The Life Office Actuary: Employee or Consultant?

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(1) This paper is written in the context of the United Kingdom and it considers the role of the appointed actuary and the advantages and disadvantages of this role being performed by an actuary who is not an employee of the life office.

(2) The role of appointed actuary derives from the requirement under the Insurance Companies Act, 1974 that every insurance company transacting long term business must appoint an actuary as actuary to the company and serve notice on the Secretary of State of the appointment, giving the name and qualifications of the person appointed; similar notice has to be given when the appointment comes to an end and a fresh appointment is made.

The job of the appointed actuary

(3) The statutory responsibility of the appointed actuary is to carry out at specific intervals an investigation into the financial condition of the life office in respect of its long term business, including a valuation of its liabilities, and to report thereon. Statutory returns in prescribed form have to be made to the Department of Trade (DOT) within six months of the date at which the investigation is made. The returns are subjected to scrutiny by the Government Actuary's Department (GAD), which acts effectively as consultant to the DOT. The GAD may put questions to the appointed actuary on his investigation or its implications, either direct or through the DOT. The actuaries in the GAD hold the same professional qualifications as actuaries employed by life offices or in consulting practice.

(4) Above and beyond the specific statutory responsibilities, the Institute of Actuaries and the Faculty of Actuaries, the two professional bodies in the United Kingdom, have prepared a guide to help appointed actuaries to a proper understanding of their responsibilities. This guide is included in the year books of the two professional bodies and is of considerable assistance to the actuary, who amid the day to day competitive pressures of a life office may sometimes be in danger of losing sight temporarily of actuarial principles.

(5) In order to be able to be satisfied about the continuing financial state of a life office, the appointed actuary must have access to a considerable amount of information about such matters as premium rates, policy conditions, existing investments, future investment policy, marketing plans and the associated budgets, expenses of management both current and those expected in the future, and reinsurance arrangements.

The candidates for the job

(6) The actuary appointed by the life office may be a full time employee of the office or an actuary in consulting practice. Either must have the appropriate qualifications, which in the United Kingdom normally means Fellowship of the Institute or Faculty of Actuaries, and must be acceptable to the Secretary of State in terms of reputation and experience.

(7) I do not regard the consulting actuary as being either superior or inferior in basic actuarial ability to his professional brother employed by a life office. The difference between them seems to me to lie not in ability but in the climate and constraints within which each works. Actuaries in the United Kingdom are still largely concentrated in the life offices although less so than formerly. In 1955, Fellows of the Institute of Actuaries in the employment of life offices outnumbered those in consulting practice by about 12 to 1; by 1981 the ratio had fallen to approximately 4 to 1.

(8) Movement of actuaries between life offices and consulting practice is limited. A consultant may have started his career in a life office, but he probably left after a fairly short period so that his experience was at a relatively junior level. In recent years a few actuaries in senior managerial positions in life offices have moved over to consulting practice but there are still comparatively few consultants with senior life office experience. As one of the few, I beg leave to doubt whether this sort of experience is essential to a consultant in giving advice on life office matters. While it may be helpful for a consultancy firm to have one or two partners who have worked their way up through various levels of seniority in life offices, I have found that consultants who have not had that experience can be impressive in the standard of advice they give to life office clients.

(9) The suggestion that a consulting actuary might have something to contribute to the well-being of a life office may raise a degree of animosity in the breasts of some senior actuaries in major life offices. Their reaction runs something like this: "We are a big office with as many qualified actuaries in our service as a large firm of consulting actuaries has among its partners and qualified staff. Our actuaries spend the whole of their time in running just one office, whereas in the consulting firm the same number give advice to a considerable number of pension fund, life office and miscellaneous clients. How could a consulting actuary with all his other commitments add anything to what our own actuarial team already does?"

The range of life offices

(10) Life offices come in all shapes and sizes. At one end of the scale there are the ocean going liners of the life insurance industry: large offices of long standing, undoubted reputation and financial strength, and a wealth of internal technical ability. At the other extreme there are the little ships: small offices, some recently established, with limited financial means and technical ability. The characteristics of these different craft and the qualities of seamanship they require differ greatly. An actuary whose experience is confined to small offices might be ill-equipped for working in a large office, while a successful actuary in a large life office might well find conditions strangely different in a small office.

(11) In spite of their differences, all life offices are selling to the public contracts whose financial performance they guarantee. The public is entitled to expect complete financial probity from each and every life office and all offices are subject to the same legislation. Even the weakest office does not write in its policies that it merely hopes to be able to pay the sum assured.

(12) The actuary employed in a large life office is one of a team. He works in situ and has an intimate day to day knowledge of the working and philosophy of the office. He almost certainly has great loyalty to and even a measure of affection for his colleagues. He is one of a team and will be consulted at an early stage, for example, when a new product is under consideration. He will be able to head off ideas from the marketing staff which he regards as actuarially unsound. He will probably have a substantial voice in the manner in which data is compiled within the organisation. He speaks the language and sympathises with the house style of his own office. One only needs to have worked in two or three different life offices to appreciate how much variation there is from one office to another in such elusive but decisive matters as style and atmosphere.

(13) Among life office actuaries there will be those whose drive, personality, ambition and dedication equips them to rise to top management in a large office. In the process they may tend to lose touch with actuarial work; some indeed will consider it a positive advantage to be seen to have risen above what they come to regard as narrow professional constraints. On the other hand, there are those who are not cut out for management or who are not particularly ambitious, who are content to become immersed in the actuarial minutiae of their own office; they accept the limited horizons of their work, appreciating the financial security it gives them.

