

ADDRESS BY THE PRESIDENT

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MAKING SENSE OF THE FUTURE

Every new President, faced with the task of addressing his actuarial colleagues on subjects of topical interest, must have been tempted to browse through the published addresses of some of his predecessors. Any idea that, with a little re-writing, some long-forgotten masterpiece can be made to serve again is soon dashed, but one does gain a very healthy respect—and in my case perhaps an awe—for the ability of these men to examine clearly the issues of their day. Many of these analyses and prescriptions remain as valid today as they were on the day that they were written.

If all are tempted to look back, the temptation for me was great indeed, and not to be resisted. In the history of the life assurance society which I serve, I am only the tenth to hold the position of chief executive since its foundation in 1824. Of these ten, I am the fifth to be honoured by being asked to occupy this chair, and I have known or at least met three of the other four. So, with great interest (but, you may say, not much originality) I turned first to the Addresses of Newbatt, Besant, Rowell and Pegler. I found that, with only a small amount of speech-maker's licence, these four papers gave me the four overlapping themes that I wish to cover today.

Benjamin Newbatt began his Presidency in 1890, and it is fascinating today to rediscover that he was concerned about the monetary expectations of the recent high-interest rate period being carried over into the time of his speech, when interest rates had already started to fall. He also expressed worries about the poor information available on the condition of life offices and he spoke strongly against the iniquities of dual pricing.

In 1890 the Institute had recently obtained its Charter and there were few, if any, of its members working outside the confines of life offices. The old arguments as to whether the Institute was to be exclusively a professional body, or should also reflect the commercial needs of life assurance companies, had by then just been settled in favour of professionalism. Newbatt, giving only the sixth Presidential Address, bemoaned the fact that his speech had to fall within the narrow bounds of these professional limits and that his predecessors seemed to have said all that there was to say. However, he braced himself, spoke for perhaps an hour and a half, and took as his main topic his concern that the influx of aspirant students would make the profession less exclusive and less well

rewarded. As one reads his comments on this and other matters the outspokenness of his day seems remarkable, but his suggested remedy for over supply was to create more than one class of qualified actuary, according to academic capability.

Ninety-eight years on we may be pleased that Newbatt's vision of a narrow and elitist profession did not take root, but reading his words made me wonder whether today we have, collectively, a sufficiently clear view of the future of the profession. I will return to this as the final theme on my agenda for the evening.

From today's vantage point it may seem odd that thirty-four years later, Digby Besant could still be worrying about whether there would be sufficient work in future to employ all the members of the profession. However, he was ready to give his personal opinion that the widening fields of activity connected with National Health Insurance and with Superannuation Schemes set up by municipal authorities meant that there would be unlimited opportunities.

What most concerned Besant in 1924 was the regulation of life offices and the protection of the public. At the time a Board of Trade review of the Assurance Companies Act, 1909, was taking place and our then President saw clearly the need to protect the policyholder not only from unacceptable risk but also from well-meaning but over-bearing regulation, which could stifle initiative and increase costs. The needs of the consumer today give me a welcome first theme for the ideas that I wish to develop with you.

In 1946, Britain was beginning to deal with the aftermath of the Second World War, and Andrew Rowell had to make his Address in borrowed premises whilst Staple Inn lay in ruins. But the profession was looking forward and the major task of the time was broadening the training and examination of actuaries by a more systematic treatment of Statistics, more emphasis on Demography and a more formal economic background for Finance and Investment. For the first time, the dominance of Life Contingencies in the training of an actuary was being questioned.

In order to allow Council to consider the training needs in their proper context, the appropriate sub-committee drew up a picture of the ideal actuary of the future. The President reported that whilst the great value of a diversity of temperaments and interests was to be recognised there was some general agreement on three major points, and here I quote directly from Rowell:

- “(1) The newly-qualified actuary must be young. He should emerge stimulated by his course of training and examination, not exhausted by a long-drawn struggle; alive and alert enough to wish to contribute by his further studies to the vitality of the profession; young enough to be ready to seek his career in any field open to the newly-qualified Fellow.
- “(2) He should, as the result of his training, be broadly based and well-balanced, possessing not the academic conceit of the narrow specialist, but the intellectual poise which is the hallmark of sound education.
- “(3) In addition, he should combine scientific interest with practical outlook, enthusiasm with a sense of proportion, confidence in his knowledge with

due recognition of its limitations, leading to a willingness to perfect his practical and theoretical grasp of any particular aspect of his work before incurring statutory or professional responsibility."

You will have your own opinion as to whether that is a reasonable description of the men and women who have joined the profession over the last forty years. For myself, I would have liked to have added a fourth criterion then and would still add it today, namely

- (4) He should be conscious at all times, in his own work, in his advice to his principals, and when joining with other actuaries to think about the needs of the profession, of the necessity of looking forward and taking due account of a changing environment.

