

**PRESIDENTIAL ADDRESS 2012
THEMBA GAMEDZE**

THE CHALLENGES FACING THE SOUTH AFRICAN PROFESSION

Ladies and Gentlemen

It is my pleasure to welcome you all officially to the 2012 Actuarial Society Annual Convention. However, as much as I enjoy these gatherings, I cannot escape the sense of being caught in the midst of a significant shift in the South African socio-economic and political landscape.

A mere month ago yesterday we sat in shock as the events of Marikana unfolded so violently before us and eventually resulted in an official death toll of 46. The human tragedy we have been witness to is little short of catastrophic and there can surely be no doubt that the effect on the national psyche and the full implications of this disaster have yet to be felt. Nevertheless, as dreadful as those events were, there are already early indications of the emergence of a more widespread wave of social unrest. These signs appear to be linked very strongly with the delivery of basic public services which is deteriorating significantly in certain regions of the country. Unchecked, this situation has the potential to increase the chances of violent confrontation between angry communities and the national safety and security services charged with maintaining the rule of law.

It is therefore in the context of that concern about service delivery that I would like us to consider the release on the 23rd of July by the Auditor General of South Africa of his rather depressing report about the finances of many of our municipalities. The high level summary by the Auditor General reads as follows:

Six new municipalities have achieved clean audit results this year, on top of the seven that achieved this last year. But the 13 clean audits represent just 5% of all municipal entities that were audited.

Among the Auditor General's many comments on the situation was one focusing on the factors distinguishing the relatively low number of financially well-managed municipalities from the rest when he said

... those municipalities that either returned consistently good results or achieved a turnaround did so because of decisive action by the leaders and key officials...

He then went on to say:

What these provinces are beginning to display is the outcome of concerted efforts on the part of political leaders and management. They are moving forward to the clean audit space by consistently committing to taking ownership of municipal performance practices, insisting on adequately qualified staff and effective performance management practices.

The theme of this year's Convention is "Taking Charge of Uncertainty: Insight, Innovation and Integration" and the aim is to encourage discussion on how the actuarial profession can proactively navigate these extremely uncertain times. We are therefore grappling with two key questions:

First, "How do we ensure that we channel our expert training towards identifying new opportunities and developing the potential that lies within our own continent?" Second, "How can we partner effectively with other professions, services and government to find solutions to build a future that we would all like to live in?"

While the themes of the many sessions we have already had and those still to come later on today cover much of this ground, I think that in terms of partnering effectively with government we are barely scratching the surface of our ability to address the structural challenges we face as a country and the identifying the opportunities implied by those challenges.

It is surely about time for significant numbers of actuaries to give serious consideration to developing their careers in the public sector. There is an undoubted need for us too as a profession to make ourselves available to participate in the inculcation and deepening of a culture of professionalism, strong risk management and accountability that is under increasing threat within a number of our public institutions, including our municipalities. My ultimate hope is that by engaging more deeply with government in this way we will eventually become witness to the birth of a new and dynamic facility of national significance that will become increasingly accessible to all those areas of regulation and policymaking that may require it.

It is helpful I think for us to differentiate between the roles that actuaries can play as providers of external consultancy services to government departments from that of actuaries who are government employees providing consistent and contextualised internal advice to those departments. We are not dealing at all here with a question of whether we have one or the other. There is definitely plenty of room for both and in an ideal world I see any input made by external actuarial consultants being commissioned, assessed and implemented by actuaries employed fully by the State.

At a very high level, it may be helpful for us to consider the possible areas of actuarial involvement in the public sector in the following five main categories:

First of all, we already have a few actuaries employed by the Financial Services Board in support of its mandate to regulate the non-banking part of our Financial Services Industry, particularly in respect of pensions, investments and the long and short term insurance sectors. In a similar context, but to a much lesser extent, there is also actuarial involvement within the ambit of the Department of Health in the regulation of medical schemes.

What is missing completely though in the context of overall financial regulation is the deployment of actuaries in respect of the regulation of banks at the Reserve Bank. There is a growing consensus in the profession that this should be reconsidered. This is clearly of relevance in the light of the implementation of our new Twin Peaks Regulatory regime that separates the supervision of market conduct from market stability. However, it also represents a natural development in view of the strong growth we have seen in the involvement of actuaries within the banking sector. I have no doubt at all that the training we undergo places our profession in a very good position to support the delivery of appropriate regulatory oversight over both of these peaks that underpin the maintenance of a sound financial sector.

The second area is in respect of the governance and prudential management of the surprisingly large number of significant public sector managed financial services listed below.

