

ADDRESS

BY THE PRESIDENT OF THE FACULTY OF ACTUARIES

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[Delivered to the Faculty of Actuaries, 3 October 1994]

ABSTRACT

The Presidential Address covers various aspects of the actuarial profession; past, present and into the future. It considers mutual life companies and their current situation. There needs to be improved education in investment and more actuaries should be involved in this area. The codes of conduct and disciplinary procedures of the profession have to be kept under constant review. The international actuarial scene is of great importance, with mutual recognition of qualifications, the various groupings of actuaries and of actuarial associations world wide and the expansion of the profession into further countries all part of current activities. Various alternative options for the future of the profession in the U.K. are suggested.

KEYWORDS

Actuarial Profession; Mutual; Investment; Education; International

Like all my predecessors as President, I acknowledge the honour I have been accorded by being elected by you to this distinguished position in our profession. My actuarial training makes me a little uncomfortable with that first sentence since there is an element of guesswork involved in it. In a similar manner to many previous incumbents of this office, preparation for this evening involved reading quite a number of past Presidential Addresses. However, I certainly have not read all of them, and so I cannot vouch for the complete accuracy of my first statement, but the sample which I chose gives me a high degree of confidence that it is a reasonable statement to make. What I can be totally certain of is that, in my own particular case, acknowledgement of the honour is profound and sincere, although it is also associated with a considerable amount of trepidation.

In the preamble to their addresses, many Presidents have drawn attention to how long it has been since they were heavily involved in technical actuarial matters and that, by this stage in their careers, they considered themselves to be general businessmen and company executives rather than professional actuaries. This is intended as an excuse and explanation for not dealing with technical issues in depth — if at all — at this time. But my reading became an increasing cause of concern as I realised how unnecessary their caveats had been and how expertly they had dealt with current

actuarial issues or wisely foreseen emerging problems. Well, the excuses certainly seem apt in my own case and I could add a further one — that for well nigh twenty years prior to general management responsibilities my line management role encompassed stock exchange securities and property. However, I must not make too much of this latter point since then, quite rightly, I would be taken to task by a number of you as well as Jennifer Lang, editor of *The Actuary* magazine. In the August issue of that publication, the editorial topic is ‘The Investment Actuary’, in which *Per Annum* — the report produced annually by the Institute and Faculty to tell the outside world about our work — is criticised for not containing a section devoted exclusively to the investment actuary.

Perhaps I would be falling into the trap which she highlights, of an actuary working in investments seeing himself as just happening to be an actuary, since the position could have been filled by someone who is not so qualified. Quite rightly she points out that our actuarial training is of considerable value in this area, and, during my spells as security analyst, portfolio manager and then investment manager, I was an actuary, working as an actuary, in the investment field. Perhaps, then, I might now make a claim for being the first investment actuary to be President of the Faculty.

This in no way diminishes the humility with which I approach the task and the shortcomings I feel as I contemplate the standards which have been set by my predecessors. I can assure you, however, that whatever qualities you felt you identified in me when honouring me with the confidence of your support at our recent Annual General Meeting, I shall do my utmost to use them to maintain and, if at all possible, enhance the standing and interests of our profession.

Most of us have cause to thank, and I hope none to blame, certain individuals or events for being where we are today. Few get the chance to express their thanks publicly, and so I crave your indulgence in doing so now. The prime acknowledgement unquestionably goes to our distinguished past President, John G. Wallace. In the 1950s there was concern over the low number of recruits to the Faculty, and although university graduates were an increasing proportion of our students, school leavers were still seen as the major source of new entrants. John Wallace, as part of his personal recruitment drive round his native Scottish Border country, was broadminded enough to include Hawick High School on his itinerary. I had already applied for, and had been accepted as, an undergraduate at Edinburgh University for the then glamorous subject of maths/physics — a nuclear physicist was the goal, perhaps influenced by my belligerent Borders background. However, John presented such an attractive case for a profession of which neither I nor my parents had any previous knowledge, that I scrubbed my university ideas and entered the life assurance world. Since, as most of you know, I joined John’s office, he continued to exert a considerable influence on my development, but I was also taken under the

wing of that company's then most recently qualified actuary, Bill Morrison, another of our distinguished past Presidents. Their encouragement and support throughout my career have been wholehearted, and whatever I have achieved professionally or in business is thanks largely to them.

Naturally, their Presidential Addresses are two which I revisited, and if John Wallace felt it necessary to draw attention to his limited contribution to original actuarial thought, you can imagine how I feel. I consider it appropriate, however, to remind you of the unique actuarial problem he dealt with that evening, namely the mutualisation of a proprietary life assurance company with an active and vocal body of public shareholders. The mutualisation followed a thwarted takeover attempts of the company by the major corporate predator of that period. The attraction of the life company was not so much its profitability, but the pool of largely policyholders' assets which could be put at risk by using them to further additional takeover ambitions. The expenditure on the life company acquisition, if successful, would gain access to funds of more than twenty times that amount. It was thwarted by a legally upheld scheme of transferring control of the policyholders' assets to an investment committee which could be elected by the policyholders. The justification for this course of action arose out of a belief in fundamental differences between a proprietary life assurance company and an industrial concern owned by shareholders, and the issues dealt with in detail in 1973 remain relevant today.

