

# Actuarial Society of South Africa

Presidential Address: 2008  
Garth Griffin

## **Accountability: The Burden of a Privileged Profession**

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Honoured guests from near and far, members of Council and actuarial colleagues; I am privileged to once again address you as the 55<sup>th</sup> President of the Actuarial Society of South Africa. Being a President is sometimes a hazardous occupation, but it is always a privilege.

We meet at a time of extraordinary turbulence in markets and economies; what was at one time thought to be a regional crisis has exploded across the world (burst its banks!) and now threatens the very fabric of major economies across the globe. Greed has been unmasked, in many disguises, and its willing partner has been found to be intellectual arrogance. Let this be a lesson for us. Warren Buffett's view of financial derivatives as weapons of mass financial destruction may have been prescient, but let us not forget that this situation needed many layers of complicity by people who should have known better, but who could simply not resist the lure of enhanced margins, higher "risk free" returns or extravagant bonuses.

It does not require a degree in rocket science to understand:

- that lending to people who cannot repay is a recipe for trouble;
- nor that adherence to the principle of investing only in assets that you understand may be "boring" but is also prudent;
- nor that excessive leverage and gearing cannot be the financial alchemist's dream come true;
- nor that being careful about other people's view on an asset, particularly if they have some vested interest, does generally require some effort to actually earn the fees charged.

Yet all these maladies thrived in the hothouse of cheap capital and easy credit, leading to a world where risk was under priced and the risk professionals either did not understand enough or did not care enough.

It is a profound lesson that what we see had its roots in those very institutions that took the greatest pride in their risk management systems and processes, where financial models of great complexity were developed by very skilled mathematicians, and rapidly spilled over into deposit taking institutions even as Basel II was being rolled out. We should move towards a "Solvency II" type regime with our eyes, ears and minds wide open!

As a profession, we have carried our share of blame for financial woes of individual institutions or their clients. To date, we have never carried the blame for a systemic threat. I am a fervent proponent of greater actuarial involvement in banking, so I guess I should be grateful that I have had so little impact to date!! However, recent events do provide a thought provoking backdrop to my annual opportunity to address you, my colleagues within the profession, and have encouraged me to focus on the issue of “accountability” as the consequence of the privilege we enjoy as a profession. We try to avoid this accountability at our peril.

Last year, I took the opportunity to outline in some detail the key strategic initiatives we as a Society were undertaking in order to meet our goals. These goals were summarized within what I called our “strategic intent” as:

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

Some of the key challenges I noted related to our ability to:

- Enhance our relevance to our member body
- Adapt the actuarial skills set
- Build the profession’s profile
- Access capacity for international involvement

I then went on to talk a little about some key initiatives that we needed to progress

- Education: Building the capacity to enable a local qualification
- Branding: Refreshing the Image, both internally and externally
- Structure: Ensuring that we have both structure and capacity that is “Fit for Purpose”
- Employer Involvement: “Closing the Loop”

I concluded, briefly, on some of the imperatives that we would need to address if we were to succeed:

- Membership commitment to the “professionalization” of the Society
- Greater need for volunteers in Society’s affairs
- Growth in domestic funding of the profession

The annual report from Council, tabled separately at the AGM, details much of the activities of the various organs of the Society aimed at taking matters forward. I believe it can be claimed that significant progress has been made, even if not always at the pace we may have hoped. In particular, I would draw members’ attention to progress on the following initiatives:

1. Education: where capacity has been established, an examination diet actually delivered from SA and significant progress made with mutual recognition agreements.
2. Branding: where the new logo has been established and good work has been done to re-establish the Society’s links with various stakeholders.
3. Governance: where the AGB has made good progress on various initiatives, including a review of the disciplinary process, and proposals for a major revision to the Constitution and Bye Laws is at an advanced stage
4. Employer Relationships: where contact with major employers has set the scene for a different and, we believe, improved future relationship with this important stakeholder group.