I have little doubt that in this respect our members, who have seen many changes recently, take full account of possible future upsets when they are giving advice. However, I have begun to wonder whether, when we are working together as a profession, we are sufficiently aware of the need to anticipate events. Thus Sir Andrew Rowell gives me another theme to explore, which I have placed third on my agenda.

The second theme on my agenda, which links my first with my third, arises from considering Jim Pegler's Address made in this Hall just twenty years ago. In the course of a discussion on the need for actuaries to be able to think broadly and express themselves clearly, he said "It is the actuary's job to set out the nature of his assumptions and the reasons for them in terms intelligible to the layman, and to explain the consequences which he expects will result from following each of the possible courses." If a further text is needed, I can hardly do better than requote the words that Pegler himself borrowed from V. A. Burrows, who spoke them in 1949: "It is not the function of the actuary to make the decisions, but it is for the actuary to see that such decisions are intelligently made. . . . It is part of the job of the actuary to do all in his power by way of exposition to secure that the people who have to make the decisions know what they are doing. The expert should be on tap, not on top."

There I have a huge theme, by courtesy of Jim Pegler, on the nature of actuarial advice and its limits. I shall do no more than touch upon it.

Consumers and Consumer Protection

In 1988 the starting point has to be the subject which for the past two years has taxed us and bewildered our principals---the Financial Services Act, 1986. This year we have taken on a new role as a Recognised Professional Body, at least with interim recognition and the expectation of receiving full recognition shortly.

Much has been written about the Financial Services Act and its excesses. It has been said that some of those responsible for operating the Securities and Exchange Commission in the United States are astonished to find that we have now created more rules and regulations in this country over the last two years than the SEC has achieved over the last fifty. There are also those in Europe who

feel that we have now accomplished what all their own work has failed to achieve—the eventual erosion of London as the dominant centre amongst European financial markets. The Institute's success in becoming an RPB means that, at a not insignificant cost, a number of our members are now allowed to continue with work which they have always done and for which they are well schooled, and also that they must now avoid doing things which they have never done and would never wish to do.

The Financial Services Act may be an easy target but I have to concede that, with the changing environment, some sort of regulating act was inevitable and perhaps even necessary. Those who put the Act together were, without doubt, well intentioned and wished to protect the consumer. But the thought which nags me is that if the practitioners—and here I include our profession in its many roles—had spent their energies determining the objectives of the Act and suggesting ways of achieving these at minimum cost, instead of being diverted into refining arguments for maintaining the status quo, there might have been a chance that the consumer would now be better served. Can we, of all professions, complain if we have not examined the forces for change from the time when they first appear, and attempted to harness them for the common good? If our advice were then to be ignored, we might well have good reason to grumble, for making sense of the future is what this profession is all about. On the other hand, if we restrict ourselves to reacting to the ideas of others, our influence must necessarily be limited.

Developing these thoughts about where the consumers' real interests lie, it is tempting to float the idea that the various consumer lobbies in this country seldom reflect the long-term interests of the real consumers. Indeed it is possible to suggest that, with their short time horizon, the various consumer lobbies have done as much damage to the manufacture of British domestic goods as the actions of any trade union, government or management. The guidance given to the public that, as long as it passes the basic safety tests, they should look for the cheapest version available may explain why, in this country, there is a general preoccupation with price rather than with value for money. This concentration on price in turn could be one of the reasons why quality domestic goods are so often imports. Actuaries, by their training, and perhaps by their self-selection for that training, understand that long-term values are normally more important than short-term benefits and perhaps, because of this, we have something to offer in fields which are some distance away from our traditional base.

However, if we look much closer to home, within the financial services industries, can we see the good influence of the actuary in diverting attention from short-term price to longer-term value for money? I used to believe that this was so, but recent events, and particularly those occurring since the advent of the Financial Services Act, suggest that the actuary has not achieved the influence that his training and standing warrant. Price is fast becoming king, and good products, good long-term investment returns and good service are in danger of becoming disregarded in the struggle for sales.

We have to admit that even in the financial services market the public has long been impressed by price. To take just one example, many a poor investment has been sold because it provides some special tax saving even though a better investment, giving the chance of a higher long-term net of tax return, has been available. But now we are seeing official encouragement to emphasise the importance of price, with little or no regard for the long-term consequences. You will not be surprised that I turn to life assurance for my first illustrations.

From now on, life offices must give new policyholders illustrations of surrender values over the first five years of the policy, based on current practice. If the purpose of this is only to reinforce the message that life assurance is a long-term contract, so be it. But if it is intended to put pressure on offices to raise and maintain surrender values by encouraging comparisons, then there are immediate implications for the investment policy. One need only look abroad to those countries which now have guaranteed surrender values to see that the policyholder is likely, in the longer-term, to pay dearly for the immediate joy of knowing more about his possible short-term return.

