

## Address

### by David Martin

Leader of the Scottish Board of the Institute and Faculty of Actuaries  
Edinburgh, 19 September 2011

### Contact

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Mr Tom Ross, F.F.A. welcomed Mr David Martin as the leader of the Scottish Board. David's actuarial career started in a life office and then moved into the world of consultancy, where he advises employers and trustees about their pension schemes. He has also been a great supporter of the Profession in numerous roles, not only in the UK but also in Europe through the Groupe Consultatif and globally through the International Actuarial Association.

### 1. Introduction

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Ladies and Gentlemen – I should like to extend a warm welcome to this, the second ever address to the Actuarial Profession in Scotland in its new form by its leader. I am honoured to take on this role from Gordon Bagot who led the Board through its first year and I should like to thank him for his pioneering work – particularly in relation to actuarial research in Scotland, to which I shall return later in this talk.

When considering what I should say, I looked through various similar addresses from down the years and realised I had a wide choice of ways to do this. Some took an opportunity to ride personal hobby horses; some majored on the stance the profession should take with Government on some matter of importance. Others set out how they thought we should further establish our professional standing.

There is a tendency among some in the actuarial community to think back longingly to what they imagine to have been the halcyon days of the profession – but reading previous addresses indicated to me that actuaries who hold such views may have a rose-tint in their spectacles. Many of our current concerns have echoes from the past. Furthermore we have come a long way from the 1970s when two actuaries – sadly no longer with us – but known to me in my early steps towards an actuarial career – made their addresses. They will be well known names to many here – Maxwell Thornton and Douglas McKinnon. The actuarial population they were addressing in 1975 and 1979 respectively seems very different from the profile now. Scottish actuaries were almost entirely working from a small handful of very similar life offices. The small number of life offices and their homogeneity were noted at the time with some concern. Douglas McKinnon noted that the Australians had begun setting their own exams and indicated a concern over a drop in student entrants to the profession. We now know that our numbers are vastly increased, the student intake since then has leapt up, and that our overseas membership has grown to well over 40% of the total. Our students are now over the 50% mark. We have a diverse range of activities in the actuarial profession and I am delighted that this diversity is reflected in Scotland. There has been a marked change in employers of actuaries in Scotland from a few large firms to a large number of employers – many with just a few actuaries.

I concluded that the best way to cover my thoughts would be to give an overview of the “State of the Actuarial Profession in Scotland” – looking at what the Scottish Board has achieved in its first year, where we are going and what we are doing to get there. I would welcome your feedback on how we are doing after my talk. Please look critically at this and ask yourself how all this will have made your professional life better. If there is more we can do in that area in Scotland, please tell us.

## 2. Values, Objectives and Key Responsibilities

Ronnie Bowie, in his address to us here in Edinburgh in October 2008 said “I believe that a Scottish council of a merged UK profession, within which some members will be focused solely on Scottish affairs, has the potential to create a more vibrant and individual Scottish character which will enrich not only actuaries in Scotland, but also the UK profession”. That is a challenge which the Board has picked up. I would like to cover what we have done and what we intend to do and at the end, I invite your comments on both of these aspects. Building on what the merger prospectus set out for the Scottish Board, near the start of the last sessional year we set out 8 key responsibilities, which you can see here in Figures 1 and 2.

These can be found in the Scottish Communities part of the Profession’s website.

We shall revisit these slides later and you can then view what we have achieved against each, and where we need to go further.

We work in the context of what the Council of the Institute and Faculty has been doing. A major piece of work is the Strategy Review to which I know some of you have contributed views. I hope

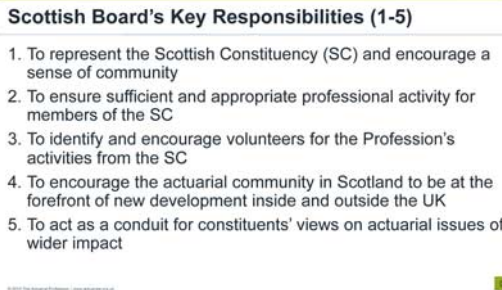


Figure 1. Scottish Board’s Key Responsibilities (1–5)

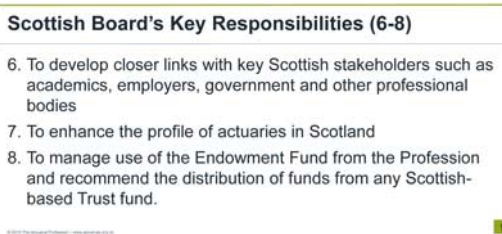


Figure 2. Scottish Board’s Key Responsibilities (6–8)



**Figure 3.** The Profession's Values and Objectives

you have now all read or at least scanned the document. It starts with our Values and Objectives which we can see reproduced here in Figure 3.

