

Actuarial Society of South Africa

Presidential Address 2007

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Colleagues and friends.

It is somewhat daunting to stand before you in this capacity, recognizing both the depth of talent within the profession in SA and the stature of the giants who have preceded me in this role. I was not here two years ago when you elected me as President Elect (attending to the even more important task of becoming a grandfather), so I will take this opportunity, somewhat belated, but the first I have had since then, to thank you for the honour. I pledge to serve you and the profession to the best of my ability, and am delighted that Peter Doyle will be succeeding me as we move into 2010 and play host to the global actuarial profession.

Change is no stranger to the actuarial profession; indeed the very foundations of the profession are such as to be forward looking - economic conditions, mortality and morbidity expectations - attempting to assess the implications of future variability and risk, rather than simply reporting on what has already happened; this we have historically left to the accountants. And being forward looking implies taking account of change, in what we are doing today to better prepare for tomorrow. It also implies developing an understanding of the context within which we operate and the consequences of our planned actions.

So it is hardly surprising that presidential addresses, both local and overseas, contain a consistent and recurring theme - the need to address change in some or other form. Both the most recent presidential addresses at the Institute and Faculty contain such challenges; at the latter, which I was privileged to attend, Stewart Richie famously issued the challenge of a possible merger between the Institute and the Faculty - a change of truly monumental proportions demanding a similar amount of courage by he who proposed the change. Change was also central to the most recent Australian presidential address by Fred Rowley, entitled "Realizing the Vision: Actuaries, Strategy & Risk". And the need to change and adapt is central to current debates about the structure, strategy and governance of the IAA. Returning home, change has been the key theme of Adrian's addresses to us over the past two years.

There are, therefore, no surprises in my choice of topic: It too centres on change, and, while I will talk a little about the imperatives, I hope to focus much more on the consequences for us as a professional body rooted here on the tip of the African continent. Because there are consequences, and many will be demanding. But we cannot talk about change, conceptualize change or push for change or without, at some stage facing the reality of what this might mean.

So I address you today, figuratively, from the shoulders of my predecessors, who have done so much to pave the way, to set the scene. In particular, I pay tribute to the work done under Adrian's stewardship, to get us to the point where we are now beyond theorizing.

You will all be aware that some significant decisions have been made by Council over the past few years. You have all had opportunity to comment on the strategic intent - vision & mission - and the general strategic plan agreed by Council: This provides the framework for much of what Council has been focused on over the past year or so.

The central theme of our strategic framework can be described simply thus:

Building on our foundations to create an independent SA actuarial profession that is relevant both locally and internationally.

Let me comment on a few of the key elements of this overall “strategic intent”:

“Building on our foundations”: We have a proud history and sound traditions; our profound links to the UK profession in general and the Institute and Faculty in particular, have enabled the development of a profession that has contributed greatly to the local financial services industry - a key element of the SA economy. Mistakes have been made, but I like to think we have faced them and learned from them. Moving forward, therefore, we need to build on what we have been, what we have done, learn from our mistakes, and face the future with confidence.

“Independent”: Building on our history and tradition, we need to move beyond being a “branch” of the UK profession to an independent professional body in our own right, ready to serve our members and community in ways that are uniquely South African. This is not a unilateral declaration of independence; strong links will continue, I trust indefinitely, with those bodies that did so much to nurture and assist with the growth of the profession here in South Africa. We are simply taking up our rightful role as a mature professional body willing and able to set its own course within the global actuarial family.

“Profession”: The nature of entities that claim to be a “profession” has come under much scrutiny in recent years, and not always in a positive sense; this is especially true of those that impact in some way on the financial sector. The audit profession has had its share of problems, and we all know of the now famous “Morris Review” in the UK that sent reverberations within the actuarial community around the globe.

A profession is no “trade union” and has no divine right of existence. It exists because it, the profession as a whole, provides a set of undertakings, underpinning the actual service itself, to the users of the services delivered by the members of that profession: these undertakings relate to:

- the competence of the “professional” as a consequence of his or her training
- the standards that will be followed by the “professional” in the delivery of the service, and
- the promise by the profession as a whole to ensure both the ongoing relevance of the professional’s skills set and adherence to the standards set.

Accordingly, a “profession” is a living entity, growing and adapting as circumstances change - it is dynamic and not static, and membership conveys at least as many obligations and responsibilities as it does privileges.

