ADDRESS

BY THE PRESIDENT

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A profession as small as ours gains its strength not from its numbers but from its inner cohesiveness. This is the more remarkable by reason of the widespread, and sometimes competing, ways in which our members apply their professional skills to earn their livelihood.

One of the binding forces is the sessional meeting at which members interested in particular aspects of our discipline can lay before the membership as a whole, for their criticism as well as for their edification, the results of research and of original invention.

At the beginning of each session, however, we have the opportunity to look outside the boundaries touching our own speciality. In the Watson Memorial Lecture, to consider matters pertaining to the society in which we live and, in the Presidential Address, to consider the relationship of our profession within itself or with society outside. It goes without saying that on such an occasion a President speaks only for himself but whilst this may, perhaps, permit him to express his opinions with a less rigorous logic than is required of the author of a sessional meeting paper, the fact that the Address is not subsequently the subject of debate imposes a duty of self-criticism.

In more spacious days, our Year Book used to remind us that the earliest statutory recognition of our profession equated us with “persons skilled in calculation”. John Napier, the ‘genius loci’ of our council chamber grappling with the problems of mensuration of a recently discovered universe, concluded that “there is nothing that is so troublesome to mathematical practice, nor doth more molest and hinder calculators, than the multiplications, divisions, square and cubical extractions of great numbers, which beside the tedious expense of time are for the most part subject to slippery errors, I began therefore to consider in my mind by what certain and ready art I might remove these hindrances”. From this consideration emerged the method of rabdology based on ‘Napiers Bones’—and subsequently the table of Napierian logarithms.

Similarly our predecessors, proceeding from Newtonian principles of finite differences, developed the life table and the commutation column as similar aids to grappling with the problems of life contingencies. Graduation was an art in itself...
and formulae of increasing sophistication were developed and committed to memory by succeeding generations of actuaries who might just as well have memorized the numbers of the pages in the textbook on which they were to be found in the occasional event of their requiring to use them in practice.

Whilst working on graduation problems, his personal association with Karl Pearson led Sir William Elderton, then, to use his own words, "a young untried and inexperienced member of the profession", to the application of Pearson's system of frequency curves to actuarial work and in turn to the Institute publishing in 1906 Elderton's definitive work *Frequency Curves and Correlation* which as well as introducing actuaries to the science of statistics was also used by the universities.

Pearson's work, and his personality, were capturing attention far beyond academic circles. Bernard Shaw for example subscribed to *Biometrika*, to which Elderton was a contributor, and although, as he admitted in his preface to *The Doctors' Dilemma* (1911), he was out of his depth at the first line he could not resist Pearson's "immense contempt for, and indignant sense of grave social danger in, the unskilled guesses of the ordinary sociologist".

Shaw was clearly respectful of the work of our profession and at the end of his life he was advocating comprehensive national insurance with "the odds being fixed by the State actuaries mathematically". For the Biometricians themselves, however, he had in the meantime developed a degree of disrespect equal to Pearson's contempt for the sociologists: "Even their counting was not to be depended on; for they added up facts and opinions indiscriminately, and cooked their calculations by 'weighing' them with fancy figures which represented nothing but their personal guesses and tastes."

The problem which Shaw thus characterized has troubled us ever since but, speaking for myself, Professor P. G. Moore's paper to our Institute last year 'Are objectivism and subjectivism compatible concepts?' rationalized the apparent contradiction and established a firmer base for the decision-making processes which we all may follow but which are, perhaps, more apparent to those working outside the traditional field of life assurance. His conclusion I consider important enough to repeat this evening, "The decision analyst attempts to use all sources of information, whether they are objective (frequentist) or subjective taking full account of their relative strengths. By so doing he overtly—as distinct from covertly—is making use of both objective and subjective information, and giving due weight to the relative quality of the different inputs."

Today, the availability of electronic data processing means that we ourselves no longer need to be "skilled in calculation" *per se* but can use these tools as enjoined by our charter, to extend and improve the data and methods of our science and to consider "all monetary questions involving separately or in combination the mathematical doctrine of probabilities and the principles of interest"—separately or in combination.

It has been the consideration of the combination of probabilities and interest that has been the undisputed ground of actuaries in years gone by, if only because...
of the skills in calculation we have developed. Today, however, we must recognize perforce that our profession does not have a monopoly of the consideration of such questions. Separately, statisticians have developed the application of the doctrine of probability to problems of management of production and distribution whilst accountants have come to terms with discounted cash flow.

