

Future Trends in Actuarial Consultancy: A Personal Canadian Perspective

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Introduction

The main thrust of my paper will be to present a particular contention or viewpoint as to the inherent nature of actuarial consultancy as it exists today. From this viewpoint I will proceed to draw out the implications as I see them for the way in which actuarial consultancy will evolve. I would like to mention at the outset that while I do perceive the picture that I draw as having a current reality, it is not necessarily one that finds a complete endorsement from me as to its acceptability. My specific purpose is to point out the implications of present trends as I see them, to encourage debate as to the validity of my perception of these trends as well as their implications, and to enable an assessment to be made as to whether different directions should be encouraged.

Canadian Environment

To set the scene, and my scene is primarily related to the Canadian environment, I would first of all like to describe some relevant aspects of actuarial consultancy as it exists today. Throughout I will probably be tempted to make reference to a somewhat imperfect knowledge of the corresponding environment elsewhere in the world and it is here that I will particularly welcome comparative comments from my colleagues.

The average Canadian actuarial consultant is thirty seven years old, works in a major urban environment in an employed capacity for an organization ultimately owned and controlled by non-actuarial interests. Actuarial consultants represent about 25% of Canadian actuaries and of these about 85% specialize in pension consulting with the remainder evenly split between group insurance consulting, life company consulting and consulting firm management.

I mention age and urban location simply to reflect the fact that the actuarial consultant cannot help but be influenced by the events and trends of both his generation and his environment. Although admittedly a broad statement, I believe it fair to say that many of the concepts of, and the values placed upon, a professional life, are not held to the same extent by the younger consultants as by their more senior colleagues. This is a trend which is also apparent I believe in the legal, medical, teaching and other professions and invites a discussion into which I would like to enter shortly as to the definition of "profession". Whatever the ultimate definition however, I do perceive it to be of a more blurred nature within the North American context than within the European context.

Of more significance I believe is the reference to the employed status of the Canadian actuarial consultant and the nature of his employer. I personally have always been bemused by the fact that I am privileged to be able to be a member of IACA by virtue of my status as an employee of a Canadian consulting firm, yet I would be denied such privilege if I were so employed by my Company in say, the United Kingdom. Yet that aside, it is important to emphasize the real environment within which the typical Canadian actuarial consultant works. Firstly, as an employee, and while I am the first to recognize that there are employees and employees, it is I believe an inescapable fact that that most Canadian consulting actuaries are in the position of looking to their employer rather than their client for their remuneration. Secondly, this situation is made further complex by the varied nature of his employer which encompasses general insurance brokerage firms, accounting firms, management consulting firms, and purely outside investment interests.

To round out the scene-setting it is remarkable to note how specialized actuarial consulting is within Canada, being dominated as it is by pension specialists. It is also important to note that while the actuarial consultant is generally a pension consultant the converse does not hold. There exist a substantial number of very capable pension specialists who are not actuaries.

Definitions

Before moving on to outline the specific contention that I would like to put forward, there remains some further groundwork that should be done. I would like to as it were define some technical terms against which I will be formulating the above contention. These terms are actuary, consultant, professional and businessman.

"Actuary" would appear to be fairly straightforward, but I would like to explicitly define it as one who is versed in the application of actuarial mathematical technique to the placing of value on contingent contracts. This puts the actuary clearly into the specialized, applied mathematician category. This would be supported by looking at the content of the examination requirements of any of the actuarial organizations. Extending this into the Canadian pension scene one would expect to find this definition of actuary hard at work at the task of valuing the financial obligations incurred and being incurred by pension plan sponsors.

"Consultant" is more difficult to get at by way of definition. Obviously, the simple approach is to say a consultant is one whom one consults; but consults on what? Again, the simple approach is, on that which the consultant is qualified to offer advice; but is the qualification to be by examination, experience, reputation or good marketing skills? In the end, for my purposes I would like to define a consultant as one from whom one seeks, in any area, advice that the seeker regards as having value to him.

"Professional" is traditionally defined as one who has specialized skills, the demonstration of which is achieved by membership in a body which is charged with the development and monitoring of those specialized skills. It is however, even more tightly defined by the concept of the profession itself being more important than any of the individual component professionals. This is held to be a reflection of the significance of these specialized skills to society as a whole and to my mind the dedication to this concept is the hallmark and essence of the traditional professional.

"Businessman" can best be defined as an economic unit attempting within his total environment to maximize his business objectives, whether they be by way of profit, growth, monopoly, economic way of life or whatever. The focal thrust of the businessman is his own business interests; to achieve these he may well, and in fact will most likely have to be of benefit and significance to society but this would be a means as opposed to an end in itself. The scope and development of his business activities will be largely dictated by the potential contribution to the achievement of his business objectives.

The Contention

Against the environmental background I have drawn and armed with the foregoing definitions, I would now like to put forward my specific contention as follows. The remainder of my paper will then be devoted to drawing out from that the implications for actuarial consultancy here in Canada.

In the makeup of today's actuarial consultant I would contend firstly that:

"there is more consultant than actuary"

and secondly that:

"there is more businessman than professional".

On the first point, it is quite rare I believe to find an actuarial consultant practising strictly as an actuary. On the contrary there is a wider range to the extent to which the typical actuarial consultant offers advice in areas other than strictly actuarial matters. This is more influenced by his personal ability to meet his client's needs by whatever means in whatever area than by his own formal actuarial training. It must be recognized and said that the very nature of that training of the actuary makes this development all the more likely. The fact remains however that most actuarial consultants to some degree or other turn their hands to consulting on other than the actuarial needs of their clients.