“Locally relevant”: There is much that can be said here. Let me focus on just two aspects:

- Firstly, we need to be relevant to the needs of our local market; we need to be able to adapt as local needs change, to serve a local health care market that is very different to that of the UK, for example. We need to note the emerging requirements of our funds management industry and ensure that we remain part of its future and not of its past. We need to note the uptake of risk management skills in the banking sector and understand that new demands are presenting themselves. We need to note the perspectives of our policymakers as they grapple with the significant social issues in our beautiful country, and bring our skills to bear, even when historical norms are challenged.

- Secondly, we need to face and embrace the transformation imperatives as outlined in the previous session. The proposed Transformation Charter is a way of saying “we care, and we will devote time and energy to breaking down the barriers that keep fellow South Africans with potential and capability from realizing their worth”. It won’t be easy, especially as we do not have large resources to throw at the problem. But, if we don’t, our relevance will be questioned.

“**Internationally relevant**”: Finally, we need to recognize the power of globalization; it is trite to observe that we are all affected by global issues and standards, wherever we may operate. Phrases such as “Global best practice”, “international accounting standards” often flag an important challenge to domestic accepted behaviour, and it is usually the “global” approach that wins the day. This is particularly true in the financial sector as markets open up and capital mobility paves the way for other forms of mobility. The Actuarial Society is the 11th largest national body of actuaries in the world, yet our participation in IAA affairs, until quite recently, was left to a few and relatively low profile. We have to become more active, to be part of the standard setting process and to help shape the form of the emerging international actuarial umbrella. The IAA is breaking new ground, and the discussions on a global Associate qualification and a global ERM qualification, while in their infancy, are way ahead of anything found in any other profession. We need to be part of that.

We also need to be part, if not a major part, of the IAA assistance program to the rest of Africa. Not only is it our “duty”, but it is also in our interests to ensure that we are part of the development of actuarial resources and professional bodies elsewhere in Africa. The Australians have taken up a similar challenge in East Asia and China, opening up markets and opportunities for their membership, with significant success, while, at the same time, contributing to the development of a local professional body.

The Implications

I do not intend covering the individual elements of the strategy itself; this we have done a number of times. Neither do I propose revisiting our stated “vision” and “mission”. What I want to explore are the consequences of our chosen path, and to challenge us, as a professional body, as to our willingness to face up to these consequences.

At an institutional level, we have given much thought to what this might mean. I believe this can be distilled into four key consequences, but recognize, immediately, the extent of the detail that lies beneath these four summary points.

Firstly, as a professional body we will have to explore ways and means to **enhance our relevance** to our member body and, in particular, provide members with the framework and wherewithal to meet their individual challenges: This implies significant work in the areas of both basic and continuing education, as well as the setting of standards that guide and facilitate the work of our members. I also include under this heading the transformation imperative.

Secondly, we will need to ensure the appropriate **adaptation of the actuarial skills** set over time to meet the challenge of emerging fields of endeavour. Many challenge the notion that we should be thinking of wider fields and, in particular, that we should consider claiming a major role in the “risk management” space. This raises the question as to how we see ourselves: One view is that, as actuaries, we are essentially trained to be valuers, but, because we are blessed with above average intelligence, we can generally adapt our skills set to dabble, and often succeed, in other areas. Another, and in my opinion more progressive, view is that we are professionals with a base set of skills that enables a broad range of activity and, in particular, has earned for us the right to certain statutory roles. However, once we venture more formally into wider fields, we will have to accept that we are not the custodians of all

knowledge, and will have to be prepared to borrow from and co-operate with other professions and appropriate bodies.

Next, we have to rise to the challenge of building an appropriate **profile for the profession** amongst key external stakeholders, locally and regionally, where stakeholders include regulators, policymakers, employers, other relevant professional bodies and key users of actuarial services. This will not be easy for us as a body, for a number of reasons. We are not used to raising our profile, proactively engaging stakeholders or vigorously participating in policy debates. But this has to change, and we will, a little later, see something of the beginnings of an actuarial brand “makeover”. However, as Colin will point out, this has only a little to do with a change in our visual identity, however important this change may be from a symbolic perspective.