Likewise, disclosure of the immediate expenses of life offices, however it is done, will not necessarily work to the advantage of the consumer. An office which finds that it is losing sales because of the publication of seemingly high expenses is likely to want to remedy the position. Improving efficiency is the proper long-term response—and the one that every office would be working on whether comparisons were made or not. Quick results can only be obtained by making immediate cuts and if this has to be done it can be seen that investment, product development and some parts of policyholder service would be the most likely to go. The office may then be able to join the virtuous low-expense brigade, putting pressure on other offices to follow the same route. If concentration on factors of this kind which affect price rather than value for money results in a lowering of the quality of the product, how well will the consumer be served?

In the field of pension fund investment, the arguments against so-called 'short-termism' have recently been given a good airing. It is perhaps ironic that industrialists, as investors in respect of their own pension funds, expect to see those funds performing well, without considering whether or not that means the fund managers operating with short-term objectives. By contrast, the same industrialists expect their institutional shareholders, in essence those same fund managers, to take a long-term view with regard to company profit performance. The position is gradually improving and the value of judging investment performance over a number of years is now better recognised, perhaps due to the influence of actuarial advisers. But there is still some way to go, and only recently a newspaper reported that a major pension fund had sacked an investment management group within nine months of appointing them because, apparently, their strategy had not worked out.

I must be careful not to suggest that everything done in the name of consumers acts against their real interests, nor to give the impression that our profession has altogether failed in persuading others to take a long-term view. In our statements

and representations we have done much to clarify the difference between money purchase and final salary pension schemes from the point of view of both those who receive the pensions and those who foot the bill. Over the matter of measuring the strength of traditional life offices, a subject which took off dramatically and started heading in the wrong direction, the meetings held here and in Edinburgh have been instrumental in putting things back on the rails and a group of actuaries is even now at work considering how better presentation of information can help the consumer or his adviser. And yet it is in this last area of the health of traditional life offices that I raise my final worry as to whether one of the attempts to protect the consumers will really act in their best long-term interests. I refer to the incorporation of the words "reasonable expectation of policyholders or potential policyholders" in section 37 of the Insurance Companies Act, 1982.

In his Address two years ago, Marshall Field gave careful consideration to what the policyholder might reasonably expect, and if any of my audience tonight has forgotten what he said then I can thoroughly recommend a revisit via the Journal. However, and significantly, Marshall Field excluded any consideration of the statutory meaning, "as this is one for the lawyers to determine". Which board of directors of a life office, let alone the actuary who has to advise them, can live with a phrase so full of apparent meaning but so devoid of definition, when on that definition may hang permission to remain in business?

Although no legal interpretation has yet appeared, it seems unlikely that the legal advisers to the Department of Trade and Industry have not considered the matter. My own attempts at putting together some views gleaned here and there with guesses at how the legal mind might work leave me worried. For with profit business it appears that, for the purpose of determining 'the reasonable expectations of potential policyholders', life offices are to be regarded as belonging to peer groups, the groupings being determined by expected actual future returns to policyholders. Thus if it can be foreseen that the whole of a peer group will be reducing reversionary bonus levels in unison the reasonable expectations will be undisturbed. But if one office is likely to fall out of its peer group by reducing reversionary bonus on its own then it must announce this very well ahead of the action or close for new with-profit business. To do neither would be considered to be thwarting the reasonable expectations of those buying new policies as, apparently, they are deemed to expect the peer group to stay together.

If this is how the phrase is to be interpreted, the impracticality of the situation is mind-blowing, and the burden on the Appointed Actuary intolerable. Short of collusion, which may well be illegal, it is unlikely that the peer group will have knowledge of each other's bonus intentions. Thus the office which is first to think that future cuts in its bonus, however distant, are unavoidable finds itself in the unenviable position of having to make an immediate announcement of its intentions, thus halting sales, or simply close for new with-profit business. We have already seen that such actions can lead to loss of independence. And even

after one office has been lost by this route, nothing has been solved and the next office to worry about its ability to maintain bonus will suffer a similar fate. Can we believe that it is in the long-term interests of the consumer to bring about a rapid reduction in the number of with-profit life offices, when neither solvency nor future viability is at stake? It seems to me that this is an area which needs more exploration and discussion before any axes begin to fall.

Actuarial Advice—and its Limits

My quick look at the present state of consumer protection suggests that there is scope for actuaries to widen the subjects to which they can apply their special expertise and also that within the traditional fields the burden will become greater. It is perhaps then time to look at the nature of actuarial advice.

I have already used the phrase 'making sense of the future' and I will now admit that for the last year or two this has been my immediate reply to the inevitable questions about what an actuary does. It is close to 'Certum ex Incertis' but of course it needs some elaboration to explain that an actuary does not determine the future and is no better able to forecast what the future holds than anyone else who gives the subject serious thought. His expertise lies in considering that part of the picture of the future that can be expressed in figures. However, the scope of actuarial advice has undergone some changes and is still subject to many pressures.

