

The Actuary in a world of accelerating change

The challenge of relevance for today's professional

By Themba Gamedze

In 1986, Ian Griffiths, a Chartered Accountant, described the phenomenon of "Creative Accounting" as follows:

"Every company in the country is fiddling its profits. Every set of published accounts is based on books which have been gently cooked or completely roasted. The figures which are fed twice a year to the investing public have all been changed in order to protect the guilty. It is the biggest con trick since the Trojan Horse...In fact this deception is in all perfectly good taste. It is legitimate. It is creative accounting."

Since that warning salvo, we have had seen the disastrous consequences of what was at the time a very opaque financial reporting regime through scandals involving some very big names such as Enron, Worldcom and Tyco around the turn of the century. More recently we have seen an alarming number of famous brand financial institutions collapsing in the aftermath of the financial crisis of 2008.

The two blogs quoted below, courtesy of the Investor Advisory Group, express a wide-spread frustration with professionals, both in the public and private sectors, who are regarded as having failed in their responsibility to provide early warning to investors about the disaster that eventually happened. The first blog is symptomatic of the extent of the criticism now being levied by investors and independent commentators at the auditors for these failures, and of regulators, for failing to hold them accountable.

Blogger Francine McKenna wrote:

"The public accounting firms and their hundreds of thousands of auditors should be an investor's first line of independent defense. But these firms turned a blind eye to the excesses, mismanagement, and fraud of executives managing their client firms. The public accounting firms issued clean financial opinions for all of the firms that eventually, most less than a year later, failed, were taken over, or nationalized. And the regulators slept."

In a recent blog, Tom Slee went so far as to ask, "Are Auditors Becoming Irrelevant?" before commenting as follows: "Now that we have had time to analyze the financial crisis and the post-mortems are over, one big question remains. Where were the auditors? These highly-paid watchdogs were supposed to be our first line of defense. Fat chance! They continued to reassure shareholders and investors even while we were going over the cliff. Bear Sterns, Carlyle Capital, Thornburg Mortgage, and Lehman Brothers all hit the buffers shortly after receiving clean bills of health..."

However, even after such a damning indictment, the blogger went on to express a very sad reality that recognised the critical role that professionals at their best can play in protecting the public in the following way:

"Where does this leave small investors? Well, I think we have lost another safeguard."

While the above examples were taken largely from the auditing profession, the growing tide of mistrust is directed at anyone who is regarded as having been in a position to warn the public. In essence, therefore these comments represent a threat to all professionals, particularly those in the financial services.

In attempting to address this overt challenge to our relevance, we must start at the very beginning by asking the fundamental question:

1. What is a profession?

The general consensus is that what we would normally describe as a profession is made up of three essential building blocks.

All professions are established on a foundational framework of theoretical knowledge that underpins the core skill-set of the profession. Ensuring that members of the profession are able to demonstrate a detailed understanding of this material is achieved by means of a formal examination system controlled by the profession.

In the particular case of the Actuarial Society of South Africa, for example, this assessment process involves testing in at least 18 examination subjects covering a wide variety of both technical and non-technical content. These range from Finance, Statistical methods, Actuarial Risk Management, Communication skills, Financial Economics, Model development and financial reporting, among many others. Ultimately there is also a requirement to demonstrate an in-depth understanding of at least two areas of actuarial practice, as well as mastery over one of these.

As an aside, I personally am completely convinced that the breadth of this training provides actuaries with the best possible background among the numerate professionals from which to expand their work into non-traditional, particularly non-financial services work.

On top of this foundational platform of theoretical knowledge, a profession requires its trainees to demonstrate the acquisition of the defining core practical skill-set of the profession as it is applied in the areas of work in which the profession has established itself. In addition, there is now very wide recognition that professionals also need to ensure that their knowledge and experience is kept up to date over the years through a commitment to Continuing Professional Development. This really is the only way that we are able, as a profession, to ensure that the work of our members will continue to display the highest levels of competency in their areas of practice.

