

LEADERSHIP: THE COURAGE TO COMMIT

PRESIDENTIAL ADDRESS

2005



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Institute of Actuaries of Australia

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2005 Presidential Address
Leadership: The Courage to Commit

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President of the Institute of Actuaries of Australia, 2005

Introduction and Synopsis

*‘Whatever you can do
or dream you can, begin it.
Boldness has genius, power and magic in it’- Goethe*

Over the aeons, great progress, great achievements, great discoveries, have been achieved by people with a combination of vision, purpose, leadership, boldness, commitment and tenacity.

Vision and purpose are key – they provide direction, inspiration and energy.

Boldness, commitment and tenacity are key. Until one musters the courage to commit, and take that first step, visions are simply dreams. Then tenacity is required to move past these first steps, to sustain the commitment, and to achieve the goals encapsulated in the original vision

Examples abound where vision, purpose, boldness, and the transforming effect of an individual lead to major achievements. The obvious examples spring to mind of Mahatma Gandhi (*satyagraha*, Indian independence), Nelson Mandela (overcoming apartheid), and Martin Luther King (US civil rights).

And, on a somewhat different scale, and probably more relevant and tangible:

- Ian Kiernan, whose initial efforts at cleaning up pollution from boating and shipping vessels led to ‘Clean Up Australia’ which led to an international ‘Clean Up’ initiative;
- Joseph Jaworski, who founded the American Leadership Forum, a non-government agency responsible for developing collaborative leadership in dealing with urban and regional issues in the US;
- Fred Hollows and his leadership, passion and organisation in operating on cataracts in the aboriginal population and addressing premature and unnecessary blindness;

- ‘Angry’ Anderson and his work with street kids in Australia;
- Dr Victor Chang, a pioneer of heart surgery and heart transplants;
- David Morgan, CEO of Westpac, for his social responsibility leadership in the corporate world;
- Professor Fiona Stanley AC, 2003 Australian of the Year for her work with children’s health;
- Faith Bandler AM, the leading activist for aboriginal rights and against racial discrimination;
- Alf Pollard, and the formation of the first university based actuarial program at Macquarie University in 1968;
- the early pioneers in the development of actuarial contribution and leadership in the general insurance sector, including John Trowbridge, Greg Taylor and Bob Buchanan; and
- Catherine Prime, the first Australian President of the International Actuarial Association who provided such strong leadership in the evolution of a global actuarial profession.

One person can make a very big difference – that person could be you.

A book which influenced my thinking several years ago was ‘*Synchronicity*’ by Joe Jaworski. A central tenet of this book is that we can shape our future in ways that we rarely realise, but first we need to be open to fundamental shifts of mind. As Peter Senge explains in the introduction to the book, ‘once we understand this, we begin to see that the future is not fixed, that we *live in a world of possibilities*’. Many of us carry around a deep sense of resignation, that there is a state of fixedness, and we can’t have influence in the world. But when we go through this shift of mind, the world of possibilities opens up, and, as Joe Jaworski says, ‘our sense of identity shifts too’.

Vision, purpose and personal meaning require a willingness and propensity to widen our lens of perception. As William Blake observed, ‘if the doors of perception were cleansed, then everything will appear to man as it is, infinite’.

I sometimes reflect on why people of seeming equal ability (including within our own profession) can achieve or contribute at markedly different levels in our society. I believe much of the difference is attributable to ‘width of lens’ – how open people are to the limitless opportunities which abound, or in the words of Marcel Proust, ‘The real voyage of discovery consists not in new landscapes but in having new eyes’.

The importance of context, of our perceived reality, is that it has an extraordinary influence on what we can achieve in life. Narrow context or perceptions mean narrow focus and achievements. Widen the lens and the scope of what is achievable changes dramatically. In the famous words of Robert Kennedy:

*‘Some men see things as they are and say, ‘Why?’
I dream things that never were and say ‘Why Not?’*

If we are to match our contribution to our inherent capabilities then a wide lens and a belief in possibilities is essential.

As actuaries, we are in the privileged position of being able to make a major contribution to society - in many forms, and not in a purely altruistic sense. There are two key forms of contribution which are explored in this address:

- Given that much service to society is intermediated through institutions, perhaps the most useful social contribution we can make is through these institutions. This concept of Social Equity was alluded to in Graham Rogers’ Presidential Address. It includes general insurance companies and life offices facilitating security and family protection, superannuation funds enabling a more comfortable and dignified retirement, banks providing services which not only enable our own financial convenience, but ‘grease the wheels’ of industry and commerce which enables

a prosperous society. If we can assist these and other institutions better fulfil their charter, then this is a valuable and noble contribution.

- We can make a major contribution to sustainable futures through our involvement in public issues and societal needs. This includes retirement income policy, health financing, aged care, population policy, other key intergenerational issues, infrastructure planning and environmental impacts, eg. climate change, resource impacts and biodiversity.

Whether your contribution is in these areas, or myriad other opportunities, some of which are explored in this address, there is no doubt that making a significant contribution is worthwhile, exciting and personally rewarding.

You may think that this is all very well, but there are more immediate personal imperatives that are pressing right now, including having a challenging and successful professional life with interesting work and career opportunities. These goals are not, and need not be, in conflict. Indeed, they are highly congruent. A happy and fulfilled life requires purpose. In studies reported by Clive Hamilton (Executive Director of the Australian Institute) in *Growth Fetish*, a key finding was that ‘A sense of meaning and purpose is the single attribute most associated with life satisfaction’ (Source: Headey & Wearing, quoted by Eckersley, *Measuring Progress*).

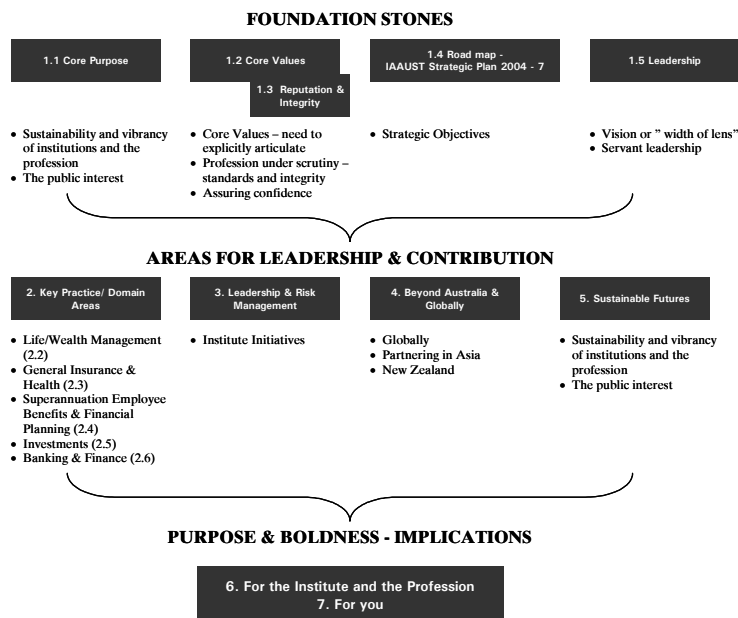
There have already been major achievements and much progress by the profession overall, the Institute, and individual actuaries in contributing to societal good. Further progress will be motivated by a vision of what more can be done, by a sense of purpose and meaning, an urging, and restlessness with the status quo.

Key messages in this address (which by now should be evident) are as follows.

- Having a sense of purpose and meaning is vital for the profession; and for each of us individually;

- There is a wide range of needs and opportunities which beckon our distinguished service contribution. To see the world of opportunities requires a ‘wide lens’;
- This commitment to service may involve the preparedness and the opportunity to lead. This is the concept of ‘servant leadership’ which is explained in the full address (*‘servant first ...then conscious choice brings one to aspire to lead’*, Robert Greenleaf);
- To fulfil this purpose, and pursue these distinguished service contributions, may often require courage, boldness of action, and commitment; and
- One person can make a big difference. That person could be you.

If you don’t have time to read the whole address, hopefully the above comments and the *précis* below will provide sufficient guidance to provoke thought, or to guide you to particular parts of the address for further detail. A ‘Roadmap’ for the full address appears as follows:



Foundation Stones

This address posits that our CORE PURPOSE is to:

- ensure the sustainability, and indeed vibrancy, of the institutions we serve and which play such a vital social equity role;
- ensure the sustainability and vibrancy of the profession; and
- serve the public interest, and in particular help ensure sustainable futures for Australia in particular, but also for the world (eg. climate change issues).

This core purpose is further explored in Section 1.1 where this address proposes that, even before we explore the world of great opportunities, there are some key foundation stones upon which our service contribution must be built, including:

- a strong sense of our core purpose and core values;
- strong professional reputation and high integrity;
- a roadmap for the future;
- talented people;
- a commitment to leadership (in the broad sense of the word); and
- a framework for nurturing and developing our leadership.

REPUTATION is critical if we are to fulfil our professional roles, and people are to have confidence in our services and advice. The profession is under scrutiny globally, particularly in the UK with the Penrose/Morris inquiries, but also here in the light of the HIH collapse and the James Hardie asbestos disease compensation issues. These matters are explored in Section 1.3.

Whilst our Core Purpose is explicit, and that of the profession is explicit as defined in our Constitution's Objects, our CORE VALUES tend to be implicit. Many core values exist naturally and are also embedded in our Code of Conduct. This address poses the

question as to whether our values should be made more explicit and debated, and then serve as further guidance for our membership, or whether our Code (refer Section 1.2) does that job admirably already?

Our key ROADMAP is the Institute's Strategic Plan 2004-2007 which reinforces what constitutes 'Core' for our profession, namely:

- core values: professionalism, honesty, truthfulness, trustworthiness, absolute integrity, 'without fear or favour', acting in the public interest; and
- core processes: standards, education, CPD, research, thought leadership and continually reinvigorating our intellectual base.

These are unlikely to change over time, whereas our specific strategies for achieving them will.

Four key strategic objectives for 2004-2007 are:

- a) 'new' practice/domain development, especially Banking and Finance, Investment, Health, Financial Planning, Risk Management and its twin, Capital Management;
- b) position and influence of the profession, especially high standards of practice, nurturing future leaders and public policy involvement;
- c) focused and energised member services - especially for those at a distance, CPD activities and networking opportunities; and
- d) partnerships in the Asia region, especially in creating employment opportunities and extending education and CPD.

Pursuit of these opportunities will require boldness in some cases, either in terms of individual actuaries stepping outside comfort zones to make a valued and needed contribution or taking on roles which constitute a 'path less trodden'. They will also require commitment to the profession and support for the initiatives being contemplated by the Institute such as the International Risk Institute.

The final foundation stones are LEADERSHIP and TALENT, which have been touched on above, and are explored in greater depth in Sections 1.5 and 6.5.

There are particular opportunities in the key practice areas, domain areas, and public affairs which beckon actuaries with a keen sense of purpose about making a meaningful contribution. Some will be evolutionary by nature but many invite boldness of action and commitment. Treat these, if you will, as a landscape through which one can map one's own path.

Leadership and the Key Practice/Domain Areas

Sections 2 and 3 highlight areas of opportunity in the key practice/domain areas for greater service contribution, leadership and boldness of action by individual members, and the profession collectively, with elaboration on Banking and Finance, and Risk Analysis and Management as particular areas beckoning greater actuarial contribution.

Key messages or issues are:

- Life Insurance (Section 2.2) – undergoing a renaissance for actuarial contribution, with risk management, capital management and innovation (especially in the areas of retirement incomes and distribution) representing key opportunity areas. For those prepared to step up to the mark, actuaries are natural contenders for the emerging Chief Risk Officer (CRO) roles.
- General Insurance and Health Insurance (Section 2.3) – these sectors have been a more recent success story for the profession, with the opportunity to develop significantly further the contribution of our profession to these industries. The implementation of Financial Condition Reports creates a wonderful platform for increased 'value-adding' actuarial contribution, rather than being overly oriented towards compliance. Also, based on this development and the deep insights actuaries can provide on risk management, actuaries are

again natural contenders for the emerging role of Chief Risk Officer. More boldness is urged in embracing this opportunity.

- Superannuation (Section 2.4) – is our most challenging practice area given industry trends. Opportunity areas include broadening roles for survivor Defined Benefit schemes to being more of a business consultant than pure actuarial fund consultant. There can be greater involvement on the asset side including the important asset/liability management (ALM) issues, and in providing robust risk management services beyond the Super Safety legislation template driven approach.
- Investments (Section 2.5) – a key challenge for the profession and the Institute is the development of highly relevant thought leadership (with the observation that we have been too isolationist from key thought leadership developments in this sector). We need to build profile and relevance, and address our positioning relative to the Certified Financial Analyst (CFA) designation. Areas where actuaries can provide either a unique contribution, or where we have some competitive advantage, include ALM, assets for longevity, and building an understanding of the risk/return characteristics of non traditional asset classes (eg. infrastructure funds with illiquid investments, hedge funds, and absolute return funds).
- The Banking and Finance Sector (Section 2.6) – is a major growth area for actuarial involvement, and one where we are currently significantly under-represented, although this is shifting rapidly. Again, relevant thought leadership, profile and positioning issues need to be addressed. There are countless opportunities for valuable and innovative actuarial contribution, including capital management, risk management, treasury and trading, structured finance, management of product portfolios (eg. mortgages) using actuarial principles, pricing, customer analytics, and bancassurance.

Risk management and Capital management are particularly interesting areas for eminent actuarial contribution – including enhancements to Value at Risk (VAR) frameworks which are used

extensively in the banking sector, conglomerate capital issues, Basel II modelling, and the application of ‘extreme event’ frameworks to the banking sector.

Given the vital importance of getting our positioning right in the latter two industry sectors, the Institute has formed a Banking, Finance and Investments Review Taskforce to develop a vision and roadmap for the profession in this respect for the next 5 years.

It is evident from a cursory review of the above practice areas that Risk Analysis and Management is a strong common element, and a major development area requiring our concerted attention. It is a vitally important area which cries out for involvement by actuaries. These issues are explored in Section 3.

The challenge with Risk is that the extent of the issues requires expert input from a range of different disciplines, including accounting, actuarial, legal, strategic and engineering. The emphasis clearly varies by industry sector, as does the relative importance of financial, operational and strategic risk.

The ‘lead’ risk role should normally correspond with the materiality of risk. For this reason, at the very least actuaries should arguably be taking the lead risk role in the life insurance, general insurance, health insurance and superannuation sectors, as well as making a major contribution in areas such as banking. Other risk roles will no doubt evolve.

The Institute is involved in a range of key Risk initiatives including:

- discussions with other key actuarial bodies and risk management bodies on the formation of a new and recognised Enterprise Risk Management (ERM) profession, of which the actuarial profession would be a founding and sponsoring body;
- a proposal by the International Actuarial Association for the establishment of an International Risk Institute (IRI). The IRI would be a new professional organisation for the analysis and

management of risk in all its forms and would grant the designation ‘Certified or Chartered Risk Analyst’;

- our Institute, like many of its overseas counterparts, has initiated a Risk Taskforce to identify strategies for positioning actuaries in the Risk sphere, and involving representation from each of the key actuarial practice areas.

Sustainable Futures

A core purpose for the profession is to serve the public interest. There are key issues which are of major importance to the national or global interest in terms of sustainable and desirable futures. Among a multitude of public affairs issues, key priorities for actuarial contribution include:

- Intergenerational issues and population options;
- Climate change; and
- National savings.

An ageing population has clear implications for:

- an affordable retirement income system, and what prior provision should be made for retirement;
- health financing;
- aged care demand facilities and cost;
- infrastructure for a changing age profile, and the urbanisation impacts if we are to ameliorate the ageing of the population through accelerated population growth.

This raises a range of key intergenerational equity issues. A related issue is our ageing infrastructure in areas such as power, water, transport and telecommunications, and the potential role of capital markets in funding its modernisation. The most appropriate role for a Futures Fund or Intergenerational Fund requires thought leadership and active debate.

Population choices will have a major impact in each of these areas. A landmark contribution to the population debate was the CSIRO Report 'Future Dilemmas– Options to 2050 for Australia's population, technology, resources and environment' (Oct 2002), led by Barney Foran and Franzi Poldy.

Part of the actuarial contribution moving forward can be to assist marrying together the physical impacts of different population choices, as presented in the CSIRO report, and the fiscal impacts of different population options.