5. **Development of Capacity:** where new structures and IT capability, enhanced full time resource, in particular the appointment of the Technical Director, and an increased focus on volunteer recruitment are helping to change our delivery capability
6. **Transformation:** While we saw the signing of the Society's "Transformation Charter", and while we continue to provide support for various initiatives, including the mentoring scheme of ASABA (Association of South African black Actuarial professionals) and Actuaries on the Move, much more needs to be done in this area.
7. **Government & Regulatory Relationships:** where traditional links were maintained and new ones developed, particularly off the back of the social security and retirement reform initiatives.
8. **International Relationships:** where we have developed a more structured interface with the IAA (International Actuarial Association) and the emerging professional bodies in sub-Saharan Africa.

Council will be meeting for 2 days in November to review the current strategic plan of the Society. We have invited input from the various Boards and Practice Area committees. I do not expect any major changes in direction, but I may be surprised!!

In assessing the output from our strategy session, I believe we will need to take proper account of the following key risks that we face as a profession located on the southern tip of the African continent:

Firstly, relating to external events and developments:

#### **1. Failure to contribute effectively to key national debates on policy matters:**

Of course this includes the current debate on Social Security and Retirement Reform, but we need to be very conscious of the potential for changes in policy that may affect the stability of the broader financial services industry within which the profession plays an important role and which has served the country well during the recent global crises and instability. We may also have an opportunity to play a role in new developments within the health care sector as well.

The recent turmoil in financial markets may well lead to a review of the capital requirements of financial institutions; we need to ensure that we play a constructive role in industries where we function, remembering that over capitalized institutions are potentially as much a problem as thinly capitalized ones.

The challenge of active engagement in national debates is not something that sits comfortably with the profession and we have historically struggled with this role; yet it is a critical element of our public interest mandate. The relative success of our Task Force on SS & RF shows that we can play a role and we should build on this experience.

#### **2. Failure to participate effectively in global developments:**

The financial services industry is amongst the most global of industries and is likely to continue along this road, perhaps even more so as a consequence of the "Crash of 2008". As a profession, we are part of this, and developments within the IAA reflect this reality. The IAA is, in many ways, a unique umbrella professional body. We believe it should, and will, develop into an even more influential entity, impacting actuarial practice standards across the globe, and becoming a key interface between the profession and other regulatory and standard setting bodies.

Similarly, it is likely that regional issues will emerge, presenting their own sets of threats and opportunities; traditionally, we remain close to developments in the UK, but I am sure that there is much we could learn from our Japanese and Australian colleagues, for example, in various matters relating to the profession. Similarly, the profession is slowly beginning to take root elsewhere on the African continent; we have a role to play and need to embrace this challenge.

The point is simply this: we cannot sit quietly on this southern tip of Africa and ignore developments elsewhere. Nor should we think that we have little to contribute – we have a unique perspective on many matters. Failure to participate effectively in emerging global issues will have a profound future impact, exposing us to the risk of being trapped in a mode of perpetual catch up.

### **3. Failure to respond to key professional developments and opportunities:**

30 years ago, the recognized investment professional qualification amongst the investment management community in SA was the “Certificate in Finance & Investment” issued by the Institute of Actuaries. Today, it is undoubtedly the CFA designation, for very good reason. We have worked to build a closer relationship here in SA with the local CFA chapter, and, indeed, have a number of our Fellow members on their local board. However, the actuarial Fellowship is no longer the premier professional qualification in the investments space.

We have no divine right to any specific roles, functions or areas of operation; where we claim “preferred supplier” status, the claim must be based on the value that we add and are seen to add in that area.

What is the next “gap”? I believe this is staring us in the face: Enterprise Risk Management. Work is being done here by actuaries in a number of industries, but until we focus and formalize our response, we risk losing a major longer term opportunity. This response includes specific education elements, not just indirect references to risk issues under other subject headings. The UK Profession is adjusting its curriculum, a global actuarial ERM qualification is being progressed, yet more needs to be done. Fortunately, we have in SA a great “centre of excellence” in ERM, with a proud record of producing qualified individuals in the ERM areas, but mainly for the banks. We need to build on this, and other areas of expertise within our university system, so as to focus our limited resource, if we are not to lose a wonderful opportunity to position the profession.

### **4. Failure to interact effectively with relevant Regulators:**

We need, continuously, to interact effectively with our relevant Regulators; failure to do so will impact on what I would call our “licence to operate”. Regulators are the recipients of much of our key work and provide a litmus test of our effectiveness as a profession. We need to know how we are doing and how we can improve.

