

Actuaries in the changing context

Sampad narayan Bhattacharya, FASI

ABSTRACT

The changing social and financial scenarios are marginalizing the role of the Actuaries. Actuaries not only need to redefine their roles and reposition themselves, they must uphold the Actuarial principles and re-establish their value and importance.

Keywords : changing context, widespread deliberations and intense introspection, marginalisation, Government interventions, regulators' reliance, current generation, corporate world, 'actuarial' communications, innovative solutions, pro-active and exploratory approaches, human attitudes, social trends, social responsibilities, individual ventures, organizational initiatives, risk and finance, specialized expertise, basic virtues, pioneering actuaries, convergence of finance professions, 'financial sense' of its own future.

1. INTRODUCTION

1.1 The changing context :

The context has been changing, both in terms of speed and direction, in relation to the Actuarial profession and the Actuaries. The traditional actuarial roles in the 'exclusive' fields are sharply declining; not only no new "exclusive" field has come up for the actuaries, the efficacies of their exclusive positions in the traditional fields are also being questioned from various quarters; actuaries are getting increasingly marginalized by pressure from other finance professionals; actuarial methodology is being vigorously questioned by others unfamiliar with it; actuarial principles have been forced to take back seat in many cases and even 'actuarial governance' is no more considered to be robust enough by the Governments or the Regulators.

1.2 The actuarial 'home task' :

So the big question is - what do the actuaries do to adapt to these adverse changes and re-establish their relevance in the emerging circumstances. It is highly imperative for the actuaries to identify the underlying change factors, understand the relevant risk issues relating to the profession, rediscover the very basic worth of the profession in the changing circumstances and visibly demonstrate it to all concerned. Certainly this is not an easy or simple task.

1.2 The contents herein :

In this article a very simple attempt has been made to identify some of the change factors as perceived by the author (in section 2), to deliberate on some of the underlying issues in general terms (in section 3), and to wonder at random about the future uncertainties relating to the profession (in section 4). The purpose of this article is to raise these well-known (but vitally important) issues once again to emphasize widespread deliberations and intense introspection inside the entire profession, which are now essential in addition to the well-thought initiatives taken by the professional bodies.

2. THE CHANGE FACTORS

2.1 Changes in the 'actuarial' fields :

Actuaries' stronghold in the field of Investment was lost long back when other finance professionals entered the field and made their mark. The traditional fields of Pension and Life Insurance are already in their own crises due to various factors. Acceptability of actuaries in the field of General Insurance is not yet that strong or universal.

Defined Benefit Pension schemes have almost become extinct taking away with it the vital role the actuaries had in that area, and actuaries are obviously not indispensable for running the Defined Contribution Pension schemes. Steadily improving longevity at advanced ages and downward trend of interest rates have put to difficult test the role of actuarial expertise in the designing and pricing of annuities.

Traditional Life insurance business, particularly the with-profit business that was the core area of actuarial expertise, has been decaying, and the emerging area of linked business is not really actuary-intensive.

2.2 Marginalisation by other professions :

Actuarial profession is not only small in its size, it is much less visible to others. Also, the profession as a whole largely remained confined in the traditional fields whereas the other finance professionals, be they accountants or financial economists, continually grew in their own fields as well as expanded their related areas of activity quite often marginalizing the traditional role of the actuaries.

Gone are the days when rarely anyone questioned the actuarial wisdom or bothered to question about the actuarial methodology applied. Now almost every profession working in the financial arena intends to have a clear idea of what the actuaries are doing and wants to see through the actuarial 'mysteries'. They view the financial issues from their own angles and question the unfamiliar actuarial methods and principles. They are naturally reluctant to accept the actuarial ideas, methods or even results if those are not consistent with their own ideas and techniques or do not suit their purpose.

Traditional actuarial methodology has already been forced to take a back seat in many cases. The new professionals are applying their own techniques in the financial fields and claiming their own superiority. The novelty of their techniques (despite the related complexities) and their booming presence in the vitally important financial areas (like capital markets) as well as in the newly emerging fields are posing serious challenges to the actuaries and their traditional methods.

2.3 Intervention of the Government and the Regulatory bodies :

Government interventions, particularly the changes in the tax rules, have a significant effect on the traditional business of Pension and Life Insurance. For example, it can be strongly argued that tax intervention has been a major factor in not-so-prudent funding position of many Defined Benefit Pension schemes which were traditionally 'over funded'. Short term tax-hungry approach easily overrules the long term prudence of extra savings unless the justification of such prudence can convince the concerned authorities.

The Regulatory bodies, separate from direct government administration, in various forms are now playing much more prominent role in the financial field significantly influencing the principles, policies and the final outcome in the financial market. The regulators have their own need to dominate and demonstrate their authority, and the individuals involved in this job will certainly go by their own knowledge and understanding. Apart from other external reasons, the regulators' reliance on the robustness of the actuarial expertise will be affected if they cannot be made to appreciate the values of the actuaries' work.