Finally, we will need to find the **capacity to build our presence within and our contribution to the global actuarial community**, both via focused involvement in the IAA activities and engagement with selected actuarial professional bodies. This will be not be a part time undertaking and, I can assure you, is not a disguised holiday for those involved. [Ask Stewart Richie if you somehow find this hard to believe!]

To rise to these challenges will require focus, commitment and funding, all in good measure. Strategy formulation is the easy part; the difficulty lies in the implementation, where hard choices have to be made, where effort has to be expended and sacrifices have to be made.

I would now like to turn to a few of our strategic initiatives and look more closely at their practical implications.

Education Initiative

The decision to develop a local qualification is a good example of the transition from a plan in to the harsh world of reality. Andrew Gladwin rose to the challenge of leading this initiative, supported by his employer, and gave a significant amount of his time to developing a detailed work plan; a small group was put together to assist Andrew; paid consultancy support was brought in, in the form of both a local project manager and Dr. Liz Goodwin, previous Director of Education for the UK Profession, and we established a basis of collaboration with the UK to assist. We appointed our own Director of Education and Cisca Venter is doing a great job in taking over the day to day management of the process from Andrew. A governance structure for our education activities was agreed by Council and we formed what I believe to be the first of a new style of Operational Boards – this Board will take accountability for all our pre and post qualification education activities, including CPD. It will set annual (and multi year) objectives and will account to Council for its activities on a quarterly basis. We still have a long way to go, but the progress to date is most encouraging.

But this progress did not just happen because we planned it so – it happened because a number of people, notably Andrew, but also, to name but a few, Steve Handler, Steven Jurisch, Bill Haslam, Chris Swanepoel and Wayne Dam, as well as many in the actuarial academic community, have made considerable investments of time and personal sacrifices to drive the process forward. It has also been enabled because your Council was prepared to take the bold step of allocating significant financial resource to the project, both to fund the paid consultants and to ensure the appointment of our own full time Director of Education. As a result of the progress we have made and, no doubt, given the evident commitment of the local profession to fund the development of our own education process, the UK Profession, you will recall, has made a significant financial contribution towards the funding of the development of our local examination system. While Adrian has already responded formally, I would like to take this opportunity to thank Stewart Richie in person.

However, we need to remind ourselves that we are not there yet; to deliver a local education system and qualification process is a multi year project, and one that will not stop in 2010. We will continue to need committed people and ongoing funding; the funding is relatively easy - education is big business and generates revenues as people generally think they get some benefit from the process! The real challenge lies in the ongoing involvement by people committed to developing the education process in SA:

- people in practice areas looking for appropriate new reading and learning opportunities for our students,
- people willing to undertake the responsibility of setting and marking examinations at appropriate standards,
- people willing to ensure that we maintain standards at our universities - the list goes on!

Another key aspect of the Education thrust is the challenge of building a spirit of co-operation between the Actuarial Society and our local universities; we have both much to gain from a positive relationship, and this is an area where much can be gained from international co-operation.

The Education & CPD Board has a very challenging agenda; we will try hard not to "reinvent the wheel" and learn from others overseas who have walked this path before. However, I am of the view that the critical success factor for this endeavour is likely to be the supply of committed volunteers - not funding.

Branding:

As you will hear a little later during the convention, significant progress has been made with the development of a brand revitalization program. Indeed, after tomorrow, we will never be the same again! But the "actuarial brand" is not a matter of a logo or clever "tie line". It is all about how people experience their interaction with the profession, and this takes two forms - the experience of dealing with each and every one of us as members of the profession and, secondly, their perception of profession as a whole, including how we function and operate. The latter, being the perception of profession as a whole, is what we will be focusing on, but, of course, how we, individually, deal with the outside world is an equally critical part of the overall "brand experience" and that is something we can influence at an individual level.

As a profession we will need to raise our profile, with more proactive engagement with policymakers and opinion formers when we have a positive contribution to make. The seminar on national social security proposals earlier in the year and the ongoing work on AIDS modeling are both very good examples of the contribution we can make. We claim "thought leadership" from time to time; we need to back this up in ways that extend from proactive engagement to the more passive, but equally important, access to relevant articles, readings and presentations via our website. This will come at a price: we will have to find the capacity (time & people) to engage in internal debate to thrash out the issues; we will have to more actively pursue avenues of research to add real value to deliberations; we will need to take the time to identify sources of insight and learning and make them accessible via our website; we will have to find the energy and the courage to venture out and risk criticism from some quarters, both internal and external.