As well as the necessary expertise the actuary needs good judgement. So far it has not proved possible to include judgement as a formal subject in the course of training and we cannot be sure that all those who complete the examinations will also acquire good judgement, but an actuary without good judgement is likely, in practice, to be confined to the role of technician.

If the actuary's expertise and judgement are to be recognised and valued over an increasing domain, then it is essential that the nature of actuarial advice is clearly understood. It is not surprising to find that many Presidents have found it necessary to stake out this area. I have already quoted Jim Pegler. Eight years later, in relation to a life office, Gordon Bayley said "The responsibility for managing the company and investing its assets falls squarely on the directors. The actuary's responsibility is to ensure that they are fully advised about the consequences of different action plans." The advent of Guidance Note number one, which was being formulated at that time, should have ensured that this is now a part of our culture.

However, if the matter has been clarified for life offices, are we as clear about where the pension fund actuary stands? At times he acts as adviser to the employer, at times as adviser to the trustees and sometimes he appears to act as champion of the members. To my mind there is no reason why he should not take on all of these roles provided he makes it clear, when he offers an opinion or advice, which role he is filling. Indeed our Code requires him to take into account the interests of all who may be affected. Thus it seems to me perfectly proper that an actuary should tell the employer about the lowest funding level required

to meet the basic benefit obligations set out in the trust deeds and rules. The Guidance Note then requires him to comment on the chosen funding objective and the stability of the funding rate. However, he cannot stop even there. He must ensure that his client understands the other courses of action open to him, which in practice means funding to achieve other objectives. The employer must make the decision. The actuary must see that the employer does not make it without being aware of the long-term consequences—the advantages and disadvantages to each of the interested parties—of each alternative course of action. Of course, the actuary may volunteer, or may be asked for, his opinion on the best course of action. But that opinion comes after setting out the range of options available, and may not in all circumstances be an opinion shared by other actuaries.

So far, in applying Gordon Bayley's injunction, which has been so well accepted on the life office side, to the funding of pension schemes, I have said, I think, little to cause controversy. The more difficult question is whether an actuary, in his review of a well-funded scheme operated by a healthily-profitable company, really needs to mention, as one of the alternatives, the level of funding which will only just finance the basic benefits set out in the deeds. My answer would be that he does, for not to do so would limit the range of options available to the employer in making his decisions. The fact that the actuary may have confidence that the bottom end of the range would be disregarded is not really relevant, for limiting the range still has the effect of introducing the actuary's opinion before the available facts are established. In practice it may quite often be possible to omit actual calculation of the lowest figures by making clear that they are bottom end, that adopting them would involve a change of established policy but that the gamut of decisions available does embrace them. To do less, I feel, is not enough. A later change of circumstances or of control of the company may bring about a re-examination of management decisions. If at that time it is discovered that part of the decision-making process was never within management's grasp, there could, I fear, be problems.

The problems to which I allude are not the current round of questions besetting the pensions experts, such as "Who owns the surplus?" or the even more tricky one of "Who decides who owns the surplus?" My worries arise from the thought that if we do not pay very full attention to the Burrows' requirement of forty years ago "to secure that the people who have to make the decisions know what they are doing" we may face other difficulties. If the people who have to make the decisions have not seen the full extent of the options which they can consider and there is then a later enquiry, this could conceivably lead to a challenge over the nature of actuarial advice. In today's environment when so much is left for the lawyers to interpret, the unfortunate, unwarranted but irreversible result could be that the actuaries' domain was cut back to its technical base and that the high value placed on the use of good judgement was undermined. I believe that this can be avoided if we take care to set out for the clients or employers whom we advise the full range of available options and their

consequences and then to make sure that our own views, however widely we know them to be shared, are properly seen as opinions. Separation of the elements of decision making can not but help to de-mystify the process and thereby increase the value of the opinions themselves.

In broadening the demand for giving a complete picture with all actuarial advice, I cannot ignore that for a traditional life office the full range of options includes closure of the fund. However, in today's uncertain markets it may be safe to assume that this is not forgotten by either the actuary or his board of directors and, indeed, we have recently seen the arguments set out in a circular from one office to its policyholders.

It is worth noting that over recent years the freedom with which the actuary uses his judgement has been curtailed, but the weight placed on that judgement, and therefore its value, has been increased. As evidence of curtailment we need only refer to the fact that over the last fifteen years Council has found it necessary to issue a dozen Guidance Notes. On the other hand, the judgement of the actuary has traditionally been tested by the need to maintain equity between generations of with-profit policyholders, and on this ground he has acquitted himself well. Greater tests of judgement now include those embedded in the concept of reasonable expectations of policyholders, and in any comparison of money purchase with final salary pension schemes, when considered against a background of a changing environment. Much more weight has also been thrown on the actuary's judgement by the substantial sharpening of competition in the market place. The Financial Services Act will give such competition more priority and more transparency, so that the penalties of any misjudgement by the actuary will be swifter and harsher.