The June 2004 Australian Climate Change report 'Climate Change: Solutions for Australia' highlights that only small changes in the global temperature (just 1-2°C) will have large adverse impacts including:

- Shifting rainfall patterns that reduce runoff to rivers and recharge of water supplies;
- Increasing agricultural and other economic losses from natural disasters;
- More damage to homes, business and infrastructure caused by extreme weather;
- Increased and new threats to the health of Australians;
- Irreversible change to some natural ecosystems.

Much of this temperature change is locked into the atmosphere (due to its carbon retaining qualities) and dramatic action is required to reverse it.

Actuaries have a vital role in helping inform the debate. This has started through initiatives by the insurance industry, led by IAG, and the Australian Climate Change group. It would also be useful to contribute thought leadership and modelling services to a range of stakeholder groups including the Business Council of Australia, relevant industry bodies, the Australian Greenhouse office, and private think-tanks.

A healthy long term economy requires net savings at a sufficient rate to support public and private investment, and our targeted GDP growth. Does Australia have a national savings problem? The evidence is mixed.

There is a need for a fundamental review of our broad national savings framework, including:

- an understanding of future public and private sector investment requirements;
- identification of how this investment will be funded, and the consequences of different choices;
- consideration of the role of Futures Funds or Intergenerational (IGR) Funds, and how these funds should be best funded and applied;
- the implied domestic savings requirements, and policy options to encourage such savings.

Intergenerational issues and populations options, climate change and environmental impacts, and national savings, are strongly related issues. They require a systemic and holistic framework for identifying future options and preferred and sustainable futures.

Actuarial contribution in each of these areas is perhaps self-evident. The Institute plays a valuable role in both shaping our priorities and guiding our public policy contribution and influence. A major advantage for the profession is our focus on informing the debate and providing an impartial voice. This approach has earned respect from public policy makers and means we can play a valuable and influential role.

Implications for the Institute & the Profession

If we are to make as great a contribution in fulfilling our Core Purpose in the future as we have in the past, or perhaps even greater, then we will require a keen sense of purpose, commitment and boldness. This is even more so in those areas where we are

contributing outside our traditional domains, and in areas where actuaries do not have ‘sole domain’ or ‘professional monopoly’ positions.

New domains beckon us to work with people of other professional backgrounds, with mutual respect for each other’s capabilities and contributions, and the ability to work effectively in multi-disciplinary teams. It behoves us to understand their language and intellectual constructs, and communicate with them effectively to enable them to reciprocate. In some of these areas actuaries may feel constrained by our natural tendency to want to have a substantial portion of the required content knowledge before we act. However, in many cases, experience and learning can only be most effectively constructed ‘on the job’. Our broad actuarial constructs, including the application of Control Cycle methodologies, equip us well for these challenges.

We may also need to overcome a sense of self-deprecation that other disciplines are more naturally suited to certain challenges (as is sometimes evident in the Risk Management arena) rather than recognising that various professional disciplines each have something to bring to the table, and that perhaps lead roles will emerge based on the materiality of the various different issues being addressed. Sometimes these characteristics verge on professional timidity. I would encourage boldness.

So where might be some of these opportunities for boldness? Let me cite a few examples:

- the formation of the Actuarial Research Centre of Australia (ARCA) to further the commercial application of actuarial science, substantially funded through partnerships and external sources based on the benefits that can be delivered;
- the possible formation of an International Risk Institute and/or an Enterprise Risk Management profession, with actuarial bodies as founding entities, but in partnership with other professions;

- original thought leadership and service contributions in areas outside our ‘comfort zone’ but where we have much to contribute. For example, enhanced VAR methodologies, Basel II, conglomerate capital issues, and the application of extreme event frameworks to the banking sector;
- flexibility in meeting the needs in shifting roles in the life insurance/wealth management, general insurance and superannuation sectors which are increasingly oriented to risk management;
- individual actuaries stepping boldly up to the mark for the myriad key roles in the banking and finance sectors;
- research and positioning on climate change issues (where Tony Coleman is showing strong leadership) and assisting entities such as the Business Council of Australia, other industry bodies, the Australian Greenhouse Office, and private think-tanks to come up with effective solutions to deal with this vitally important issue;
- leading contributions in the area of ageing infrastructure (water, electricity, transportation, health infrastructure) and the possible role of capital markets in addressing these issues;
- thought leadership contributions on the concept and role of a Futures Fund or IGR Fund; and
- the exploration of measurement and management of intangibles (eg. human capital, knowledge/intellectual capital, brands). In today’s information economy these are estimated to constitute 70% of our asset base and yet developments with International Financial Reporting Standards are de-emphasising their measurement.

The exploration of several of these issues may well involve Strategic Partnering – this notion is explored further in section 6.3 of the address.

For these and other areas of need and opportunity, we also need to be developing our Leaders of Tomorrow so that we can make an

enduring contribution (see section 6.5). And we need to be well positioned, in a branding sense, to be sought out. In addition to our current strong brand profile we need to be seen as value adding, innovative, good at seeing the ‘big picture’, and contemporary, especially in opportunity areas such as banking, finance, investments health and risk management. The Vision 2007 Taskforce will be addressing our brand positioning (see Section 6.6).

And So to You

‘The moment that one definitely commits oneself, then Providence moves too. All sorts of things occur to help one that would otherwise never have occurred.’

- W.N. Murray, *The Scottish Himalayan Expedition*

Now, more than ever before, society needs effective leadership. Leadership needs to be built on trust and vision and act as a compelling force.

These days, a great deal of societal needs are intermediated through institutions. Actuaries serve such institutions. We can help serve the sustainability and vibrancy of these institutions through sound financial management, transparency, accountability and insight. We can help them and their trustees to serve with distinction. We can help assure the trust so vital to their leadership role.

Major public affairs issues concerning Sustainable Futures require honest, expert, and impartial assessment. Here too we have a role to play, whether it be sustainable lifestyles and fiscal positions in the future, or sustainable environmental outcomes.

We need to develop our leaders for the future. In this process our mature wise members have a valuable role to play. We need to ensure the vibrancy of our profession’s ability to serve through our education and CPD processes. We also need pioneers, business developers and innovators to develop new territories where we can make a valued contribution.

So what is your passion? Where and how would you love to contribute? How can you make a difference?

This is not purely altruistic. Personal happiness largely derives from a sense of purpose. I encourage you to reflect deeply on what gives you a sense of professional purpose, on your vision for the future, and to move forward with boldness.

Many are already making an extraordinary and valued contribution in their own way, either through the Institute, by serving their particular constituencies, or providing effective leadership. You may well be one of them.

To the extent that you have not done so already, I encourage you to commit to an area that suits your passion.

Graham Rogers has had a distinguished year as President. Graham is an institution builder and a trustee in the best sense of the word. He has provided particularly strong leadership in areas such as our own corporate governance, which is vitally important to our reputation, in initiating the research initiative (ARCA), and in the areas of partnering in Asia and health financing.

I am often in awe of the talent which resides within the profession and am deeply honoured to have the opportunity to lead this great profession. In addition to also aiming to serve with distinction, I commit to giving particular personal priority and leadership to the following:

- progressing our banking, finance and investments developments;
- risk analysis and management positioning and initiatives;
- the successful launch of the Actuarial Research Centre of Australia (ARCA);
- continued developments with partnering in Asia;
- key public affairs issues, especially concerning Sustainable Futures; and

- Future Leaders initiatives.

Questions for Discussion

When Graham Rogers presented his Presidential Address in December 2003 he posed a range of questions to stimulate debate and feedback. Let me also present the following initial list:

- Would the profession benefit from a set of explicitly articulated Core Values, or are they self evident and entirely well covered in both our Code of Conduct and our professional norms?
- What are the lessons learned from our pioneering efforts to date which may be beneficial to the newer areas where actuaries are developing opportunities?
- What are the key areas for boldness, how do we encourage boldness, what is constraining it and what solutions do you suggest?

Acknowledgements

First and foremost I would like to thank my wife Jacqui for her support over many years, her intellectual and incisive contributions through many long discussions, and for being a soul mate.

There are numerous sources and contributors which have shaped my thinking in preparing this address, and people who I would like to acknowledge the following at the outset.

- I have gained valuable insights from feedback provided by a wide variety of members, both informally and at Presidents' lunches in the last two years. This feedback has constituted marvellous qualitative research.
- Previous Presidents, have provided great inspiration, both in terms of direct interaction, and through their Presidential Addresses.
- I have gained great ideas from numerous authors and thought leaders who appear in the Bibliography to this address.

As mentioned, Graham Rogers has had a distinguished year as President. I have benefited enormously from working closely with Graham, and Martin Stevenson as Vice President, and hopefully some of that benefit is evident in this address.

Particular thanks go to Catherine Baldwin and Vicki Mullen for reviewing the various drafts, providing key input, and being tough and honest editors – the final result is much improved for their contribution. My thanks also go to Jennifer Lang for her peer review and comments on my earliest draft, and Rebecca Wood and Rebecca Tee in my office for their great administrative support in preparation of this address.

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1

Foundation Stones

If it does not sound too existential, or as though I am having a mid-life identity crisis, let me pose a few questions.

- Why do we exist? - as individuals, as individuals in this profession, and collectively as a profession?
- What purpose do we serve?
- What contribution do we make, or wish to make?

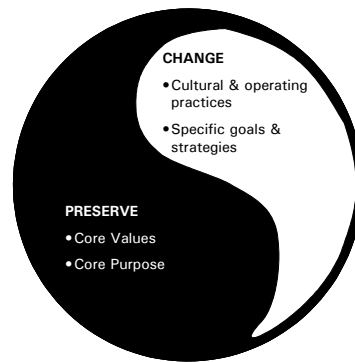
Is it sufficient to have well rewarded roles, and hopefully interesting and challenging roles? Or, do we need some greater meaning or context for our contributions?

Let me posit that, at a high level, our core purpose is to:

- ensure the sustainability, and indeed vibrancy, of the institutions we serve and which play such a vital social equity role;
- ensure the sustainability and vibrancy of the profession; and
- serve the public interest, and in particular to help ensure sustainable futures, for Australia in particular, but also for the world (eg. climate change issues).

Our core purpose is to make a distinguished service contribution in these areas, but ultimately service, commitment and boldness eventually invite one to take on leadership roles. Our core purpose is to not only serve but to be prepared to lead.

For the first two abovementioned areas in particular, an invaluable reference is '*Built to Last, Successful Habits of Visionary Companies*' (Collins and Porras). In this landmark study of the characteristics of highly successful corporations over the last century, the authors use the yin/yang symbol from Chinese dualistic philosophy to describe their success.



These ‘Visionary Companies’ have been flexible on strategy, but founded on an enduring purpose and set of values. I believe this has great applicability to our profession, which I will return to later.

If we are to make contributions in the abovementioned areas, either individually or collectively, there are some key foundation stones upon which our service contribution must be built, including:

- a strong sense of our core purpose and core values;
- strong professional reputation and high integrity;
- a roadmap for the future;
- talented people;
- a commitment to leadership (in the broad sense of the word);
and
- a framework for nurturing and developing our leadership.

1.1

Core Purpose

Our profession’s Objects appear in full in Appendix 1. I would like to emphasise just a few to capture the essence of our core purpose.

- a) To increase the value to the community of the actuarial profession and foster the development of actuarial science.

- e) To increase public awareness of the actuarial profession and to enhance its reputation.
- f) To establish and uphold standards of professional conduct by members of the actuarial profession for the protection of the public and in the public interest.
- i) To discuss and comment on the actuarial aspects of public, social and economic and financial questions which from time to time may be the subject of public interest.
- n) To safeguard the interests and welfare of Members to further their advancement and to promote whatever may lead to the improvement of their status.

In fulfilling these Objects there are a range of key stakeholders we serve including institutions, the profession, and the public by serving the ‘public interest’. This latter aspect is a distinguishing characteristic of a profession.

Let me now elaborate somewhat on our vital role in ensuring the sustainability and vibrancy of institutions.

In his book ‘*Servant Leadership*’, Robert Greenleaf asserts:

‘Caring for persons, the more able and less able serving each other, is the rock upon which a good society is built. Whereas until recently, caring was largely person to person, now much of it is mediated through institutions – often large, powerful complex, impersonal ... If a better society is to be built ... one that provides greater creative opportunity for its people ... then the most open course is to raise both the capacity to serve and the very performance as servant of existing major institutions by new regenerative forces operating within them.’

If just a limited number of institutions can achieve a position of distinction, and can sustain this performance, then the quality of society will improve.

To achieve this, trustees (ie. members of the governing boards of institutions) need to fulfil more than just a passive role. There needs to be an ‘insistent motivating force originating with trustees that obliges the institution to move towards distinction as servant’ (Robert Greenleaf, *Servant Leadership*).

This concept applies to the Institute and the Council, and it applies to the institutions we serve – the superannuation funds, insurance companies, wealth management organisations, banks, health funds and the public sector stakeholders.

In Section 2 of Graham Roger’s 2003 Presidential Address he addresses Social Equity and the vital societal role of the institutions we serve as described above. One of our key roles, indeed probably our primary role, is to help trustees (broadly defined) to serve their role with distinction by providing:

- transparent financial reporting;
- insights into the health of the business and emerging issues (including through Financial Condition Reports);
- sound prudential management, capital adequacy, pricing and risk management;
- strategic insights when appropriate;
- input to sound corporate governance frameworks;
- assurance that the interests of their fund members (investors, policyholders, members) are being properly protected and assured.

We can be a part of the regenerative forces operating within institutions - a valuable and noble role indeed!

Another key role we fulfil is to serve the public interest, including a range of public affairs issues of vital importance to the national interest, and indeed global interest.

Over recent years, the Institute and the profession have built a strong reputation with politicians and public policy makers for helping inform key debates, and providing impartial views on options and issues. This positions us well to make continued contributions.

The nature of most of these issues are that they are complex, often medium-long term in nature (a challenge with short political cycles) and involve a complex array of stakeholder groups.

I focus on a limited number of these issues in Section 5 of this address.

1.2 Core Values

Our professional contribution has, as an absolute prerequisite, the need for a strong reputation, built on trust and integrity, if stakeholders are to continue to seek and value our advice.

Whilst our core purpose is explicitly encapsulated in the Institute's Objects, and there is a clear understanding of the purpose we serve for our various stakeholders, our Core Values are more implicitly understood than having been explicitly stated, although of course, some are explicitly embedded in our Code of Conduct. Perhaps now is the time for a debate on what constitute our Core Values. Part of the power of Core Values is that they not only guide our professional behaviour, but that they already exist (at least implicitly). It is not so much that they need to be created but that they would benefit from explicit articulation.

Our Core Values should reflect those appropriate to a profession. I suggest, they should also reflect community expectations of leaders if indeed we seek to have community leader roles. Let us understand some of those expectations.

A poll conducted by Quantum Market Research in November 2003 asked 2000 Australians to list the most important characteristics for a leader in the community. Headline results were:

1. 'Honest and truthful' - 75% said these attributes were vital;
2. 'Honourable and trustworthy'; and
3. 'Responsible for actions'.

Truthfulness in leaders was ranked much more important than 'achieving results' (ranked eighth) and 'being fair' (tenth).

How different is it for us in our service and leadership roles? Not much I would suggest.

Trust and integrity are the centrepiece of sound corporate governance. These are already strong attributes for the actuarial professions and attributes we must enhance and protect with all our vigour.

A proposed set of Core Values, for debate, is as follows.

Key characteristics and core values of actuaries are:

- professional (with further articulation of what this means so that there is a shared understanding);
- honest and truthful;
- trustworthy;
- absolute integrity;
- uphold highest standards and quality;
- operate 'without fear or favour' – unbiased and impartial; and
- act in the public interest.

Each of these would benefit from further amplification and articulation to ensure their meaning is unambiguous. It should also be debated as to whether Core Values should be expressed in this manner, or whether the Code of Conduct fulfils this purpose sufficiently.

The Mission of the Institute is to ‘...represent the actuarial profession by creating, expanding and maintaining an environment where the skills of actuaries are widely used and valued’. The shared trust upon which we rely to be widely used and valued, is vitally dependent on operating according to core values along the lines of those proposed above. As proscribed in our Code of Conduct, this involves one’s own sense of integrity not only to those who we serve directly, but also to other members and the public. Members must be concerned with both personal conduct as well as that of actuarial colleagues.

1.3 Reputation, Trust and Integrity

The Institute’s draft 2004-2007 Strategic Plan was discussed at the Sydney and Melbourne Horizons meetings in July 2004 entitled ‘The Institute’s Strategic Direction in the Global Actuarial Environment’.