I'd like to start with the Values of Trustworthiness and Professionalism. The way I have engaged with the Profession has evolved over the years. When first on Faculty Council I joined the Pensions Board and Professional Affairs Board. The former was allied to my day to day work as a Pensions Actuary, but I gravitated to the latter, and I have stayed with that, chairing the PAB for two years some time ago and now being Deputy Chairman of the Pensions Regulation Executive Committee supporting Sir Philip Mawer, our current excellent chairman. I have extended that interest to the international actuarial sphere and am privileged to have been given a world-wide bird's eye view of Professionalism among actuaries.

Maxwell Thornton said in his address in 1975 "There are higher ends for us to pursue than self-interest.... We must so pursue our business as to bring benefits to the community in which we live". While his audience was most likely a hall full of almost exclusively life office actuaries – his references to then topical technical issues seem to suggest so – the fundamentals of our values haven't changed.

While Maxwell Thornton influenced me in my early years, Harvie Brown was an influence in more recent years. A major concern for him in his 2004 address was whether the trust actuaries enjoyed on an individual basis could be built into a more general acceptance of the Profession by the public, regulators and the government. He and Michael Pomery, the then Institute President, were coping with the aftermath of events at Equitable Life, the Penrose report and the Morris review. I have worked with both of these actuaries over the years and during their presidencies discussed with them the output of a working party and then a task force on professional competence, which I chaired. It is interesting to see how far we have come in the areas of peer review, CPD requirements and new actuarial standards – now set, as regards technical matters, by a separate Board, independent of the Profession. I believe, notwithstanding the sceptical view the public and the media have of professions generally, that the standing of our Profession has improved in the second half of this decade just finished. The Professional Oversight Board, who are charged with overseeing accountants and ourselves, do collect data on the views of our stakeholders as to our standing in this area. While I might question the statistical reliability of some of this data, it is nevertheless the only yardstick we have. There is no separate data for Scotland, but I should like to think that professions in general and our Profession in particular have better recognition in Scotland and are better regarded than for the UK as a whole. I should be interested to hear later from you if you share that view!

We mustn't however be complacent. Wherever in the world we work as actuaries, we need to act ethically and responsibly. We now have an Actuaries' Code which is shorter, simpler and clearer than the Professional Conduct Standard which preceded it. The code will be reviewed next year in the light of experience of using it. Meanwhile, changes and consultations are taking place on a range of issues including conflicts of interest for actuaries, whistleblowing, regulation through firms, the CPD scheme and the practising certificate regime.

Please participate in the consultations. Your views are vital and in some circumstances CPD credit is available for doing so. Arguments often arise around whether we need to do all or some of this – that we make ourselves too expensive or otherwise unacceptable to clients by adhering to standards and following our guidelines. The contrary argument is that we are chosen by our clients, of whatever type they may be – including ultimate employers – just because of our high standards, ethical as well as technical. These are our – and other professions' – USP or unique selling point.

Ronnie said in 2008, talking of the then recent economic crisis, "There must be an uncomfortably high probability that parts of the world will suffer social tension and threats to inter-generational solidarity." I was reminded of that sentence during the riots a few weeks ago south of the border. In fact, they occurred no further north than Yorkshire, but I would hesitate to share the confidence of certain Scottish politicians that this was an issue without implications for Scotland. Analysis of the causes of these riots is wide-ranging. I have some sympathy with the view that they were partly due to the bad example set by people in high places – MPs and their expenses scandal, allegations over the extent of phone hacking and its cover-up, and – some would say – the actions of some businessmen, including those running banks, in precipitating the current economic crisis. The events at one bank in the last few days underline this. There has been talk of a conduct code for all bankers. We can never prove any of this conclusively, but telling the difference between right and wrong is fundamental. I am not saying the professions sticking to their codes will prevent riots, but this is an important contribution the professions can make to maintaining the morality of our civilisation, and it forms a key part of the duty we have to our communities, which Maxwell Thornton mentioned.