Let us never forget that the regulatory roles we enjoy are not all of our own making – we trade to some extent on the goodwill created by those who went before us. We owe it to those who follow us to maintain the store of goodwill

We also need to understand the direction of policy, and the detail of proposed regulatory changes, as they affect the environment within which we operate. With an open and productive relationship in place, we have the opportunity to influence such changes, hopefully with a transparent motive; without such a relationship, we will always be on the receiving end.

Turning now to internal events and activities:

## **5. Failure to properly fulfill our professional promise:**

As a profession, we “promise” the services of properly trained and equipped actuaries who function within a set of guidelines and standards. We also “promise” professional capability that is current and relevant.

As noted earlier, the financial world is a much more dangerous place today because of a series of failures by those entrusted by society with risk assessment and management: underwriters of credit, raters of credit instruments and those charged with the oversight of the risk profiles of banking institutions, to name but a few. The damage, of course, extends way beyond the banking industry and there are some high profile insurance casualties amongst the carnage as well. However, by far the most important impact has been its extension into the real economy, mainly via the so-called “de-leveraging” we now face – businesses are now facing restrictions on available capital and that single “factor of production” we had come almost to take for granted is, once again, becoming a scarce resource.

Many claim that SA is different for a variety of reasons: exchange control limited foreign exposures; a lower reliance within our banking sector on wholesale funding and a higher deposit to asset ratio. However, we are not immune to global forces, and our local equity market has now seen a retreat of over 40% from its peak. This is anticipating future ill fortune of significant proportions!

In such an environment, those within a profession that promises effective risk assessment and management had better be wide awake; vigilance and diligence have to be our watchwords as we play the role that is expected of us. Other professionals have failed while on watch – let that not happen to us.

Another important part of our “professional promise” is adherence to a code of conduct and effective sanctions when standards are violated. We continue to struggle with the effective application of our disciplinary process, and we await, eagerly, the findings and recommendations of the AGB in this regard. Failure to act decisively in this area will undermine the validity of our “promise” and expose us to other, probably less palatable, strictures.

## **6. Failure to deliver on our Education promise:**

Perhaps the most immediate and visible of the “issues” on our radar, we have an education promise to deliver: A system of quality that meets the standards required to ensure a range of mutual recognition agreements; that continues to attract the brightest and the best; that continues to provide a flow of talent to our employers; that has the internal capacity to deliver administratively; that feeds off our practical experiences and draws from our academic pool to retain its intellectual rigour and practical relevance. We simply cannot afford to fail.

It is a resource intensive process, in terms of both money and volunteer time. I have no doubt about our ability to meet the challenge in the short run, and am particularly grateful that we have been able, through the goodwill of many, to access both the financial and volunteer resources necessary. However, I do believe that we will have to engage with our international colleagues, sooner rather than later, to build a more co-operative approach to actuarial education, spanning national boundaries, where particular skills in individual regions can be leveraged for the benefit of a broader audience, without compromising the model of a domestically relevant education system.

## **7. Failure to further develop our internal capacity and capabilities:**

Without an appropriate infrastructure we cannot hope to succeed in what we have set out to do; this requires people and supporting business processes and systems. While we have made significant improvements over the past year or so, more needs to be done to ensure a robust infrastructure. We will need to recruit and train a few more full time staff, as our requirements are better understood and the newly developed systems and processes are put into effect and stabilize. This will require focused effort from a number of areas, including our Operations & Finance Board, the Education & CPD Board and our Human Resources Board. It will also require that we apply intelligently the financial resources at our disposal.

Failure to effectively implement is a well known risk en route to strategic change; we cannot afford to drop the ball in this regard, as it underpins our ability to deliver on virtually all other initiatives.

## **8. Failure to build volunteer support and involvement:**

Finally, I would like to refer to the matter of ongoing volunteer support. While it can be argued that this belongs with the previous point, I believe this deserves separate mention because of its importance. As far as I can determine, ensuring adequate volunteer involvement is a challenge to all actuarial professional bodies across the globe, almost whatever the size. We enjoy and defend the self regulation implicit in a member run professional body; to maintain that requires a significant degree of self sacrifice by those prepared to get involved and contribute.

