



Institute of Actuaries of Australia

Singapore Actuarial Society - Luncheon Address

*Actuaries : Future Directions
and opportunities*

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Thanks for the introduction.

Terrific to be with you today – this evening I am hosting the Presidents Dinner for Hong Kong members of the IAAust, and its great to have the opportunity to address you and your Society today.

For presentation today, thought I would cover some of the themes in my Presidents Address, which is entitled Leadership : The Courage to Commit. I believe some of these concepts have universal application, so hopefully you'll get something out of it.

Later I will talk about

- some of the emerging major opportunity areas for actuaries – esp Risk and BF&I - and how we are seeking to foster these growth opportunities
- and, recognising that our most valuable asset as a profession and as professionals is our reputation, some of our current governance initiatives designed to ensure we continue to deliver the highest possible standards and quality of advice.

So, today's address starts off with the conceptual and moves to the highly pragmatic – hopefully there is something there of interest for each of you, depending on your leaning.

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

Goethe



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

I am enormously optimistic about the future of our profession.

Opportunities beckon for major actuarial contribution. Many will require boldness of action by the profession and individuals. We will require the courage to commit (pause):

- to developing innovative and challenging thought leadership
- to developing new domains and practice areas
- to be proactive on issues of public importance

(pause) to lead

I feel we have a collective destiny to make great contributions well beyond what might be expected from our relatively small professional numbers.

***‘The real voyage of
discovery consists not in
new landscapes but in
having new eyes’***

Marcel Proust



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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. Rather than perceiving the world in a state of fixedness over which we can have little influence, when we go through this shift of mind, the world of possibilities opens up.

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.

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

There is a rich array of opportunity once we apply a “wide lens” – from improved risk and capital management frameworks in both financial services and broader industries, to energy and trading markets, to a broad array of Banking & Finance endeavours, improved health outcomes, and major public affairs issues to mention just a few.

‘It begins with the natural feeling that one wants to serve, to serve first. Then conscious choice brings one to aspire to lead’

Robert Greenleaf



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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.

Inevitably, a commitment to distinguished service contribution leads to the opportunity , and the preparedness, to lead.

The Future : Leadership in Areas Aligned with our Core Purpose

- **Sustainability and vibrancy of institutions**
- **Sustainability and vibrancy of the profession**
- **Sustainable Futures**



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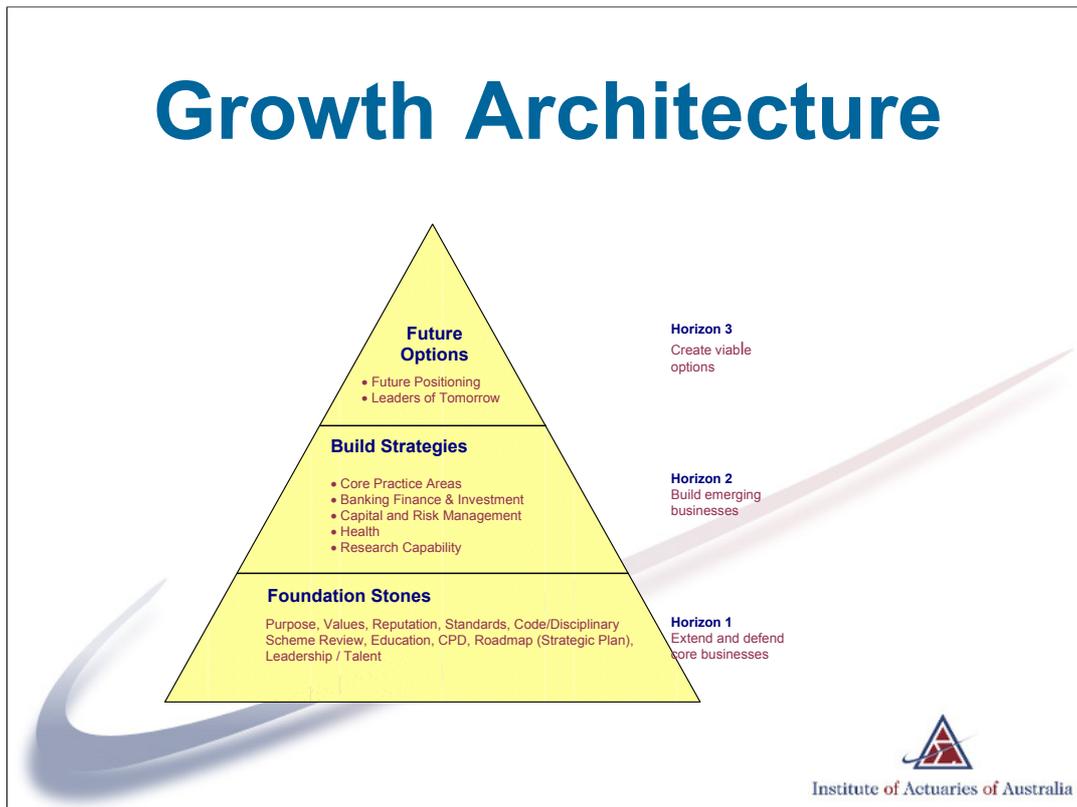
“As actuaries, we are in the privileged position of being able to make a major contribution to society - in many forms, and not in a purely altruistic sense. There are two key forms of contribution which are explored in this address:

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 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. “

Growth Architecture



In thinking about the future, it is useful to think in terms of the “3 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. It asserts that the secret to sustaining growth is to manage opportunities across 3 time horizons as follows:

Horizon 1 : Extend and defend core business

Horizon 2 : Build emerging businesses

Horizon 3 : Create viable options

If we abstract slightly from a business context, this framework is a useful construct for our profession.