(14) The freedom of action enjoyed by the actuary in consulting practice, coupled with his experience of dealing personally with different clients with varying scales of operation may give him a perspective which may be lacking in an actuary who has spent most of his career in a big life office. This is not to suggest that in

integrity or ability the life office actuary is inferior to the consulting actuary, but there must be some tendency for the life office actuary to look out at the world increasingly through the eyes of his own office, against the background of its particular history and development.

(15) In the smaller life offices there may be little or no "in-house" actuarial capability. Such companies have no alternative but to appoint a consultant as the appointed actuary. It is often difficult for the actuary in these circumstances to ensure that the day-to-day operations of the office are as he would wish, no matter how closely he seeks to maintain contact with the board of directors and the management of the client company. If there is no one in the office with any actuarial knowledge the situation can be particularly difficult for the appointed actuary. Sometimes the situation is eased by the appointment of a retired actuary to the board of directors of the office, a step which is actively encouraged by the DOT.

(16) There are also "composite" insurance offices, which transact both life and non-life business. Where there is a preponderance of non-life business, the position of the appointed actuary may give rise to difficulty. Although his views may be fully accepted within the life department, it may not be easy for him, if the top management of the company are mostly non-life men, to convey to them the problems specifically affecting the life business. There may well be a disinclination on the part of top management to recognise his peculiar professional position. It may appear to them that he is seeking to give to himself a special status not enjoyed by anyone on the non-life side. For example, the right of direct access to the board of directors, which the profession regards as vital to the appointed actuary, may be only grudgingly granted.

The professional position

(17) Over and above the duty to his profession of every actuary acting in his professional capacity, the appointed actuary to a life office, whether he be an employee or not, has responsibilities and obligations by virtue of his statutory duties. He is appointed and remunerated by the life office to which he has professional responsibility as his principal, but by reason of his statutory appointment he also has what are effectively responsibilities to the public at large as represented by the DOT.

(18) An appointed actuary who is also a member of the management team of the life office must be able to separate his statutory responsibilities for the financial well being of the office from his managerial and commercial duties. In a large well-established life office it may well seem unthinkable that there should be any conflict between his statutory duties and his other duties. It is a tribute to many senior life office actuaries that they have been able to maintain their strong professional sense in the face of increasing commercial pressures. In smaller offices however, it may be very difficult to do this. A young and relatively inexperienced actuary may be appointed with a level of remuneration substantially higher than he could get elsewhere in the market, perhaps with a seat on the board and other privileges, and it may be very difficult for him to oppose a course of action with which he disagrees on actuarial grounds, at the risk of having to give up a lucrative job with little chance of achieving similar status elsewhere.

Resources

(19) From the point of view of resources there is a great deal to be said at present for the appointed actuary of a large life office being in the full time employment of the office. He can influence the administration and the data processing within his own organisation so that it is tailor-made to his requirements in a manner which it may be difficult for the consultant to match. In the smaller offices, however, the advantage of having an internal actuary from the point of view of resources diminishes rapidly.

(20) With the growth of the life office capability in the larger firms of consulting actuaries, it is by no means unlikely that in the fairly near future consulting firms will be offering administration services which are attractive to many life offices. It is not hard to envisage that a large consulting firm could develop record keeping and calculation services for life offices which could lead to substantial economies. Having regard to the rapid escalation of their expenses of management, this could be attractive to many life offices. This would result in a thinning out of less senior actuaries in the life offices, with some of them joining consulting firms, which they could conceivably find a more stimulating actuarial environment. There would seem to be advantages to the profession as a whole in having a greater proportion of its members in practice, with a reduction in those in the employment of life offices.

Responsibilities

(21) A parallel is sometimes drawn between appointed actuaries and auditors, in support of the argument that an appointed actuary should not be employed by the office he advises. It is pointed out that although a life office frequently has on its staff a number of qualified accountants, the accounts of the office have to be audited by an outside auditor and that since, so the argument runs, the appointed actuary is akin to an auditor he should also be independent of the office. This is, to my mind, a fallacious parallel. All companies, not merely insurance offices, must by law have outside auditors whereas actuaries perform specialist functions in life offices which have no parallel in other types of trading company.

(22) The fact that this particular argument may not hold water does not affect my general view that the trend in the United Kingdom is towards the greater public accountability of life offices and other institutions. The responsibilities of the auditor in relation to a life office under the Companies Acts and the Insurance Companies Act, 1974 are closely linked with the actuarial valuations made by the appointed actuary of the office. The value placed on the office's liabilities by the actuary is vital in assessing the health of the office. The auditor relies heavily on the work of the appointed actuary. One must be an independent professional; the other can, and usually is, an employee of the office.

Conclusion

(23) I do not write as a consultant thirsting to extend the consultancy empire to take in more and more life office work, but it seems to me a natural development for the statutory responsibilities of the appointed actuary to become wholly separated from other actuarial responsibilities within the life office. There is no suggestion but that the larger life offices are run in a highly professional manner. The problem is that the legislation applies to all offices, large and small, strong and weak. Bearing in mind that the office of appointed actuary was only introduced a few years ago, it seems to me probable that, while the appointed actuary may continue to be either a full time employee of the life office or a consultant, all offices will at some time in the future have to appoint a statutory independent actuary who will countersign DOT returns and actuarial certificates. There is sufficient possibility of employed actuaries being put under pressure to agree to courses of action against their better judgement, wittingly or unwittingly, to justify such a requirement. For many offices the possibility is utterly remote, but there are a few where it is far from remote. It is the latter against which protection is necessary.