The experienced actuary, therefore, accepts that he must make recommendations which involve difficult judgements on equity between groups and on the balance between short-term and long-term objectives, and maintain them even when the pressures from competition are severe. He knows that the penalties of succumbing to such pressures, or of ignoring them, can be harsh. It seems, then, that the natural answer to my earlier aside of 'Who best to decide who owns the surplus?' could well be 'the actuary'. More debatable, to my mind, but also in the area of putting greater weight on the actuary's judgement is the role of the actuary as watchdog. The actuary filling a statutory position with a life office or pension fund has a duty to tell the controllers if he becomes aware that something is going wrong. The system depends upon a combination of legislation and Guidance Notes and, I believe, works well. There has, however, recently been a suggestion that such an actuary should have an informal duty to tell the controllers if he thinks that there is even a possibility that something might go wrong. I am fully committed to close liaison with the authorities, but the actuary in his everyday work is not an outpost of the controller. It seems to me that any suggestion of greater dependence on the appointed or pension fund actuary should not be adopted without careful thought, and that any additional responsibilities should be backed by adequate guidance.

Looking Forward

The actuary is looking to the future in his everyday work and by nature and training takes a long view. It follows that in giving his advice to his principal—be it his employer or his client—he will take proper account of possible changes in the environment, including those that may be brought about by legislation, with an appropriately long period of years in mind.

When we work together, under the guidance of Council, to determine the proper stance of the profession on relevant issues of the day, we take a similar long-sighted view. I believe that it is well recognised that we maintain a high standard for submissions to the authorities and for guidance to our members, and it is notable that the number of issues on which we are expected to have a collective opinion appears to increase session by session. The demands on our members also increase, and that in turn causes additional demands on the centre. As one example I need only cite the increase in seminars, symposia and other meetings, which contribute to the fulfilment of a requirement for continuing education.

What has been achieved corporately by the profession is the result of hard and unselfish work by members, particularly, of course, Members of Council, well supported by the permanent Secretariat. The work that is being done centrally is of high quality and is necessary. Is it also sufficient to cope with the rapid changes that we can expect in our environment? If I were to answer 'barely', that reflects my view of the path ahead, not a criticism of the efforts made to date.

The position that we should be in is not only that we make proper responses to current challenges but also that we think ahead about what the future may hold, and make proper preparations. In recent years as an organisation we have done much to create a more forward-looking stance. Let us have a quick look at a part of the score card.

Three years ago Council formed a Futures Committee with the exact intention of creating a resource to examine some of the longer-term issues which might affect the profession. The record of work to date is impressive, with the most publicised piece being the recent report by its Education Working Party, which has led to valuable discussions throughout the country.

The Research Committee has commissioned work to help to come to grips with the problems that the profession faces or will face, whilst maintaining support for research arising from scientific inquiry. Again one project—that on AIDS—has received more publicity than all the others and serves to illustrate the value of work done. It was noteworthy that at the recent International Congress the work on AIDS presented from this country had greater depth than other contributions on this subject.

To take a third example, the soon-to-be-published Claims Reserving Manual, sponsored by the General Insurance Committee, is likely to be very helpful in establishing even more firmly the actuarial role in general insurance.

Yet another forward looking move has been the formation of the Financial Management Group, which, by sharing knowledge, should increase the

contributions that the profession can make to an important and still-developing facet of management, and stake out the actuary's right to be considered an expert in the wider financial management field.

It is also appropriate to emphasise the importance of the innovations in meetings, ranging from three-day conferences to half-day workshops. The opportunities provided encourage members to keep abreast of developments and to exchange views on what might lie ahead.

I could go on with other, perhaps smaller, examples of how we have adopted a more forward looking stance. And I could point to a lot of work that has been done by individual actuaries or groups of actuaries which helps to fashion the profession of the future. If so much progress is being made, why am I sounding a note of caution? It is simply because I believe that there is more still to do, and I worry about overload.

The record is good, but not perfect. We have failed to make our mark on one or two important issues where we should have staked out our pitch. And a number of the moves that we have made have been a reaction to events, not a preparation for them.

I have already mentioned the Financial Management Group and I believe strongly that over the coming years its work will be of increasing importance to the profession in this country. However, it was not formed because we took time off to consider the future needs of our profession; its creation is, in fact, an interesting example of good reactions.