### **3. Public Affairs**

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With that strong platform from which to work, we need to impact on the community where we live and work. In Scotland, the Board is working with our Profession's strong Public Affairs team – one of whom is a Scot based in London. He works with the newly appointed policy officers, one of whom is an actuary shortly to join the staff in Maclaurin House. We have just appointed an Edinburgh based Public Affairs agency to assist our efforts specifically to cover our activities in Scotland. This is in addition to agents appointed in London for the whole profession. Following an initial meeting with them, letters have been written to MSPs and relevant Scottish Government ministers. We have volunteers to act as spokespersons for the press and we have firm plans to raise our profile, as you have urged us to do in various consultations we have had with members.

We have identified a number of areas on which to engage with the Scottish Government. Clearly health care and longevity are of interest, as are those public sector pension schemes either exclusively in Scotland or UK-wide with strong Scottish participation. While much of our activity in traditional areas is related to legislative powers reserved to Westminster, there are a number of areas where we can catch the attention on aspects particularly relevant here. In any case, leaving Westminster to deal with matters reserved to it is not particularly a theme we hear from the current Scottish Government!

I am not this evening going to take a stand on the interesting issue – a topic of the moment – of separate income and corporation tax rates for Scotland. However an increasing number of organisations, including accountants, have expressed views. What is clear is that, if implemented, this could have a profound effect on clients of actuaries in Scotland and, not least, employers of actuaries.

The income tax proposal is included in the Scotland Bill. I understand the UK Government has set up a Working Party to consider the tax implications of a Scottish rate of Income Tax in respect of Pensions. I understand their considerations are at an early stage and time doesn't permit an in-depth discussion here. Briefly, however, there are implications for both Life and Pensions business.

In the Pensions arena – and clearly this interests more than just Life Offices, and more than just Scottish-based organisations – contributions would be relieved of income tax and pension payments liable for tax at the marginal Scottish income tax rate. HMRC intends to flag Scottish taxpayers with an “S” prefix on their codes. However issues clearly arise over how organisations with taxpayers north and south of the border deal with the administration.

The Scottish rate is not intended to apply to savings income generally, although I understand there to be exceptions to this general rule. Life Offices will need to cope with the exceptions.

Separately from discussion on the Scotland Bill, the Scottish Government has also proposed that Corporation Tax be devolved. A Scottish Rate would be expected to apply to life company profits, but not other aspects of life office taxation. The tax base for the changes would be Scottish resident companies (including Scottish based life companies), but would also be expected to include non-Scottish companies operating here. Details are not yet known, but clearly there are greater complexities to consider than for most other Scottish businesses, and the possibility that the Scottish rate – albeit assumed to be initially lower – could alter in either direction relative to the rate for the rest of the UK may lead to some arbitrage possibilities. This Corporation Tax proposal will be an issue in the years ahead.

We need to be ready to react to developments, such as those arising – including the income tax issue – from the Scotland Bill, based on the Calman Commission report, as it proceeds through Westminster. These wider changes likewise seem bound to alter the Scottish scene in the run-up to the referendum on the future of Scotland regarding its possible future constitution, including the independence option.

I don't propose that we take a position either on the Edinburgh Tram Project, although it is perhaps representative of a number of projects where risks have not been properly considered, and I shall come back to Risk Management later. One humorous and light hearted beginning to our press engagement was the article featuring Alan Watson, one of our Board members, in the Sunday Post. It followed up on a radio programme Ronnie Bowie took part in, comparing the probabilities of dying before a lottery draw took place and of actually winning. The Sunday Post article went on to cover other aspects of actuaries' work, including longevity, allowing the insertion of an illustration of Grandpa Broon – a fine example of extended longevity.

While the Fun Section of that august publication is probably not our main target organ of the press, this was an amusing start.

More seriously, we have invited a wide range of stakeholders in our profession from all areas of Scottish life for the Profession's lecture next month by Sir Harry Burns, Scotland's Chief Medical Officer, at the National Gallery here in Edinburgh. I would urge you to attend that most prestigious

event for the Profession and for Scotland. We are aiming for good publicity, not just through our guests, but also from press coverage. It has recently been proposed that what was a biennial lecture in Scotland become annual. To make that happen we will need to work hard to maintain the quality of the excellent series we have had over recent years.

We aim also to broaden our contacts with other professions and with academia, and some of their representatives are here this evening. We have a further initiative to keep refreshed our links with other employers of actuaries in Scotland.