In this context, my own personal view is that the actuarial skill-set provides us with an unparalleled capability in the area of comprehensive model design. Our training in this area gives us an instinctive compulsion to identify all affected stakeholders with the aim of establishing a cohesive system in which all participants win more than they lose. This firm technical grounding, together with critical communication skills that accompany it, allow us to provide decision-makers with robust frameworks to support their decision-making in a very wide range of commercial, macro-economic and social challenges.

Finally, as members of a profession we bind ourselves to an ethical code of conduct through which we make a firm commitment not to abuse the position of trust we enjoy by virtue of our specialized training and the skills we have acquired. That code of conduct is enforced upon the members of a profession through a disciplinary process that is regarded, in the case of the Actuarial Society at least, as having two central objectives. The most important of these is to provide a practical way to protect the general public from possible exploitation by our members in terms of potentially harmful activities that are not covered in the legislative framework. A sound disciplinary process also has the effect of safeguarding the reputation of the profession by ensuring that offenders are brought to book.

In broad terms there can be no doubt that society generally affords all professionals, a position of privilege in terms of our social and economic status. However, that status can certainly not be taken for granted and, as noted at the very beginning, is in fact coming under increasing pressure. It is therefore becoming critically important for us as professionals in general and actuaries in particular to challenge ourselves vigorously about the value we provide society. In doing so, we shall find ourselves already on the road towards retaining and extending the relevance of our contribution, even in an environment of historically unprecedented change.

2. So, how do we retain our relevance?

In his major work, first published in 1970, the futurist Alvin Toffler wrote a book entitled "Future Shock" in which he demonstrated very well that with the advent of the technological age we had not merely been thrust into a world in which change had become endemic. Toffler convincingly cited a number of different aspects of global

society that proved his thesis that, not only had the pace of change increased dramatically, the rate of that change was itself on an increasing trend. He described this very sensibly as accelerating change.

While this concept of almost constant significant change was considered by some at the time to be somewhat extreme, it is now unambiguously regarded as the norm. We have even encapsulated this post-industrial paradigm in the following rather Zen expression:

“Change is the only constant.”

It is not difficult to accept the concept that the effect of change is just a redefinition of the rules of engagement resulting merely in a reshuffling of the winners and losers within any competitive environment. However, accelerating change introduces the entirely new phenomenon of structural instability.

A perfect example of this phenomenon is extremely obvious in the corporate governance environment. If you were a director of a life assurance company in 1990, the year of Mandela’s release from prison, you would have had to comply with at most 5 pieces of legislation in meeting your fiduciary responsibilities. Today, just 22 years later and a significantly shorter time than Madiba spent in prison, a responsible director is required to be aware of the provisions of well over 1 000 different pieces of legislation. This situation is not at all unique to business because the same degree of increased complexity and environmental change can be detected in more or less every single sphere of human activity.

But, as we are often told on television, “That’s not all...”

In addition to this already unsettling background of increasingly rapid change that drives significant socio-economic adjustments, we have the superimposed effect of globalisation which forces these adjustments to become very widespread indeed.

Technology compounds this effect by transmitting and solidifying these changes with ever increasing speed. A major implication of such an environment is the ease with which today’s innovation can become tomorrow’s commodity.

There is no doubt therefore that the key to the future success of our profession lies in developing an ability to anticipate, or at least to respond rapidly.

In this particular regard, as the Actuarial Society of South Africa, we have decided to take a good look at ourselves this year. We began by asking our members to provide us with candid feedback about how well or poorly we were meeting their needs. I am very pleased to be able to tell you how useful we have found that feedback, which we are now already beginning to incorporate into our strategic planning.

We then approached our key external stakeholders to assess their perceptions about both the Actuarial Society and the actuarial profession itself. Although we have a way to go towards finalising that process, we recently received some very illuminating initial feedback from some of these major stakeholders. The most significant comment made by this group related to the risk our profession faces of becoming stereotyped simply as financial geeks.

We clearly need to avoid falling into the trap of overemphasizing our technical capabilities in comparison to our strong training and skills development in a number of non-technical areas. I can best summarise this as a challenge for us to make better use of the fact that, in addition to the well-recognised depth of our technical training, there is significant breadth involved in that preparation as well. As a result of this fairly unique balance among the numerate professions, we are well able to play a role as agile professionals capable of adding value in a number of different areas of work, both in business and in the public sector.

