li>The Actuarial Profession is proactive in scrutinising the conduct of all of its members in the ethical dimension and compliance with BAS standards and bears the associated costs.</li> <li>Regular re-examination of regulatory modules would probably be required to maintain practice certification.</li> <li>Resources are predominantly devoted to specialised education and CPD associated with practice areas and to ethical standards for actuaries.</li> <li>Promotion activity is centred around supporting the reserved roles</li> <li>Subscriptions generally include a significant 'cost of regulation' element.</li> <li>Practising certificates likely to be required for level of aspirants to reserved roles</li> <li>Affiliate membership category seems anomalous and may be discontinued</li> </ul>
<b>Key competencies/assets for the Professional body</b>	<ul style="list-style-type: none"> <li>Relationships with UK regulatory/supervisory community and with equivalent supra-national bodies.</li> <li>Practice area-specific knowledge development is important.</li> </ul>
<b>Risks and issues</b>	<ul style="list-style-type: none"> <li>This strategy is generally consistent with the original rationale for establishment of the professional bodies and with the (implicit) strategy pursued in recent years. It is also consistent with the apparent emphasis of strategy of the IAA and Groupe Consultatif.</li> <li>This strategy appears likely to be feasible at least in the near-term.</li> <li>On a longer view, this strategy may prove to be unattractive to many potential members and is vulnerable to changes in the emphasis of regulation. Morris characterised this direction quite negatively. This could signal the end of an independent actuarial profession in the UK.</li> <li>Other professions following this model appear to be doing so against the better judgement of significant sections of their leadership(s).</li> </ul>

# Strategy Report: Generic strategy scenarios

## UK Careers Strategy

<b>Purpose</b>	<ul style="list-style-type: none"> <li>The principal purpose of the Actuarial Profession is to serve stakeholders including its own members and the public by developing and sustaining quantitative risk professionals with the skills and attributes appropriate to the evolving needs of the UK-based financial sector.</li> </ul> <p><i>(Closest precedent may be the Institute of Financial Services)</i></p>
<b>Key success measures</b>	<ul style="list-style-type: none"> <li>Growth in aggregate membership (of all classes) of the Actuarial Profession</li> <li>A range of qualifications/membership packages with different designations would be developed and marketed</li> <li>Improved attitudes of UK employers and candidates to the qualifications offered by the Actuarial Profession</li> <li>More visible career success stories from members of the Actuarial Profession.</li> <li>Positive assessment of performance of the Actuarial Profession by POBAA.</li> </ul>
<b>Stakeholder perceptions</b>	<ul style="list-style-type: none"> <li>Those contemplating a quantitatively-oriented career see the qualification and development options offered by the Actuarial Profession as relevant.</li> <li>Employers across the UK financial sector see the holding of a qualification from the Actuarial Profession as testifying high general financial quantitative skill. They also see the Actuarial Profession as a valuable ally in the career development of their employees.</li> <li>Members see the Actuarial Profession as a valuable ally in their personal career management.</li> </ul>
<b>Implications</b>	<ul style="list-style-type: none"> <li>The Actuarial Profession's most important designation (now Fellowship, prospectively Associateship) is a general purpose qualification indicating broad competence in the separate and combined application of modern statistical and financial concepts.</li> <li>The education, examination, and professional development activities of the Actuarial Profession are relevant across the financial sector generally – insurance, banking, and asset management. Investment will be required to achieve this.</li> <li>The Actuarial Profession is effective in stimulating and disseminating new knowledge across its membership generally. Significant proportions of resources are devoted to this. Members and others are encouraged to endow the Profession with resources for research.</li> <li>Organisationally, this might be likely to be consistent with a primary emphasis on a core general education/accreditation/development capability, and with voluntary practice area specialist sections.</li> <li>Promotion activity is centred around marketing the skills and knowledge of the membership across a range of financial services businesses.</li> <li>The subscription is seen as a worthwhile expense.</li> <li>Ethical compliance monitoring could be limited to verifiable self-assessment.</li> <li>Regional structures would be fostered.</li> <li>Roles of practice areas in organisation structure to be de-emphasised – replace with practice / interest sections.</li> <li>Regulatory costs would be borne mainly by holders of reserved roles.</li> <li>Membership subscription pricing generally would have to be market led.</li> </ul>

## Strategy Report: Generic strategy scenarios

### UK Careers Strategy (continued)

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#### Key competencies/assets for the Professional body

- Working relationships with educational institutions and bodies and with employers and financial sector trade associations in the UK.
- Web-based learning and service delivery.
- Career counselling.
- Active research co-operation with other membership bodies in UK and elsewhere with an interest in quantitative financial subjects.
- Member affinity benefits.