Of all the issues identified, there is no doubt which issue has absolute primacy, even before we move forward with the many opportunity areas of further service contribution. And that is Reputation/Trust/Integrity. This is the rock upon which our entire profession’s contribution is built. It is what provides users of our service with the confidence to utilise our service and listen to our views.

The Penrose and Morris inquiries in the UK are a milestone development.

Key issues arising from the Penrose Report on the collapse of Equitable Life (2003), and raised by the Morris inquiry into the actuarial profession (2004-2005) concern:

- a lack of generally agreed professional standards;
- emphasis on the use of judgement rather than verifiable methods;
- an over-reliance on the role of the Appointed Actuary;

- a lack of scrutiny and audit of actuarial calculations;
- reactive disciplinary procedures; and
- reluctance to challenge fellow actuarial professionals.

Globally, professions are subject to dramatically increased scrutiny. This is certainly the case with the accounting profession, and the integrity of audit processes. The Sarbanes-Oxley legislation in the US in the wake of corporate failures such as Enron and Worldcom is the most conspicuous exemplification of the extraordinary focus on corporate governance. Similar, though somewhat less draconian, developments apply here with the CLERP 9 framework.

Whilst some would argue that corporate governance processes have gone too far, the principal objectives behind corporate governance developments are to ensure trust, transparency and integrity. As asserted earlier, we have a major contribution to make in ensuring trustees (broadly defined) can serve with distinction.

The Penrose/Morris inquiries have put the actuarial profession absolutely under the spotlight. The Institute and Faculty which represent the UK profession are major actuarial organisations, with these bodies also being the ‘birthing’ professional body for most ‘older’ Australian actuaries. We can fully expect that the Penrose/Morris inquiries will have reverberations across the global actuarial community in general, including the Australian actuarial community.

Of course, we have had our own set of issues which we have needed to address, particularly in the wake of the collapse of HIH in 2001. The Institute established an HIH Royal Commission Taskforce in 2001 to provide both expert input into the Commission’s deliberations and to review the recommendations of the Commissioner, Justice Owens.

Our key response was the establishment of the Corporate Governance Taskforce to recommend what processes were

necessary to ensure the highest standards and integrity in actuarial advice. A summarised version of these recommendations appears in Appendix 3. They include:

- Education – modules on corporate governance and ethics;
- Independent Peer Review (IPR) – guidance for actuaries undertaking statutory work;
- Standards and Processes – review of standards and guidance notes, review of the Code of Conduct, strengthening CPD;
- Whistle blowing processes, mentoring processes, and standardised wording for employment and engagement contracts.

A key recommendation was the implementation of Independent Peer Review as best practice for statutory actuarial roles. The Independent Peer Review Implementation Taskforce (IPRIT) has been doing excellent work throughout this year on determining sound yet pragmatic processes for IPR implementation in Australia. These will include:

- the issue of a generic Guidance Note on IPR – with a draft to be issued for exposure in late 2004;
- the development, in conjunction with the relevant Practice Committees, of practice specific guidance notes for IPR - these are expected to be released for exposure by early 2005.

I think it is fair to say that our Institute is now the most advanced globally in IPR implementation.

Actuarial advice has also been under scrutiny in the matter of James Hardie's liability for asbestos related disease. The Institute established a taskforce to monitor proceedings in the Special Commission of Inquiry, and a further review of corporate governance enhancements has followed the Commission's findings in late September 2004, including further recommended amendments to the Code of Conduct. These will be reviewed in consultation with the membership.

The Penrose/Morris inquiries are likely to be significant events in terms of reviewing actuarial processes and standards to ensure the highest possible levels of confidence in actuarial services.

Are all the issues in the Penrose/Morris inquiries relevant here? Perhaps not. The issue of dominance risk (compounded by a person concurrently fulfilling the Chief Executive and Appointed Actuary roles) does not apply here, nor is it likely to. The extent of guarantees and embedded options is less of an issue in Australia although they are significant in most countries in Asia.

In August 2004, the Australian Institute's Penrose/Morris Inquiry Taskforce reported to Council. This report included a SWOT analysis for the Australian profession, based on the conclusions and recommendations in the Penrose report.

The overall conclusions of the Taskforce's report were:

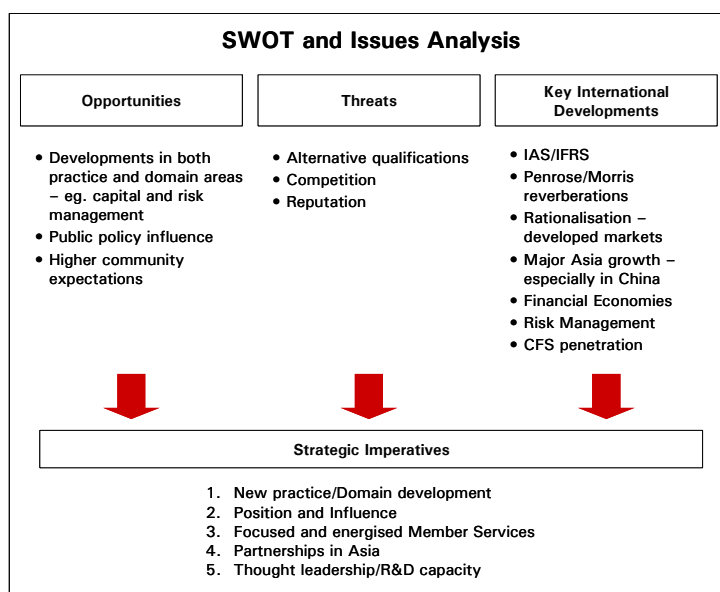
- a) the SWOT analysis indicates that Australia is not as exposed to the problems that afflicted Equitable in the UK;
- b) the SWOT analysis leads to a considerable number of detailed recommendations, many of which reinforce the recommendations of the Institute's Corporate Governance Taskforce; and
- c) a more formal process should be established for identifying potential risk areas for the profession, and managing them proactively.

Based on the analysis of the Penrose report, the Taskforce has made specific recommendations for the profession on key issues such as the Code of Conduct, professional standards and guidance notes, practice certificates, misconduct and competence, independent peer review, professional support and mentoring for actuaries, external audit of capital adequacy, role of actuaries on boards, accounting standards and actuarial guidance, relations with other professionals and clearer regulatory responsibilities.

1.4 Roadmap - IAAust Strategic Plan 2005-2007

Reputation and processes to assure the highest professional standards, have absolute primacy for the profession. Whilst addressing these imperatives, there are exciting future opportunities that beckon our involvement, as reflected in our Strategic Plan.

The next foundation stone for fulfilling our core purpose, and hopefully for identifying opportunities for boldness of action, is a clear roadmap. The Institute's draft 2004-2007 Strategic Plan was discussed at the Sydney and Melbourne Horizons meetings in July 2004 entitled 'The Institute's Strategic Direction in the Global Actuarial Environment'. The following framework was used to prompt discussion:



We then updated the Institute's Strategic Plan (Strategic Plan 2004-2007) and a review of priorities at a Council meeting in August. This reinforced what constitutes Core for our profession, namely:

- Core Values (see above); and

- Core Processes – Standards, Education, CPD, R&D/Thought Leadership (Continually reinvigorating our intellectual base).

These are unlikely to change over time, whereas our specific strategies for achieving them will change over time.

The Institute's Strategic Plan is recommended reading for identifying areas of contribution for service and leadership – and for encouraging boldness and action!

Aspects of the Strategic Plan 2004-2007 of particular relevance for this address are:

- Section 2.3 – Key Strategic Objectives; and
- Section 2.4.2 'What Will Success Look Like?' (repeated in Appendix 2 for convenience).

Four key strategic objectives for 2004-2007 are:

- 'New' Practice/Domain Development – especially Banking and Finance, Investment, Health, Financial Planning, Risk Management and its twin sister Capital Management;
- Position and Influence of the Profession - especially high standards of practice, nurturing future leaders and public policy involvement;
- Focused and energised Member Services - especially for those at a distance, CPD activities and networking opportunities; and
- Partnerships in the Asia Region - especially in creating employment opportunities and extending education and CPD.

Success measures include:

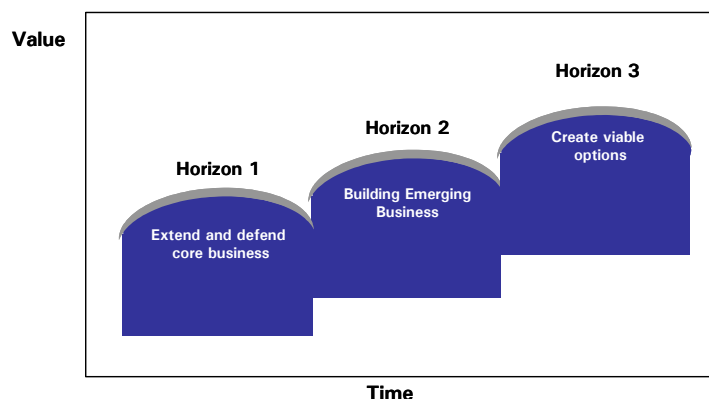
- Reputation – a leading profession in financial services in terms of ethics, reliability and value-adding contribution.
 - highest educational standards
 - recognised 'thought leaders'

- Influence;
- Leadership;
- Development of new practice areas including a multi-dimensional involvement in Banking and Finance with over 15% of the profession contributing in these sectors;
- Established practice areas – lead role in corporate governance, capital management, risk management and overall financial management in Life, Superannuation and General Insurance;
- Strengthening the Profession – especially stronger standards and standards management processes;
- Education and CPD – with CPD being relevant and highly valued, and a shift from ‘soft’ to ‘hard’ CPD;
- Member services and a strong actuarial community.

In the ‘new’ areas we certainly do not have the ‘sole domain’ position which applies for Life Insurance, Superannuation and now General Insurance. Beyond the pioneering work of existing actuarial people in these fields, to progress in these areas we need to:

- Substantially increase our R&D and thought leadership;
- Ensure we have intimate industry knowledge, and speak ‘their language’;
- Work effectively with other disciplines/professions, respect their valued contributions, and work in multi-disciplinary teams;
- Consider strategic partnering (see later);
- Be prepared to act boldly. There is sometimes a degree of actuarial timidity that constrains actuaries from making a valued contribution in a particular area until they know a very high portion of subject matter content. But much of the relevant experience/knowledge can only be effectively built ‘on the job’. I would encourage boldness – it sometimes involves stepping outside our comfort zone, but we have much to contribute.

In our strategic planning, it is useful to think in terms of the ‘Stages of Growth’ as presented in the ‘Alchemy of Growth’ (Beghai, Coley and White), where the authors present findings from a detailed 3 year study by McKinsey and Co. As outlined in the introduction to the book, it provides a ‘simple yet powerful methodology for understanding, preparing for, kick starting and sustaining profitable growth’. It asserts that the secret to sustaining growth is to manage business opportunities across 3 time horizons as follows:



If we abstract slightly from the profit measure, this framework is a useful construct for our profession. This address will span all 3 time horizons but with a bias to H2 and H3. A couple of key areas of emphasis will be Banking, Risk Analysis and Management (short form: Risk) as key H2/H3 issues, which are excellent opportunity areas for actuaries to make a major contribution. As an important aside, I have researched thought leadership in a range of areas, particularly:

- Financial Economics – including a review of ‘Principles of Corporate Finance’ (Brealey and Meyers), as recommended by Jeremy Goford in his UK Presidential Address (2002);
- Risk management – and particularly ‘Value at Risk’ (P Jorion) and its application to the banking sector.

In this research I was struck by the huge amount of thought leadership dating back at least 50 years, and including such famous contributors as Sharpe, Fama, Modigliani, Miller, Brealey, Myers, James and French. It also struck me that in nearly all cases these were areas where actuaries could have contributed major thought leadership but where actuarial contribution has been in the minority. Further, there is much of this thought leadership which is yet to be sufficiently incorporated into our actuarial learning and applications. There is a danger that we have been intellectually isolationist. We need to build substantial bridges to these areas of thought leadership in the future – and actuaries need to take on a much more substantial leadership role perhaps outside our comfort zone.

1.5 Leadership

This leads to consideration of the final Foundation Stone – talent and leadership. If as a profession we are to fulfil our destiny, and to properly fulfil our core purpose, then we must be prepared to serve with distinction, act boldly, and inevitably be prepared to embrace leadership.

Leadership here is meant in all its broader contexts rather than the simple notion of hierarchical organisational leadership. It embraces leadership in the community, in practice areas, through institutions, and intellectual and thought leadership. Paradoxically, some of the most powerful and influential leadership arises from a commitment to serve. This notion of service first from which leadership naturally emerges has been designated *Servant Leadership* by Robert Greenleaf:

‘The servant-leader is servant first. It begins with the natural feeling that one wants to serve, to serve first. Then conscious choice brings one to aspire to lead. That person is sharply different from the one who is leader first, perhaps because of the need to assuage an unusual power drive. The difference manifests itself in the care taken by the servant - first to make sure that other people’s highest priority needs are being served’.

I believe many actuarial people are naturally servant-first. It is certainly the hallmark of a good consultant and I would argue of the more effective leaders in corporations.

Leadership in its many forms, and especially servant leadership, has many co-requisites, including:

- Vision and purpose;
- Trust and Integrity;
- Innovation;
- Thought leadership; and
- Persistence.

Vision requires a willingness and propensity to widen our lens of perception. As William Blake observed ‘if the doors of perception were cleansed, then everything will appear to man as it is, infinite’.

I sometimes reflect on why people of seeming equal ability (including within our own profession) can achieve or contribute at markedly different levels in our society. I believe much of the difference is attributable to ‘width of lens’ – how open people are to the limitless opportunities which abound, or in the words of Marcel Proust ‘The real voyage of discovery consists not in new landscapes but in having new eyes’.

We have some truly visionary members. Equally we have a significant portion of our membership who are primarily focussed on technical excellence and delivery (a minimum prerequisite) but perhaps not yet fully open to the more material and greater service contribution which could arise as a natural extension of their work. As an example, Risk Analysis and Management (Risk) beckons as a major area of actuarial contribution for the benefit of our employers/clients.

Is Risk management our sole domain? Certainly not. There are other respected disciplines either already involved, or which need to

be involved. This is truly an area where a multi-disciplinary capability is required.

Is Risk an area where we can be the major contributor and natural leader? I think it depends on the various risks - financial risks in their various forms, operational risk and strategic risk. Operational risk is capturing much of the spotlight, but in financial institutions, financial and strategic risks are arguably more material. Sound risk management benefits from a deep understanding of the business. I would assert that, as a starting point, actuaries should take a lead role in risk management in life insurance, superannuation and general insurance – a natural extension of our core roles - and be a major contributor in the Banking and Health spheres.

We have major leadership contributions to make in the areas of sustainability. These can be considered under three headings:

- Sustainability of institutions - especially corporates and funds;
- Sustainable Futures – especially for Australia, but also the world (eg. climate change issues);
- Sustainability of the profession – especially in upholding standards and reputation.

We also have a major role to play in developing our thought leadership, especially in some of the ‘new’ practice and domain areas.

There is much room for optimism on the leadership front.

I never cease to be amazed by the awesome young talent in the profession, and the outstanding intellectual capacity of the profession. If this can be harnessed by people also embracing leadership contribution, then our contribution can be great indeed.

Equally, we have extraordinarily talented ‘older’ members who also have the benefit of the wisdom gained from a richness of

experiences. I often think that as a profession we do not make maximum use of such talent, not only in term of direct contribution, but as mentors to younger members. With strong growth in membership and roughly a third of our members aged less than 30, there is a potential great benefit in a more organised mentoring process than we have at present.

Being not only committed to serve, and to explore and develop new areas for the application of actuarial science, but also a preparedness to assume leadership roles, requires courage. It involves commitment, stepping into the limelight, and perhaps moving outside one's comfort zone, but if you have the energy, the enthusiasm, and the confidence, bolstered by appropriate support mechanisms (eg. mentoring support) then it can be an exhilarating and rewarding experience. It is an opportunity to charter new waters, make a great contribution, and build personal eminence in the process. It has elements of the pioneering spirit. In the discussion of this address, it would be particularly interesting to hear from some of our pioneers on their experiences – the journey, the doubts, the triumphs, and lessons learned.