It is noteworthy that at that time there was no adverse reaction from the media or financial experts to the mutualisation action, and yet today these same sources see little or no justification for the concept of mutuality and argue strongly in favour of demutualisation. If market action is anything to go by, then it is endorsing this latter view, since I do not believe there has been another mutualisation since that of Scottish Life in 1967, and yet we have seen a number of mutuals going in the opposite direction in recent years, some of them being very close to home. Of the eight companies in 1973 forming the Associated Scottish Life Offices, seven were mutual and one proprietary with a further mutual joining in 1974. Today we are back down to eight of which three are now proprietary.

John Wallace reminded his audience that the original development of mutuality as exercised by the Equitable Life Assurance Company involved all members of the company paying the same scale of premiums and, as and when surplus emerged, it was distributed among all members. Gradually, however, two classes of policyholder emerged, and as we entered the inflationary 1970s, which were to be followed by similar experiences in the 1980s, John Wallace posed the proposition that there was a case for without-profit policyholders sharing in some manner in extraneous inflation induced 'profits' and sought a response via a paper to a sessional meeting. None has been forthcoming, nor has there been any meaningful market pressure over

the past twenty years to introduce such sharing.

It would seem safe, therefore, to assume that the original concept of mutuality is no longer relevant, and that mutual companies' incentive to succeed arises through looking upon their with-profits policyholders as the real proprietors, whether or not their Articles of Association are fully in line with this ownership structure. If this assumption is reasonable, are they then second-class proprietors since they do not have access to additional capital via the normal rights issue route nor can they liquidate their interest via the normal stock market mechanism?

Dealing with the second point first, perhaps the development of the second-hand market in with-profits endowments is a healthy one and should be encouraged rather than the alternative of higher surrender values. Shareholders in a company can seldom expect the company itself to buy back their shares since this involves a reduction in capital and, if allowed on demand, could cause severe problems, particularly at times when a large number of shareholders were seeking liquidity. With-profits surrenders are effectively an unplanned reduction in capital in a mutual life company and, rather than move surrender values to generous levels, which could have implications for investment policy, the second-hand policy market provides a mechanism for withdrawing policyholders to receive 'value' without these other associated problems. The development of these second-hand markets also provides additional employment opportunities for our professional services.

Access to additional capital, in order to expand the business, has not been a real problem until very recently, although some would argue, quite justifiably, that the discipline of curtailing the growth of the business to that which can be sustained by internal generation of capital is an excellent one. There are also some useful examples in recent years where ready access to capital has encouraged some costly mistakes, and I am thinking particularly of the rush to buy estate agencies and the terms offered to acquire many tied agencies and direct sales forces. These, however, are management issues, and the access to subordinated loan stock now available to mutual life companies is to be welcomed.

The use to which this new capital will be put might very well be a project of the type which requires an evaluation suited to actuaries who operate in the wider fields.

It is my opinion, therefore, that with-profits policyholders are far from being second-hand shareholders. As a consequence, it is incumbent on the management of mutual offices to run them as if they are proprietary companies — but proprietary life companies without any conflict between the demands and expectations of different classes of capital providers. If this viewpoint becomes widely and publicly accepted, then the mutual companies will inexorably be drawn more openly into the accounting debate over embedded values or the accruals approach to future profits. The desire that

share prices should more fully reflect the value of a proprietary life company's book of business has been the stimulus for this revised form of financial reporting. So far mutuals have remained on the sidelines of this debate, and might even be described as antagonistic, since it seemed possible that the new approach might encourage the Inland Revenue to develop a more aggressive approach to life company taxation.

However, the demutualisations which have taken place, and other associations which have been considered, have required a number of mutuals to produce financial statements on one or other of these new bases. I suspect that many more are already producing the figures for internal consumption and the rest are working towards doing so. Surely this means that the members of mutual companies should be strongly encouraged to look upon themselves as proprietors, and to exercise their constitutional rights however uncomfortable this might be for the management of mutual companies. On the other hand, I hope it would not lead to unfair pressure on the Appointed Actuary, who will remain a crucial influence on the underlying assumptions for these new accounting methods.

It is unlikely that there will be major stakeholders, as often is the case with publicly-quoted companies, and even more frequently with private ones, so it may be necessary to develop a system of non-management proxy representation so that members can have an effective voice. A subscription might be necessary in order to cover the inevitable administrative costs with which such a proxy would be faced — to say nothing of a remuneration fee for services provided — but, if kept to modest levels, then it might encourage sufficient members to join and so make the scheme practicable.

Let me now return to the investment actuary, especially in view of the efforts that are being made to promote the actuary as an appropriate professional in areas other than our traditional ones of life assurance, pensions and, to a growing extent, general insurance.