#### **4. Actuarial Activity in Scotland**

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This event this evening and the Sir Harry Burns lecture are the first two sessional events in the current year. A programme of further events is planned by a committee of those looking after the important responsibility of maintaining our professional activity. This includes key Scottish members who help ensure the excellence of that activity in Scotland. In keeping with tradition, many of these will be presentations of papers which are also, on another date, to be discussed at Staple Inn.

An additional feature which we have introduced in Scotland is to have a pre-meeting for junior members of the profession to talk informally with the authors about the content. This has proved successful and is, I believe, being considered south of the border. We have, of course, had for a couple of years now the generously donated Sloan prize for contributions at sessional events from younger members.

In order to make actuarial events more accessible and user-friendly – particularly to the vast majority of actuaries who have yet to attain middle age (choose your own watershed for that one) there has been for some time now an organisation in Edinburgh as part of the profession in Scotland, called Our Changing Future (OCF). They run early morning, breakfast-type events. We have reformed links with them and it has been agreed that a prize will be presented from the Faculty Charitable Trust, formed from the various Faculty trust funds, to the best paper presented at their meetings each year. I'm pleased to say that the first presentation will be made to Katya McLean at the next convenient OCF event.

Forging of links has also taken place with FASS and GASS, the Edinburgh and Glasgow students' societies. The Board believes it important to get feedback and input from this important part of the Scottish actuarial community. They represent, after all, our future. From a practical point of view, this involves sharing information about meetings and other events and providing support for these.

Contact with members has been through the quarterly Scottish constituency electronic newsletter, articles in the Actuary and the website. I would encourage you to take part in discussion streams on the website. We have a remit to ensure engagement from all parts of the community and we have looked at the support we have from various volunteers. We have tracked the support they provide in a number of areas, are celebrating this involvement and are attempting to ensure a further supply of such volunteers. A good number of our excellent volunteers accepted an invitation to a thank-you reception last month on the roof of the Glass House. We would encourage you to volunteer for committee work, involvement as an ambassador to schools or universities, or to be a mentor to others. The Profession has produced a leaflet on volunteering and this features, among others, Katie Low, a member of Council and the Scottish Board. She is the granddaughter of John Wallace, a past president and daughter of Alistair Low. She is making her mark on the Actuarial Profession at, I guess, a rather earlier age than either of her distinguished predecessors.

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## 5. Research

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When I qualified in 1980, I was asked which research group I would join – I wasn't just asked "would I like to join". Volunteering seemed to be compulsory in those days! This brings me to the subject of actuarial research – an area where Scotland has always excelled. The lifestyles of actuaries have changed with the times, and we need to change with them. I have already mentioned a different style of actuaries' meeting, but the substantial calls on actuaries' time, both in longer hours at work and also greater demands from family life, mean that there seems to be less time for research. We believe we have found a solution. We have been engaging with academics and business in a number of ways. It has been in this area that my predecessor, Gordon, has been putting in a particular effort.

We are proud to be among the six founder members of the Scottish Financial Risk Academy – SFRA – an organisation headed by one of our honorary Fellows – Professor Alex McNeil of Heriot Watt University. This is proving to be an excellent organisation with which to be associated. It was launched on the 4<sup>th</sup> of November at a ceremony at the Bank of Scotland building on the Mound. It provides seminars, colloquia, access to training and research, interaction with academia and focus for interaction in financial risk management. Business people are targeted in the early evening at their colloquia after more academic sessions in the afternoon. The next major colloquium – the third in the series – is to be held on the 28<sup>th</sup> of this month on Solvency 2 – a subject, of course, of enormous interest for actuaries, especially, but not exclusively, life and general insurance actuaries.

As many of you will know, as part of our Profession's merger arrangements, an Endowment fund of £500,000 has been set up. The Scottish Board, which has responsibility for finding appropriate uses, has, with help from the SFRA, considered an attractive proposal for using some of this endowment. The intention is to fund research, particularly in the risk management area, for the benefit of actuarial science both in Scotland and the wider community. The proposal is being worked up with positive encouragement from the Management Board on behalf of the Profession. This joint effort with the SFRA is an excellent example of cooperation with like-minded people to encourage research. We will have the benefit of the expertise of academics in organising PhD students, covering topics of direct interest to the Profession, and providing material that can be used by actuaries and discussed at Sessional research events and in other situations. It is hoped that the Endowment Fund contribution will be "seed money" and further research funds will be sought to make the proposed Actuarial Research Centre a real asset to the Profession in Scotland, the UK and worldwide, and a fitting legacy for the Faculty of Actuaries in Scotland. We are seeking suggestions for the use of the rest of the endowment fund, and will be making a call for ideas during the year. If you have views on this, let us know at Maclaurin House. We also need actuaries working in business, either individually or in groups of two or three, to assist by suggesting topics and/or mentoring PhD students, in conjunction with academics.