Falling under National Treasury we have the GEPF [a defined benefit pension fund], the PIC [an asset manager with largely defined benefit liabilities] and SASRIA [a specialised political risks reinsurance underwriter].

Managed by the Department of Transport there is the RAF [a provider of injury-related liability cover in respect of motor accidents].

Overseen by the Department of Public Service and Administration we have GEMS [a medical aid scheme designed to fund the healthcare needs of public sector employees].

Under the Department of Labour we have the UIF [an insurance operation providing short term unemployment benefits] and the Compensation Fund [established to provide financial relief to those sustaining work-related injuries and diseases].

Supervised by the Department of Health we have already mentioned the involvement of actuaries in the work of the Council for Medical Schemes [tasked with regulating the funding of private health care].

In addition to the above, within the banking sector there is Post Bank [a division of the Post Office ultimately supervised by the Department of Communications to provide a number of financial services to the previously unbanked population].

The extent of actuarial involvement in these entities is surprisingly limited and is characterised by a virtual absence of employed Fellows and only a handful of other actuarial professionals. This has resulted in an overwhelming reliance on external actuarial consultants, mainly in respect of meeting statutory obligations.

A deeper involvement of actuaries in the operations of these entities would contribute greatly towards their strengthening and the extent to which they would be able to achieve their noble aims. In broad terms aspects such as benefit design and pricing; expense analysis and investment strategy formulation; the financial and risk management of the entity itself, including reinsurance considerations; the control, management and structuring of data and systems; the establishment of sound frameworks for implementing an economic risk approach to exercising financial oversight can all benefit from in-house actuarial advice.

This would also include the embedding of appropriate risk management practices and providing input into the development of sound operational processes and reporting protocols. Actuaries can also make a valuable contribution in the more general area of overall corporate governance. In that particular regard, I was approached by the Department of Labour earlier on this year and appointed to the Audit and Risk Committee of the UIF. Since then I have found myself being asked to consider playing similar roles in other similar government structures and would be happy to talk to any member interested in making a contribution of this type.

Thirdly, based on the type of requests being put to the Society, it is becoming very clear that the involvement of actuaries in the area of scenario modelling could

generate a lot of value for the overall policymaking and planning process. While our modelling skills are in principle capable of fairly wide application, I am thinking more specifically about the challenges involved in mega-projects such as understanding the financial consequences of competing options in the detailed design of the NHI or the different choices that could be considered in the context of Retirement and Social Security Reform.

Another topical issue has arisen with the question of trying to quantify the potential for unintended consequences in the introduction of new regulations or base legislation. While there is no doubt that external consultants can and will continue to play a very useful role in this regard, I am equally convinced of the even greater national benefit that is available from having access to dedicated resources free of commercial conflicts from early on in the policy making process.

Fourthly, as mentioned earlier, we have become increasingly concerned about the serious lack of capacity in the area of Enterprise Risk Management that is becoming more and more evident in the Auditor General's annual assessment of many municipalities and other structures supervised at the level of local government. While actuaries cannot claim to have the monopoly for making a contribution towards meeting this challenge, I am certain that our training provides us with many of the tools to be able to design environments in which it is easier both to enforce and to detect inappropriate behaviours, such as fraud or poor policy implementation.

Finally, I am sure that there will always be a need for actuaries to provide ad hoc quantitative modelling input into the multi-disciplinary teams involving economists, demographers, statisticians and other professionals, such as accountants and engineers, who provide support in a wide range of situations such as the detailed analysis of Public-Private Sector Partnerships.

In order to discuss these and other related issues affecting both the profession and employers of actuaries in future, we have arranged two breakfast sessions for later this month: in Joburg on the 29th October and in Cape Town on the 31st October. Invitations have already gone out to the leaders of the Actuarial Training Offices but I would appreciate it if the senior delegates here would take it upon themselves to stress to your senior executives the importance we place on this interaction.

In conclusion, though, the reality is that even if the need for actuarial input in these and other areas of public sector work comes to be appreciated, we would still be left with the work of attracting sufficient numbers of our membership to take up the challenge. It is therefore with this hope of seeing the actuarial profession more

intimately involved in the critical work of supporting the development of specific areas of national policy that I make these comments.

We have asked the question: "How can we partner effectively with other professions, services and government to find solutions to build a future that we would all like to live in?"

The answer is largely up to you and me. We can either complain or roll up our sleeves... we can continue watching from the side lines or we can participate...we can keep on talking or we can do... The choice is yours.

Thank you.