I agree with the editorial referred to earlier that recognition of our wider capabilities will stand a greater chance of being noticed by the public at large if we give greater recognition ourselves to those members who have moved into the investment field. The Institute, in its membership publication, gives a breakdown by a number of employment categories, but the life office and consultancy categories obscure a significant number who would be more appropriately listed under investment. The Faculty does not formally categorise its membership in this way, but of those who would be listed in Scotland as being in the life or consultancy category, approximately 40 would be listed under investment if we created this special group. When added to those already recognised as being in investment, it means that at least 13% of our active membership is so employed.

Chris Daykin, in his own Presidential Address three months ago, acknowledged the significant developments which our profession has influenced due to the emphasis on investment contained in our examinations.

However, he went on to question why actuaries are becoming less and less dominant in investment circles — particularly the circles dealing with financial engineering and quantitative methods, and expressed the opinion that the material on modern financial instruments in Subject E will need to be strengthened, and that there is a need to develop an advanced finance and investment course.

Perhaps we should pay greater regard to developments in Australia. Although the Institute of Actuaries in Australia, with a total membership of just over 800, specifies our own subjects A-D or their university equivalents for the initial stages of their qualification syllabus, they have had, since 1980, their own examinations in life assurance, pension funds, general insurance and investment. Since 1990, each of these four subjects has been offered at both ordinary and specialist level with two subjects being required to be passed at specialist level and two at ordinary level. However, as in the United Kingdom, the Australian Institute is keen to widen the sphere of activities of the profession in that country, particularly as there is a widespread belief that future employment opportunities in traditional fields could be rather limited. Consequently, in spite of difficulties in recent years supporting the current investment subjects, they have, via a working party of their Investment Practice Committee and Education Management Committee, produced proposals for new investment education arrangements which, if adopted, will have a consequential impact on the eligibility requirements for their FIAA qualification.

Of the four professional subjects mentioned earlier, the investment one would be divided into two — an investment management subject available at both ordinary and specialist levels, and a finance subject available at specialist level only. This latter subject will focus on the practical application of actuarial thinking and quantitative techniques to financial problems faced by both users and providers of finance. It will probably be divided into two modules — corporate finance and capital markets — covering such topics as risk analysis, basic finance theory, option pricing theory, futures and swaps. If the requirement for two specialist and two ordinary passes is continued for the Australian actuarial qualification, it can be seen that it would be possible to become a Fellow of the Australian Institute without having attained specialist level at the more traditional subjects. Because of their 1990 specialist level approach, the Australians had accepted that there could be different types of actuary, and now rely on their Professional Code of Conduct and associated guidance notes to provide adequate protection for the general public. On recognition of the further degree of specialisation, which seems likely to take place (although other changes are also being considered), its Investment Practice Committee is developing professional standards and guidance notes for the investment and financial fields; all this just at the time when we in the U.K. have adopted a single examination syllabus with only a very limited amount of specialisation allowed for within

one of the two Fellowship papers.

The Institute President, when suggesting an advanced finance and investment course, seemed to be thinking in terms of a separate qualification recognised by way of a Certificate in these subjects. As stated, it seemed possible that this Certificate could be gained in its own right, although it was probably envisaged that it would be most attractive to the fully-qualified actuaries wishing to specialise in investment. I am totally in favour of strengthening our syllabus in investment, but I am more inclined to the Australian approach than to that of a stand-alone qualification or a one-off advanced paper. The stand-alone qualification does nothing to enhance the profession as such, whilst the advanced paper extends the period for final qualification for those who judge it to be of value in relation to their ambitions in the investment area. It has taken a long time to incorporate general insurance into the Faculty syllabus, due to the reservations many had, including John Wallace and Bill Morrison, as expressed in their Presidential Addresses, that the syllabus was already sufficient and extensive, the examinations sufficiently testing and the Faculty resources severely limited. These obstacles have now been overcome, and today the opportunities for actuaries in the general insurance field are expanding quite rapidly. It is very possible that before long we could be given a statutory role in such companies, having extending our influence into the Lloyd's Market, with official recognition, only quite recently.

The Institute, in a recent tabulation of the employment of actuaries, listed 285 of its members as practising in the general insurance field, with 127 of these being in the U.K. Whilst the numbers for the Faculty are currently very low at 24, they will undoubtedly increase steadily. If this field is set to rival our traditional life and pensions areas in its demand for actuaries, surely we shall be required to strengthen our syllabus accordingly. Pity the poor student if all of these worthy improvements have to be incorporated into a uniform set of examinations. Rather, it seems that the pressures are building up once again to recognise specialisation within the syllabus. If and when considering this, it should be borne in mind that the reasons behind the proposed Australian changes and the urge to develop 'wider fields' in the U.K. were driven by unemployment trends and the need for professional flexibility. Flexibility will be more readily acknowledged if a core syllabus contains the basic elements of all of the acknowledged areas in which we wish to be recognised, with the specialism which is subsequently chosen being tested for judgement as well as detailed knowledge.