2.4 Changes in the general attitude :

Society is changing, lifestyle pattern is changing, and so is individuals' attitude. Explicit "cross subsidy" is no more favored. If actuarial risk management techniques require 'pooling' or 'cross subsidy', effective communication and perhaps more refined techniques are required for their general acceptability.

The current generation apparently prefers generalization to specialization even if the basic techniques involved are highly technical. The end product needs to be generally understood and useable by generalists. This also applies to communication in general terms of actuarial methods and techniques.

Culture in the corporate world is also changing, so is its outlook towards actuarial activities in the company. Business managers cannot be expected to like and accept what they cannot understand or dictate.

3. THE UNDERLYING ISSUES

3.1 Anything wrong with the actuaries?

Actuaries certainly need to adapt to these adverse changes and re-establish their relevance in the emerging circumstances with a fuller understanding of the current situation. It may be helpful to examine what emerging opportunities were missed in the past and what sort of lethargy or complacency or inability to act might have contributed to the present crisis stage.

Some perceived weaknesses of the actuarial profession are small size, lack of reach, less visibility, poor communication (with other professions and the society in general) and rigid attitude. Poor communication is generally considered to be the most important factor in current situation.

3.2 ‘Actuarial’ Communications :

Communications from actuaries can be considered to have many facets, e.g. - communicating the concepts and methods to the peer professionals or corporate executives to make them appreciate the value of the actuarial work, persuading the tax authorities to desist them from taking steps that discourage prudent funding or make insurance unattractive, persuading the regulators to appreciate actuarial norms or educating the public about the value of the actuarial risk management techniques. Neither all these communications require the same type of communication skill, nor all the perceived failures of actuaries in these respects are their simple inability to communicate.

Communication is a two way process. Not only one party should be able to properly communicate, the other party should also be interested and able to receive. When the other party is bent on doing what they want to do for their own compelling reasons – may be achieving a short-term interest or simply dominating in their own way, they may not simply listen to the other side or accept their views, however desperately they may be trying to communicate.

On the other hand, properly communicating the actuarial concepts and explaining the intrinsic worth of the profession is an essential task. If the new finance professionals can successfully communicate the concepts like ‘risk appreciation’ and ‘risk appetite’, can explain the ‘greeks’ to the investing public and can succeed in fully passing on the responsibility of the risk of choice to the investors, there must have been some deficiency on the part of the actuaries in communicating the actuarial concepts if those are not understood or appreciated by the concerned persons – be it inability to communicate or lack of eagerness to communicate.

3.3 Dealing with the changes :

Changes with time is a quite natural process and every live profession needs to adapt to such changes, even though some of the changes seem to come out of the blue. Apart from rational inadequacies, if any, purely human factors may also bring in new complications. Also, sometimes it is just unavoidable to be regarded as unfashionable. So a clear understanding of the change factors helps to decide the way forward.

It is difficult to remain static, so it is necessary to try to grow to avoid the decline. The new challenges of course pose new threats, but innovative solutions to the problems bring in new opportunities as well. Pro-active and exploratory approaches to the emerging situations also provide with new opportunities to grow. Only future will be able to tell the score of success on this count.

The standard course of continuing action to deal with the changes is to identify the core area of expertise and the unique capabilities of the profession, to analyze the areas of strength and weakness, to grasp the developments all around, to understand the changes in circumstances including the changes in the human attitudes and the social trends, and to examine the changes in the situations in terms of the threats and the opportunities. Quite often, this process also reveals the perceived changes in the role of the profession, both within the profession and outside, as well as throws up some special responsibilities in the public interest. The insight gained throws light on the actions to be taken, the perceptions to be changed and the skills to be developed. Individual ventures in this regard can play pioneering role in addition to the organizational initiatives.

4. THE FUTURE

4.1 Need for actuarial expertise :

Actuarial profession now needs to justify its existence in the changing context and find ways and means to ensure its growth. Actuaries certainly need to redefine their roles and reposition themselves according to the changing circumstances, but now it has also become a very basic question of understanding and establishing the significance of the existence of the actuaries.

Actuaries deal with risk and finance, and possess specialized expertise in both these fields. The circumstances are changing, the risk factors are also changing accordingly. Expanding the actuarial skills and refining them to provide wholesome solutions to all the emerging problems is the essential requirement. The profession should be able to meet the demands for risk management techniques for the emerging new risk factors and also more effective techniques for the traditional risks. As long as the basic principles underlying the actuarial techniques are valid, those techniques remain valuable. However, actuaries need to refine them to the extent necessary and uphold their values. Of course it is easily said than done, but success in this respect will decide the future of the profession.

The perceived strengths of the actuaries are intelligence, analytical ability, thorough understanding, methodic nature, professional ethics, personal integrity and robust techniques. These are all basic virtues of a profession and are of eternal help. The future lies in retaining the virtues, refining them, adapting them to new circumstances and reapplying them in the changed context, apart from adopting new techniques that are quite relevant, modern and acceptable to the new generation.