If, however, accountants have discovered the secrets of compound interest, actuaries are concerning themselves increasingly with emerging costs. Techniques originally designed to demonstrate the development of unfunded social security schemes in varying conditions have, under the impact of inflation and high interest rates, come to be applied to the actuarial management of occupational pension schemes and other benefit funds.

Non-life insurers have in general not taken credit for investment earnings on the technical reserves in their published trading accounts whatever they may have done in their management accounts. In the case of the longer-term business, for example, liability business, and, even more, as Mr D. H. Craighead demonstrated in his 1979 paper, excess of loss and reinsurance business, this introduces an element of distortion as between the trading account and the proprietors' account. On this basis, which I may call the accountancy basis, the full impact of inflation on the final settlement of claims outstanding at any time falls on the trading account and it follows on basic accountancy principles that these claims should be provided for in full at the amount, undiscounted, for which it is estimated they will ultimately be settled.

The actuarial management of such an account, however, would require the technical reserves to be calculated on a basis which allowed for the difference between the rate of interest expected to be earned thereon and credited to the account and the forecast rate of inflation of the cost of settlements. Such an evaluation would produce lower technical reserves and, on an expanding account, release a surplus which may well be greater than the result on an accountancy basis including the investment earnings on the technical reserves.

The accountancy basis is thus, and this I must stress, more 'conservative'—and more tax effective—than the actuarial basis, but whether in the case of long-term liabilities it presents a true and fair view is open to question. In my view the actuarial basis gives both the underwriter and the proprietor a more realistic appreciation of the profitability of the account according to the underlying assumptions.

More importantly, the availability of high interest rates has increased both the attractions of various forms of self-insurance and the competition between insurers for the available business. Consideration of the fundamentals of the risk in combination with the interest factor, in other words an actuarial approach, furnishes the underwriter a sounder approach to such competition.

It is not my purpose today to discuss in detail the application of actuarial methods to non-life insurance—Mr Sidney Benjamin's 1976 paper, "Profit and other financial concepts in insurance", is an admirable essay on the various elements involved. I am concerned rather to illustrate what I regard as the
primary difference between the actuarial approach and the accountancy approach.

In the field of long-term business, whilst the actuarial approach has not been questioned, difficulties may on occasion have arisen between individual auditors and individual actuaries, more particularly if the actuary has considered it necessary to strengthen or weaken his bases. If, for example, the assets have suffered severe depreciation, the auditor, who has a duty to satisfy himself that the Companies Acts accounts present a true and fair view, regardless of exemptions available to insurance companies under the Acts, may understandably wish to be satisfied that an actuarial valuation taking the depreciated assets at their book value, or alternatively a pro tanto weakening of the valuation of the liabilities, is justified and any consequent surplus is validly ascertained—as no doubt will be the case if the strength of the underlying investment earnings remains unimpaired. If, however, depreciation arose from any real loss of invested funds—the auditor, who in the last resort may be held responsible by the proprietors, is entitled “to obtain reasonable assurance from the actuary that the long-term business funds are adequate to meet the related liabilities”.

The illustration is based on an obvious situation but the point is of general application and arises because of the responsibility placed on the auditor by the Companies Acts which do not specify the rôle of the actuary or require, for the purpose of the shareholders’ accounts, publication of his opinion as to the adequacy of the long-term fund—an opinion which may only subsequently become available under the Insurance Companies Act returns.

Whilst this lack of definition in the Companies Act must continue to be a matter of concern to our profession, the Institute and the Faculty have achieved an important understanding with the Accountancy bodies on the relationship between the appointed actuary and the auditor which has been embodied in the statements issued by the respective Councils.

The words I have quoted appear in both statements which make it clear that the auditor should understand, as a responsible person but not as an expert, the objectives of the actuary. In particular the accountants’ statement enjoins auditors to appreciate “that there is an interrelation between the methods used to make actuarial valuations of liabilities and the bases on which related assets are valued”. The profession owes a debt of gratitude to all those from both sides who have contributed to this understanding.