This is a significant, but very exciting challenge, and we will hear more about it tomorrow.

Structure

A key initiative has been the examination of our structure and resources in the light of the emerging demands. Early on, it became clear that we needed to do something with regard to

both: Our structure had, at best, adapted marginally over the past decade, while the full time resource, ably led by Wim Els, has had to cope with a mounting array of demands, and there is only so far one can go by "boxing smarter".

The need for additional full time resource has become an imperative. Agreement to the Education initiative has led to appointments critical to our future success; you will be aware of the decision, taken by Council in October, to appoint a Technical Director (referred to in the UK as a "staff actuary"; Wim's team will need expansion to provide adequate operating support in the more demanding environment - e.g. the new CPD requirement.

At its meeting on Wednesday, Council will consider some proposals to change our operating structure. Proposals include

- Focusing the activities of Council on policy and strategic matters, rather than day to day operational matters;
- The formalization of the role of an Executive committee, already allowed for in our Constitution, with a clear mandate delegated from Council to deal with routine operational matters.
- Clearer mandates for the Practice Area committees and their involvement in strategy reviews and objective setting on an annual basis.
- The establishment of six "Operational Boards" with clear mandates and delegated authority in their area of operation.

I will deal with these proposals in more detail at a later Plenary at this Convention, but they are designed to bring greater clarity to the various aspects of our operations, hopefully to improve the overall level of engagement by members with the activities of the profession, and thus improve our overall effectiveness.

However, structure and more people do not necessarily equate to improved effectiveness; this comes through effort, application and the assumption of "ownership", and herein lies our real challenge.

Employer Involvement

A key aspect of our review has related to the role played by employers within the profession. Officially, of course, they play no role, as ours is a profession of individual members. However, reflection on this question for more than 30 seconds brings one to the realization that employers play a profound role in the shaping of the profession and, indeed, its "brand value".

Employers provide the majority of the funding for the profession; for the majority of our members, they pay the subscriptions; for many of our students, they pay both tuition and examination fees; they provide study leave and fund attendance at profession meetings such as this. They don't do this because they like you. They do this because they perceive value in having access to actuarial skills that are current and relevant.

Employers also play a profoundly important role in determining behaviour, as they provide the "corporate culture" within which we operate as individuals. Indeed, for many, this is a fundamental influence in shaping our view of the world as we move from student to qualified actuary - the corporate culture shapes our view of the world, often in an even more profound way than the "values" we read of as central to the profession to which we belong. This is why the 2 day professionalism course required for new qualifiers is so important.

Bearing this in mind, we have begun a series of engagements with major employers, and have drafted the beginnings of an "Employer Charter" that we hope to enter into with all employers.

This charter will establish a more formal relationship with the employer focusing on two key aspects:

- Firstly, the role of the employer as providers and enablers of the work based skills program; we intend playing a more positive role in this aspect of the qualification process, even before we localize the examination system. This will require them (the employer) to register as a "Training Office" with the Actuarial Society in order to get their work based skills program recognized.
- Secondly, we will seek to engage with the employer around the maintenance of professional standards and the encouragement of CPD; ways are being investigated to incentivize employers to register as "actuarial service providers" and so commit to support and involvement in these areas.

The general idea is to "close the loop" and engage with employers as part of the solution to the development of the profession and not have them standing at a distance, only to become part of the problem as has sometimes been the case.

There are parallels to these ideas in the accounting and audit professions, so we are not entering totally new territory, but it is certainly a very different approach to anything found in the actuarial communities around the globe. We believe it to be exciting and the response from employers has been most encouraging.

In reflecting on the key consequences of our strategic initiatives as described, it seems to me that they can be summarized into the following three points:

Membership commitment to the "professionalization" of the Actuarial Society: this will involve active participation in the affairs of the Society as well as individual consideration of the personal challenge as to whether we are living up to the actuarial brand promise in all that we do. It will require positive challenge - negative criticism is of little value.

More extensive volunteering for involvement in the committees that actually do the work of the Actuarial Society: Less than 10% of our fellow members play any role in the Society's committees and there are areas where we struggle to deliver. Many of those who have volunteered are active in more than one capacity or area, and carry a disproportionate share of the burden. Education is placing a significant demand on our resource base and more involvement is needed. One of the proposed new boards within the new structure is the Human Resources Board; the proposed brief for the Board includes acting as a "Nominations Committee". In this capacity, it will have to engage in proactive recruiting of members for Society activities, so expect a call!! I am particularly mindful of the immense contribution our younger members can make in this regard as well the leadership roles that need to be filled throughout our operations.

