

## 2018 Presidential Address

### Globalisation of the profession - threats and opportunities

John Evans, President<sup>1</sup>

In considering its future strategy, Council recently concluded that the aim of the Actuaries Institute is to build a strong actuarial profession and community that is in high demand across regulatory and non-regulatory roles in financial services and the broader economy. With that in mind, I want to outline some of the challenges that the Institute will face in coming years.

The world has changed significantly since the Actuaries Institute was established, over 50 years ago, in 1963. We introduced our own Part III exams in 1980, a decade prior to the advent of the internet. It is time to recognise that the mindset from those times is no longer appropriate and we need to set about managing in an orderly manner the necessary changes to fulfil our goals for the profession in the 21<sup>st</sup> century.

Institute members need to be aware that there are significant, but not insurmountable, challenges ahead. The purpose of this paper is to raise some of those issues that we will face over the next five years and outline the approaches we need to embrace to resolve those challenges. The issues include:

- ▶ Globalisation of the actuarial profession.
- ▶ New work roles for members of the profession.
- ▶ Governance of the Actuaries Institute.
- ▶ Conduct risk.
- ▶ Education.
- ▶ The Actuaries Institute's lack of scale.

To do this, I believe we, as a profession and as members of the Institute, need to:

- ▶ Welcome and engage with change.
- ▶ Identify our strengths and work to manage our weaknesses.
- ▶ Recognise scale and growth is a challenge.
- ▶ Position ourselves for the globalisation of the profession that is already underway.
- ▶ Evolve a governance model that supports the ambitions and expectations of the profession.

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<sup>1</sup> I wish to emphasise that the views expressed in this paper are mine and do not necessarily reflect the views of Council or HQ.

I would not want it to be interpreted that the issues I have outlined have not been recognised, as Council has over the last few years evolved medium term strategies for the profession that recognised our strengths and weaknesses. However, as with most membership based organisations, there is always a certain amount of resistance to change. The purpose of this paper, and the subsequent discussions with members in each capital city, is to bring the current issues facing the Actuaries Institute into a wider audience for discussion. It is hoped that members will engage with Council on the need for some significant changes in how we operate in the longer term.

## Globalisation

The globalisation of the profession is underway and is being driven by the expanding global footprint of the IFoA and the SOA, and to a lesser extent the CAS. These moves create a challenge for the Institute to grow and maintain sufficient scale to underpin our education goals. The growth ambitions of actuarial associations, including this Institute, will impact the nature and scope of education offerings, domestically and internationally. Already, the SOA, for example, has independently recognised several Australian universities as “Centres of Excellence”.

The Institute has been working to raise the profile of the profession within Australia to sustain its unique regulatory role and to create pathways into new work areas, but we need to continue to develop our profile with the Australian community and demonstrate our value proposition to the wider financial and commercial sectors.

Expansion of actuarial associations could potentially encroach on the activities of the Actuaries Institute. To maintain relevance, we need to recognise and accommodate stakeholder interests, wherever possible, to sustain a strong local profession. The issue of globalisation is intertwined with issues relating to growth of the membership, new areas of work, and consequent governance issues many related to the issues of membership growth and organisational scale.

## New Roles for Members

In 2016, members of the Actuaries Institute reported their areas of work as:

Work Area	% of Total in Survey
General Insurance	24%
Life Insurance	23%
Superannuation	7%
Investment	6%
Banking	6%
Data Analytics	5%
Reinsurance	3%
Risk Management	3%
Finance	2%
Health Insurance	2%
Undisclosed	17%

Our traditional areas of work, general insurance, life insurance and superannuation now only account for 54% of members, but what is more interesting is the likely development of areas of work as disclosed by the proportion of Fellows and Students working in various areas where the Actuaries Institute could get meaningful data:

Work Area	Fellows	Students
Life Insurance	28%	19%
Superannuation	9%	4%
Data Analytics	2%	11%

This analysis suggests that if students remain in their current work area, then we are going to see a significant shift away from our traditional areas of work. This analysis further understates the changes occurring as the proportion of members working in data analytics has increased from 5% to 18% when members' secondary practice area is considered. Clearly, the work areas for members have changed, and is continuing to change, but this has been driven by individual members finding new areas of work.

The Actuaries Institute needs to identify and cater for emerging practice areas to attract new members and provide alternate career paths for existing members. Previously a lack of resources had constrained the Institute's ability to exploit new fields such as risk management.

Consequently, the Institute was bypassed, as a member organisation, by a significant number of risk professionals. The Actuaries Institute is now slowly making gains with 50% of attendees at the 2017 Enterprise Risk Management Seminar being from outside the profession.

Nevertheless, the Institute must continue to support Council's current strategy to build membership amongst professionals in the emerging data analytics area, to provide new career paths for members and provide a growth stimulus to boost our capabilities and resources. Again, this issue is not one that can be addressed in isolation, as conscious attempts to build new professional skills and areas of work create governance issues and need resources to make it happen.

## Governance

The Institute's governance model can be summarised as:

- ▶ Council has all the executive authority to manage and develop the Actuaries Institute within the terms of the Constitution, apart from the disciplinary process which is an independent function and;
- ▶ Council devolves to HQ, the Presidential Committee and the Practice and Council Committees various functions, subject to monitoring by Council.

The governance process essentially involves volunteers, and consequently its success is highly dependent on the quantity and quality of available volunteers.