In the context of this framework then, it becomes clear that one of the critical success factors for retaining our relevance as professionals is the extent to which we are able to ride the successive waves of change, no matter how big they are or how quickly they come.

3. But how responsive to change are we really?

If a profession is indeed defined by the combination of the three major ingredients already mentioned before, of technical training; core skills and an enforced code of conduct, then it is important for the relative balance of these components to be preserved intact in the aftermath of any major change in the dynamics of business.

Unfortunately, the ease with which we would realistically be able to respond to change is not uniform across these different components.

It does not take rocket science to conclude that while it is fairly easy to change the menu of the technical foundational training, it is somewhat more of a challenge for a profession to develop new practical skills. However, even that difficulty pales into relative insignificance in comparison with the deviously challenging task of realigning the code of conduct to ensure that it is still relevant and effective under rapidly changing circumstances.

Unfortunately we now exist in an environment in which the rapidity of change can affect the dynamics of business so quickly that we may not even have considered the ethical issues that arise with those changes by the time the new paradigm is already in effect. However, as difficult as resolving these emerging issues may be, it is critical for us to accept that unless we act quickly in this regard, we will find ourselves being subjected increasingly to rules imposed upon us by others.

I believe that the secret to retaining a substantial hold on our future destiny as a profession lies in comments made over 40 years ago by one of our own - a British actuary called Frank Redington, born over 100 years ago, and who left us with what I see as a professional challenge.

4. So what is Redington's challenge to us?

Frank Redington was a prolific writer and amazing intellect who demonstrated enormous foresight. His role in the development of the profession was recognised in 2003 when the readership of "The Actuary" magazine voted him in as "the greatest British actuary ever".

Way back in 1968, Redington wrote a paper in which he made the following rather cryptic statement:

"The actuary who is only an actuary is not an actuary."

There is surely a very significant lesson in this remark. It is not difficult to detect a call for us as actuaries to make a commitment to challenge ourselves constantly to add greater and greater value to any task that we do. For me, this stands at the very heart of the quest for relevance, since it allows no room whatsoever for complacency of any kind. Let us never forget that we exist as a viable community only because society allows us to.

The fact that Redington issued his warning so long ago shows us that the issue of relevance has been on our profession's radar screen for quite a while. However, it is essentially in our time of rapid change that I believe that we will be forced to deal directly with the issue of relevance as it has now become central to our long term survival as a profession.

It is no longer sufficient for us to concentrate only on keeping our house in order, as important as that undoubtedly is. I believe that the time has come for us to get actively involved in the big national debates from the very beginning. This will require us to examine very critically some of the statements we make from time to time, in the context of the development of national policy. The one I am particularly concerned about is:

“Let’s wait until there is more clarity on the subject”.

While I of course concede fully this is sometimes precisely the right thing to do, I find that we often use it to hide an inappropriately excessive reticence. The practical effect of this professional shyness is that the process of policy development around many of these big issues is being robbed of a significant level of the well-balanced expertise that we could have contributed. That input could have resulted either in an improved strategy or a more optimal implementation process or even both. Should we not rather aspire to participating in the process of developing the ground rules instead of waiting for others to set the agenda for us?

In closing then, meeting the challenge of ensuring the continued societal relevance for our profession calls for a proactive approach to the problems faced by our society. It can certainly not be achieved if we continually insist on taking a reactive stance in the face of change or are seen to be overly defensive.

Our engagement in this regard needs to be in societal issues beyond the small enclaves in which we currently happen to be making our living. While it is true that such a proactive approach comes with its own risks, as long as we participate in a positive and supportive attitude, we can expect increased goodwill to be expressed towards our profession. There is no doubt in my own mind that our training and skills equip us excellently for fulfilling the role of problem solvers rather than merely that of being problem staters.

In conclusion therefore, I believe that as we focus more on how things can be made to work rather than on why they cannot work, we shall discover that we have already embarked upon the quest for relevance. That journey surely holds the promise of discovering new areas in which to apply our skills and new ways to consolidate our profession’s place in the mainstream of our society as it evolves, no matter how rapidly.