Growth in domestic funding of the profession: The 2008 budget for the Society is of the order of R6m; this is significantly up on the previous years as mentioned at the AGM, as it allows for a number of new expenses needed to support the strategic initiatives being undertaken. However, this needs to be put in the context of the flows to the profession as a whole, including the examination, exemption and subscription fees paid to the UK Profession. The total flows are estimated as a little over R20m per annum, with over 2/3rds being paid across to the UK. Fellow members currently pay more to the UK Profession as subscriptions, even at the reduced rates, than to the Society, even after the increase for 2008. There is thus scope for redirecting at least some of the flows over time, not least of all making continued full membership of the UK Profession optional and the planned localization of the examination process and the associated revenues.

Some work has been done to project the financial position of the Society going forward. Expenditure projections take into account all the current initiatives including the growth of the support staff, expenditure on developing an appropriate examination infrastructure, the possibility of a more formal Johannesburg office as well as ongoing budget allocation to the costs of the AGB and brand development. Allowing for all the above suggests a total expenditure of some R12.5 million in 2011, up from less than R3m in 2007.

In projecting revenues, a key element is the projected membership, and for this we used some early work by Nalen Naidoo who is presenting on a membership model later at the Convention. The numbers taken into the financial model assume membership growth from some 1580 members in 2007 to 2400 members in 2011, an annual growth of some 11.4% per annum; within this Fellow members are projected to grow from some 760 to 970 over the 4 years, a growth of 6.2% per annum.

In projecting forward the subscription revenues, we have allowed for the 2008 increase, and have then targeted a level of 60% of the combined SA & UK fellowship subscription rate in 2011, allowing for only inflationary increases in the local rate from 2007 levels. Once we have digested the above average increase in 2008, current indications suggest no need for anything of a similar scale over the next 4 years at least.

The model also allows for the emergence of the fees from employers as they register as both training offices and as service providers at provisional levels that we think are reasonable, but are far from being agreed. Education will also generate its own revenues, and for the purposes of this exercise, we have simply allowed for a breakeven at direct cost level, so that we do not get seduced by potential profits from education.

This model suggests a reasonable surplus from 2009 onwards, once the employer fees begin to flow. I am as skeptical as the next about financial models, but do draw some comfort from the fact that even with relatively conservative assumptions, firstly, the model suggests a reasonable surplus, and, secondly, the overall projected expenses fall well within the envelope of total current payments to both SA and the UK.

However the key message remains: there will be a need to significantly increase the resources made available for the development of the profession here in SA. We have benefited enormously over the years from our relationship with the UK, and hope that this will long continue, but we need to find ways and means to secure appropriate funding for the growing local needs. This is a matter that Council will consider carefully in future months

Conclusion

Colleagues, I stand before you as the bearer of both good and bad news:

The good news is that we have a credible set of strategic initiatives that could easily set us on the path to realize the ambition to "create an independent SA actuarial profession that is relevant both locally and internationally" and take us closer to realizing our stated vision. This is the profession we hear you saying you want, and one we also believe to be attractive to the brightest of SA's graduates of tomorrow. This is the professional body that can take its place on the global stage

The bad news is that it comes at a price - both financial and personal.

The question is: Are we up to the challenge? Are we willing to make the sacrifices necessary to "up our game" and lift the Actuarial Society of South Africa to a new level of "professionalization"? Are we prepared to stand behind the changed visual identity and help create a real actuarial brand, of value to both our members and the communities we serve? Are

we prepared to roll up our sleeves and get involved in any one of many different ways? - Or are we going to sit back and wait for others to come forward, and observe the then inevitable ongoing struggle for relevance, with deeply intellectual observations about how the ambition was doomed to failure at the start?

The answer lies - both literally and figuratively - in our own hands. In mentioning the intended theme of my address to a colleague on Council, I was challenged as to whether I really thought the members of the Actuarial Society were prepared to rise to this challenge. It is my belief that we are.

I conclude with this quote:

"From those to whom much is given, much is expected"

I look forward to working with you over the next two years.

Garth Griffin

13th November 2007