The story starts in France where a group of actuaries, mainly with an academic background, became interested in investment theory and asset risk limitation. To facilitate their work they suggested that the International Actuarial Association should sponsor an international grouping of actuaries interested in investment. This suggestion was duly debated and the British attitude was that a specialist group of this nature was unnecessary because in Britain all actuaries are interested in investment and that to promote specialisation could weaken the profession. At the same time we considered that if, despite our reluctance, such an international group were to be formed, investment is so important to the British that we should participate.

After due deliberation within the IAA it was decided to pursue the idea further, and the British were heavily involved in the steering committee. The end result was that in Helsinki this year a much more broadly-based and practically-orientated international group, now named AFIR, was born.

Meanwhile back at home the thought occurred to us that if an international group of this kind was beneficial, then it was worth reviewing the potential for a national group, for one would expect that in normal circumstances the latter would precede the former. The outcome was the formation of the Financial Management Group, a group which has already begun its task of organising the pooling of information and the strengthening of the collective expertise of actuaries in this field. About one fifth of our members have registered their interest in its work. With hindsight we can perhaps see that this Group ought to

have been started some years ago, rather than waiting for a trigger from abroad. The previous lack of recognition of the contribution that the actuary is equipped to make in the financial management field may have allowed his position to have been marginally eroded, whereas the creation of financial services conglomerates should be opening up potential opportunities for actuaries to make an increasing impact.

There may be other examples I could give of actions by others causing invigorating reactions from us, but if we are to keep the initiative I do not think that we can rely solely on our ability to react well. Some of the problems now on the horizon will give us little time to react, if they do ever materialise. Other problems which could occur would need substantial resources to resolve and therefore require early consideration of how these resources are to be obtained. We must plan for a variety of scenarios, including some to which we would not assign very high probabilities. Let me give a few examples of the work to be done.

As the actions consequent upon the Financial Services Act work their way through the market place, it is likely that there will be a substantial change in the pattern of distribution of investment and life assurance products. At present there is more than one view about which of the distribution methods will have been strengthened, and which weakened, when the market begins to settle, and the final pattern may still take a year or two to emerge. What can be foreseen now is that the managements of companies served by distribution methods which account for a diminishing market share will wish to take action to avoid the decline of their companies. Amongst the possible moves they could make are forming larger financial services groups, creating alternative distribution channels and pressing harder to capture larger market shares within their established, but declining, distribution sectors. All of these put pressure on the financial management of a company but none more so than the last of these three. The management of a life office determined to win an increasing share of a static or declining sector of the market could, in some circumstances, create demands which would cause the Appointed Actuary to consider his sticking point carefully. At present such demands are perhaps only a remote possibility but, if the day were to come, I would like to think that the profession would be ready to provide well prepared advice to actuaries under pressure. The alternative of waiting until problems begin to appear and only then drawing up further guidance notes, seems barely adequate.

It does not need changes in the distribution system to place actuaries under pressure, for severe changes in stock market valuations can have the same effect. In 1974, when the substantial decline in the prices of ordinary shares was much in our minds, Gordon Bayley called for the devising of a system that would give an early warning of the potential insolvency of a life office, so that avoiding action could be taken. To a certain extent we now have this in the current valuation regulations and particularly in the requirements for a mismatching reserve. However, we still need to be looking ahead again to what happens if a warning is sounded. At that time a number of further questions will have to be answered.

The second stage questions are easy to frame but difficult to answer. Two examples come to mind, of which the first would be "if the market shifts in such a way as to remove 90% of a particular life office's mismatching reserve, and there is no reason to expect an early reversal, what mismatching reserve should that office then be required to maintain?" and the second "if an early warning bell sounds, what action is required of the Appointed Actuary?" If a central group were to give some thought to such questions now, the work could be of great value at some future date, when some unlucky individual actuary finds himself having to discuss these problems with the authorities. Perhaps the same group would wish to take another look at policyholders' reasonable expectations.

If we are to be confident of keeping the initiative in such matters we will need more resources. But the examples I have given only scratch at a long list that we could draw up from all our spheres of activity. I will outline just two other areas which I believe to be particularly important.

Over recent years the overlap of interest between actuaries and accountants has increased almost year by year, and it is therefore particularly pleasing to report that the co-operation between the two professions on matters that concern both is friendly and effective. Joint working parties are readily established to consider problems arising under the General Insurance, Life Assurance or Pensions labels.

Whilst this is, in the main, a very satisfactory state of affairs it has to be noted that on a number of issues there are quite distinct actuarial and accounting viewpoints. The substantially greater resources available to the accountants have meant that on some occasions an accountants' working party has considered the issue before the joint working parties have been established. This has meant that, in practice, the joint working parties have been reduced to discussing the already settled accounting viewpoint. If we are to be equal partners in these matters, which can be of such concern to the members of both professions, we will have to make even greater efforts and make sure that we can organise our thoughts well before the joint working parties meet.