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## 6. Risk Management

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I mentioned in a joking fashion the Edinburgh Tram project, which perhaps could have done with some better risk management. The focus of SFRA, and a likely principal focus of the proposed Actuarial Research Centre based in Scotland, is Risk Management. I believe our profession's launch of the CERA – Chartered Enterprise Risk Actuary – qualification along with other actuarial partner associations around the world is one the most exciting things to happen to our profession in decades. Life Assurance has been the backbone of our profession for over 150 years, and in the last half-century pension scheme work has also become an enormously important strand.



However, developments in those areas – for reasons there is not time to go into tonight – they include what Nigel Masters called, in his 2008 address to the Institute, “removal of discretion” in those areas – mean a (so far) gentle decline – interrupted occasionally by bursts of extra activity, like new pensions legislation and Solvency 2 for insurance companies. Actuaries have made great strides in General insurance in recent years, although less so in Scotland. Risk management is seen by many as the new expanding area of actuarial work and the profession has been devoting great energy here. One of my former colleagues from back in our Standard Life Edinburgh days, Alan Botterill, has been leading a study into how we take the initiative forward practically beyond setting the CERA exams.

It would be great to have actuaries appointed as Chief Risk Officers to all manner of organisations. However, we need to be realistic. We cannot be so arrogant as to suggest that Edinburgh Trams would have been delivered on time, the North Sea oil leak would not have happened, the Parliament building would have been on time and budget, and even the Edinburgh Opera House (does anyone remember that?) might be in existence if only actuaries had been involved. We need instead to start from where we are – in financial services. We have been managing financial risks for decades, but the new techniques are, I believe, capable of adoption more widely. We already have actuaries in significant Risk Management positions, including the Institute and Faculty’s President elect – Philip Scott. There are actuaries in practice in Scotland using their risk management skills. There is evidence of actuaries beginning to fulfil risk management roles for their employers, including in my own firm where an experienced actuary, based in Scotland, has recently been appointed to an international risk role. We can make a start on learning by sitting the ST9 exam. I should like to think I would have done that if I were 10 to 15 years younger. However, if we can’t do this ourselves we have a duty to encourage our younger members and students to do just that, and there is evidence from many firms that this is now happening.

I would urge you to play your part in this exciting new development in our profession.

## 7. Conclusions

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Before finishing I’d like to conclude and summarise by looking again at the Profession’s themes and objectives and the Scottish Board’s key responsibilities, see figures 1 to 3, so that you can decide how well we are living up to the former and achieving the latter, in line with Ronnie’s vision of a body focused on Scottish Affairs for the Profession. Perhaps you can look at this and consider how what we have done and what we plan to do will have made your own professional life better. Are these actions making a future for the profession in Scotland more secure?

I believe the first two values (shown in Figure 3) are the key, and the continuing theme of our profession over the decades. They are never more needed than now. If done well, our work, carried out adhering to these, will – in my view – make us more competitive rather than less compared to non-professionals working in our areas of expertise.

I would be interested to hear how well you think we and other professions are regarded in Scotland.

I trust we are demonstrating the other two values shown here, see figure 3 – Collaborative and Engaging values, in our actions which I have described.

To achieve our key Responsibilities, see figure 1, we have a programme of events, including the highlight next month of the Sir Harry Burns’ lecture. As well as events we run, others are organised



by those with whom we have close links. We are communicating through e-newsletters, the Actuary magazine and the website. Communication is two way, and we invite your input, and furthermore your volunteer support for the profession. We are grateful for the support we have and would like your help to maintain the flow of volunteers.

We are taking steps in regard to Figure 2, with our Public Affairs staff and support from an agency as well as through personal contacts, to link with Scottish Government, MSPs, academia, and employers of actuaries. I am pleased to announce the process of setting up the proposed Actuarial Research Centre using some of the Endowment Fund in conjunction with the SFRA, with whom we are proud to be associated. The focus of much of the proposed research is in the area of Risk Management, and I would urge you to consider how we promote not just research, but also practical application of this new development for our profession.