It can be argued that the logical outcome of this approach is the creation of separately recognised actuaries — the Life Actuary, the Pensions Actuary, the General Insurance Actuary and the Investment Actuary — with perhaps the eventual outcome of autonomous professional bodies for each. I do not think the Americans, with their experience of separate professional bodies, would necessarily recommend this way forward. Something along the lines of

the Australian approach has much in its favour. Each group can then develop under a single organisational umbrella, and this must have attractions to potential students and careers advisers. Already we acknowledge post-qualification specialism by the various seminars and courses which are officially recognised by the Faculty and Institute, and we look to our codes of conduct and disciplinary procedures to ensure that an actuary, of whatever practising specialism, does not take improper advantage of the generic qualification.

If this is the way forward, we must ensure that our codes of conduct and disciplinary procedures are resilient enough to cope properly with any eventuality. Bill Morrison, in his address seven years ago, dealt extensively with the background leading up to the new Memorandum of Professional Conduct and the adoption earlier that year of new rules for disciplinary procedures.

These measures have been adequate so far, even though our disciplinary procedures have not had to be put to the practical test. I am sure Bill Morrison would be the first to agree, however, that they should be kept under constant review and suitably amended if a sound case is made for doing so. In devising disciplinary schemes, a number of potentially conflicting interests must be balanced, namely that of the professional body, that of the public and that of the member who is accused of professional misconduct. In this regard, it has become particularly important to have a scheme which effectively protects the public from the activities of those whose conduct is unbecoming to membership of the profession and avoids, as far as possible, the granting of opportunities to such accused members of frustrating proceedings. Nevertheless, the scheme must be practical in application and avoid being over-complex and technical.

When discussing the code of professional conduct in his 1987 Address, Bill Morrison stated:

“It would not be sensible for the Faculty and Institute to differ widely; however we may organise ourselves, however determined we may be to maintain an independent Faculty in Scotland (and I most certainly am!), there is only one actuarial profession in the United Kingdom.”

Similar considerations must apply, therefore, to our disciplinary procedures, and so we must have regard to the changes which are currently proposed by the Institute. The changes include the introduction of a single disciplinary offence of misconduct, defined in terms of types of conduct which are more or less serious, with the level of seriousness gauged by the penalty imposed. The investigating Committee will no longer be given power to deprecate conduct, but will be limited purely to the investigation of whether or not, in its view, there is a case to be judged by a Tribunal.

The Institute Council is also proposing to take power to suspend a member from practice or suspend his Certificate pending the outcome of

disciplinary proceedings. Whilst this power could not be exercised lightly, its existence and occasional use might demonstrate to the public that effective rules exist to regulate members. If exercised, it also removes from an accused member any potential benefit from causing procedural delays.

The question of when disciplinary proceedings might be made public has also been considered, since the current trend amongst professional bodies and other self-regulating organisations is for far greater openness, due once again to changing public opinion. The proposal is to make an announcement of the nature of the complaint at the time at which charges are preferred, with, of course, the subsequent decision of the Tribunal or Appeal Board also being made public.

The separate issue of whether or not the public should be allowed to be present during disciplinary hearings has also been considered. At present this can be allowed in exceptional cases, although, in practice, it has not happened. In future, it is proposed that hearings should be in private. Where a member is found guilty, powers will be created for the Tribunal or Appeal Board to fine a member, as this may be the most appropriate penalty, and an order for a contribution towards costs may also be made. In addition, it is intended to remove the limit on the period for which a member may be suspended. In order to expedite the functioning of these procedures, it is further proposed that the Tribunal panel convened to hear a particular case be reduced in size from eight to three, with the non-member complement halved to one. The current composition is extremely cumbersome and can create considerable practical difficulties in the finding of a meeting date. The proposed new arrangements are similar to the approach adopted by many other professional bodies. It is imperative that the Faculty gives urgent consideration to these matters, whilst taking into consideration any special issues which might be appropriate under Scots Law.

But these days we also have to bear in mind what is appropriate under European Law. When John Wallace was speaking in 1973, we had only recently joined the European Common Market, as it was then known, but the implications for our profession were already recognised. This was illustrated by his statement that considerable thought would have to be given to an eventual common actuarial status in Europe, and it was noted that preliminary moves had been made to establish an international committee to consider the problem. This became the Groupe Consultatif, which has done an excellent job in unifying the professional codes of conduct throughout the European Union, as it is now known. Thus, by the deadline of 1 January 1993, a basis for mutual recognition of E.U. actuaries, which would allow freedom of movement and ability to continue to practise outwith the country of qualification, had been achieved. However, somewhat like our code of conduct and disciplinary procedures, these arrangements have to be kept under constant review. Naturally concern persists, and it is not peculiar to the U.K. alone that the educational standards of some incoming

practitioners may not be sufficiently high and that the current provisions do not contain sufficient safeguards.

With an agreement having been signed by the E.U. Actuarial Associations in April 1991 and a report on its implementation being required from each association five years later (including any suggestions for alterations thereto), it is important that it is properly adhered to meantime within the U.K. Not unexpectedly, the day-to-day application of the original has already highlighted areas which need to be clarified. One such issue concerns the situation of a migrant actuary who, having derived the actuarial qualification of the host country, ceases to provide services in the host country. Whilst it seems perfectly proper that an actuary who spends only a short time in a host country should relinquish membership on ceasing to have any connection with that country, another who has worked there for many years and then retires to the home country or even a third country, might well expect to retain the derived membership.