On the second point, it is also becoming rarer, I believe, to find the actuarial consultant who is more influenced by the needs of his profession and society than by his own needs. This is not to say in any way that other than quality consulting, work is being performed for the benefit of the client.

I would contend however that albeit not exclusively it is being done more for the ultimate benefit of the actuarial consultant as opposed to the traditional professional concept of the importance and significance of the work itself.

While I recognize that this is a trend that is increasingly to be perceived in most professions, I believe it to be pronounced in our own situation.

Before going on to discuss the implication of the above contention for actuarial consultancy, I would like to point out that the above contention has been put forward as a neutral observation of current reality. There is no intention of labelling it good or bad, but simply as a reflection of a trend which if continued will have an undoubted impact in the future for actuarial consultancy.

Implications

I would like to consider these under the headings of the implications for the actuarial consultant himself, his client, his professional body and finally, his firm.

For the actuarial consultant himself I believe many of the implications as to the future direction are already well advanced. The individual who continues to operate within the narrow perspective of an actuary as I have defined it, risks being increasingly classified, if not obsolete, at least as merely a technician able to plot his way through a maze of calculations and regulation. Even the mainstay of the profession, the ability to reduce the complex mathematics to meaningful and practical terms has been overtaken by events and can now be looked at simply as subset of the whole field of mathematical model building.

This is not to say that there will be no place for the individual who does completely specialize in actuarial science and its applications. My point is that one will be likely to find that individual less concentrated in the consulting world. The typical actuarial consultant, dictated by the needs of his client, will have to broaden his perspective. In my view he will cross the significant line of becoming as it were a consultant with an actuarial speciality, working alongside other consultants with different specialities.

The actuarial consultant too will have to accept the consequences of the trend towards being less of a professional, as I have defined it. These will be in the area of the loss of the traditional status and respect that automatically accrued to the member of a profession. It may well be very healthy for society for the professionals to be removed from their traditional pedestals and for respect and reward to be individually rather than group earned.

For the client, and this will be welcomed by them for much of the initiative comes from them, there will be a continuation of the trend to view the consultant as simply an extension of his resource staff. As such he will expect the consultant to be putting the client's interests first and foremost. This will bring to the surface the problem already faced by the accounting profession of having to differentiate between an audit function and an accounting, financial advisory role. I can indeed see the potential for audit firms to retain actuarial expertise to assume an actuarial audit function, responsible to the legislative requirements, leaving the actuarial consultant free to pursue his role of a consultant to his client. The main point here is that the client already recognizes the inherent difference between somebody he looks to assist him to meet his objectives and somebody who has an external obligation to ensure that what he does to meet his business objectives is in conformity with external standards. As the client separates these functions so he expects actuarial consultancy to do the same and at the present time we do not.

Another implication for the client and again I believe welcomed by him, will be his increased ability to look to an individual or group of individuals for the broader perspective surrounding the particular topic on which he is seeking advice. The client places a premium on generalist ability as well as specialist knowledge.

Turning to the professional body itself, if one accepts the fact the actuarial consultant is indeed changing his stripes to become more a consultant, it will become increasingly difficult for, in our case, the Canadian Institute of Actuaries, to meet the total needs of those of its members who are consultants. I can easily envisage the emergence of a separate organization to accommodate the fact that consultants do have and need a different perspective on their business life. It is less easy but probably more logical to alternatively envisage the emergence of not simply an actuarial consulting offshoot from the main body of actuaries but a more radical restructuring of the consulting world in general.

If one asks why we are seeing actuarial consultants diversifying into other activities I think it can readily be attributed more to the process of our training and the nature of ourselves as individuals rather than anything inherent to the nature of actuarial science itself. This manifest itself also in other disciplines such as accounting and law. There may thus come a time when, rather than continuing the existing structure of each of the disciplines fostering its own consulting arms, we shall see the emergence of a unified consulting discipline. Here we would find in addition to a primary specialist qualification, the concept of, as it were, a post graduate consulting qualification leading to membership in a formal collective consulting association.

I have left to the last the implications for the actuarial consultancy firm for it is here that I believe can be seen already the practical working out of the concepts I have been discussing.

The actuarial consultancy firm of the future is likely to increasingly become a broadly-based consulting firm, whether by absorption into other entities or by self-generated expansion. While it will continue to have actuaries on staff, they for the most part will firstly be consultants and only secondly actuaries. They will be working alongside accountants, lawyers, business graduates, psychologists, computer specialists. Of necessity, these actuaries will have to have developed a generalist expertise beyond their actuarial training and will also have to have developed the ability to work as part of a multi-disciplinary firm.

There will in the future I believe, be considerably less debate on those old chestnuts of self-employment over employee status, partnerships over corporate entities, outside and diverse ownership and financing. The primary client relationship will be focused on the firm. How a firm organizes itself vis à vis its consultants and how it develops its structure and financing will be a matter of individual preference and appropriateness.

If and when the above trends do establish themselves there is going to be a tremendous need for corporate management skills. For business entities of the scope and diversity envisaged, and they will be business entities, capable management will be essential. Capabilities will be required both in the sense of managing a complex, matrix oriented, multi-disciplinary organization as well as in the sense of the visionary leadership that will be needed to ensure that consultancy in its widest sense achieves its full potential.

It is this potential for consultancy, actuarial or otherwise to come fully into its own that has given me the impetus to try and set down some of the issues, trends and implications for ourselves as actuarial consultants. That consultancy will evolve, that actuarial consultancy cannot remain isolated, these can I believe be taken as given. How we really perceive ourselves and whether we should encourage or oppose the directions in which I believe we are already embarked are topics on which I look forward to the comments of my colleagues.