As noted in my annual report, we have many who participate extensively in Actuarial Society activities. However, we need to ensure a regular flow of new blood, whether this comes from the more recently qualified members or those who have reached a stage in their career where they can afford to allocate more time to professional activities. For this reason, "recruitment" is a specific element of our HR Board's mandate, and Council is committed to improved engagement with our members to increase the number of willing participants.

This, then, leads me to that part of my address that relates to the individual members of the profession: the personal burden of accountability as a member of the actuarial profession. Put differently: What does it mean to be a member of the actuarial profession in this day and age and in this geographical location?

We are a privileged profession.

As individuals, we have generally been blessed with reasonable and arguably above average intelligence, as currently measured, at any rate! We have been blessed with opportunity to build on some innate capabilities via an intensive education process, usually at university and then in the workplace. Once qualified, we generally find many opportunities to begin to apply our skills, and then develop them in real-life situations, and to get paid reasonably well for our efforts. We have opportunities both in the corporate world and as sole practitioners.

As a profession, we enjoy significant status, both in the eyes of the community and government: We are, in South Africa, entrusted with key statutory roles by government, in assessing and monitoring the financial stability of key financial sector institutions. In spite of some negative press, the role of the actuary is generally, in my opinion, still seen to be beneficial to the consumer, and having us involved in financial institutions is still seen as net positive.

We should therefore not be surprised that we are held to a higher standard and are, collectively and sometimes individually, subject to criticism. Unfortunately, individual members of the profession are, from time to time, involved with matters that are inappropriate professionally or sometimes just illegal; rampant commercialism or disproportionate financial reward can

sometimes blind one to the standards we are required to maintain, and we are tempted to direct our training and ingenuity, not to the “public good”, but to a far narrower mandate that sometimes involves “at the expense of another”.

We also have to confess that our disciplinary process has not always been up to the challenge; it should be a well functioning mechanism that gives effect to our promise of self governance to our various stakeholders, including clients and regulators. Yet it has become more of a legal battlefield, limiting its effectiveness, for a variety of reasons. Council therefore welcomes the review of the disciplinary processes currently being undertaken by the Actuarial Governance Board, and pledges its support for a rapid implementation of any changes required.

Sometimes appropriate governance requires that the interest of the profession may take precedence over the interest of the individual member. As a professional body established to serve both its members and the community, via its body of members, the Actuarial Society relies on the support of its members to continue; but this may not always mean that individual member interests are paramount. Sometimes, requirements may be imposed on members that may inconvenience members, but are there to protect the overall interests of the profession as a whole. While we hope that such instances are rare, we also hope that members will see such requirements in their proper light, and balance the interests of the profession as a whole against their personal inconvenience.

What, then, should we be doing to meet the accountability I submit we carry as individual members of the actuarial profession in South Africa?

I will present my thoughts by way of five key questions for each of us individually:

**1. Do we wear the badge of “actuary” with the right mindset?**

Because of our training and skills and because of the positions of influence we often enjoy, the profession is sometimes labeled as arrogant, high handed or some other such negative attribute. This is unfortunate. Our mind set should be one of (in the words of Steven Covey) seeking first to understand – understanding the issues and concerns of our clients and the other parties that may be affected by the advice we provide – and then using our skills to unpack the problem and, finally, offering advice. Even better, participate in solution development with our clients, ensuring that they understand, as far as possible, the implications of their decisions. Numbers can baffle many, and we should never resort to the power of our financial models to shield us from the challenge of common sense. Do we seek to baffle and impress or do we seek to work collaboratively with our “clients”? The mindset we need is one of supporting and helping, of seeking to deepen understanding, not one of producing THE SOLUTION.

**2. Are we doing enough to ensure that we maintain an appropriate skills set to meet the needs of our “clients”?**

This is a straightforward question about the currency of our skills set. Events move with mind boggling speed, as we have seen, and we need to take time to ensure that we keep up to date; this is not a “plug” for the latest “fad” – it is a call for active engagement in ongoing/continuous professional development – not even at the level or in the form now called for as our **CPD** condition of membership. It goes far wider than this and calls for significant investment in skill renewal. It is a life time commitment, and it is up to each of us to ensure that what we do is appropriate. Without this, we become irrelevant, or, even worse, continue to feed our clients with inappropriate advice as we defend our shrinking atoll of yesterday’s competence. This lies at the heart of being what we call a “professional” and is perhaps the most fundamental of our challenges at the individual level.