My last topic in this section is one that I hope you have been expecting me to mention this evening—namely 1992. For my purposes we can leave aside whether we consider the date to be the most appropriate to our various interests and simply note that the movement towards a single European market is gathering pace.

All of us who have attended International Congresses are well aware that there are substantial differences in training and outlook between our Continental European colleagues and ourselves. The much more detailed regulatory framework that is found to operate over most of the Continent has the effect of allowing the actuaries there less room to apply professional judgement and has caused them to be more interested in mathematically-based research. Through the good work of our members of the Groupe Consultatif, mutual understanding has been substantially increased, but nevertheless the gap between us remains wide.

It is incumbent upon us, then, to think now about the preparations our profession may need to make the most of the opportunities that will eventually arise from opening up the European market. It has already been determined, by the European Commission, that the professions should have portable qualifications and arrangements to bring this about are nearing the end of their discussion period. As significant for actuaries, perhaps, are the preparations for change that will be made by our employers and clients. We may or may not be in a position to influence such changes, but we must be in a position to anticipate them and to make sure that our roles are as effective and our advice as keenly sought in the new environment which will be created, as they have been whilst the influences remained largely domestic.

With these thoughts in mind, it has been decided to devote a part of the 1989 Harrogate Symposium to consideration of '1992', and it is hoped that members with experience of working on the Continent or with Continental colleagues will contribute papers and take part in the discussions.

Members of this Institute have a well-earned reputation for hard and effective work, both in their full-time employment and in their work for the actuarial community. Members of the Faculty have an equal reputation for work and effectiveness and they have an outstanding record of co-operation with the Institute. How are we to arrange our affairs so that we can maintain all this and also be fully prepared for whatever the future may bring?

The Future of the Profession

It could be that my estimate of the extra effort required is overdone, or, at best, is an over-reaction to the immediate work mountain, and that it does not reflect the long-term perspective that I have been advocating. Nevertheless, the message that has been running through my head since being asked to accept the responsibility of this Presidency is that unless we, collectively, find more resources to shape the future of our profession there is a danger of losing the initiative and, from that, a risk that the full potential of the profession may never be achieved.

To talk about more resources or extra effort is not easy and is unlikely to be popular. Council consists of thirty elected members who also carry very full-time jobs loaded with responsibility. Committees of Council are just that, with some co-opted members, so that a Member of Council will typically find himself a member of three or four committees, two of which may be heavy ones. As the work of the committees increases the calls on the time of Council Members get heavier and we have to recognise that there will come a point where we can ask for no more. Already, the finding of suitable dates for committee meetings is a problem, which can contribute to slow progress being made.

To enlarge Council would not help at this stage unless the whole organisation were to be changed, because Council as a body has considerable work in receiving the reports of the committees and determining policy for the Institute.

A larger Council would not necessarily be more representative of the membership but would be more cumbersome and lead to demands for an executive committee to take over most of the decision-bearing role. Nor is it necessarily a solution to replace some of the Council Members on the various committees with more co-opted members, because Council Members bring to the committees relevant knowledge of work being done elsewhere and to Council discussions an appreciation of the arguments which support the recommendations. The task of the Chairmen, already difficult enough, becomes even heavier if the committees work in isolation.

Therefore, for the Life Assurance Committee, which has a huge workload at present with a substantial number of topics to be considered, we are trying a different approach and appointing a separate and ad hoc working party to study and report on each topic. The working parties are drawn from members of the profession known to have an interest in the relevant topic and most, but not at present all, are chaired by members of the Committee. The working parties report to the Committee which retains the responsibility for making recommendations to Council. Because the working parties avoid, for the most part, overlapping membership, their work can be done simultaneously and they can speed the progress of the full Committee at the same time as they lighten its burden. It is hoped, by this means, that the ability to keep abreast of a fast changing environment will be enhanced whilst the benefits of organisation by committees of Council, which has served us so well, will not be lost.

There are other ad hoc working parties reviewing various subjects for the Institute and the essence of all working parties is that the members are asked to give their services for a limited period until a particular project is complete, rather than accept the continuous commitment of committee work. An advantage of devolving the detailed work from a committee to a working party is that it gives the committee a little more space to review future problems within its area of interest and so to maintain the forward-looking and initiative-taking stance which I believe to be necessary for the Institute as a whole. If the working parties now in being prove to be effective in solving problems and efficient in use of resources it seems likely that this method of operation will spread to other Institute committees as appropriate.

So far there has been no difficulty in finding members willing to serve on the various working parties. However, we would wish to avoid the imposition of continuous requests falling upon a small group of people. In this profession the proportion of the membership that gives, in one form or another, unstinting service to the Institute is outstanding, and so perhaps it is fruitless to hope to find a cache of underworked actuaries. However, when working parties need to be formed it is at present inevitable that the names most likely to be put forward are those of members who are known because they are already heavily involved in Institute work. It seems worthwhile, therefore, to write to all the Fellows to ask for volunteers for occasional work, with the intention of drawing up a register for future use.