With disciplinary procedures not yet standardised, the question of what happens if an actuary disobeys the code of conduct of the host association also requires clarification. It seems straightforward that the disciplinary procedures of the host country should apply equally between its own home-qualified members and derived members; but punishment in the host country may be insufficient, even if the misconduct in the host country would not have been misconduct in the derived member's home association. It must be remembered that each member's home code of conduct requires its members to behave according to the code of conduct of the host association in respect of actuarial services provided in the host country. The home association, therefore, should also enforce disciplinary measures since, *prima facie*, damage will have been done to its own reputation. Clarification of these and a number of other points will greatly strengthen the value of the Agreement.

The requirement for mutual recognition of qualifications across national boundaries is not confined to the E.U. alone. The development of the North American Free Trade Area has led to similar requirements on that continent between Canada, Mexico and the United States of America; but with the ever growing speed and ease of international travel, the reality of worldwide instant sight and sound communication, the globalisation of business affairs and the current breaking down of barriers between different political ideologies, there is a movement developing within our ranks for which the goal is a worldwide agreement on, and recognition of, what constitutes a professional actuary.

The International Association of Actuaries (IAA) will celebrate the centenary of its first Congress when it meets in Brussels in September 1995. The IAA is an association of individual members, and traditionally the IAA Council's main function has been the supervision and control of International Congresses which, in turn, have mainly provided a forum for the discussion of actuarial papers produced by individual members. The

Council of the IAA meets annually, and in recent years its discussions have moved beyond matters solely related to Congresses. However, since the representation is effectively on behalf of members from particular geographical areas, meaningful discussions on strictly professional matters are severely restricted. Two days prior to the opening of the Montreal Congress in 1992, Paul McCrossan, the then President of the Canadian Institute of Actuaries, invited representatives of several actuarial organisations worldwide, of mainly English-speaking countries, to a discussion on matters he considered would be of mutual interest. The subjects included employment prospects for actuaries, education, solvency developments and international codes of conduct conflicts.

Emanating from that meeting was broad agreement from the various organisations represented that they were in sympathy with the aims of (a) committing that their members should be bound by the code, rules and standards of a host country if they were practising internationally; (b) any disciplinary procedures being handled by the host country; and (c) giving some credit towards actuarial qualification in their own actuarial association for qualifications already achieved in another of the group's actuarial associations. Several meetings and discussions later, this has evolved into a proposal to form an International Federation of Actuarial Associations (IFAA) under the auspices of the IAA. The Faculty, together with the Institute, are participating fully in these discussions.

The principal objective of this association will be the promotion across international boundaries of high standards of professionalism and education within the world's individual actuarial associations. Pursuant to this objective, it is intended to accredit those actuarial associations which meet certain agreed requirements in relation to the education and professionalism of their members. The criteria for accreditation as full or associate members of the IFAA have not yet been determined, but it is anticipated that they will be by a committee made up from associations which meet certain base levels. Under the IFAA proposal, it will be possible for national associations to apply for observer status which will keep them fully abreast of developments within the IFAA, but free from any meaningful financial of other commitments to it.

It seems possible that a number of our associates in the Groupe Consultatif might take this latter option, and if this happens I feel it will devalue the concept. As I stated earlier, the initial discussions in Montreal involved representatives from mainly English-speaking countries and the outcome focussed on creating an environment to allow actuaries to practise freely across national boundaries. Naturally, this is most likely to be attractive on a voluntary rather than legally enforced basis between countries where language does not create an additional hurdle. An association of this grouping, however, would undoubtedly cause concern in our worldwide community. In spite of what I said earlier regarding IAA Council delegates

representing the individual membership on a geographical basis, the reality is that, in most cases, IAA council members are nominated by individual associations. Therefore it is *de facto* an informal IFAA, and the English-speaking embryo would have been viewed as a disruptive threat. This was recognised and led to the opening up of discussions to incorporate the IAA and other national associations.

It was at this point that our European partners were first brought into the picture, and it would be fair to say that they were highly sceptical and suspicious of the proposed arrangements. In some cases financial considerations were a cause for concern, since what might seem fairly modest budgetary estimates to ourselves and our North American cousins did not do so elsewhere. With much still to be done to ensure the successful operation of our professionalism arrangements within Europe, it is essential that we do nothing to disrupt this existing partnership and it is clear that it, in turn, wishes to do nothing to disrupt the IAA.

Early discussions of the McCrossan Group envisaged progress being made by a series of bilateral agreements, a concept which seems much more suited to the achievement of results, but it has been overtaken by the understandable desire to involve all interested parties. This, in turn, leads to the possibility of a burgeoning bureaucracy. There is a danger, therefore, that we shall create an organisation which shall acquire a life of its own supported by a permanent secretariat. If the IFAA does go ahead as currently envisaged, I have no reservations associated with the proposal that the secretariat should be based in Canada, but I do have a concern that there could be meaningful financial implications with very little in the way of practical results.