**3. Are we prepared to share of our talents and skills and insights to help develop the technical skills set of the profession as a whole?**

While some may claim that we are a “learned” profession, I prefer the descriptor of a “learning” profession in the Peter Senge sense – the technical skills we need evolve and change as rapidly as the markets we serve. Unless those of us involved in the day to day applications of actuarial science provide feedback and guidance for research topics, and share our practical and philosophical insights with others, we will fail in this most crucial of activities. Equally, unless we ensure the interest in and capacity for research work, via appropriate structures and support systems to those of our members with an appetite and aptitude for such work, it is difficult to see how we as a profession can keep abreast of developments.

Our universities, who are central to our new education system, can, and do, play a vital role in encouraging ongoing research; indeed, we are fortunate to have some widely recognized “centres of excellence” in actuarial and related fields, such as the work on demography here in Cape Town, the risk management focus at North West University, and the investment and health care research work at Wits. We will be exploring with the universities ways to further assist their efforts.

It is true that we participate in a global research pool, but we have to make our contribution and address those issues that are uniquely South African. A call for tenders for 5 key research topics relating to social security and retirement reform has recently gone out to members, and it will be interesting to see the response.

**4. Do we get sufficiently involved in the governance and development of the Society as an entity?**

We may be proud of our membership base of some 1800 with over 750 Fellows, yet it remains small by any standard. In spite of our efforts to increase our organizational capacity and, even with the success we have had thus far as noted elsewhere, we remain largely dependant on volunteer participants in the Society’s governance and organizational structures. And long may that last, as over reliance on a separate full time salaried staff would be a sure step towards a fundamental disconnect between the organization and its members.

The new “Board” structure has opened up many more opportunities for members to play a meaningful role in the overall development of the Society. These are also opportunities for our more experienced members to share their wisdom and for our younger members to gain valuable experience while helping the Society move forward.

This year, we had one nomination for the vacancy on Council, and two each for the newly qualified member and student observer. We have to ask whether this reflects a keen interest in the governance of our profession or whether we could be doing more. It is a matter that Council will address earlier in the cycle and with more vigour during next year. Democracy and accountability depend on involvement, and your involvement can drive both. What roles do you play and what roles could you play in this regard?

Finally,

**5. Do we carry with us, in all that we do and wherever we may do so, a keen awareness of the professional ethics and standards of our profession?**

I guess this comes down to the question: “How proud are we to belong to the actuarial profession?” If we are, then the challenge is: “Why?” And the answer to this, I would submit, should not relate to how smart we think we are, or how well actuaries are paid. We should be proud of the profession because of the contribution it makes, via the activities of each of us in our

own way, to the well-being of our community and the needs we are able to address. We should also be proud of the way in which the profession makes that contribution.

This is the mindset of which I enquire: How aware are we, on a daily basis, of the expectations placed on us individually by the profession in terms of the way in which we conduct ourselves. Does our acceptance of these expectations manifest in the way in which we conduct our affairs? If not, or if we have to continually remind ourselves of what we stand for, then perhaps we have some work to do.

I offer these five questions as a self assessment tool, to help us gauge where we stand individually relative to the challenge of accountability.

## **Conclusion**

Let it never be said that our privileged position led us into the trap of an over developed sense of self confidence and an under developed ability to listen. May we learn from the current turmoil and be better prepared and equipped to serve our various clients, knowing that technical skills are not always enough. May we seek ways to prudently extend the actuarial offering to new areas, where our traditional skills, combined with the rigour, standards and discipline of the profession, can be of value.

We continue into 2009, one year away from the Soccer World Cup and ICA 2010, a proud member of the South African community. In common with many, we face significant challenges and, much like the country as a whole, we are faced with an immediate future involving significant change and uncertainty. Yet, again like the country as a whole, we can face these challenges with confidence, provided we all, as individual members, commit to being involved in shaping the outcome, and avoid sitting on the sidelines waiting for someone else to engage.

The consequence of privilege is accountability; we must face, accept and embrace this accountability, at the level of both the individual and the profession as a whole. For, by avoiding it, whether directly or indirectly, we surely fail as a profession, and, as importantly, both ourselves and those that follow us.

*Cape Town  
October 10, 2008*