I propose that having solid Foundation Stones are Horizon 1 issues – including Core Purpose and Values, Reputation, Standards, Education, a Roadmap in the form of our Strategic Plan, and Leadership.

Regarding Horizon 2 issues, a couple of key areas of emphasis in my address are Banking, and Risk Analysis and Management. These are excellent opportunity areas for actuaries to make a major contribution.

Let me expand on that now.

Risk Initiatives

- **Activities of the IAAust Risk Management Group – very positive developments including :**
 - communication (Actuary Australia and Convention),
 - a Risk Seminar tentatively planned for August 2005, building appropriate linkages (eg to the BF&I group),
 - liaison with the regulator, APRA, and
 - formation of an Education Sub Committee
- **The ERMII proposition (see Executive Committee section of Council papers)**
- **The Risk focus in the BF&I Positioning Strategy**

Must maintain strong momentum with our Risk initiatives, including consideration of the concept of a risk specialist designation (eg Certified Risk Analyst or CRA).



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A cursory review of the key practice area and their imperatives reveals one strong common element – Risk Analysis and Management (shorthand : Risk), and its partner, Capital Management.

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, 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 teaming skills.

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

(READ FROM SLIDE)

Banking, Finance & Investments (BF&I) Initiatives

- **Top 5 areas of greatest opportunity in next 5 years**
 - Enterprise wide risk analysis in financial institutions, including Basel 2 implementation
 - Capital management and allocation in financial institutions
 - Credit risk analysis and credit derivatives
 - Derivatives structuring and sales (sell side) and buy side analysis and execution
 - Structured finance (eg hybrids and securitisation)
- **Strategies :**
 - Develop industry profile/influence employers
 - Student communication re opportunities
 - Staged education enhancements – eg broaden Part II/ACC and strengthen Risk coverage/linkages
 - Fluid/topical CPD
 - Strong Research/Thought L'ship emphasis

Key issues in the Banking, Finance & Investments sectors – including capital management, risk management, pricing, structuring of complex financial deals, etc – are areas where actuaries can make a very meaningful contribution, and much greater than we have hitherto.

Our BF&I taskforce has been examining these issues – and has been tasked with producing a 5 year blueprint for these sectors covering vision, strategy, positioning, member services issues, and resources required to achieve success.

The Taskforce believes that the actuarial profession in Australia has an exceptional opportunity to be a leader in the field of Risk Management for the whole finance industry (and maybe beyond), while recognising other disciplines already make valuable contributions in the field. There is an urgent need for these skills and a dearth of appropriately trained and experienced professionals.

Actuaries could also realistically dominate financial modelling and problem solving roles in the broad financial services industry, not just in insurance and retirement savings sectors. The skills, insights and applications are essentially similar, simply the context – regulatory, commercial, transactional – differs. However, it is clear that actuaries, as a group, have no present status in this field.

Key targeted opportunity areas and strategies are :

(READ FROM SLIDE)

IAAust – Governance & Regulatory Review

- **Independent Peer Review (IPR) - Statutory Reporting (GN 505) – likely effective early 2006**
- **Financial Condition Report (FCR) for General Insurance – probably from Jan '06**
- **Review of Code of Professional Conduct, including**
 - Obligations to clients, employers, and the public interest/3rd parties
 - Processes for “escalation” and disclosure of issues
 - Role of Senior Actuary
 - Reports provided over time and linkages
- **Professional Standards Guide using Life standard (PS 200) and Guidance Note as templates – generally greater mandatory emphasis in PS's**
- **Disciplinary Scheme Review**
- **Standard employment and consultant contract terms**



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The Institute has endorsed IPR as best practice for statutory actuarial reports for individual life and general insurance companies, and in the case of superannuation the IPR be carried out at the level of the organisation carrying out the actuarial advice. IPR will focus on the methods, processes and systems used, and the reasonableness of the resulting conclusions.

The immediate focus is on statutory roles, and especially statutory reporting where we have been looking at IPR as best practice. A likely direction to emerge is an IPR Professional Standard to apply when IPR is required, and a broader Peer Review Guidance Note. There is also considerable focus on the form of the opinion which should apply for IPR of statutory reporting, and increased clarity on the interaction between actuarial and auditing functions.

FCRs in GI :

- Positive development
- Positioning : Value adding vs compliance/regulatory Forward looking – ‘health check’
- Need to opine on Risk Management
- Natural evolution of GI actuaries : Liability Valn -> FCR -> Risk Mgt

‘.... one firm note of hope comes through ... some extraordinarily able, mature, servant-disposed men and women are emerging in their early and mid twenties.’

Robert Greenleaf



So these are some of our pressing Horizon 1 issues.

But let me now raise the sights again and move to Horizon 3 – Creating Viable options for the future.

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.

As Robert Greenleaf observes in his book on Service Leadership:

“...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.”

I share this optimism, especially in our profession.

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.

There are exciting areas inviting distinguished actuarial contribution, service, leadership - and boldness if we are to make our contribution as a profession.

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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 the 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 of key roles in the banking & 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 IFRS developments are de-emphasising their measurement.

***‘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, Scottish
Himalayan Expedition***



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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.

To make these contributions, we need to be prepared to commit, to step forward boldly, to move outside our comfort zones, to take risks, and to assume leadership.

We need pioneers, leaders, business developers and innovators to develop new territories where we can make a valued contribution.