It would be incomplete to talk about finding the necessary resources for the profession to secure its future without also covering recruitment and training, but this is a topic large enough to fill an address on its own. Indeed it was the subject chosen by Professor Peter Moore for his Address just four years ago and many of the improvements that he mentioned then are still working their way through the system. I will content myself with saying that education will remain at the top of Council's priority list. However, I would not wish this evening to pass without a tribute to Bill Truckle, who retired at the beginning of this month after nine years as the Institute's Director of Education. His task in maintaining an effective tuition service has been a huge one, complicated immeasurably by syllabus changes and severe shortage of tutors. His accomplishment is to have introduced a more professional approach to training, particularly by the introduction of staff tutors, and he will be remembered as the actuary who made it possible for a non-actuary to succeed him. Ken Gardner will join us next April and I am optimistic about how we can move forward under the guidance of an educationalist. I would like to thank Bill for giving us the foundation on which that optimism is built.

I have spoken of the future of the profession and I would now like to make clear that, provided we can find from within ourselves the bit of extra effort which now seems to be required, I maintain a very bright vision of that future. We are clear leaders in Europe, with a breadth of expertise and an ability to accept responsibility unknown to most of our Continental colleagues. In Life Assurance we have still much to do to make sure that we are prepared for any possible future problems, but the means to make those preparations are coming into place and if we are seen to take a forward view we will maintain our image. Our reputation for Pensions advice stands high, and is being maintained by responsible commentary on the many changes and suggestions for change that are now current in the market. In General Insurance the value of the actuary is ever more widely recognised and other countries are likely to follow Finland in making his employment mandatory. And in Financial Management, our burgeoning confidence will match and complement our established reputation in Investment. Wherever we look the demands for actuaries and the demands on actuaries are growing.

If an actuary's task is to make sense of the future, then surely the task before Council is to make sense of the future of the profession. At the present time this is a challenge, and one to which we must rise, for failure to do so would diminish the profession and hand over our destiny to external forces. I have tried to suggest that we need three ingredients to win: First, great clarity in our advice so that those whom we advise are always aware of the nature of that advice and of their own discretion. Second, a small increase in resources, well organised so that the work of the Institute may proceed more quickly. And, third, a determination to take a forward looking stance for the profession as a whole.

I have no doubt that many will say that I am asking for nothing new because clarity of expression, service to the profession and looking to the future are

attributes built into every actuary. My message for these times of change is that if together we can go just that extra mile we will strengthen an already strong profession and enhance its future.

At this point I must make the customary disclaimer that the ideas and statements in this Address are entirely my own and it must not be inferred that they are shared by my colleagues. However, whilst forming my views I have received a great deal of help, wittingly or unwittingly, from colleagues both in and beyond the profession, and I am only too aware of my debt. Such awareness causes me also to wonder what my four illustrious predecessors might be thinking if they were to be sitting in this Hall today.

I think that Benjamin Newbatt would be astonished to see how the profession had outgrown the narrow confines of his day, but would also see the uncertainty which we face today as far beyond his understanding of the 'Incertis' embedded in the Institute coat of arms. The future of the profession was exercising the mind of the President in 1890; nearly 100 years later it cannot be otherwise.

If Digby Besant could be here he would probably be reasonably happy with the broad sweep of the legislation controlling Life Assurance companies which has appeared since his day. He would, however, be able to refer back to his own warnings about over-bearing regulation and point out various instances where well-meaning moves to protect the consumers are likely to work against their long-term interests.

The educational needs of the actuary have changed since Sir Andrew Rowell's time, and will change again, but his description of the ideal actuary, the proper outcome of good recruitment and training, serves as well today as it did forty years ago. I believe that my addition of demanding that actuaries are, to use the jargon, pro-active rather than reactive, would be acceptable to Sir Andrew, for it was in his own nature and is a part of the fabric of the profession.

To speculate on what Jim Pegler might be thinking would be taking a risk higher than those normally acceptable to an actuary, for I am delighted to say that he is with us in the Hall this evening. I believe that his call for de-mystifying our expertise was both needed and heeded when he made it, and that as a profession we are now immeasurably more open than we were twenty and more years ago. I hope that he would agree with me that in recent years the pressures upon us have changed to the point where we would be wise to check over this ground again, to see whether even more clarity can be encouraged.

I am aware that I am unable to do justice to my four predecessors, but at least I can acknowledge that, through their various Presidential Addresses, they have been able to share their thoughts with me and so encourage me to attempt to organise my own ideas. I would leave you with just the one thought that our work both here in the Institute and back at our desks is all about 'making sense of the future', if it were not that a second catchphrase simply refuses to be held back. Ladies and gentlemen, fellow actuaries, my final words this evening on making sense of the future are "together we can do it".