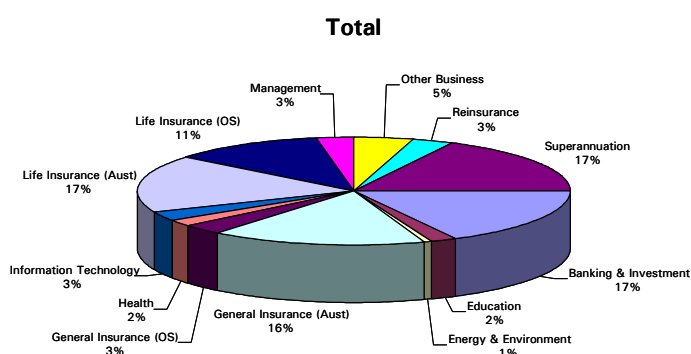
There is a significant role for the Institute to play in encouraging leadership contributions, nurturing and developing our leaders of tomorrow, and utilising our 'mature and wise' members. I shall return to this topic in Section 6.5.

2 Leadership and the Key Practice/Domain Areas

2.1 Current Profile of the Profession – by Practice Area

Approximately 64% of the profession is involved in the established practice areas of Life Insurance, General Insurance and Superannuation. The balance of 36% is testament to the success of the ‘wider fields’ development.

Approximately 20% of the membership is now based overseas, with UK, New Zealand, Asia (especially Singapore and Hong Kong) dominating.



This profile is dynamic and changing rapidly with:

- Strong growth and flow into the Investments, Banking and Finance, and the GI arenas;
- A renaissance for actuaries in Life Insurance;
- Emerging strong Health growth;
- Major growth in Asia, aided by the fact that a significant portion of the university graduates/under graduates are sourced from countries in Asia (estimated to be circa 30%);
- The changing landscape in Superannuation (less actuarially intense) and the transition of some Superannuation members into Financial Planning.

The intention of this section is not to provide a comprehensive review of each practice/domain area, but to highlight areas of opportunity for greater service contribution, leadership and boldness of action by individual members, and the profession collectively. I shall elaborate more extensively on Banking and Finance and Risk Analysis and Management as areas beckoning greater actuarial contribution.

2.2 Life Insurance/Wealth Management

I believe this industry sector is enjoying an actuarial renaissance, with key areas for further service/leadership contribution including:

- Risk Management – effective risk management benefits from a deep understanding of the financial dynamics of the business. With actuaries deep understanding of this business including reserving, pricing, capital management, ALM issues, FCR insights, etc., actuaries are well placed to make a major contribution. Based on materiality of risk, actuaries are natural contenders for Chief Risk Officer (CRO) roles. Equally, actuaries should review the operational risk management processes of banks, which are arguably more advanced in this space than life/wealth management companies, to determine their applicability in this industry sector.
- Capital management – hand in hand with Risk Management, actuaries have a strong/lead role to play, further reinforced by recent Target Surplus developments (including APRA's focus on this issue). With roughly 40% of the Life Wealth Management sector owned by banks, conglomerate capital issues are a key consideration and invite further thought leadership.
- IFRS Implementation and 'realistic balance sheets' – arguably this implementation will also generate greater reported earnings volatility, with flow on consequences for Risk/Capital Management
- Innovation – especially:

- in the Life Risk arena – including the development of life platforms akin to wrap services with seamless end to end functionality.
- the resultant ‘opening up’ of new distribution channels (IFAs, mortgage brokers, accountants) to help redress substantial levels of under insurance.
- helping make bank based distribution more successful by structuring reward/margin sharing to encourage desired adviser and management behaviour.
- designing solutions to address the residual ‘longevity’ issues for Retirement Income streams which are not adequately addressed by Growth Pensions (or Term Allocated Pensions as they are now known).

In most of these areas, actuaries require, or will require, strong collaborative skills to contribute effectively to multi-disciplinary teams. It is also evident from member feedback, including at the Presidents’ lunches, research focus groups, that regular Key Issues Presentations (KIPs) and discussions, facilitated by the Institute, would be beneficial for Life/Wealth Management members.

2.3 General Insurance and Health Insurance

‘Well begun is just half done’

- Aristotle

General insurance has generally been a great success story for the profession – but with the opportunity to develop significantly the contribution of our profession to the industry.

Focus group feedback indicates a desire for more active ‘value adding’ contributions by actuaries (eg. greater involvement in underwriting) rather than being overly compliance orientated. Some concern was expressed that the Approved Actuary role was becoming too compliance orientated.

The implementation of Financial Condition Reports (FCRs) in General Insurance should substantially respond to this concern.

Once Boards and Senior Management of General Insurance companies fully appreciate the substantial ‘value-add’ from FCRs, the actuarial contribution will be even more highly valued.

These developments then make a leading actuarial contribution to Risk Management and Capital Management a logical sequiter. The evolution of Chief Risk Officer roles, a la Tony Coleman’s role at IAG, is a natural development for the General Insurance industry. If one considers the materiality of different risks in General Insurance, the most significant are those which would benefit immensely from actuarial expertise and assessment. Again I would urge ‘boldness has genius’ and that, for the benefit of our employers/clients, we are not timid in advocating the contribution we can make in such roles.

Similar comments apply for Health Insurance. Of course, with the Health sector currently representing 9% of GDP, and forecast to grow to 13-15% of GDP over the next 25-30 years (in the absence of significant intervention, either through material policy change or technology developments), there is a need for a much broader Health contribution by actuaries. These issues are well documented in Graham Rogers’ 2003 Presidential Address and therefore I shall not seek to repeat them here but rather refer interested readers to Graham’s address.

2.4 Superannuation, Employee Benefits and Financial Planning

In some respects this is our most challenging practice area, with the well documented decline of Defined Benefit and standalone Corporate funds. The additional pressures from AASB reporting (and additional corporate earnings volatility resulting from IAS 19) and Choice of Fund as from July, 2005 reinforce these challenges.

And yet, as covered well by Graham Rogers in his 2003 Presidential Address comments on Defined Benefit Schemes and Accumulation Plans, there are important issues to be addressed by

actuaries including asset strategies and risk management processes for ‘Accumulation’ schemes.

Whilst acknowledging that a continued, smaller number of DB schemes will continue to require ‘traditional’ actuarial services, there appears to be a need to redefine or reposition the actuarial role including the following:

- recognition that the ‘survivor’ superannuation funds will be as much businesses as they are funds, and to redefine the actuarial role from actuarial fund consultant to business consultant;
- to work upstream from superannuation consulting to broader HR/benefits consulting (the original starting point for superannuation funds as being an ‘Employer of Choice’ differentiator);
- to focus more on the asset side than the liability side – including the importance and emphasis on ALM issues;
- risk management – but moving beyond the Super Safety legislation risk management approach (very ‘template’ driven) to more profound risk management services;
- facilitation of the desired shift by some Superannuation practitioners into Financial Planning, including exploring appropriate accreditation, education, and strategic partnering options to assist this process.

2.5 Investments

Investment is a major area of actuarial endeavour, and a strong drawcard for many recent actuarial graduates. Many are subsequently encouraged, or even required, to pursue the Certified Financial Analyst (CFA) studies and designation, with the consequent impact that many do not complete their fellowship qualification.

Actuaries have been involved in Investments for a very long time. But as many investment actuaries will tell you, their

contribution is valued but not regarded as particularly actuarial. The Certified Financial Analyst (CFA) designation has established a strong position. If we are to serve needs more effectively in this area, then we clearly need to become more relevant, including the development of valued thought leadership, and stronger ‘brand positioning’ in this sector. In reviewing thought leadership for the Banking Finance and Investment (BF&I) sectors – and especially *Principles of Corporate Finance* (Brealey and Myers) I was struck by the names and sources of thought leadership material. Key names are:

- W.J. Sharpe
- E. Shapiro
- M. Miller and F. Modigliani
- S. C. Myers
- E. J. James
- K. R. French
- F. M. Redington.

Where are the actuaries? I may not have looked sufficiently, or may be ignorant of key actuarial contributors, but the only actuarial source I recognised was Redington (1952!).

Key thought leadership sources were:

- Journal for Finance;
- Journal of Business;
- Financial Analysts Journal; and
- Journal of Finance and Quantitative Analysis.

For our members in Finance and Investments, their most frequent thought leadership reference point appears to be the Financial Analysts Journal. I aspire to the day when the Australian Actuarial Journal (AAJ) is referenced equally.

Therefore, the challenges in the Investments arena are as much challenges for the Institute and the profession in terms of relevancy, member services and thought leadership as it is for individual members.

Institute priorities include:

- Thought leadership – eg. that members reference the AAJ as much as the Financial Analyst Journal, and that regular Key Issues Presentation (KIP) sessions are highly relevant for members. For practitioners in this field, consider this an invitation to contribute!
- Building profile – again primarily through thought leadership, organising industry debates, and strategic partnering.
- Addressing positioning relative to CFA – perhaps through partnering (eg. partial co-recognition of education programs), perhaps through positioning CFA+ Actuary as distinctive and better, and achieving recognition and demand by employers.

Apart from these issues, there are clear areas of value-adding contribution where actuaries can provide either a unique or ‘competitive advantage’ contribution. These include:

- Asset Liability Management (ALM) – especially for life companies, GI and superannuation funds;
- Investments for longevity;
- Non traditional investments – the CFA designation is strongly orientated to traditional asset classes. As James Purvis noted in research group discussions, in a low yield environment many investors (and hence investment managers) are looking to alternate asset classes, including the packaging of relatively illiquid assets, and absolute and hedge funds. The risk/return characteristics of these alternate asset classes are not well documented, and in some cases there is a paucity of data to make such assessments. This is a fertile area for actuarial contribution and leadership.

2.6 Banking and Finance

2.6.1 Background

The Banking and Finance Sector is a major growth area for actuarial involvement, as it should be. The profession has been misaligned with the financial services market for a long time, with deep and influential involvement and leadership in the Life/Super/GI sectors and (comparatively) low involvement in the Banking and Finance Sector. When one considers the makeup of the financial services market, whether by market capitalisation/valuation, revenues or profits, and the dominance of Banking and Finance, this misalignment is even more apparent.

There have been major developments in the banking sector over the last 3 to 4 decades with which the profession globally has been insufficiently connected. Indeed the profession could be charged with being narrow or isolationist. There has been a rich development of thought leadership contribution based strongly on Financial Economics, with minimal actuarial thought leadership input. This is readily apparent, for example, by reviewing one of the standard textbooks of financial economics, 'Principles of Corporate Finance' by Brealey and Myers (2001) which I chose to do at the suggestion of Jeremy Goford in his Presidential Address, 'Thinking and Behaviour'. There are extensive additional reading references suggested in this text, the vast majority of which are from non-actuarial sources. As Jeremy noted:

- 'it is a comfortable read and provides an easy introduction both to the language and science of modern corporate finance and financial economics'; and
- 'much of it is very familiar to actuaries... but expressed differently'.

It is important that we are both familiar with these concepts, and the somewhat different language used, to make a significant contribution in Banking and Finance.

On a positive note, and there is every reason to be positive about the service and leadership contribution opportunities which abound in Banking and Finance, there are the following encouraging developments:

- the large number of actuarial graduates entering the Banking and Finance field (many with Finance majors);
- the success of an increasing number of talented actuaries within these institutions, especially in areas such as Treasury, capital and risk management, and capital markets;
- the increasing focus of actuarial professional service firms in servicing needs of the Banking and Finance sector; and
- the academic learning of graduates in recent years has had a more extensive grounding in Financial Economics.

The real challenge is for actuaries to be contributing substantial thought leadership in this sector, and for this to be identified as actuarial contribution to aid our positioning, so we are more readily identified as valued service providers. This is a primary opportunity for ‘servant leadership’.

We have recently commissioned an Institute Banking, Finance and Investments Review taskforce to accelerate our profession’s service and leadership contribution in these sectors. The Terms of Reference, high level issues, opportunity areas and high level approach, appear as Appendix 4.

2.6.2 Opportunities

Suffice to say in the body of this address that key areas for BF&I actuarial contribution include:

- Banking (General)
 - Capital Management
 - Financial and Risk Management
 - Pricing

- Banking (Institutional)
 - Capital Markets/Derivatives/Trading
 - Structured Finance
 - Model Builds/Audit
- Corporate Advisory – including economic and market valuations, mergers and acquisitions (M&A), and initial public offerings (IPOs)
- Banking (Retail)
 - Management of product portfolios (eg. mortgages)
 - Credit Scoring
 - CRM/Customer Analytics
 - Data insights
 - Bancassurance distribution issues
- Investments
 - Asset consulting
 - Asset management (wholesale)
 - Portfolio Construction
 - ALM
 - Illiquid assets – packaging and risk/return characteristics
 - Platforms
 - Distribution
- Investment Analysts – either for asset managers or investment banks, and covering various industry sectors but especially Financial Services (broadly defined).

There are already actuarial people working in these fields and, although they are valued for their quantitative rigour, this is good but not sufficient. The differentiators, the attributes which make

people stand out from the crowd, are commercial skills, business acumen and communication skills.

To make the most of these opportunities, the Institute and individual members have a number of issues to address, including:

- A substantial increase in contributed thought leadership (another invitation!);
- Positioning of the profession with employers (eg. HR & Divisional Directors of banks) and recruitment agencies – both for actuarial graduates and experienced practitioners;
- Identifying and promoting ‘practice champions’ (ie. leadership roles);
- Address positioning relative to CFAs (as for Investments); and
- Strategic partnering including co-sponsored workshops and seminars.

2.6.3 Banking and Risk Management

I would like to elaborate somewhat on an area I believe ripe for major actuarial contribution – notably Risk Analysis and Management. One of the potential advantages in not having been deeply enmeshed in the banking sector historically is coming in with a ‘fresh set of eyes’.

The key framework used for financial risk assessment in the banking sector is Value at Risk (VAR). I have a ‘high level’ knowledge on VAR, but don’t hold out that I have a deep understanding of all its workings in the banking sector. Therefore, in making the following comments I may leave myself open to censure, but decided to follow my own advice on being bold. I would genuinely welcome feedback from more deeply experienced practitioners in this field.

VAR appears a particularly useful framework, and whilst acknowledging this is certainly not the only tool used in the banking sector I wonder whether it is sufficient. VAR is based upon

statistical analyses and frameworks – some deep, some simplifying, including:

- the applicability of certain distribution curves for outcomes (eg. a normal distribution) – how well do these cater for ‘fat tails’?
- outcomes (for N events) assumed to be independent events – how well do these cater for systemic risks?

Most VAR research has been done by other than actuarial people – for example, financial economists, statisticians, financial analysts who are highly proficient in their field. It is an area where a deep understanding of the business is required to add value and yet a ‘fresh set of eyes’ could also be valuable in challenging the risk of any ‘group think’.

This appears to be an area where actuaries could contribute a very valuable service to this industry sector.

As an example, I was impressed by the recent presentation ‘Approximation to Ruin Probability’ by Flora Chan (Honours candidate at Melbourne University) at the August 2004 Horizons meeting in Melbourne. This presentation covered extreme event research and theory, and its applicability in the general insurance sector I would love to see us applying ‘extreme event’ thought leadership in the banking sector.

Another area where actuaries are making banking risk management contribution are the Basel II developments, and in particular, the modelling of operational risk. Challenges exist in terms of available data but this is an area where actuaries are ‘making a difference’. For a primer I would refer you to Caroline Bennet’s presentation entitled ‘Basel II and Actuaries’ at the August 2004 Financial Services Forum.

3 Leadership and Risk Management

A cursory review of the practice area comments in Section 2.2 – 2.6 reveals one strong common element – Risk Analysis and Management (shorthand: Risk).

Risk is a vast landscape with the key components comprising:

- Financial risk in its many forms;
- Operational risk; and
- Strategic risk.

In 2001, Deloitte Global Research commissioned a study through the Wharton School entitled *Risk Management in an Age of Change*. The study observed “*It is our belief that the causes of most financial crises are often rooted in strategic, rather than operational decisions. All strategic decisions entail risk and yet strategic risk is not measured and managed with rigour*”.

The broad general categories are financial risk, operating risk and strategic risk, as follows:

- financial risk – there are many different types of financial risk including credit risk, liquidity risk, interest rate risk and market risk.
- operational risk – the study observed “*Two types are most salient ... malfunctioning of processing systems and... internal malfeasance. Operational risk has only recently become the matter of focus for senior managers. The origins of this interest lie in part in increasing complexity of systems leading to increased vulnerability. Deregulation and market volatility leading to increased risk-taking, are probably also a cause.*”
- strategic risk – “*If strategy concerns decisions that are hard to implement quickly and to reverse, strategic risk concerns the consequences when the environments in which those relatively inflexible commitments decisions play out in unattractive or even adverse ways*”.