The impetus and legal directives of the single market in Europe created a background of sufficient pressure to ensure that the Groupe Consultatif reached an acceptable accord, by the stipulated deadline, on the mutual recognition within that trading area of the professional actuary; but remember, the discussions leading to this agreement began in 1973, with the Groupe itself being formed in 1978. Fortunately, the associated costs have been relatively modest.

The actuarial accord which has been reached in order to meet the requirements of the North American Free Trade Area seems to have similar features to that for Europe, again at modest cost.

It is quite clear that the IFAA proposal is a compromise, but, unfortunately, one with financial implications. The main protagonists seem keen to create an additional international discussion group, since another of the IFAA's objectives, not already referred to, is to provide a forum for discussion among actuarial associations on matters relating to the initial and continuing education of actuaries; professional conduct and discipline; the role of actuaries in relation to matters of government regulation and public policy; and the setting of standards of practice in relation to particular

national and international jurisdictions. They are interesting topics, but, to achieve results, bilateral agreements will be necessary. Has the time come to step back from the grand plan and perhaps proceed via an attempt to reach agreement between the two major groups — the European Union and the North American Free Trade Area?

However, there is a particular feature of the North American Free Trade Agreement (NAFTA) which will cause problems. Unlike the E.U. situation, the NAFTA arrangement does not allow for the mutual recognition of qualifications by the ability to become, say, a Fellow of the Canadian Institute of Actuaries after a domicile period. To obtain the Canadian qualification it will be necessary to complete examinations, and there seems little likelihood of this changing in the near term.

Nevertheless, the Americans, Canadians and ourselves seem to be optimistic that the aims which arose from the early McCrossan Group talks are attainable amongst our three countries. Therefore, since we are each members of one of the two trade groupings which require mutual recognition of actuarial qualifications within the group, would it not be sensible for these two groups to try to reach agreement on mutual recognition? If either group felt that it could carry on separate bilateral discussions with countries outwith either group then it would be free to do so, although the more practical solution might be to wait until, what I might call the North Atlantic Actuarial Association, was a reality before considering further extensions. On this basis, the costs of entry should be acceptable and it avoids the requirement to create any complicated voting structure as envisaged within IFAA. The acceptability of the practical application of such a voting structure must be doubtful, bearing in mind the issues which will be under discussion. Unanimity has worked perfectly well within the Groupe Consultatif.

The commercial stimulus underlying the work of the Groupe Consultatif has also led to the introduction of educational opportunities for its affiliated members via seminars, summer schools, etc., and no doubt NAFTA will have a similar impact on actuaries in that trading area — natural occurrences as common interests evolve and probably at modest cost. If the North Atlantic Actuarial Association became a reality, then the opportunities for discussion on matters of mutual interest would naturally expand as well as the opportunities for continuing professional development.

It is also likely that other countries would wish to share in the benefits of full mutual recognition, which would only be possible if their educational and professional standards were on a par, thus providing a real incentive for improvement. Perhaps the remaining aims of the IFAA could then be met if the IAA converted itself into the IFAA. A slightly expanded secretariat, still based in Brussels, might avoid a significant increase in the costs, and the problems associated with different classes of membership, which are currently the cause of concern in a number of countries, would be avoided.

This solution would seem to me to have few, if any, disadvantages for individual members, and would offer the facility to readily embrace new emerging associations whilst providing the flexibility to meet the needs of our developing global profession. I hope the IFAA working party might give serious thought to this possible solution.

I suggested above that financial considerations were causing some of our sister bodies to take a cautionary approach to these international developments. We in the U.K. are not, and certainly should not be, immune from these considerations. We are a small professional body, and I am talking here in a U.K. context, and our resources, both financial and human, are already being severely stretched. The disintegration of the Soviet Bloc, the current fashion almost worldwide in favour of private enterprise and the growing acceptance of foreign capital as a means of stimulating economic growth and accelerating desirable capital projects, has led to exciting demands for actuarial education based on the U.K. model. Thus, we have become involved in one way or another with countries such as Albania, Bulgaria, China, Croatia, the Czech Republic, Hungary, India, Latvia, Lithuania, Poland, Russia, Siberia and the Ukraine. Much of this pioneering work would not have been possible without the financial assistance which has been forthcoming from the Know-How Fund. This Fund is administered by the Joint Assistance Unit which is a joint activity of the Foreign and Commonwealth Office and the Overseas Development Administration, and the Government Actuary's Department has bid successfully for 24 projects securing funds totalling over £500,000.

The provision of these funds is to be applauded, and since Government aid is so often criticised, due credit should be acknowledged in this instance. Other modest financial support has been made available by the Faculty, Institute and another twelve actuarial associations to similar embryonic actuarial ventures via the International Promotion and Education Fund, which operates under the umbrella of the IAA. The activities of this fund are looked after by a small committee headed by our Honorary Fellow, Max Lacroix, and in order to expand the scope of their activities, they would like to encourage financial contributions from individual members. Max's efforts and achievements on behalf of this fund are outstanding, and we could be sure that any further financial support would be put to good use in widening the influence of our profession.

