



# Presidential Address to New Actuaries

February 2011

## Professionalism as loyalty to the public

### Welcome to our new Actuaries and Fellows

Tonight is a celebration for you and your families and friends. Achieving such a milestone is significant and you are to be congratulated.

### Back in the day...

I attended one of the first professionalism courses in Australia around 25 years ago. They were annual and we had 12 Anglo Saxon men all dressed in our business suits on the off chance a women would turn up. This year we will have three professionalism courses for up to 150 new Actuaries and Fellows. It is likely that almost 50% will be female and a large proportion of all participants will have been born in Asia. We are a lot stronger for this diversification and growth.

Tonight I want to offer you some insights into what being an actuary has meant to me and how we should think about some of the responsibilities that we are taking on.

My first job was as an actuarial student at the AMP in Auckland. We had no resident actuary just four introverted actuarial students who had no idea what an actuary was other than they seemed to be well paid and were good at maths. Towards the end of my first year we had a visit from a senior actuary from Sydney. I was expecting a super nerd. I was looking forward to seeing the best cardigan money could buy! I was assuming we would all sit in a room and just be with each other, no words being necessary. Well I was wrong and it was a shock and it had a profound effect on me. He was a very eloquent man, assertive but very humble, and well dressed in an expensive business suit. Not only did he speak to us but he asked questions which we were expected to answer! He told us a bit about what he did and how actuaries are used in large organisations. It was interesting and inspiring.



It suddenly struck me that actuaries i.e. the top actuaries, are not boffins, they are primarily communicators. They need to be very smart and to have the required mathematical and other technical skills, but they also need to be humble, confident, assertive and clear communicators. I threw out all my cardigans and bought a three-piece suit, cut my beard off and got a short haircut just in time for it to all fall out.

### **Our Identity, Responsibilities and Loyalty**

As it turned out I have spent most of my career doing work which wouldn't be classified as actuarial. I have managed actuaries and used their services but only around a quarter of my career could be classified as doing work as an actuary. Fortunately our Code of Professional Conduct forbids me from being allowed to get near the actuarial 'golden pen' and our CEO would poke me in the eye if I did. But, I would have to say that being a part of this profession actually forms an important part of my identity. It is very important to me personally to be a part of the actuarial tribe. A lot of my friends and people I look up to are actuaries and I credit my career successes as being directly attributable to my actuarial training. As humans we form identities with various groups such as families, friends, clubs, employers, unions and our profession, the more identities we have the better I think. However, with identity comes responsibilities and loyalties. We all have loyalties to the groups we identify with and moral dilemmas emerge from the clash of loyalties to various groups. The challenge with being an actuary is that we find that we do have multiple and complex loyalties. For example we have loyalties to our employer, shareholders, our profession, family, friends and the broader community. I would argue that our overriding loyalty as actuaries is to the broader community, i.e. the public interest. In effect our profession should not tolerate actions which are contrary to the public interest. I am not saying that actuaries are unique in this respect, but I think that the nature of our work means that we need to be unambiguously accountable to the public at large.

### **Public Accountability**

The Government i.e. people of Australia, have given us monopoly power over certain functions mainly supervising and reporting on the financial integrity of insurance companies, superannuation and many other institutions with long-term financial liabilities.



Our work is not high profile unless something goes wrong because people expect that financial institutions will deliver on their promises and people are very vulnerable when they don't.

Coming out the back of the Global Financial Crisis we have witnessed the pain caused by the collapse of financial institutions. We have been sheltered from the worst of these collapses in Australia but we are currently witnessing real challenges to the insurance industry which I will discuss briefly later.

Actuaries generally deal with long-term liabilities and small changes in assumptions can have significant effects on final results. In my professional career I have been involved in assignments that have had strong competing interests. As an example, I have advised on significant mergers and acquisitions and have been placed under pressure by my client to have a particularly optimistic or pessimistic view of the future depending on which side we were working on. In our profession there is often no right answer and there is always room for professional disagreements but these disagreements should occur because of genuine differences of opinion, not because of conflicts in our loyalties. Ultimately we need to prove our loyalty to the public. This is what I call the 'Mum and Dad test'. Are your Mum and Dad proud of what you do?

In light of the GFC we have discovered that there were a lot of practices in banking that occurred behind the scenes that were shielded by complexity and professional privilege and when exposed were clearly against the public interest. Professions can be good at using complexity and jargon to hide poor practices. If our loyalty is to the public at large then we need to be in a position to justify our actions to the public. If you imagined your emails, reports or conversations becoming public would they show you in a good light or a bad light? Imagine a new web site, [actuaryleaks.com](http://actuaryleaks.com)!

### **Positive Reinforcement**

The actuarial profession is growing and the future is very positive but we will only remain a strong profession if we challenge ourselves internally in the face of the public. Now I am not saying that we have never slipped up. I think we have! I believe actuaries were complicit for example, in the bad old days of life insurance where products were sold that benefited few except the life agents. As a profession we still have active debates internally as to where our loyalties sat with this business.

As actuaries we need to be at our best.



When I was a young actuary the profession moved to introduce the concept of 'peer review' where all important pieces of actuarial advice were required to be reviewed by another senior actuary. We also introduced professional standards that specified the sorts of things that needed to be included in actuarial advice. Some saw these as an intrusion on their professionalism, i.e. that they weren't trusted.

But the logic isn't that at all. As a profession we need to get the best out of our members. Our members need to be accountable to their peers and we have a loyalty to each other to protect the reputation of the profession and the good work that we do.

### **Public Policy**

Out of around 4000 members there are around 600 who volunteer for various committees and task forces. These members contribute many hours for no individual gain. In fact, a lot of the most influential work that we do happens behind the scenes. The Government respect us because we are smart, commercial and discrete. We currently have task forces developing advice for the Government on some of the major issues confronting Australia. Two of the most topical are issues around the ageing population and the cost of dramatic climatic events.

In our traditional area of superannuation we have worked closely with the Government through the various recent reviews. Actuaries understand that the good news is that people will live longer than they expect, the bad news is that it will be a lot longer! It is possible that the first person who will live to past 200 is alive today. Who will pay for the retirement benefits of ageing Australians who are healthy and keen to keep active post retirement? The question here is that we not only have a loyalty to the public generally but to future generations. Whilst people believe they have an entitlement to a retirement pension and cheap or free health we need to appreciate that our great grandchildren will not be happy paying for our indulgences. Currently two generations pay for the retirement benefits of one generation. In my lifetime it will be two for two and then it will be two generations paying for three generations. Our great grandchildren won't put up with that and nor should they.

Whilst we can argue about the extent to which humans are impacting on the climate, it appears as though the incidence of extreme climate events is increasing and people need financial protection.



We as a profession have, for many years, been working with the insurance industry and the government in an attempt to put in place a financial security system that responds to major catastrophes that insurance alone cannot be expected to respond to. We have already proposed a number of options and are gearing up to flesh these options out.

### **Pride in our Tribe**

I am proud to call myself an actuary because I think we are a strong and noble profession, but we need to be vigilant. I have had a fantastic career. I have been pushed way outside of my comfort zone and have been involved in some incredibly interesting projects with some very smart and inspiring people. It's ultimately up to the individual though. We are all the masters of our own destinies

We need to prove every day that we are up to the job.

We are still a small profession which means each of us needs to be an ambassador for the profession.

Be proud of being part of the actuarial tribe. Exceed expectations every day and live on the wild side.

Actuaries are where the action is!