The study concluded that “*Strategic risk is a greater form of risk in which financial and operational risk are embedded*”.

The application of Scenario Planning techniques, as presented by Barry Rafe at the October 2003 Horizon meetings is a valuable approach to assessing strategic risk. It is an approach well suited to actuarial capabilities, including the estimated quantification of the financial outcomes of different scenarios. The value of the scenario planning approach arises as much from engaging key executives in a well informed debate (including the critical dimensions to use for scenario planning) as from presenting any particular frameworks. This is a classic H2/H3 exercise and key outputs can include:

- adoption/rejection of key strategic initiatives;
- organisational design to be optimally positioned for different and uncertain future outcomes; and
- well developed, ready to execute, contingency plans if certain ‘trigger events’ occur.

The challenge with Risk is that the extent of the issues requires expert input from a range of different disciplines including accounting, actuarial, legal, strategic and engineering. The emphasis clearly varies by industry sector, as does the relative importance of financial, operational and strategic risk.

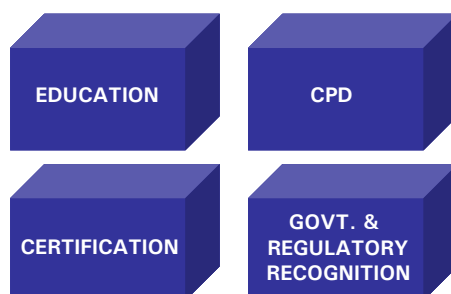
The ‘lead’ risk role should normally correspond with the materiality of risk. For this reason, at the very least, actuaries should arguably be taking the lead risk role in the Life Insurance, General Insurance, Health Insurance and Superannuation sectors, and making a major contribution in areas such as Banking. Other risk roles will evolve.

Whichever discipline takes the ‘lead’ risk role, it needs to be recognised that this is an area where a strong multi-disciplinary capability is required, and this creates the imperatives of mutual respect between disciplines and collaborative skills.

In recognition of the major Risk imperative, there are a number of embryonic yet important developments underway of relevance to the actuarial profession.

1. Following exploratory ‘strategic partnering’ discussions between the Society of Actuaries (US) and Casualty Actuarial Society with other key risk bodies such as GARP and PRMIA, there are discussions underway on the formation of a new and recognised Enterprise Risk Management (ERM) profession, of which the actuarial profession would be a founding and sponsoring body. Following a meeting of the actuarial International Presidents Forum in May this year, the UK, Australian and NZ professional bodies are now involved in this initiative. The involvement of the actuarial profession with this initiative recognises that actuaries can be leaders in ‘our’ industries, but they can’t lead the other industries as other professional organisations already have an entrenched position and very strong claim in these other industry sectors.
2. At the International Actuarial Association (IAA) Meeting in Stockholm in early June 2004, the IAA appointed an international taskforce, chaired by Tony Coleman, to develop a proposal for the establishment of an International Risk Institute (IRI). The IRI would be a new professional organisation for the analysis and management of risk in all its forms and would grant the designation ‘Certified or Chartered Risk Analyst’.
3. Reflecting both the increasing Risk focus as a major domain and practice development area, as reflected in its Strategic Plan, and reflecting international developments, the Institute has initiated a Risk Taskforce group to identify strategies for positioning actuaries in the Risk sphere in Australia, and involving representation from each of the key actuarial practice areas. This Taskforce is chaired by Jason Slade.

Whilst the precise strategies emerging from these initiatives await the deliberations of the respective entities, a broad framework for the emergence of a recognised Risk profession is likely to include the following key building blocks:



In addition, following the initial workings of the Institute's Risk Taskforce, I would expect that they will seek to draw together Risk practitioners from across industry practice areas to form a Risk community. This could foster cross-fertilisation of Risk practices and approaches in different industry sub-sectors and be a foundation for further thought leadership development and the progressive implementation of the very broad framework referred to above.

This emergent major domain area (ie. capability based, and transcending industry sectors) beckons those members of our profession who want to 'make a difference', not only in their commercial roles but in the evolution of the profession. It invites willing and interested players to take on key leadership roles. Sound and robust risk management is fundamental to the sustainability of the institutions we serve. Making a difference here will also serve to sustain our profession, by ensuring its relevancy and contributing to its vibrant growth.

4 Service and Leadership – Beyond Australia and Globally

Our core purpose extends not only to shaping actuarial contribution in Australia, but also in the region and globally.

Boldness of intent and action require that we make such a contribution. Lest this sounds too ambitious, the following should be recognised.

- There is a real imperative for the actuarial profession to act in a more global manner, particularly given the development of international standards, and our positioning relative to other certifying bodies such as the Certified Financial Analysts which are global in nature
- Just as Ian Kiernan was able to extend his ‘Clean Up’ campaign into an international phenomenon, so too must we have a belief that key individuals in our profession and the Australian Institute itself can make a positive contribution in the region and globally.

Key factors influencing our global positioning are as follows:

4.1 Globally

The industries in which we operate are largely global in nature. Whether global or local, financial services companies are being impacted by global standards developments especially:

- International Financial Reporting Standards (IFRS); and
- Basel II.

IFRS is largely a reality now, with the exception of the outstanding Insurance standards. The primary focus needs to be on implementation. There remain many issues to address, some technical and some strategic (eg. potential increased volatility of reported cash earnings and implications for risk and capital management). Given the position of the Financial Reporting

Council in Australia and the AASB, and their virtually complete adoption of IASB frameworks, any influence on outcomes in this arena is best directed to the IASB and Sir David Tweedie, with whom the Institute has developed positive contact. Tony Coleman is the Australian representative on the International Actuarial Association's IASB Insurance Working Group which provides direct input to the IASB deliberations.

The International Actuarial Association (IAA) is now developing complementary International Actuarial Standards. These will have applicability in member countries unless there are already local actuarial standards in place, in which case the local standards apply. In practice, if there are international actuarial standards for which there are no corresponding local actuarial standards, then the global standards will apply. Australia is well represented on the IAA Financial Reporting entities.

Basel II is a key issue for banks and a fertile area for valuable actuarial contribution. With a significant portion of the Wealth Management industry owned by banks, and a common regulator (APRA) responsible for banks, wealth management companies and insurance companies (and strongly focussed on conglomerate issues), it can be expected that Basel II risk management frameworks will impact more than the banking sector. This is an area not only for familiarisation by actuaries, but an area for active contribution in the development of thought and process leadership.

The relatively small size of the actuarial profession globally, the pervasive impact of international standards, and the emergence of globally positioned other 'professional' or certifying bodies (eg. the CFAs) demand that we contribute effectively to the workings of the IAA. The IAA has its constraints, including funding and resources, which increases the imperative for effective contributions from member professional bodies. Our Institute is already a substantial contributor and we are 'punching above our weight'. For example, Graham Rogers is involved in the Supranational Committee, Tony Coleman chairs the Risk initiative, Martin Stevenson and Helen Martin are on the Pensions Section and Nominations committees

respectively, and we have extensive other Australian representation on the IAA committees.

Whether we can achieve global education/accreditation even in medium term is a moot point but some harmonisation is likely around IAS and Actuarial Control Cycle frameworks.

If you seek to make a valuable contribution on the international front, key requirements at present include the formation of a new IAA Life Section, the International Risk initiatives, and service leadership contributions to ASTIN.

4.2 Partnering in Asia

Our approach in Asia is best described in Section 3.4 of the Institute's Strategic Plan, which I quote in full as follows:

“For a number of years the potential demand for actuaries in the Asia region has been growing, and in response various actuarial education providers have developed their presence in countries in the region. Rapidly growing markets like China and India provide considerable opportunities if overseas actuarial bodies can develop appropriate and timely strategies for delivery of their education.

The Institute has made some progress in its engagement with members and the broader insurance and financial services industries of Hong Kong and Singapore. This has been assisted by the Institute participation in the Joint Actuaries Office in Hong Kong, which is a shared project of four actuarial associations. Establishing a presence on the ground in places such as China is crucial if the Institute wants to expand into the Asia region.

Such developments would begin to address the range of opportunities for Australian qualified actuaries who have come to Australia from Asian countries to study and who choose to return to Asia for work. With the increasing cultural diversity of actuaries graduating through the Institute, there are natural links into Asian countries through family and language

connections. As Australian companies seek to extend their markets beyond Australia the value of these culturally diverse actuaries will enhance the scope and penetration of the Australian profession.

In many Asian cities there are members of the Institute who are prepared to support local activities. This is best exemplified by local support groups offering tutorials to students sitting the Australian Part III examinations.

Time and patience is essential in executing a development program in the Asia region but equally, it is important to assert a presence and be well placed to respond to requests and opportunities as they arise. The Institute is already experiencing considerable growth in numbers of members residing and working in the Asia region and this is expected to continue to rise over, at least, the next decade.

Australian actuaries need to be properly equipped to meet the challenges in developing markets which have quite different regulatory and cultural frameworks. The Institute has a key role to play in its exchange of information with developing actuarial bodies in the Asia region, in its support for students of the Institute based off-shore and in its delivery of Australian actuarial education into these Asian countries.”

4.3 New Zealand

New Zealand (NZ) is of special importance in our overseas considerations, with approximately 3% of our membership in New Zealand.

Many NZ actuaries who have an FIA or FFA qualification and are fellows of the NZ Society of Actuaries would like access to some of our Institute’s services. We are actively exploring Overseas Affiliate status, and efficient delivery of services, as a means of achieving this.

We are committed to more effective CPD arrangements which are independent of location, which would benefit NZ members, and

wish to explore a range of closer NZ/Australia relations, including encouragement of greater NZ representation on our Practice Committees.

5 Sustainable Futures

A core purpose for the profession is to serve the public interest. Among a multitude of public affairs issues, key priorities for actuarial contribution include:

- Intergenerational issues and population options;
- Climate change; and
- National savings.

5.1 Intergenerational Issues and Population Options

The issues associated with an ageing population are well documented. Even though some of the ‘solutions’ are less clear, we can contribute to canvassing viable options for the future.

An ageing population has clear implications for:

- an affordable retirement income system, and what prior provision should be made for retirement;
- health financing;
- aged care demand facilities and cost;
- infrastructure for a changing age profile, and the urbanisation impacts if we are to ameliorate the ageing of the population through accelerated population growth.

These issues were first covered well by the Institute’s ‘Financing the Ageing’ Taskforce (chaired by Steve Somogyi) in 1998/9. Based on then trends, and assuming an essentially non-interventionist policy framework, the Taskforce estimated the following budget strain impacts as a percentage of GDP.

Government Budget Item	Base % GDP	Additional % of GDP					
		2001	2011	2021	2031	2041	2051
Age Pension	3.0%	(0.1)%	0.1%	0.6%	1.1%	1.5%	1.5%
Health Care ⁽¹⁾	5.7%	0.4%	1.2%	2.4%	3.5%	4.5%	5.4%
Aged Care	0.7%	0.1%	0.3%	0.5%	0.6%	0.8%	1.0%
Tax Revenue ⁽²⁾	(10.7)%	(0.2)%	(0.2)%	0.1%	0.4%	0.5%	0.6%
Net Additional Cost		0.2%	1.4%	3.6%	5.6%	7.3%	8.5%

(1) Assumes Governments continue to fund 2/3rds of total health care costs – Federal Government costs only.

(2) Income tax revenue from individuals

Source: 'Financing the Ageing', Now is the Time to Act, p 1, 1999, Institute of Actuaries of Australia

A major driver of the increase in Health costs is the Pharmaceutical Benefit Scheme (PBS). Medical advancements and increasingly sophisticated technology is also a major driver. Increased sophistication in the modelling and forecasting of future health costs, and the relative impact of an ageing population, requires increased collaboration between the various professional disciplines with the requisite expertise, including health economists, demographers, actuaries, and epidemiologists.

The Institute welcomed the Government's release of the Intergenerational Report (IGR) in 2002 and applauded this Government initiative to examine medium-long term forecasts and policy implications. The Institute also welcomed the Government's commitment to update the IGR every five years. The IGR forecasts are based on Australian Treasury's Retirement Incomes Model (RIM) and, in its IGR response, the Institute urged that the RIM model be made accessible, as any model forecast is only as good as its underlying assumptions. The value of making the RIM model more accessible would be to test and determine 'what/if' scenarios.

Recognising the importance of ageing Australia issues, a House of Representatives Standing Committee on Ageing was formed in late 2002. The Institute made an initial submission to this Committee in February 2003 and presented to the Committee in May 2003.

The urgency for the need for action on ageing Australia issues, including possibly significant policy changes (such as some of the options covered in the ‘Financing the Ageing’ paper), is usually greatly underestimated. This urgency arises from the reality of elector power and the political cycle. Today, Australians aged over 65 account for 12.7% of the population. In 2015, this figure will have grown to 15.7%. If some of the policy changes required to address the financial impacts of an ageing population are difficult now they will be virtually impossible politically in 8-10 years time. Now is the time to act. But this can be difficult in the context of 3 year political cycles.

Another landmark contribution to the population debate was the CSIRO Report to the Department of Immigration and Multicultural and Indigenous Affairs entitled ‘Future Dilemmas – Options to 2050 for Australia’s population, technology, resources and environment’ (Oct 2002). This was a landmark 10 year study by the CSIRO led by Barney Foran and Franzi Poldy. It received an initial hostile response by key members of the ‘rationalist economist’ community who debunked the report as ‘Club of Rome’ material – ie. as an alarmist ‘the sky’s falling in’ report. This is not a fair response. The report is balanced, has much to commend it, and presents options and implications rather than advocating any particular population policy framework.

As a small aside, the foreword by the External Reference Group for this study commences with the following observation.

“In the world of modelling and simulation, practitioners talk of the Cassandra problem. Cassandra, was a daughter of Priam, the King of Troy, and had the gift of prophecy. She, along of all the Trojans, was alarmed at the Greek’s wooden horse, and begged her father not to allow it into the besieged city. She had foreseen the fall of Troy. No one believed her, and the rest, as they say, is history. Cassandra lacked street-cred in a big way, and so gave her name to the problem of how one can describe the future accurately and still be believed.”

Our challenge also is to make a meaningful contribution to the Sustainable Futures debate without being a Cassandra.

A brief summary of the ‘Futures Dilemmas’ findings is set out below.

Scenario	Approximating	Population by		Rewards	Risks
		2050	2100		
i) Zero net immigration	Policy position of some environmental organisations	20M		- Smaller energy use and emissions - Refurbishing infrastructure rather than making more	- Mature age workers working longer - Terminal population decline - Decline in rural/regional areas
ii) Net immigration of 70,000 people per year	Current Policy	25M	25M		
iii) Net immigration of 0.67% of population pa	Preferred population growth by Australia business	32M	50M	- Continually growing economy - Formation of world – sized cities as hubs for international commerce	- Continually expanding energy use and emissions - Decoupling large urban agglomerations from base of ecosystem services

The report primarily focuses on population infrastructure, resource usage and environmental issues rather than some of the fiscal impacts referred to earlier (based on age profile of the population). It identifies key issues including:

- air emissions and traffic congestion and implications for greenhouse gas targets;
- dependence for personal mobility on continuing supplies of oil and natural gas;
- where will new cities be located?
- loss of agricultural land and increasing river salinity;

- the place of mature age citizens in the national workforce.

Part of the actuarial contribution moving forward can be to assist marrying together the physical impacts presented in the CSIRO report and the fiscal impacts of different population options.

Recently the Institute has formed three Retirement Incomes Policy Taskforces under the auspices of the Public Policy Council Committee, namely the Adequacy, Integration and Intergenerational Taskforces. These taskforces are also expected to inform our contribution and influence over achieving Sustainable Futures in Australia.

5.2 Climate Change

The impact of even small changes in sea level air temperatures will have a dramatic effect on the intensity and destructive activity of storms and floods, as graphically depicted in Tony Coleman's paper 'The Impact of Climate Change on Insurance against Catastrophes' presented at the Institute's 2003 Biennial Convention.

Similar findings were reported in a UK Association of British Insurers (ABI) Study 'A Changing Climate for Insurance' released in June 2004.