There are also significant developments in China and India, as they have each taken steps towards making use of our educational syllabus and examinations. The financial terms involve no contribution to the overhead costs of running our tuition courses and examinations, but, once again, the demands on manpower services are not negligible. The Fellowship paper would hardly be appropriate in these two cases, and so the possibility of a tailor-made paper for these and other countries is being explored. The possibility of partial qualifications is also under discussion and, whilst this

could be worthwhile if a proper financial contribution is available, without this we would have a further strain on scarce resources.

Attractive as many of these initiatives are by way of international publicity and recognition for our U.K. profession, we must be careful that they are not pursued to the detriment of our domestic operations.

Mention of domestic operations is a suitable cue for bringing this address back home to local matters. I made earlier reference to the Associated Scottish Life Offices, which group featured prominently in the Presidential Address of David Scrimgeour in my year of qualification — 1961. At that time, the eight member offices accounted for almost the total number of actuaries employed in Scotland with a complement of 117 (101 Fellows of the Faculty and 16 Fellow of the Institute). I doubt if there were more than an additional 5 or 6 employed in consulting practice and friendly societies at a time when the total active membership of the Faculty was 280. Today, the 8 ASLO members employ 324 actuaries (306 Fellows of the Faculty and 18 Fellows of the Institute). However, there is today a greater diversity of employment opportunities in Scotland, and so the total number of actuaries employed north of the Border is about 420 at a time when the Faculty's total active membership is 686.

A frequently expressed sentiment in innumerable past Presidential Addresses is appreciation of the close and friendly working relationship which exists between the Faculty and the Institute, and I can wholeheartedly endorse that sentiment once again. All of you should be well aware of the further organisational changes which have come into being this session through the setting up of six joint Boards covering matters on Life Assurance, Pensions, General Insurance, Wider Fields (which includes Investment), Professional Affairs and, last but not least, Education and CPD. In each case, one of our Council members is either Chairman or Deputy Chairman and a significant proportion of each Board consists of further Council members.

In addition to these, there are joint committees covering such things as public relations and co-operation and, of course, the Planning Committee, which is responsible for keeping under review the U.K. profession's mission statement and strategic aims as well as monitoring progress towards achieving the co-ordinated objectives which have been set. The introduction of joint examinations throughout the syllabus took place in 1994, and the mandatory professionalism course for recently qualified Fellows is also identical for both bodies. Before long, we shall have the first qualifiers from a complete set of joint examinations, and Chris Daykin expressed the hope that this would lead to the Institute and Faculty working ever more closely together. What justification could we have, at that stage, for refusing Faculty membership on payment of the appropriate subscription to a qualifier who had been an Institute student — and vice versa?

In his Presidential Address of 1958, A. R. Reid stated: "It must always be

carefully borne in mind that the original conception, when the Faculty was founded, was to promote and establish a school of actuarial study and research in Scotland” and “Thus the main justification for the Faculty’s existence is educational.” A little more ominously, we have the view from D. W. A. Donald in his Presidential Address of 1970: “The existence of the Faculty is not essential for such a qualification to be available, and indeed an efficiency expert might question whether a closely integrated profession with about 1000 active members in Great Britain could really afford to have more than 10 per cent of its members engaged in the work of preparing for and conducting two independent systems of examination. From this narrow angle the criticisms may be just, but if the Faculty is to exist as a separate entity there is no alternative.” It was his belief that, to justify the Faculty’s existence, we have to be more than merely an association of professionally qualified men and women.

Well, here we are today with no independent examination role and our educational one restricted to sessional meetings — not all of which, by any means, are discussing papers produced by our own members — and the provision of seminars aimed at complementing those produced by others, the vast majority of which we arrange jointly with the Institute. How then do we square this with the determination which Bill Morrison expressed to maintain an independent Faculty in Scotland, a determination which is undoubtedly shared by many here today? The issue cannot be swept under the carpet nor, in my view, should it be determined by drift over time. The options need to be set out and the arguments for each debated openly.

The convention has been that the Presidential Address should not be controversial, with one reason for this being that there is no opportunity for discussion once the Address has ended. I do not intend to disrupt everyone’s timetable for this evening by encouraging a formal discussion once I sit down, but I shall be duty-bound to create the opportunity for these discussions in the not-too-distant future. As a contribution to the public debate, I shall deal briefly with some of the options which have already been raised informally by some of our members.

One possibility could be to withdraw from the joint examination system, at least partially, so that a distinctive Faculty element could be re-introduced to actuarial education. Whilst a full review of the initial joint examinations is part of the planned development process, it is not anticipated that it will lead to strong divisions of opinion on the way forward. Efficient use of manpower resources is an even greater consideration today than it was when Mr Donald spoke, so this option, in the near term, seems unlikely.