Another area in which we need to establish a degree of common understanding with our friends the Accountants is that of funding for pensions. In an era when an employer’s contribution to his pension fund represented 5% of the total payroll or less and there was no obligation for pension fund accounts to be audited save to satisfy the Inland Revenue—whose sole concern was with overfunding—the actuary’s certificate settled the matter and the company’s accounts were prepared accordingly.

Today, pension fund contributions vary over a very wide range and not infrequently reach up to 30% of payroll or more. The shareholders, and indeed
the members, require, and are entitled to, a much clearer understanding of the
degree of funding of future pension liabilities at which the employer is aiming and
the implications of the strength of the funding for the possible trend of contribu-
tions required in the future.

Auditors cannot be expected to certify that the shareholders accounts represent
a true and fair view without such information and, if they are expected similarly to
certify the pension fund accounts for the benefit of the members, the same point
arises. Actuaries have not helped in this respect by the terminological confusion
they have allowed to creep in, in the description of various funding methods.

It may be inappropriate for the profession to lay down standards to be
followed by actuaries certifying funding rates but at the very least we must be
prepared to agree a definition of terms and here again to disclose sufficient
information as to enable an auditor "as a responsible person but not as an
expert" to understand the objectives of the actuary.

Whilst pension funding is perhaps the most important technical question
facing the Institute and the Faculty today, the actuarial profession itself is
confronting a far more fundamental problem to which I must now turn.

Because we are a small profession our Baconian motto has for us a particular
significance. A high proportion of our members—much higher I dare say than in
most other professions—actively involve themselves at some time during their
careers in the work of the Institute and, were this not so, the Institute could not
effectively carry out the duties it assumed under its Royal Charter.

This involvement enables members closely to identify, consciously or uncon-
sciously, with the profession, or perhaps with its perceived embodiment—Staple
Inn Hall, our Sessional Meetings and, by no means least, our devoted band of
equally committed full-time staff.

This identification, this commitment, is a source of the inner cohesiveness I
referred to in my opening remarks but if we accord to the outward and visible
institution prior importance to the wider significance of the profession, we do so
at our peril.

When our predecessors petitioned for our Royal Charter they did so in the
belief that this "would be fruitful of public advantage . . . by according to the
Institute a position by means of which it would be better able to exercise an
influence towards maintaining a high standard of usefulness among the Members
of the Profession".

Their confidence has surely been justified in the event and the successful
adaptation of the Institute, its educational syllabus and its activities to serve the
changing needs of the public weal which has emerged over the intervening period
of nigh on 100 years since our charter was granted enables us to reaffirm this
belief today.

But this reaffirmation must be based on our continuing usefulness. In the
nineteenth century the professions were generally held in universally high esteem
and few questioned the apparently self-evident fact that their activities were in
the public interest.
H. Byerley Thomson, writing in 1857, could claim “The importance of the professions and the professional classes can hardly be overrated; they form the head of the great English middle class, maintain its tone of independence, keep up to the mark its standard of morality and direct its intelligence.” We have moved a long way from those days when our Victorian ancestors slept soundly in their beds safe in the belief that, under the aegis of the great British Empire and the tutelage of the great “English” middle-class everything was for the best in the best of all possible worlds.

Today we serve a more questioning society, the professions need to justify their activities to those who no longer accept them as axiomatically in the public interest, and Lewis and Maude writing in 1952 concluded that “professional status is therefore an implied contract: to serve society over and beyond all specific duty to client or employer in consideration of the privileges and protection society extends to the profession”.

This questioning culminated in 1967 when the Board of Trade, as it then was, requested the Monopolies Commission for a “General Report on Restrictive Practices affecting Professional Services” and furnished the Commission with a comprehensive list of “restrictive” practices to be investigated.

To the Monopolies Commission it was axiomatic that the practices defined in their terms of reference as being “restrictive” were in each case a restriction on competition and that it was “generally accepted” that collective restrictions on competition were unacceptable unless they could be shown to produce positive identifiable benefits that outweighed any disadvantages. So far as the supply of goods was concerned such restrictions were in general declared illegal by the Restrictive Trade Practices Act of 1956. The Commission decided unequivocally that transactions for the supply of professional services were business transactions and that restrictive practices governing such transactions should be seen in the same light.

Their Report which was published in October 1970 laid down, in the words of the Conservative Government of the day, “clear general considerations against which the advantages and disadvantages of the practices of individual professions may be judged” and their recommendation, that the professions should examine their practices accordingly and amend or abolish them as necessary, was accepted by the Government.