In June 2004, the Australian Climate Change group released its report 'Climate Change: Solutions for Australia'. This group includes eminent people including Tony Coleman, professors from a range of universities, and representation from the CSIRO, the Co-operative Research for Greenhouse Accounting, and the WWF. It highlights that:

"only small changes in the global temperature, just 1-2 °C, will have large impacts including:

- *shifting rainfall patterns that reduce runoff to rivers and recharge of water supplies;*
- *increasing agricultural and other economic losses from natural disasters;*

- *more damage to homes, business and infrastructure caused by extreme weather;*
- *increased and new threats to the health of Australians;*
- *irreversible change to some natural ecosystems.”*

Much of this temperature change is locked into the atmosphere (due to its carbon retaining qualities) and dramatic action is required to reverse it.

A perhaps more graphic depiction of possible future scenarios, as reported in the *Australian Financial Review* (21-22/08/04), and featuring Tony Coleman once again:

“No Kakadu, the Great Barrier Reef a dead zone and Australia’s ski fields reduced to soggy sight seeing.”

The Australian Climate Change Group strongly advocates the need to act now to lower the risks as the coming decades are the crucial time to act. They propose:

“key steps which if taken today will have a material impact including:

- *Reduce emissions sufficient to make a difference by:*
 - *Setting a national target for a reduction of emission of 60% by 2050;*
 - *Implementing an emissions trading scheme by 2007 to start progress towards the target being met;*
 - *Cutting energy costs by using energy more efficiently.”*

However, the Government’s position on the Kyoto protocol, and its mid-year energy policy statement, with its continued focus on carbon/coal based production (with proposed geosequestration initiatives) and the non-renewal of Mandatory Renewable Energy Targets, are indicative of the major challenges which lie ahead.

So what can be done?

We can help inform the debate. Initiatives by the insurance industry, led by IAG, and the Australian Climate Change group is a good start. But perhaps a broader coalition of interests including the rural and tourist sector (both dramatically affected by climate change) and the insurance sector is required.

We can offer thought leadership and long term modelling services on environmental impacts to a range of stakeholder groups including the Business Council of Australia (BCA), relevant industry bodies, the Australian Greenhouse office, private think tanks, etc.

We can also help by assisting in the design and development of carbon credit trading systems, the development of other derivative products, and, more generally, by building industry understanding of the issues and potential solutions.

5.3 National Savings – Does Australia have a Savings Problem?

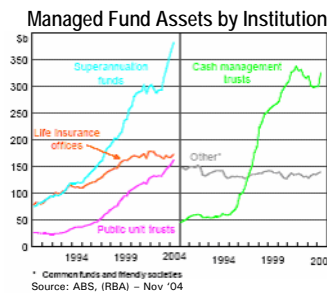
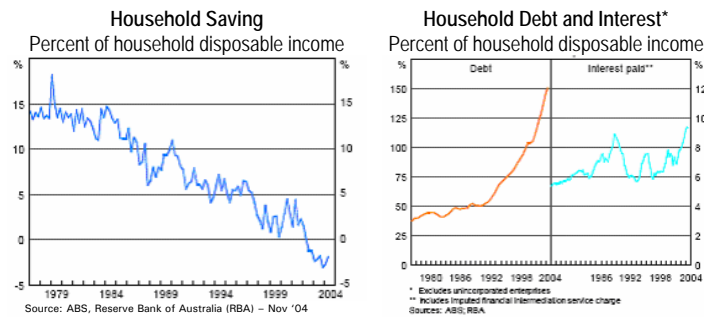
A healthy long term economy requires net savings at a sufficient rate to support public and private investment, and our targeted GDP growth rate.

Given our public infrastructure requirements alone, both in terms of ageing infrastructure replacement and updating (water, electricity, telecommunications, transport, health) and the demands of a growing and ageing population (eg. water supply, infrastructure for the 'aged'), the public demand will be substantial.

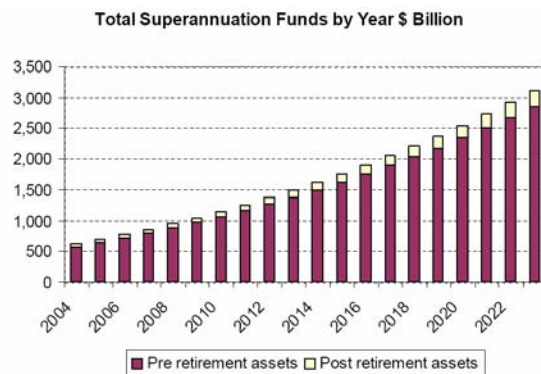
To the extent that public and private investment demands can not be met by domestic savings, there is a greater implied requirement for increased levels of foreign investment in the form of either debt or equity capital. Eventually, this capital needs servicing in the form of interest and dividend payments flowing overseas, with consequent implications for exchange rates and long term standards of living.

So, do we have a problem? The evidence is mixed.

Savings and debt trends, based on standard savings and debt-definitions, and growth in managed fund assets, appear as follows.

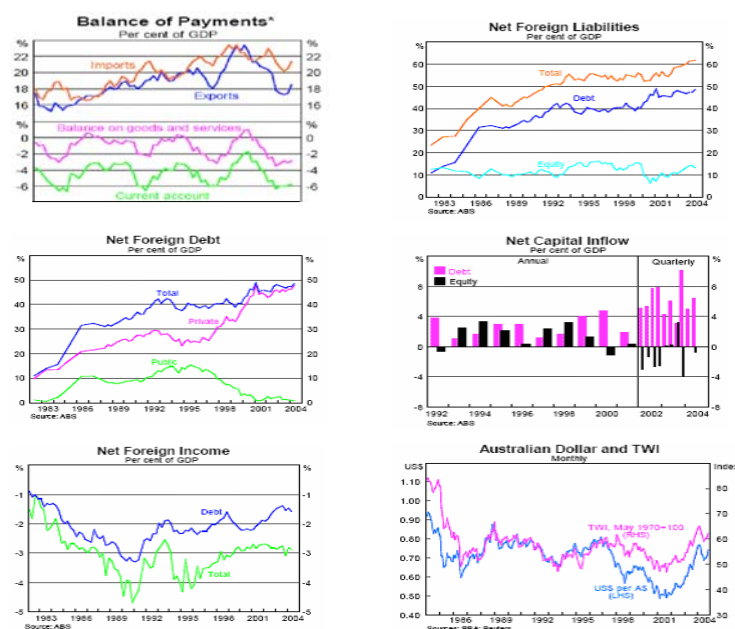


The prospective growth in superannuation assets over the next decade is as follows:



Based on the growth in managed fund assets, and forecast further growth of circa 10% p.a. over the next decade, one might conclude that not only is there not a savings problem in Australia, but indeed that domestic superannuation savings are potentially outgrowing domestic capital markets, and will require increased investment in overseas equities.

Trends in the Current Account, levels of foreign equity and debt, and foreign exchange rate movements appear as follows.



Source: Reserve Bank of Australia - A Collection of Graphs on the Australian Economy and Financial Markets (November 2004)

A chronic Current Account deficit, and insufficient domestic savings, have been offset by net capital inflows, largely in the form of increases in net foreign debt. A benign interest rate environment has meant relative stability in exchange rates. How sustainable are these trends? And what are the implications for our future trading position, exchange rates are standard of living?

There is a need for a fundamental review of our broad national savings framework, including:

- an understanding of future public and private sector investment requirements to sustain the economy and targeted GDP growth (including future infrastructure requirements);
- identification of how this investment will be funded, and the consequences of different choices;
- consideration of the role of Futures Funds or Intergenerational (IGR) Funds, and how these funds should be best funded and applied; and
- the implied domestic savings requirements, and policy options to encourage such savings.

All this needs to be considered in the context of the different population choices available (as canvassed in Section 5.1). All this also suggests:

- some fascinating research needs to be conducted and some well developed thought leadership evolved;
- the need for a range of Institute Taskforces, focussed on Savings, Infrastructure, IGR (already exists) and Population Choices; and
- some BIG thinking and consideration of bold options.

What a wonderful area for actuarial contribution!

6 Purpose & Boldness – Implications for the Institute and the Profession

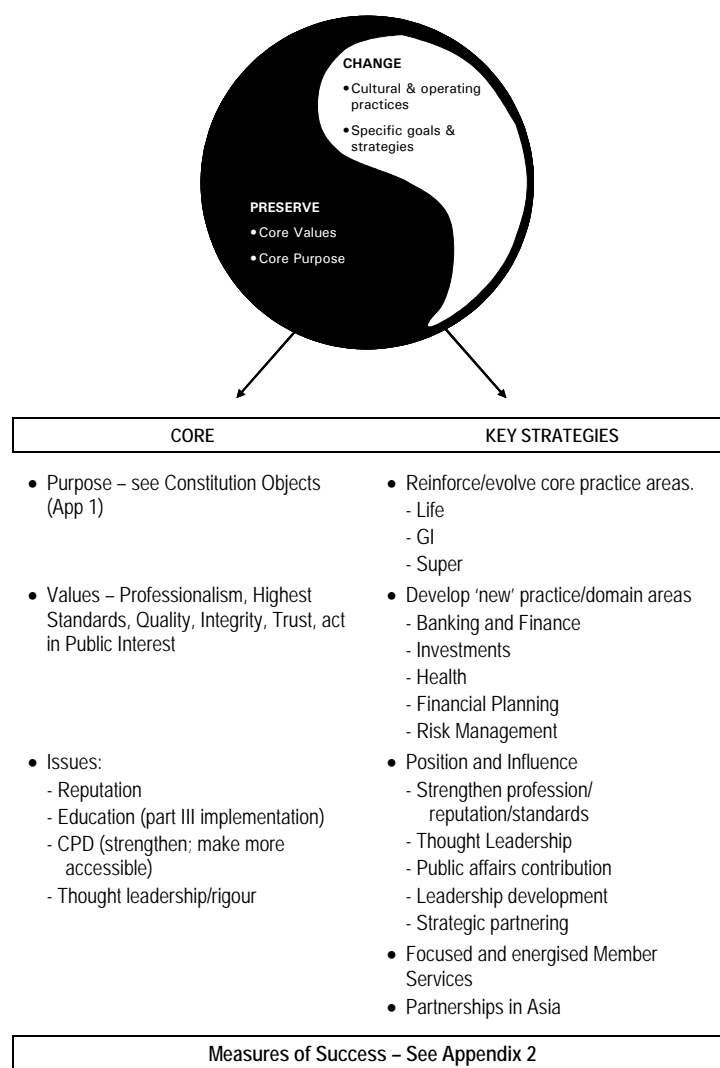
6.1 Strategic Plan 2004-2007

In reviewing its Strategic Plan and direction the Institute has been explicitly or implicitly addressing service and leadership issues, and sustainability issues for:

- the institutions we serve;

- major areas of public interest (Sustainable Futures); and
- the Profession.

The Institute's Strategic Plan can be summarised as follows.



As mentioned in Section 1.4, Council reviewed strategic priorities at the August 2004 Council meeting (following member feedback on the Institute's Strategic Plan at the July Horizons meetings). This review highlighted the absolute importance of preserving/enhancing the Core.

Our reputation, built on trust, integrity, professionalism and highest standards is paramount. The Corporate Governance Taskforce review and recommendations (including IPR) have been designed to preserve and enhance our reputation. Other initiatives designed to address the Core will include.

- A comprehensive review of Professional Standards and Guidance Notes – particularly in the light of the Penrose/Morris reviews in the UK and their observations on the profession
- A substantial strengthening and enhancement of our CPD delivery and services. A CPD Council Committee has been appointed (chaired by David Service) reflecting the importance Council (and you) attach to CPD as both a vital member service and a key to maintaining professionalism and high standards. It is also important strategically in enhancing our contribution in traditional practice areas, and facilitating the service and leadership contribution we can make in 'newer' areas (especially Banking and Finance, Investments, Health, Risk Management). It can also greatly assist our relevance and positioning in these sectors
- 'Hard' CPD – and Revalidation?

High standards and community expectations will also require a shift from 'soft' to 'hard' CPD requirements, especially for statutory roles but also for all actuaries. An open issue is what revalidation processes are required (especially for statutory roles) and what link these should have to Practice Certificate requirements (if any).

- Education especially the new Part III implementation in 2005. This has been, and continues to be, one of the Institute's major initiatives.

Among a host of issues I could address in this section (Implications for the Institute and profession), I will limit myself to five:

- Thought leadership and the commercial application of research – especially the role of the proposed Actuarial Research Centre of Australia (ARCA);
- Strategic partnering;
- Service – ie. our service to you;
- Leaders of Tomorrow – developing the next generation of leaders (broadly defined) to ensure we can continue making a vibrant contribution as a profession; and
- Future branding/positioning – ensuring we are relevant, contemporary, value adding, and hence a sustainable and vibrant profession.

6.2 Actuarial Research Centre of Australia (ARCA)

A potentially exciting initiative for accelerating the development of actuarial thought leadership is ARCA “potentially” because it is yet to be formed and funded!

The genesis to the formation of a Research Taskforce was the desire to accelerate thought leadership development (beyond that which could be funded by the Institute’s financial resources), to achieve research leverage, to have a strong commercial application focus, and for such a research facility to be a valuable means for engaging in strategic partnering.

Earlier this year, Graham Rogers, as President appointed a Research Taskforce, led by John Trowbridge with the aim of establishing a workable structure for funding and undertaking actuarial research, with a focus on commercial applications.

The Taskforce reported to the August Council meeting and I quote briefly from the first paragraphs of its Executive Summary to

explain the concept of the Actuarial Research Centre of Australia (ARCA).

“The task force began with the proposition by the President that:

- *research is critical to the profession in several ways; and*
- *the Institute should build a proper infrastructure for funding and undertaking actuarial research.*

The Taskforce endorses this proposition and we have come to the following position:

A research facility entitled the Actuarial Research Centre of Australia (ARCA) should be created.

The purpose of the proposed Research Centre is to:

- *arrange, endorse, make accessible, protect and conserve...*
- *high quality, independent research...*
- *apply actuarial science to relevant issues of public significance*

The Research Centre should be set up as a charitable trust, operate through a governing Board appointed by the Institute, and be managed by an Executive Director who is not a member of the Board.

We wish to emphasise that:

- *the key attributes or values of the research must be quality, independence and relevance; and*
- *the critical functions of ARCA are to arrange both the funding and the execution of such research.*

The challenge is significant because obtaining funds is not straightforward, and effective packaging of research programmes is harder than it may appear. The most critical issue for the viability of ARCA is funding and the key to creating ARCA, including the initial funding, is leadership.”

Council enthusiastically supported the concept of ARCA and gave it ‘in principle’ support. Critical next steps include:

- Active dialogue with universities providing actuarial programs (and research) to explore how ARCA and the universities’ research efforts can be complementary;
- Appointing a Program Manager to progress ARCA to the feasibility stage, including the vitally important issue of identifying initial external funding of ARCA to complement initial seed funding by the Institute. Insufficient external funding would mean that ARCA would not proceed; and
- Identification of a high calibre Executive Director to lead ARCA (post feasibility stage).

This is therefore a potentially exciting development and one which could accelerate much of desired through leadership development, with a focus on commercial applicability.

6.3 Strategic Partnering

The notion of strategic partnering is certainly relevant to accelerating research and thought leadership development (and the associated desired positioning of the profession), but it is by no means limited to the thought leadership arena.

Progress in practice areas, particularly ‘newer’ areas such as Banking and Finance (B&F), Investments and Risk Management, will be greatly enhanced if we engage with, and sometimes partner with, other relevant bodies. This will significantly enhance our positioning into these sectors. Unlike practice areas such as Life, Insurance, Superannuation and General Insurance where actuaries have well defined and often ‘sole domain’ roles, in other areas (eg. B&F, Investments, and Risk Management) we have no such conferred role. In making our service contribution we both compete with people from other professional/career backgrounds but also need to simultaneously work with multi-disciplinary teams. The extent of our contribution is earned on merit.

For practice development, positioning, and thought leadership purposes we should explore and define the nature of engagement with, and potentially partnering with entities such as the following:

Entity	Relevant Practice/Domain Area
• IFSA	Wealth Management/Life
• ASFA	Superannuation
• IMCA (Investment Management Consulting Association)	Investments/Asset Consulting
• SIA	Investments
• Institute of Banking and Finance	Banking and Finance
• Australian Securitisation Institute	Banking and Finance
• CFA	Banking and Finance: Investments
• GARP/PRMIA	Risk Management
• ICA	General Insurance
• The Australian Institute of Health and Welfare	Health

Of course these bodies vary in nature. Some are industry bodies (which include having an advocacy role), which requires careful positioning, whilst others are education/accreditation bodies.