Although I dismissed it earlier as drift, the status quo is another possibility, but financial considerations will strongly influence the eventual outcome if we continue along present lines. Subscription levels, at both member and student category, will influence enrolment trends. However friendly our two Councils intend to be, a price war could gradually develop,

and I am unconvinced that the Faculty membership would have the strength of purpose which would be required to maintain our independence by this route.

The Faculty and Institute could formally amalgamate, forming a new joint body with a new Royal Charter. The attachment which currently exists for what I shall call the 'alma mater' would be immediately lost, and the new body would suffer for some considerable time as it struggled to develop a character of its own.

The Faculty could be absorbed into the Institute, which would be anathema to many and lead to the withdrawal of their active support, much to the detriment of our U.K. profession. The Institute being subsumed into the Faculty is another possibility. Whilst this option would also lead to the loss of the active support of many members, the weight of numbers would probably mean that, in effect, it was a reverse takeover and the ethos of the Faculty would change substantially.

Perhaps our two bodies could remain in existence via a modified lower and upper house arrangement. The Institute, as the larger entity, would presumably be the main first-stage professional body, with the Faculty perhaps becoming a superior academic institution, although the determination of membership would be tricky. This solution would seem to lead to additional difficulties a number of years down the line. A variation on this option could arise if our review of the examination syllabus were to lead to the re-emergence of actuarial specialisation. Given the concentration of present Faculty membership in Scotland within the life offices, perhaps the Faculty could take responsibility for life practice specialisation. This would unsettle our many Faculty members who have contributed so much to other areas, particularly pensions and investment, so that the future Faculty would bear little resemblance to the one we know today.

Finally, in terms of this contribution to the debate, there is the possibility of a British Actuarial Association, with both the Faculty and the Institute retaining their independent identity alongside it. Students might be recruited directly to the British Actuarial Association, and on qualification, be required to opt for Fellowship of either the Institute or Faculty. Prior to this, of course, the governing structure of the British Actuarial Association would have been agreed between the Faculty and Institute with defined representation from each of our two bodies — such representation being maintained as long as membership proportions remained above agreed levels.

Both the Faculty and Institute would then become regional societies — with the Institute perhaps sub-dividing below its overall umbrella in order to cope properly with this new role. The regional aspect is important for sessional and other educational gatherings. All general professional matters would be dealt with by the British Association. There could be an agreed payment for all Faculty and Institute members to fund the British

Association, with an additional payment on top to fund regional activities and hence determine the individual Faculty and Institute subscriptions. A major strength of the Faculty, which seems likely to remain for the foreseeable future, is its geographical focus assisted by the reality of the existence of the Associated Scottish Life Offices. It is my view that the regional aspect, which has been discarded by many as a justification for the Faculty's existence, may be the very thing which ensures our ongoing independence.

Much as some might like to believe that it was our distinctive examination basis which led to the high regard in which the Faculty has been held, it seems likely to have had much more to do with our geographical concentration, together with our national characteristics, and their adoption, or an affinity for them, by those non-Scots who elected to follow the Faculty route for their actuarial ambitions. The reality of our Royal Charter means that our continued existence can and should be defended.

Ladies and gentlemen, I have opened up the debate. The issue must be faced since, by the end of the normal term of this Presidency, we shall have had the first joint examination qualifiers. I look forward with optimism to hearing the various views on this topic and I am confident that the Faculty will continue, for many years yet, to play an important role in the development of the British actuarial profession and in extending its influence both domestically and internationally.

VOTE OF THANKS TO THE NEW PRESIDENT,
MR G. M. MURRAY,
FROM THE RETIRING PRESIDENT,
PROFESSOR J. J. MCCUTCHEON, C.B.E., M.A., Ph.D., D.Sc., F.F.A.,
F.R.S.E.

Mr President, you referred to your initial ambition to become a nuclear physicist. You also alluded to the belligerence of your Borders background. I suspect that we might differ in our views as to who has the greater scope for wreaking havoc, a belligerent nuclear scientist or a belligerent actuary! However, if only to reassure those present this evening, and also to present a more balanced picture, I hasten to point out that you are not renowned for having an especially warlike nature. It may well be that Border Scots do, indeed, have particular insights which enable them to appreciate more fully both the best and the worst of their own characteristics — and also those of their English neighbours. Perhaps, as so many of our activities are conducted jointly with the Institute, this is particularly advantageous at the present time.

The wide range of topics covered in your Address and the skilful manner in which you have analysed a great number of problems — many of some complexity — disprove any claims which you might modestly make to limited experience. It is very clear that you have a firm grasp of the major issues which confront our profession today.

From a purely personal viewpoint, I am delighted that you referred to our current international education activities. These are certainly far-reaching, and provide us with excellent opportunities to extend geographically the influence of the United Kingdom profession.

Even in the relatively short time you have been in office, we have benefitted considerably from your insights, skills, and experience. The months ahead will certainly prove strenuous for you. We are confident that you will cope well with the onerous workload, and wish you every success for the remainder of your period of office.

Mr President, on behalf of everyone present this evening. I thank you for an Address which has been as challenging as it has been stimulating.