The Institute was “invited” to notify the Department of Trade and Industry, within six months, of any modifications we proposed in consequence, and we were encouraged not to “hesitate to re-examine views of our profession’s function which may have been sincerely held for many years”.

Quite apart from the general ferment created by the Monopolies Commission Report and the particular invitation addressed to us (as to other professions), Council had already commenced a radical re-examination of our Memorandum on Professional Conduct and Practice and priority was given to consideration of the manner in which actuaries employed by commercial firms could provide advice for the firms’ clients. In August 1971 such indirect advice was permitted,
subject to the essential condition that the actuary's position *vis-à-vis* his principal must be disclosed.

Other changes followed, informative advertising on a modest scale was permitted and the rules regarding "channelling" were modified. Further alterations since that time are described in Mr F. B. Corby's recent paper, to which I will refer presently.

The Bye-law regarding disciplinary powers was re-phrased in its present form to cover complaints against members alleging "unprofessional conduct" *per se* which was defined to include "any failure in a material respect by the Member concerned to comply with the standards of behaviour, integrity, competence or professional judgement which other members might reasonably expect of him, having regard to any advice or guidance on professional conduct, practice or duties which may be given and published by the Institute and to all other relevant circumstances".

In January 1973, for the first time in 125 years a sessional meeting was given over to a discussion on Professional Conduct and Practice for which Mr H. F. Purchase provided the paper and his explanation of the position at that time and of the reasoning underlying the Code was accepted by the meeting with what the President, Mr Geoffrey Heywood, described as a "surprising unanimity of view".

Mr Purchase stressed that it was axiomatic that in matters of professional conduct the public interest must predominate but also that in matters where actuaries have acquired skill and experience it was in the public interest that they, rather than others without those skills, should deal with them. He foresaw, however, that the development of computer capacity could facilitate the making of calculations and estimates which in the past required the use of the mathematical techniques of actuaries.

The profession accepted then, and accepts now, that the technical ability of the individual actuary is not affected by whether or not he is independent or employed. Conversely it is of vital importance that no member should undertake work which is outwith his limitations or the scope of his experience.

Mr Purchase drew attention to growing public criticism of professional codes of conduct and to the argument advanced by the Monopolies Commission that the supply of professional services would be cheaper, and more widely used, and its overall quality improved, if it were subject to the influences of competition as in business, although it might be thought that, in relation to pension scheme matters, the availability of direct (i.e. independent) and indirect advice provided a considerable degree of competition.

Mr Purchase pointed out that acceptance of this "business" argument predicated the abandonment of provisions in codes of conduct inhibiting the forms of entity of professional firms and prohibitions against soliciting for business by advertising or other commercial means.

He pointed out in the discussion that if the business argument was fully accepted and the Institute had no code at all "it would become nothing much more than an educational body and would disregard the behaviour of its
members. Such an approach would hardly be consistent with a claim to be a profession operating under a Royal Charter."

In my opinion the definitive answer for our profession to the general considerations advanced by the Monopolies Commission was given by Mr C. M. O'Brien in his Presidential Address in 1976 and I am happy to add my endorsement thereto, without reservation. The position in which we now find ourselves is, however, much more critical and it is necessary to consider the developments resulting from the Restrictive Trade Practices Order of 1976.

With the making of this order any distinction in this area between business services and professional services vanished. The 1956 legislation, which had declared illegal practices restrictive of competition in the supply of goods, was now extended to practices restrictive of competition in the supply of services and the Restrictive Practices Court was empowered to declare such agreements void as contrary to the public interest except in the case of certain professional services, listed in Schedule 1 to the Restrictive Trade Practices Act 1976, which were exempted, but this exemption was not extended to actuarial services.

Although other professions may be under attack on isolated issues—for example advertising—we appear to be the profession in the unenviable position of having to defend some of the basic principles which until now have been accepted as fundamental to the concept of professionalism.

Whether exempted or not, however, I suggest it behoves every profession to undertake occasional—perhaps even continuous—self-examination of its activities in the light of the changing social environment. From this point of view therefore I welcome the obligation this imposes on the Institute, to re-examine and, if we so conclude, to defend, those aspects of our activity which might be held to be restrictive. The fact of the matter is, however, that we now do so under duress. The term "restrictive practice" carries a perjorative implication which is reinforced by the legislation. This sets up the presumption that such restrictions are contrary to the public interest and places the onus of proof to the contrary on those concerned.