In many cases a simple starting point can be jointly sponsored workshops which serve the purpose of sharing thought leadership and positioning the profession. Recent positive and successful examples of this approach have included:

- our contribution to CEDA paper on Australia's Ageing Population;
- our involvement in IFSA's Genetic Testing Survey Project; and
- our involvement in the 'Call to Action' initiative by the Super Coalition, where we joined with other organisations such as ASFA, IFSA, ACTU, AIG, CEDA, CPAA, FPA, SIA.

6.4 Focused and Energised Member Services

The importance attached to Member Services is indicated by Council's decision to form a high level Council Member Services Committee. This makes it one of the Institute's Primary committees. Helen McLeod has recently taken over from Blair Nicholls as Chair of this Committee.

It is fair to say that the entire Strategic Plan is relevant to member services, some explicit, some implicit. In terms of member services and benefits what could be more important than:

- preserving/enhancing reputation;
- relevant CPD;
- education; and
- value adding R&D and thought leadership.

All the key strategic objectives of:

- New practice/domain development;
- Position and influence of the profession;
- Focussed and energised member services; and
- Partnerships in the Asia region.

are relevant to member services.

But, let's be even more explicit.

The Institute conducted a detailed Member Survey in late 2001/early 2002 which has just been repeated in October/November this year. A brief profile of the 330 recent respondents is as follows:

- Fellows 60%, Associates 24%, Students 15%, Other 2%;
- Country of residence: Australia 82%, Other 18%. (UK 4.5%, Singapore 2.5% HK 2.8%, NZ 1.8%);
- Age: <30 = 37%, 30-39 = 33%; >39 = 30%;

- Gender: Females 26%, Males 74%;
- Primary practice area (multiple responses allowed) – not all areas covered are reported below.

	1 st Choice	All Responses
Life	109	151
GI	76	113
Super	65	99
Investments	28	80
Banking and Finance	25	58
Health	12	19

A number of the key survey questions (Q10.1 – 10.10, and Q11.1 – 10) asked members to rank the importance of various services (6 point rating scale, 0-5, with 5 being very high) and satisfaction with the Institute's performance (same scale).

The summary reported results appear below. Only the High (4) and Very High (5) scores were used. This is a discriminating and somewhat harsh test, but a good one if one aims to serve with distinction*. Results are ordered according to importance and only the top 6 out of 18 are reported here:

	Importance (High/V.High)	Satisfaction (High/V.High)
1. Promoting high professional & ethical standards	87.7%	56.4%
2. Providing professional accreditation & certification	83.7%	67.4%
3. Keeping up-to-date with changes in professional practice	77.7%	62.2%
4. Providing CPD – Seminars and Forums	76.4%	60.2%
5. Participation in the actuarial education system	72.2%	52.6%
6. Promotion of the profession to government, industry and the public	67.9%	30.1%

*Note: If the 3 Ratings were included, most of these gaps largely disappear – but merely being good is not the standard we aim for.

It is interesting to note that Importance ratings have increased 7 – 22 percentage points in the last 3 years. Satisfaction ratings have

increased significantly for ‘keeping up to date with changes in professional practice’ (9 percentage points increase) and CPD (11 percentage points increase).

It is not unusual for the Importance ratings to be higher than Satisfaction ratings in such surveys. People usually apply a harsher standard to the latter.

And if I was going to be really harsh on ourselves, I would also note that quite a bit lower down in the Importance rankings was ‘Encouraging corporations to extend greater recognition to actuarial services in their hiring and contracting of actuarial services – rated 54.4% in importance and 11.5% in delivery. There is much to be done.

These survey dimensions will instruct our member services initiatives. A few key areas to emerge from our Presidential/Member luncheons (also acting as research focus groups) are:

- establishing our relevancy in ‘newer’ practice areas, including enhancing employers’ appreciation of the contribution we can make. This is important if we are to fulfil our desired service and leadership contribution;
- relevant thought leadership – again especially in the ‘newer’ areas – eg. co-sponsored seminars with strategic partners, thought leadership papers, contribution to relevant industry journals and other publications. This opportunity also beckons you and we need the contribution of individual members; and
- careers advice.

Let me expand briefly on the latter point. There has been a substantial acceleration in the number of actuarial graduates over the last 5-7 years. There is a finite number of ‘actuarial’ roles in Life Insurance, Superannuation and General Insurance, though the latter in particular has also seen strong growth demand. Many recent graduates have a strong interest in the Banking and Finance (B&F) and Investment sectors. Many are highly regarded for their actuarial

academic background and perceived talents (especially quantitative). However, they also compete for roles with other talented graduates from different disciplines – this is not actuarial ‘sole domain’ territory. Many are also subsequently encouraged to embark on the CFA program – a wise choice? Without in any way denigrating the CFA program, there is an emerging plethora of people with the CFA designation. To what extent will it distinguish you from the crowd? But for those interested in the B&F and Investments sectors, how distinguishing would it be to qualify as a Fellow (first) and then undertake the CFA?

I am unsure about how robust are the careers advisory processes for emerging graduates. Some get advice from family and friends, and some from the universities, including careers days. However, it is noted that presenters are understandably ‘selling their wares’ at such events. So where should graduates go for highly impartial advice? Perhaps an Institute careers advisory function should be considered. We are interested in developing talent and leaders for tomorrow.

6.5 Leaders of Tomorrow – and the Role of the Wise

The future of our profession, our sustainability and our vibrancy, lies in the hands of both our current leaders (broadly defined) and our future leaders. One of our key responsibilities today is to be developing our leaders for tomorrow.

We have wonderful emerging talent, people who would benefit from advice, nurturing and development. We have a much healthier gender balance than applied previously and much greater ethnic diversity. Australia is the second most ethnically diverse country in the world (after Israel) and this is a great asset. Roughly 30% of university undergraduates come from overseas, mainly countries in the Asia region. Many will remain in Australia, many will ‘return’ home.

If we can encourage both robust pursuit of ‘individualistic’ interests and a strong sense of community contribution (including

the actuarial community) then both the individual and the profession will benefit.

I will be making leadership development one of the Executive Committee's priorities in 2005. Working with the Member Services Council Committee we will identify a range of initiatives to further develop our current leaders (broadly defined) and to nurture our future leaders.

Indeed, in developing future leadership, we can extend back even further than the current generation of university undergraduates and recent graduates. What are the required leadership attributes for our leaders of tomorrow and do we or should we include consideration of those attributes in the university intake process? We could benefit here by reviewing initiatives in the field of medicine, where potential candidates for the limited number of medical undergraduates need to undertake a UMAT (University Medical Assessment Test) in addition to the Higher School Certificate. The UMAT (held in July of Year 12) assesses a range of attributes including interest in people and compassion - not bad attributes for an aspiring doctor! These are further evaluated by an interview panel for short-listed candidates. What might the attribute list for budding actuaries look like? Would assessment of this be a useful augmentation to the current primary reliance on Higher School Certificate results?

I also believe we have available to us an extremely important 'asset', if people will forgive the expression. Just as we have many talented 'younger' members, so do we have extraordinarily talented 'mature' members, who have the additional invaluable benefits of experience and wisdom. How useful could be their guidance and counsel to 'younger' members, including being able to provide that advice from outside the 'younger' members organisation, which sometimes could make full and frank dialogue easier. I would be interested in views on the value of a facilitated or organised mentoring framework, with people volunteering indicating a desire to be a mentor, or a need for a mentor.

6.6 Future Branding/Positioning

As a broad starting position, I am sure most of us want, in the future, both individually and collectively as a profession, to be relevant, contemporary, value-adding and perhaps even innovative. Achievement of this aspiration for the profession will assure our sustainability and vibrancy.

This issue of the desired future branding and positioning of the profession is being addressed by the Vision 2007 Taskforce. Its objective is:

‘To determine the optimal/desired branding and positioning for the profession in 2007-2010 and with whom (key stakeholders) and the required strategies to move the profession in that direction’.

Desired positioning would include (but not to the exclusion of other considerations):

- Preserve/reinforce current strong attributes – professional, trust/integrity, quantitative, technically strong;
- Build attributes – relevant, contemporary, value adding, innovation;
- Good communications and seeing the ‘big picture’ (ie. business acumen, commerciality, contextualisers);
- Positioning in growth areas – eg. Banking and Finance, Investments, Risk Management; and
- Strong Risk people – dealing with uncertainty and even ambiguity.

In harnessing the full talent base of people who have undergone actuarial training (whether fully qualified or not) the Vision 2007 Taskforce will also seek to:

- track what areas graduates go into after university, and what paths they follow (longitudinal studies)

- issues for those who are talented but don't complete, or choose not to complete, the Fellowship qualification. These people are important talent for our profession. Is there scope for some interim recognition so that these people remain involved with the Institute and remain fine actuarial ambassadors – eg. 'Certified Actuarial Analyst'?
- understand the implications of this desired branding/positioning approach for education, university entrance requirements, careers advisory processes and mentoring;
- identify brand influencing strategies especially with key stakeholders (eg. employers, policy makers, media) and the role of actuarial 'Champions' (actuary role models) and Advocates (non actuary users of actuarial services).

If you have a passion to make a contribution in this area, let me know.

7 Service, Leadership, Sustainability – And You

7.1 Thought Leadership

Our actuarial forums, including Conventions, Horizon meetings, the Financial Services Forums, and the General Insurance and Accident Compensation Conferences, plus AAJ contributions and other actuarial papers demonstrate the high calibre contribution we can make. A particular challenge is accessing and sharing some of the excellent thought leadership residing within corporations and consulting firms which ‘owner’ members might regard as commercial and conferring proprietorial advantage. This applies, for example, in the Investments arena. While understanding these commercial sensitivities, I would encourage members wherever possible to think about an approach of increasing the size of the pie rather than what size ‘slice of the pie’ they receive. I would encourage all to contribute to our intellectual base. This intellectual sharing and rigour and collegiality are corner stones upon which our profession is built.

We also need to be strongly engaged with related domains and spheres of thought leadership. The Actuarial Control Cycle framework evolved from engineering control systems. We can benefit from the accountants, engineers and the banking sector in operational risk approaches as part of our overall Risk contribution.

As mentioned previously, I am concerned at the major advancements globally in Financial Economics and Risk Management over the last 20-30 years without strong actuarial engagement or awareness. Although this is now being redressed, especially for the former, through the university actuarial programs, I don’t know whether some of this historical disconnect (globally) has been the result of a narrowly focussed profession, isolationist tendencies arising from professional specialisation, or intellectual arrogance, or whether I’m just out of touch! We must avoid isolationism and be strongly engaged, and contributing to related major schools of thought leadership.

It is evident from my comments on the key practice/domain areas and sustainable futures that there is a rich array of areas to make strong though leadership contributions.

Some interesting areas for valuable thought leadership contribution follow – I wouldn't for a minute suggest these are exhaustive:

- Financial Economics, and its application, including:
 - testing the pragmatic connection between the assumption that investors will only pay for non-diversifiable risk and market reality – the former is an elegant theory, but how does it relate to businesses expecting high ROC on their business investments (including capital used in underwriting products);
 - application to Market Consistent Valuations – especially addressing the outstanding issues of satisfactorily dealing with agency costs, frictional costs, and robust ways for risk adjusting cash flows to produce certainty equivalents;
 - application to General Insurance profit margins and the assertion that risk free rates should be used in their derivation.
- Risk Management
 - reviewing/challenging/enhancing VAR approaches
 - application of extreme event theory not only in General Insurance but to the Banking and Finance sectors
 - modelling operational risk (especially for Basel II purposes)
- Capital Management
 - Development of enhanced capital management frameworks corresponding to each of the abovementioned areas of Risk Management
 - Target Surplus
 - Conglomerate Capital

- Understanding consumer behavioural finance (some interesting work done overseas, including through the UK Institute/Faculty) including modelling irrational behaviour, the role of utility theory and the link to the current Consumer Financial Literacy initiative.
- The BIG public affairs issues, especially those relating to Sustainable Futures and actuaries' focus on the medium – long term:
 - Population options - integrating the fiscal view (eg. 'Ageing Australia' impact on retirement incomes, health and aged care) with physical impacts (eg. as presented by CSIRO)
 - Retirement Incomes issues – including Adequacy and Integration
 - National Savings – do we have a problem?
 - Climate Change & Global Warming
 - Genomics, genetic engineering and long term implications

Of course there are a multitude of other vital thought leadership issues, transcend practice areas.

7.2 Leaders of Tomorrow

'...one firm note of hope comes through...some extraordinarily able, mature, servant-disposed men and women are emerging in their early and mid twenties... Most of them could be ready for some large society-shaping responsibility by the time they are thirty if they are encouraged to prepare for leadership as soon as their potential as builders is identified.'

- Robert Greenleaf, *Servant Leadership*

I share this optimism, especially in our profession. We have outstanding intellectual capacity as a profession, and awesome young talent. This could very well be you.

There are myriad opportunities to serve with distinction, and to make a leadership contribution. As mentioned early in this address, leadership here is meant in all its broader contexts rather than the simple notion of hierarchical organisational leadership. It embraces leadership in the community, in practice areas, through institutions, and intellectual and thought leadership. Opportunities beckon for thought leadership, in banking and finance, in risk analysis and management, and in important public affairs matters to reiterate just a few.

If you aspire to make such distinguished service and leadership contributions, and seek additional leadership development guidance, step forward and identify yourself! Contact our Chief Executive Officer, Catherine Baldwin, or myself.

Equally, if you are in the ‘wise’ category described earlier, and would relish the opportunity of contributing to our leaders of tomorrow, we would also love to hear from you.

7.3 Boldness, Commitment and You

‘Until one is committed, there is hesitancy, the chance to draw back, always ineffectiveness.

Concerning all acts of initiative (and creation) there is one elementary truth, the ignorance of which kills countless ideas and splendid plans:

the moment one definitely commits yourself, then Providence moves too.

All sorts of things occur to help one that would otherwise never have occurred. A whole stream of events issues from the decision, raising in one’s favour all manner of unforeseen incidents and meetings and material assistance, which no man could have dreamed would have come his way.’

- W.N. Murray, *The Scottish Himalayan Expedition*.

I conclude as I started. Great achievements and great contributions are achieved by people with a combination of vision,

purpose, leadership, boldness, commitment and tenacity.

Boldness, commitment and tenacity turn vision and dreams into reality.

One person can make a very big difference, as demonstrated by the likes of Ian Kiernan, Fred Hollows, Professor Fiona Stanley, Professor Alf Pollard, John Trowbridge, Bob Buchanan, Greg Taylor, Catherine Prime and more recently Tony Coleman. Each of these individuals started with a vision, a purpose and a belief in possibilities.

Pursuit of opportunities will require boldness in some cases, either in terms of individual actuaries stepping outside comfort zones to make a valued and needed contribution or taking on roles which constitute a 'path less trodden'.

I hope, for those who have endured to this point, that I have helped paint some of the landscape that captures the land of opportunity for distinguished service and leadership contribution. Actually, it is not so much the landscape that is vital, but the wide lens to appreciate the vista, and preferred paths to charter.

Now, more than ever before, society needs effective leadership. Leadership needs to be built on trust and vision. Together these act as a compelling force.

These days, many of society's needs are delivered through or met by institutions. Actuaries serve such institutions. We help serve the sustainability and vibrancy of these institutions through sound financial management, transparency, accountability and insight. We can help them and their trustees to serve with distinction. We can help assure the trust so vital to their leadership role.

Major public affairs issues concerning Sustainable Futures require honest, expert, and impartial assessment. Here too we have a role to play, whether it be sustainable lifestyles and fiscal positions in the future, or sustainable environmental futures.

Today the Institute is fortunate indeed to have 350 – 400 volunteers contributing to our endeavours. Valuable contributions to institutions and their clients, to trustees, and to public policy can obviously be made both through the Institute and/or through your chosen area of practice and commercial involvement.

We need to develop our leaders for the future and we need our emerging leaders, who have vision and a belief in opportunities, to self-identify. Our ‘mature’ wise members have a valuable role to play. We need to ensure the vibrancy of our profession’s ability to serve through our education and CPD processes. We also need pioneers, business developers and innovators to develop new territories where we can make a valued contribution.