I should like, before closing, to thank those who have supported me, and continue to do so – my colleagues on the Scottish Board, on Council and many other groups in the actuarial profession in the UK and abroad. I should like to thank the staff at Maclaurin House, including the Board Secretary, Beth Montgomery and her recent predecessor Chris Morgan, for their help in keeping things running. I'm grateful too to my employer for allowing me to make what I do for the profession a portion of my day-job. Last, but by no means least, I should like to thank my wife Elizabeth, here this evening, for the constant support she gives me.

I should be interested to hear your views and reactions to anything I have said or any other areas where you think the Scottish Board should be acting.

Thank you for listening.

### **Summary of the Discussion following the Scottish Leader's address**

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Following Mr Martin's speech, Mr Ross opened the discussion to the floor. There followed a question and answer session.

The first question asked for an update on the progress of the liaison between the Secretariat and the Scottish Board. Mr Martin replied that, although the liaison was still in its infancy, it was progressing well. The Secretary to the Scottish Board has responsibility for the day-to-day liaison and has contacts in many parts of the Secretariat. In addition, the Scottish Leader has a seat on the Profession's Management Board, which gives him access to the Chief Executive, and the Scottish Board makes reports to the Management Board from time to time.

The next question asked for more information about the appointment of the Public Affairs and Policy Advisers (McGrigors). Mr Martin replied that this, too, was in the early stages of development. The intention is to raise the Profession's profile and an introductory letter had already been sent to MSPs. In due course, press spokesmen and experts who could be consulted on matters in the public domain will be appointed.

There then followed a few questions about risk management.

Firstly, a contributor asked about the work being done by the Scottish Financial Risk Academy (SFRA) and how the Profession could benefit from that work. Mr Martin responded that a proposal

for a research centre, supported by the Profession and SFRA, which would have risk management as its principal focus, was currently under discussion. A member of the Scottish Board is a member of the Steering Committee of SFRA, so there are close links between the two organisations.

On a separate note, Mr Martin also commented that it is encouraging that employers are suggesting, or even requiring, their students to sit ST9.

The next contributor suggested five areas for the SFRA to investigate: financial economics; fair value accounting; Solvency 2; liability driven investment; and option pricing.

Then, a contributor from SFRA expressed his thanks for the suggestions of topics to be investigated and mentioned a series of training events that SFRA were planning to assist actuaries wanting to attain the CERA qualification.

On a related topic, one contributor asked if the profession was considering the risk involved in pension schemes switching from defined benefit (DB) to defined contribution (DC). Such switches are quite common in the prevailing climate and the speaker believed there was a risk that the Profession would be accused of not doing enough to bring the change in the risk they were accepting to the attention of pension scheme members. Mr Martin agreed that this was a risk to the Profession and that an important mitigant was better financial education in schools.

The next topic to be discussed was Continuous Professional Development (CPD). The contributor asked if Mr Martin felt that the CPD opportunities provided by the Profession more generally, and in Scotland in particular, met the needs of members at all levels. Mr Martin responded that there was CPD available from different sources – not just the Profession. It was each individual's responsibility to plan and ensure that their CPD was relevant to their situation. Actuaries work in many fields and the Profession could not, by itself, possibly cater fully for them all.

The next contributor put in a plea for more active CPD, i.e. more focus on a contribution such as speaking at an event, writing an article etc. Mr Martin fully agreed that contributing to an event was more valuable than simply attending one. However, he also commented that CPD has to be recorded and some rules about the amount of CPD are necessary. Accommodating different levels of participation in CPD in the rules would be quite complex.

Another contributor asked if the Profession intends to enter into political debates on subjects such as Scottish taxation or public sector pensions, and take a firm view on one side or the other. Mr Martin responded that, although he sees the Profession having a higher profile in such topics, their involvement would be in setting out the issues rather than taking a political point of view.

Another contributor suggested that Scotland's policy on free long term care was a subject upon which the Profession could usefully comment.

The meeting was then brought to a close by the Chairman. He believes that the Profession is moving forward in a positive direction in Scotland. It is particularly appropriate, given the country's long history of successful research and innovation, that the Profession should aim to play a leading part in the establishment in Scotland of a centre of excellence for research into many areas of finance and risk management. The momentum is already established and he believes it will be maintained, and indeed increased, under the current leadership.