#### Risks and issues

- This strategy could defuse some of the usual criticisms of the actuarial career – obsolete educational content, over-emphasis on specialised practice detail, narrow range, etc.
- If successfully implemented, this ‘market-facing’ strategy should prove to be durable and consistent with sustained growth and independence.
- Overseas members may see the UK body as offering qualifications only and attach little value to continuing membership.
- This strategy would in all probability lead eventually to the professional body serving mainly UK-based members and members employed by UK-based firms.

# Strategy Report: Generic strategy scenarios

## Global Player Strategy

<b>Purpose</b>	<ul style="list-style-type: none"> <li>The principal purpose of the Actuarial Profession is to serve stakeholders including its own members and the public by offering quality examination, accreditation, and continuing education services to actuarial students and actuaries throughout the world.</li> </ul> <p><i>(This is the strategy being followed by the ACCA and is also close to the apparent strategy of the CFA Institute)</i></p>
<b>Key success measures</b>	<ul style="list-style-type: none"> <li>Growth in numbers of actuarial students and actuaries who associate themselves with the Actuarial Profession.</li> <li>Development of mutually beneficial relationships with universities and other educational institutions.</li> <li>Recognition by multinational and other employers as a quality provider relative to alternative actuarial suppliers.</li> </ul>
<b>Stakeholder perceptions</b>	<ul style="list-style-type: none"> <li>Members everywhere see the Actuarial Profession as a dynamic organisation credentials from which are widely recognised and which is both global and local.</li> <li>Employers all over the world see the Actuarial Profession as a valuable partner in efficient training and accreditation of actuaries.</li> <li>Local and supranational regulators see the Actuarial Profession as a credible developer of 'foundation' level professional skills.</li> </ul>
<b>Implications</b>	<ul style="list-style-type: none"> <li>This would require the Actuarial Profession to adapt its constitution to assure broader geographic and 'constituency' representation.</li> <li>Promotion activity centres around the portability and standing of the UK qualification.</li> <li>The Actuarial Profession (ie the UK-headquartered profession) would be competing with other associations pursuing similar strategies (mainly US/Australian).</li> <li>Education and examination processes would need to be repackaged in a much more market/user-friendly fashion.</li> <li>It is unlikely that this strategy could accommodate changing of the breadth to incorporate broader financial risk management, at least for some time.</li> <li>This strategy would require formation / establishment of local chapters and some physical presence in overseas countries, with attendant cost implications.</li> <li>This strategy would likely imply discontinuance of practice area boards, although practice / interest sections could 'replace' these.</li> <li>Ethical compliance monitoring might be applied only to actuaries doing work relevant to UK.</li> <li>Membership subscription pricing would have to be market-led.</li> </ul>

## Strategy Report: Generic strategy scenarios

### Global Player Strategy (continued)

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<b>Key competencies/assets for the Professional body</b>	<ul style="list-style-type: none"><li>● Working relationships with educational institutions and bodies internationally.</li><li>● Ability to sustain continuous development of education / examination syllabus.</li><li>● Heavily web-based member interaction.</li><li>● Key relationships with multinational professional service firms.</li></ul>
<b>Risks and issues</b>	<ul style="list-style-type: none"><li>● There are approximately 35,000 actuaries globally, of whom 90% or more are in the 'First World'. Most growth in numbers of actuaries is likely to take place outside the First World.</li><li>● We start from a good position in terms of language and reputation (as does the US Society). The breadth of our syllabus is greater than the SoA and CAS, which may be advantageous.</li><li>● There is significant execution risk with this strategy, which would in any event require considerable staff empowerment. Required organisation and staff change should not be under-estimated.</li><li>● Risk could be mitigated by collaboration/merger with other actuarial associations and or educational institutions.</li></ul>

## Consultation questions

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### Consultation questions

**While we are seeking views on all aspects of our strategy, we would be particularly keen to have answers to the following questions on the future role of the Professional body:**

- Should we be attempting to grow the scope and number of reserved roles?
- The compliance activities of the Profession are supported by membership subscriptions. To what extent is such a cross subsidy desirable or sustainable?
- Should we increase our efforts to broaden the profession beyond the traditional areas of pensions and insurance?
- Would university-only provision of the core technical subjects better serve the Profession, by potentially increasing the supply of good actuarial students and reducing the Profession's dependence on demand from employers as a key driver of growth?
- Would a two tier qualification better serve the membership? (By two tier, we mean greater emphasis on achieving a broad qualification at Associateship level, with the Fellowship level being a supplementary qualification for those specialising in specific practice areas.)
- Is it the role of the Professional body to attempt to produce more rounded actuaries and, if so, how should it be done?
- To what extent should we try to expand overseas membership?
- What steps should be taken to improve the engagement of younger members with the Professional body, ie to capture better their hearts and minds?

**There will be discussion at the meetings in September around these questions and there will be bulletin boards for each on the website to capture views more widely. Any general comments related to any aspect of the strategy review can be sent to [strategy@actuaries.org.uk](mailto:strategy@actuaries.org.uk)**