An ad hoc Committee, on which the Faculty is represented, is now considering the case we can present to the Office of Fair Trading but in the present 'competitive' climate there is a possibility that our arguments may, in the first instance, fall on deaf ears and, in the second instance, be sustainable before the court, if at all, only by incurring a very considerable financial burden on our slender resources.

In a situation in which the legislation automatically assumes guilt, the onus is now on us to show to the satisfaction of the Office of Fair Trading, or, failing that, to the Restrictive Practices Court, that the provisions of our Code of Conduct and Practice are not contrary to the public interest in that they do not restrict or discourage competition to any material degree.

Alternatively we may show that the removal of the restrictions would deny to the public other specific and substantial advantages. In either event, however, we also need to show that the restrictions are not unreasonable having regard to the
balance between those circumstances and any detriment to the public resulting therefrom.

Those sections of our Code which may be regarded as unacceptable arise in two basic areas: firstly, the ways in which an independent actuary, or firm of actuaries, may seek business and secondly the corporate form in which actuaries may work together or with others.

These aspects were considered in detail in Mr F. B. Corby's recent paper on "Actuaries and Professional Conduct". So far as advertising is concerned he pointed out that even the Monopolies Commission accepted that some restrictions were necessary; for example to ensure that practitioners should not claim superiority over others, that publicity should not be inaccurate and should not be likely to bring the profession into disrepute.

So far as the corporate form of practice is concerned it is worth recalling that already in the discussion on Mr Purchase's paper, some members had suggested that actuaries should be permitted to operate as corporate bodies—even with limited liability, provided they adhered to the Code of Practice in other respects. This was a view that Lord Boyd Carpenter also accepted on the occasion of his Address at the time of our 125th anniversary celebrations. Bearing in mind the opportunities that already exist for actuaries to work for corporate bodies offering consultancy services, and thereby to provide indirect actuarial advice, there would seem to be little to be lost if this possibility was extended to consulting actuaries. Similar arguments apply to mixed partnerships.

Mr Corby suggested, and this was taken up again in the discussion, that these were really problems of where the line should be drawn and we should remember the difficulties which our present code imposes on a member setting up an individual practice from scratch.

This, ladies and gentlemen, is where we stand today. For my part I believe it is important that we should maintain a distinction between independent advice and corporate advice, even if we are required to relax some of the restrictions we at present impose on independent consultants.

For good measure the Office of Fair Trading have registered a general objection to the manner in which members may supply services as appointed actuaries for long-term insurance business, i.e. to the Guide on "Actuaries and Long-term insurance business" set out in our Year Book. Any reasons as to why this guide should be contrary to the public interest at present escape me. If, however, they choose to persist in holding this view one can imagine that it will, in future, serve the Department of Trade little to lay complaints of unprofessional conduct against appointed actuaries.

If it is in the public interest that a profession should set the standards which govern the right to practise, then it follows that the public interest demands that these professional standards should be maintained. This is, of course, the major distinction between a professional body and an educational institution. A university degree once awarded cannot, so far as I am aware, be taken away—and even in the case of an elective qualification—the fellowship of a college, for example—
recent events have shown that the most disreputable conduct imaginable is not considered ground for depriving the individual of his one-time distinction.

The professional cachet, on the other hand, requires of the individual continued membership of his Institute and, if that cachet is to carry weight with the public—if the public are to rely on it—then the profession has to require the highest standards of professional conduct.

I should make it clear that the concept of Professionalism—that members of a profession have a duty towards it, and towards the public at large, which in the final analysis may transcend even their duty to their client—or their employer—is not for one moment under attack, and it is accepted as being in the public interest that a profession should maintain its standards by the operation of a code of conduct—indeed the imposition of codes of conduct is becoming increasingly fashionable in areas we would regard as ‘commercial’.

I believe that our training, our traditions and our cohesiveness are such that whether we are independent members, or employed members, we will be able to maintain our professional standards whatever derestrictions we may accept, or which may be forced upon us, and that at the end of the day we will still be able to “hold every man a debtor to his profession” and “be a help and ornament thereunto”.