4.2 Need of Innovations :

Changing circumstances require innovative solutions. Successful innovation is the surest way to survive and thrive, whether in the traditional fields or in new ones. It also creates visibility and takes out the stale image of a profession. But the innovations required may not come so easily.

Individual brilliance of the actuaries, excellence of their performance in whichever field they are and contribution of the pioneering actuaries will lead the way to innovative techniques. However, adequate scope needs to be kept open for innovation in the current regime of standardization, 'Guidance Notes' and 'globalization'.

4.3 Future uncertainties :

No one knows what shape future will take. It is possible that with dissipation of the traditional earmarked fields for the actuarial profession or with disappearance of the role boundaries of the various finance professions leading to a convergence of those professions, the actuarial profession may not perform in its present form, but as long as the essence of the profession remains valuable it will continue to exist, may be in new forms and in new fields.

Actuarial profession now needs to make 'financial sense' of its own future. After all, future uncertainty is its own domain.

[**Note :** This article is solely based on the global view of the author regarding the profession, and does not relate to any particular country or circumstances.]

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ABOUT THE AUTHOR

The author, **Mr. Sampad Narayan Bhattacharya**, is at present an independent actuary. Up to March 2006, he was the **Appointed Actuary** of the **Bajaj Allianz Life Insurance Co. Ltd.** immediately before, he was the **Head of the Benefits Consulting Practice and Chief Actuary** of **Watson Wyatt India Pvt. Ltd.** He had a long stint with the **Life Insurance Corporation of India**, working in various capacities in various offices, both in the Administrative wing and in the Marketing side, as also both in technical departments and as general executive, dealing with individual insurance as well as Pension & Group Schemes, and took voluntary retirement from LIC as Regional Manager (Actuarial) of South Central Zone in the cadre of Deputy Zonal Manager.

Born in 1953, he is an Honours graduate in Physics from Calcutta University and a National Scholar and National Science Talent Search Scholar (NCERT) at H.S. level. He is a Fellow of the Actuarial Society of India, an Associate of the Institute of Actuaries, London, and a Fellow of the Insurance Institute of India.

He frequently acted as a guest Faculty at the **Zonal Training Centers & the Management Development Center** of L.I.C and is quite often invited as guest Faculty and Speaker at the **National Insurance Academy** in Pune. He also acted as the **examiner of Calcutta University** in subjects related to Life Insurance and Actuarial science.

He has been contributing **Actuarial papers** in different forums, both national and international, since 1996. His papers have been accepted in three consecutive **International Congress of Actuaries (in Birmingham, Mexico and Paris)**. He also acted as Guest Speaker, on invitation, in the '**International Conference on Banking and Insurance**' organised by **National Foundation of Indian Engineers** backed by Assocham in New Delhi in July 2001, in the '**Global Symposium on Pension**' in **National Insurance Academy** in Pune in February 2002, in the **Financial Journalists' Seminar** organized by Aviva Life Insurance Co. in **Sri Lanka** in July 2003 and in the '**C D Deshmukh Seminar on Insurance and Pension**' in **National Insurance Academy**, Pune, in September 2004. The related papers were published accordingly.

His paper "**A Note on the equitable form of Reversionary Bonus**" was presented and discussed in the **26th International Congress of Actuaries held in Birmingham in 1998** and also in the **All India Conference of Actuaries** organised by the Actuarial Society of India in 1997. Actuarial paper "**Actuarial Profession – its Risks and Re-orientation**" was accepted for presentation and publication in the **27th International Congress of Actuaries held in Mexico in March 2002**, and was also presented and discussed in the **4th Global Conference of Actuaries** held in New Delhi in February 2002. Actuarial paper "**Actuaries in the changing context**" was accepted for presentation and publication in the **28th International Congress of Actuaries held in Paris in May-June 2006**.

His first Actuarial paper "**Index linked Pension – Some Actuarial Aspects**" was presented and discussed in the **All India Conference of Actuaries** organised by the Actuarial Society of India in 1996. Actuarial paper "**Problems and Potentialities of Pension Products in the present context**" was presented and discussed in the **2nd Global Conference of Actuaries** held in New Delhi in February 2000. Actuarial paper "**Concept of 'Profit' & 'Profitability' in Life Insurance Business**" was submitted in the **3rd Global Conference of Actuaries** held in New Delhi in February 2001.

Actuarial paper “**Defined Benefit Pension Scheme – Can it survive?**” was presented and discussed in the **6th Global Conference of Actuaries** held in New Delhi in February 2004 which won **Prof. G S Diwan Memorial Prize**. Actuarial paper “**Appointed Actuary – Insure thyself**” was selected for presentation in the **13th East Asian Actuarial Conference** held in **Bali, Indonesia**, in September 2005.