So what is your passion? Where and how would you love to contribute? How can you make a difference?

This is not purely altruistic. Personal happiness largely derives from a sense of purpose. I encourage you to reflect deeply on what gives you a sense of professional purpose.

Many actuarial people are already making an extraordinary and valued contribution in their own way, by serving their particular constituencies, or providing effective leadership. You may well be one of them.

To the extent that you have not done so already, I encourage you to commit to an area that suits your passion.

Recommended Reading

I recommend that you consider the Bibliography below. However, I especially recommend:

- ‘*Servant Leadership*’ by Robert Greenleaf; and
- ‘Synchronicity, the Inner Path of Leadership’ by Joseph Jaworski.

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Appendix 1 – Institute of Actuaries of Australia, Constitution, Objects

The objects for which the Institute is established are:

- a) To increase the value to the community of the actuarial profession and foster the development of actuarial science.
- b) To encourage and assist persons in the study of actuarial science and any other subjects of interest to the actuarial profession.
- c) To represent the actuarial profession in Australia.
- d) To promote the general efficiency of the actuarial profession and to encourage and promote good relationships between the members of the actuarial profession.
- e) To increase public awareness of the actuarial profession and to enhance its reputation.
- f) To establish and uphold standards of professional conduct by members of the actuarial profession for the protection of the public and in the public interest.
- g) To provide education, encourage continuing professional development and promote research in actuarial science.
- h) To hold and collaborate in the holding of conferences and meetings for the discussion of professional affairs, interests and duties, for the reading of papers and delivery of lectures and to create forums for discussion of contemporary and relevant issues.
- i) To discuss and comment on the actuarial aspects of public, social and economic and financial questions which from time to time may be the subject of public interest.
- j) To consider the actuarial aspects of legislation and regulation existing and proposed and to take such action as is considered desirable in relation to such legislation and regulation.
- k) To provide a system of professional accreditation of actuaries (including mutual recognition) for the benefit and protection of the public and Members and to arrange and conduct a system of

examinations or other tests to determine the actuarial qualifications of those who submit themselves to them.

- l) To arrange for the compilation and publication of statistical data and of actuarial tables.
- m) To undertake and institute any trusts the undertaking of which are in furtherance of the interests or for the benefit of the Institute or in furtherance of its objects.
- n) To safeguard the interests and welfare of Members to further their advancement and to promote whatever may lead to the improvement of their status.
- o) To institute, defend, appear and join in any proceedings or hearing before any court, tribunal or commission in Australia or elsewhere in which, in the opinion of the Council, the Members may have an interest and to make submissions and give evidence as the Council may consider desirable.
- p) To do all such other lawful things as are incidental or conducive to the attainment of the above objects or any of them but this shall not include anything which if set forth as an object of this Constitution would render the license of the Institute in force under section 151 of the Corporations Act liable to be revoked.

Appendix 2 – Institute of Actuaries of Australia, Strategic Plan 2004-7, Section 2.4.2, What will success look like?

Being more specific, by end 2007, the Institute and the profession will have achieved the following:

- Reputation
 - Recognized by the public, policymakers and employers as the leading profession in financial services in terms of ethics, reliability and value-adding contribution
 - Highest ethical and professional standards
 - Highest educational standards and sought-after career by the brightest students
 - Recognised “thought leaders” who play a leading role in identifying innovative solutions to complex issues (especially public policy issues)
- Influence
 - Highly influential with key stakeholders including Government and Opposition (and their advisers), senior relevant public servants and policymakers, senior industry people (executives and associations) and the media.
 - Increased coverage of the actuarial profession and the work of actuaries in the media
- Leadership
 - Increased leadership presence by actuaries in the entities which employ them
 - A significant increase in “actuaries in high places” including influential advisory groups (Government and private sector), regulators and other public roles
- Development of new Practice Areas

- Banking and Finance – actuaries play a significant role in pricing, transactions, portfolio management, capital management, financial reporting and other areas in these sectors; by end 2007, over 15% of the profession are contributing in these sectors
- Investments – building on the success of the many actuaries employed across a range of investment roles including asset consulting, portfolio management, and trading, there is increasing recognition of the value actuaries add in this sector; by end 2007 employment opportunities for actuaries in Investments have increased by 100%; actuaries are contributing to public policy on Investment issues and are taking leadership roles in these sectors.
- Health – from the current embryonic stage, actuaries make a leading contribution in health fund corporate governance and financial management. In the area of public health actuaries are making a recognized contribution to broader health financing solutions, and in planning to address the fundamental structural issues, capital requirements and workforce planning required to ensure a (healthy) and sustainable health sector; by end 2007, 5% of IAAust membership is involved in the Health Sector.
- Financial Planning – the Part III course for Superannuation and Planned Savings now includes Financial Planning; by end 2007 course enrollments have increase by 30%; Financial Planning is offered as a self-study program; the number of actuaries practising in Financial Planning has increased by 30%; actuaries are perceived as thought-leaders in Financial Planning.
- Established Practice Areas
 - By end 2007, actuaries will have regained the lead role in corporate governance, capital management, risk management and overall financial management in Life, Superannuation and General Insurance

- Strengthening the Profession
 - Professional and ethical standards have been strengthened by stronger Professional Standards, stronger application of standards in practice, robust monitoring of standards compliance, and effective and fair disciplinary processes. The profession is recognised as a leader in the demonstrable quality of its professional standards.
- Education
 - The Australian actuarial education system is recognised as world's best practice for its high quality and particular relevance to contemporary business environments; Australian actuarial education is available on-line to students throughout the world and Australian courses and texts are being used internationally
 - Pass rates have increased from an average of 35% (2003 average for Part III) to 50% along with continuing improvement to standards and the quality of graduates
 - Successful implementation of the new Part III education program offers students more flexible study options and a high quality learning experience.
- CPD
 - Relevant and highly valued by membership for their current and future professional development needs
 - Robust CPD requirements to maintain high standards of practice and rigorous approach to definition, implementation and monitoring
 - Significant shift in CPD requirements for statutory actuarial roles from 'soft' to 'hard' core activities
- Member Services
 - Members are active within the Institute and the actuarial community across the established and newer areas of practice with high retention of actuaries who are effectively pioneers

in new sectors or who work well beyond the expected realm of the profession.

- Institute conducts programs to support the continuous engagement of actuaries throughout the span of their career with specific activities targeted towards the members' needs from recent graduates to mid career to retired members.
- Strong Actuarial Community
 - Significant cross-fertilisation across the actuarial community allowing actuaries to associate strongly within their practice specific cohort but also to reference practice in other related and entirely new practice areas.
 - Strong links between members and the Institute through the provision of tailored services, information and activities which address the specific needs of actuaries at various stages in their professional life.
- Thought Leadership and Continual Renewal of Intellectual Base
 - Actuaries play a key role in thought leadership for advisory bodies, and leading edge developments in “financial science” which influence and lead the thinking of policy makers and other industry leaders.
- A well structured active and expanding R&D program which is:
 - relevant to both the IAAust's key public issue involvement and the practice areas of actuaries
 - significantly leveraged to extend beyond the immediate resources of the Institute (especially through strategic partnering)
 - enhanced engagement with R&D opportunities that enable actuaries to contribute intellectual capital for the growth and renewal of the profession putting aside specific commercial interests.

- Significant progress in Asia
 - by end 2007, 20% of IAAust membership is operating in Asia, with strong strategic partnerships and educational services delivery (eg. through local institutes and universities)
 - building from the strong core in Hong Kong, Singapore, India and China.

These then define the framework for our success KPIs and an Achievement Scorecard (see Appendix A) against which we will assess success with this Strategic Plan.

Appendix 3 – Institute of Actuaries of Australia Recommendations of the Corporate Governance Taskforce (2003)

Education & CPD

Recommendation 1: That the Institute's Fellowship education process include modules on corporate governance and ethics (including case studies) in both the proposed Subject 4 within Part III (Business Applications) and the Professionalism Course, and that a programme of regular training in corporate governance and ethics be instituted for the continuing professional development of members.

Independent Peer Review

Recommendation 2A: That the Institute adopt as best practice the independent (as defined in Appendix 2) peer review of statutory reserving or liability valuation reports for life and general insurance companies.

In cases where the principal parties involved believe independent peer review of such reports to be inappropriate or impractical, that the Institute recommend the appointment of an alternative peer reviewer, and disclosure of the reasons why independent peer review is believed to be inappropriate or impractical, and why the alternative adopted is preferable.

That the peer review report include:

- a review of the data, methodology, assumptions and control processes;
- any other matter materially affecting the likely interests of users of the report; and

- a review of the primary actuary's compliance with all relevant professional standards, mandatory guidance notes, regulations and legislation.

That the peer review report be directed to the same persons or bodies as the primary actuary's report being reviewed.

Recommendation 2B: That the Institute adopt as best practice the independent (as defined in Appendix 2) peer review of the methods, processes and systems used by individual actuaries, actuarial firms and actuarial companies (referred to in this recommendation as "the actuarial adviser") advising on the financial status of superannuation funds.

That the independent peer review report include a review of the methods, processes and systems used by the actuarial adviser in establishing:

- the data, methodology, assumptions and control processes to be used in preparing actuarial advice on superannuation funds;
- the impact of any other matters materially affecting the likely interests of users of that advice; and
- the relevant professional standards, mandatory guidance notes, regulations and legislation.

That such independent peer review be conducted regularly with a frequency to be determined.

That the independent peer reviewer report to the senior actuary of the actuarial adviser, who shall advise the Institute when such a review has been conducted.

In appropriate cases (to be the subject of the relevant Guidance Note) that the independent peer reviewer recommend as best practice the independent peer review of specific funds or classes of fund within the group of superannuation fund clients advised by the actuarial adviser.

Recommendation 2C: That the Institute develop consistent peer review guidelines for other areas of actuarial practice, consistent with Recommendations 2A and 2B, but with appropriate allowance for the specific features of those areas of practice.

Recommendation 2D: That the Institute produce a Guidance Note (or Notes) for such peer reviews, addressing the form of the opinion and consequently, the appropriate scope of work for the various types of review.

Institute Standards & Processes

Recommendation 3: That all current professional standards be reviewed to take into account the findings and recommendations of the HIH Royal Commission, and recent developments in legislation, corporate governance and community expectations, particularly highlighting any gaps in coverage.

Recommendation 4: That the Institute's code of conduct be reviewed to take account of recent developments in corporate governance, community expectations and whistle blowing responsibilities.

Recommendation 5: That CPD and other requirements be strengthened for Fellows fulfilling statutory actuarial roles, which may lead to practice certificates or some other form of appropriate recognition by the Institute of an actuary's competence to fulfil a statutory role.

Recommendation 6: That the Institute introduce processes to ensure that its approaches to corporate governance, independent peer review, the code of conduct and professional standards (including Guidance Notes) are reviewed on a regular basis.

Whistleblowing

Recommendation 7: That the Institute publish a Guidance Note explaining issues related to whistle blowing to ensure that actuaries have available an initial reference source on the subject.

Recommendation 8: That the Institute press for consistent treatment of all whistleblowers by APRA and ASIC as follows:

- that the proposed CLERP 9 protections for whistleblowers to ASIC be duplicated by APRA, thereby ensuring that qualified privilege and protection from discrimination or harassment are available to all legitimate whistleblowers, not just Appointed/Approved Actuaries;
- that ASIC undertake to do its best to protect the identity of whistleblowers if so desired by the whistleblower.

Recommendation 9: That the Institute encourage APRA to hold confidential one-to-one meetings on a regular basis with individuals in certain nominated positions.

Recommendation 10: That the Institute encourage relevant regulators to develop “best practice” whistle blowing protocols that can be adopted by all financial institutions.

Mentors

Recommendation 11A: That the Institute require all students entering Part III to nominate a Fellow as a mentor who is required to meet with the student on a regular basis and sign of his/her practical experience form. In cases where the student after reasonable effort is unable to find a Fellow willing to mentor him/her, a suitably qualified and experienced person approved by the Institute may be nominated as the student’s mentor.

Recommendation 11B: That the Institute:

- for each of the major practice areas, establish panels of say three senior actuaries (eg. recent retirees) who are prepared to be

contacted by members to discuss professional issues relating to a particular concern or whistle blowing situation, on the basis that any actuary approaching the panel waives all rights to sue members of the panel or the Institute on the basis of the advice offered;

- nominate one legal advisor for each practice area, who is contactable by members on issues regarding whistle blowing obligations, protections and protocols.

Employment contracts

Recommendation 12: That the Institute recommend a standard wording for employment/engagement contracts for statutory actuaries ensuring that they have release from confidentially obligations to the extent that they, in good faith, seek independent actuarial advice or independent legal advice through lawyers recommended by the Institute in respect of any whistle blowing obligations. Such a clause should also allow such advice to be at the expense of the company provided the authority of the Chairman of the Audit Committee/Trustees is first obtained.

Recommendation 13: That the Institute communicate to the relevant business sectors that such standard contracts represent best practice in governance given the important role that actuaries play in the protection of financial stability and policyholders'/members' interests; and furthermore, that the use of this recommended standard wording does not, in any way, indicate that the particular actuary is more likely to be a whistleblower.

Questions for Actuaries to discuss with Audit Committees

Recommendation 14: That the guidance the Institute provides to actuaries involved in preparing or reviewing the financial statements of financial institutions (such as life offices, general insurance companies and defined benefit superannuation funds) should include comment on the types of questions the actuary and the audit

committee may wish to discuss. It is envisaged that the audit committee and the appointed/approved actuary and/or peer review actuary would meet, with due notice, prior to the finalisation of any public accounts or other financial statements.

Appendix 4 – Banking, Finance & Investments - Review Taskforce

Terms of reference

Identify:

- key opportunity areas for actuaries in Banking (including Investment Banking) and Finance and Investments
- capabilities and positioning required to capitalise on these opportunities, and a comparison with current capabilities/positioning
- issues to address or constraints in capitalising on future opportunities
- key issues from members' perspectives who are operating in these sectors - especially relating to expanding the frontiers, recognition and positioning, employer issues, competition and support received
- In which areas/domains graduates entering these fields are operating
- Member retention issues
- Likely future growth of membership in these industry sectors, and in which domains (capability application area)

Based on the above, produce a 5 year blueprint for these sectors covering:

- vision
- strategy
- positioning
- member services issues, and
- resources required to achieve success

Issues

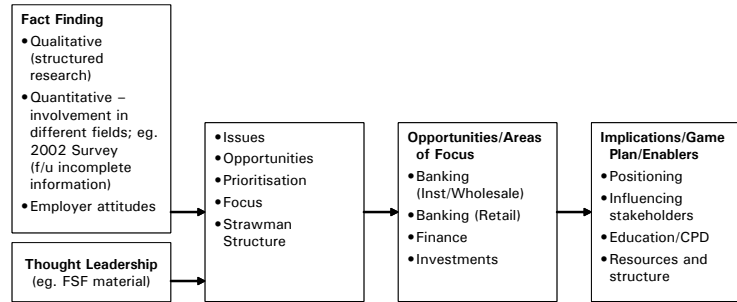
- Thought Leadership
 - eg. Behavioural Economics – Andrew Jackson
 - Basel II – Operational Risk
- Positioning/Brand
 - Different groups – especially employers (and at senior levels)
 - Actuaries in high places
 - Forums/seminars
- “Champions” (leading edge actuaries) and “Friends”
- Positioning in relation to CFA’s
- “Part of a club”/community
- Careers advice – need to know
 - eg. Investments
 - Investment Banking
 - Broking
- Educational implications
- Structural Issues
- Resources (beyond Practice Committees)
- Relevancy of IAAust/profession and “value added”
- Translating to understandable messages
- Training or strategic thinking (CPD)

Opportunity Areas

- Banking (General)
 - Capital Management
 - Financial and Risk Management

- Pricing
- Banking (Institutional)
 - Capital Markets/Derivatives/Trading
 - Structured Finance
 - Model Builds/Audit
- Corporate Advisory
- Banking (Retail)
 - Portfolio Management (eg. mortgages)
 - Credit Scoring
 - CRM/Customer Analytics
 - Data insights
- Investments
 - Asset consulting
 - Asset management (wholesale)
 - Portfolio Construction
 - ALM
 - Illiquid assets – packaging and risk/return characteristics
 - Platforms
 - Distribution
- Analysts
- Financial Planning

Approach – BF & I T/F



Actions

- BF&I T/F to progress – recruit additional membership
- Report to Council – December '04