The increasing complexity of issues that require Council's consideration demands that members must choose representatives that have the expertise to make effective decisions in a considered and timely manner. It is important for members to ensure that Council is reflective of the broad membership and that stakeholders have effective channels of communication with Council.

Increasingly, some of the broader business skills required to ensure appropriate decisions are made have been supplied by HQ or consultants, but this still requires some level of expertise on Council to be able to adequately question the information being provided. The challenging environment in which the Actuaries Institute operates does raise the issue of whether Council should have specific positions for the areas of expertise in which members work, and the requirement to have external people with broad business experience invited to join Council for specific terms.

There is also then the related issue of remuneration for work undertaken as my experience is that the work involved with Council has increased significantly over the past few years, and this may deter potential members to serve on Council. Management efficiency could be well served by a clearer devolution of administrative tasks to the CEO to allow Council to fulfil its strategic and oversight roles.

Perhaps a solution is to have a two-tier Council system - a cabinet/ministry structure- that could involve a small Council restricted to members with significant business experience, supported by a bigger advisory committee that is structured to give representation to practice areas and levels of membership, particularly Associate members and younger members and supported by a CEO with recognised management authority.

The role of the President also needs review, as the current 1-year term is inadequate to oversee the development and implementation of changes deemed appropriate by Council. I am of the view that the Actuaries Institute should consider allowing a President to seek a second term of office subject to re-election by Council. It would be efficient for the incumbent President to steer the Institute through the initial two years of each new strategy phase to ensure constant and consistent implementation of strategic plans.

A more radical approach would be for the President and Vice President to be elected directly by members for a two to three-year period. To encourage members to undertake a longer-term Presidency it might be necessary to consider an honorarium. I think the Institute needs to be open to these types of structural changes to allow the organisation to adapt to a fast moving, volatile environment. I look forward to hearing members' views on these matters.

Serious expansion of membership to people working in new fields brings with it issues relating to the Code of Conduct, and the disciplinary process. Reviews of the Code and the Scheme are underway, and I am keen to ensure that the revised regimes are flexible enough to apply to members operating in these new and emerging practice areas.

## Education

To date the education model has consisted of:

- ▶ Outsourcing of Part 1 and II exams to accredited universities;
- ▶ Inhouse Part III lectures and exams; and
- ▶ Inhouse CPD programs predominately through Insights and Seminars.

A major issue in the provision of education through the Actuaries Institute has been, and continues to be, lack of scale. This constraint has been hidden by using the universities to deliver the Part 1 and Part 11 courses and exams for the past 50 years. The Education Strategy Review is almost complete, and it will be my aim to ensure that its implementation drives the Institute to new levels of academic excellence. Students who have come through the university system for their Part 1 and Part 11 exams expect no less from the Institute in its teaching and conduct of the Part 111 exams.

Students do have alternative choices to the Actuaries Institute for qualification, and the globalisation of the profession will further encourage students to seek better standards of teaching and learning if the offerings of the Actuaries Institute do not measure up. Whilst the current attempts to upgrade the teaching and learning for the Part 111 subjects is necessary, best practice will require continual improvements, and this will involve further expenditure. Resourcing is an issue for most educational organisations. To ensure our long-term sustainability we must seek out arrangements that allow the Actuaries Institute to partner with other larger providers, so we can provide best practice education and CPD programs.

I intend to ask Council to formulate a single statement as to what our total education program is intended to provide to members, so that we can benchmark all future strategic decisions against that position.

### **Conduct Risk**

The Australian financial system has seen several instances of what can only be described as very poor behaviour by institutions towards their customers, which has drawn the attention of political, regulatory and consumer stakeholders. To date, the Actuaries Institute's reputation has not been damaged, but given our prominent and statutory role in life, general and health insurance there is a high risk that some individual members could tarnish the standing of the profession.

I believe the Institute must strongly enforce its Code and professional standards and provide clear guidance to members, particularly on conflict of interest matters, to minimise conduct risk.

## Recognising our Strengths

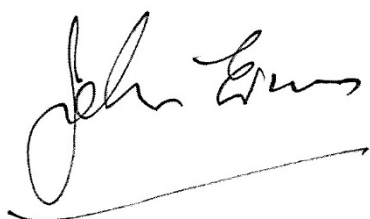
The Actuaries Institute is well known and regarded in the financial community in Australia and in the global actuarial profession. The Actuaries Institute has made significant progress over the last few years in improving its recognition through production of papers that focused on community issues as well as engaging in a serious way with government and the media. We are well respected in the global actuarial profession. The profession has skills that can be used widely in understanding and managing business problems. We need to concentrate on ensuring these strengths are as well developed as is possible. We need to welcome new areas of employment and actively support members who want to transition between different areas of work through a best practice CPD system.

I believe that the road to maintaining a vibrant and sustainable Institute is to concentrate our education services to professionalism subjects and improved CPD offerings. We need to ensure we are in the strongest position possible to manage the transition to a global profession by being seen universally as a serious contributor to the development and management of the profession.

## Conclusion

The Actuaries Institute led the world with university education through Alf Pollard's Macquarie University program that has had a significant effect on the profession worldwide. The next big 'wave' coming through the global profession is the engagement with new areas of work, cross skilling of members to meet the demands of new roles and management of conduct risk. This is an area where the Actuaries Institute can excel and lead the global profession, but we must have a clear purpose, a will to implement decisive action and the appropriate resources to sustain our Institute in the challenging years ahead.

I intend to use my Presidency to support those actions, so the Institute can continue to serve the profession and the Australian community as it has done so well, in the past.



John Evans