

President Address – 17 02 2014 – 16th GCA

Ladies and Gentleman! Good morning and welcome to the 16th GCA.

It gives me great pleasure to be speaking to you this morning and being able to share some of my thoughts. As you are aware, GCA is a major event in the Institute's calendar and is very well attended by various stakeholders besides the members of the Institute. It is running successfully for 16 years, an achievement in itself. The conference has been evolving over time and focuses on contemporary issues of significance in today's context besides offering great networking opportunity for participants. The theme for the conference – Evolving frontiers; Exciting prospects – reflects the fact that changes are happening more than ever, will continue to happen and every change is an opportunity and so it is important to stay optimistic about the prospects that these changes bring about. We have a number of presentations and discussions by eminent speakers lined up.

Let me take this opportunity to thank the members of the GCA organizing group and all those who contributed for putting together such a wonderful program. Lot of hard work has gone into organizing this conference. I would urge everyone to be as participative as you can and make the best out of your time spent over the next couple of days.

When I started thinking about this address, there are three themes that I thought I should reflect upon. Firstly, the current state of the actuarial profession globally and more particularly in India and the aspects for us to pay attention to in order for the profession to continually remain relevant in the increasingly complex social, commercial and economic environment. Secondly, state of the industries in which actuaries operate and the need to look beyond the traditional areas. And, last but not certainly the least, the importance of actuaries demonstrating highest standards of professionalism and ethics and so the stakeholders gain complete trust in what actuaries do.

We are a small and niche profession of around 50 to 60,000 actuaries around the world. It is not that we have chosen to remain small but any specialist faculty tends to be like that. The establishment of the International actuarial association, an umbrella association of actuarial professional associations, has brought a large number of actuarial bodies together to look at challenges and opportunities for actuaries in a truly global context. We are on the right path of promoting and making the profession more visible to the stakeholders who would stand to benefit from the services of actuaries. I believe the profession globally has got a very strong foundation and reputation of offering a great proposition of applying science to the management risks and thus serving a public interest need. Different local actuarial associations are in different stages of evolution and their ability to contribute and influence policy makings is varied. Given the size and not so obvious but very important value proposition that as actuaries we bring to the table, it is important that we stay united and leverage each other's experience and expertise and take a global approach to addressing public interest issues.

Actuarial science being a science has universal applicability. And so, ensuring that actuaries go through education and training that are globally relevant while being locally compatible both pre and post-qualification is critical. The skill set requirements are changing and so it is important that we have a mechanism to tune our education model to the changing requirements. Behavioral competencies (Soft skills) are becoming more important than ever for successfully executing solutions that are actuarially sound. Our education model will need to continually evolve and embrace this changing need. Embracing technology into our professional thinking and action is another critical element when it comes to actuarial services delivery – an aspect where I would encourage more thinking need to be done globally.

In India, the privatization of insurance industry spurred sudden demand for actuarial resources. Since the privatization followed a pro-longed period of nationalization, the supply had to be built almost from the scratch. The supply reacted reasonably well to the demand. We had significant jump in our student membership. It took us sometime to realize that we need to improve the quality of entrants into the profession and so they acquire the skills fast and start meeting the resource gap quickly. That thinking resulted in the introduction of a system of entry filtering. We see that started yielding results. While there is pressure on supply to meet the sudden demand, we have kept our standards high as we believe quality is fundamental. While producing qualified and experienced actuaries take time, we have been able to attract large number students who have made significant progress and have the potential to become successful actuaries of the future.

Couple of areas that I see there is more strengthening to be done – one is education delivery and another is professional standards compliance monitoring. There are two schools of thought when it comes to the education delivery model. One approach is to engage with academic institutions – universities – for education delivery. This is suitable for a more focused education delivery and thus potentially reducing the time span for completing the actuarial training. This can however work if we can figure out an effective mechanism to manage and control quality – something we cannot afford to compromise. Another approach is the current system of centralized examination system. It has resource limitations and scalability issues but provides for quality control. There is also an argument that the profession with its limited resources should focus more on setting standards and providing technical guidance targeted towards qualified actuaries rather than expending energy on the pre-qualification education delivery.

While this is debated, encouraging academic institutions to teach students to our professional examinations is, I believe, something that we should facilitate. A reverse exemption system where the universities offer exemption for some part of their degree curriculum to the students passing out the actuarial professional examinations conducted by the institute would be a good start. This would facilitate building actuarial academic capacity in the universities and thus potentially moving towards a system where the academic institutions play much greater role in the pre-qualification education delivery. The aspects around soft skills, technology and research are something perhaps better addressed in such an academic setup.

As regards the compliance with professional standards – there is again this debate on the level of self-regulation vs regulation by the profession. Compliance with professional standards is of paramount importance to ensure that the users of actuarial services draw the comfort that they are getting the best possible professional advice. I believe, there is greater rigor required and so a tone set by the profession with the bar rising till such a time there is lot of comfort that the standards of actuarial services is a given thing.

Moving on to the industries in which actuaries operate – Life insurance industry , a major employer for actuaries, has gone through significant regulatory intervention over the last few years. While there is a greater level of consensus on the regulatory direction, there have been differences of opinion on the pace with which the changes have been made. There is obviously some merit in the argument that once you decide to get to a place why not get there as well quickly. The regulatory changes resulted in the life insurance industry realigning its business models and starting from what we may call it a new normal. Long term protection is fundamental to life insurance – it is therefore important that that fundamental fabric is not lost in the way products are designed and sold. The trick to success of the life insurance industry, I believe, is in getting an appropriate performance metric in place for the industry participants and that of course should allow for a measure of reasonable return to the shareholders who risk their capital. There needs to be good balance struck between serving a social cause and doing business. In all these, I see a significant role for the actuarial profession to play collaboratively with the regulator.

General insurance industry – relatively a new comer in terms of usage of actuarial science to manage risks – seems to have stuck to a few major product lines. There is need to create more awareness and expand the product menu for greater penetration. Aligning the interests all the stakeholders such as TPAs and health service providers etc is certainly key to the industry's well-being.

UNEP-PI advocates sustainable insurance. What is sustainable insurance? One of the definitions for sustainable insurance is that it is a strategic approach where all activities in the insurance value chain, including interactions with stakeholders, are done in a responsible and forward-looking ways by identifying, assessing, managing and monitoring risks and opportunities in the insurance business associated with Environmental, Social and Governance Issues.

There are number of Environmental, Social and Governance issues such as climate change, natural catastrophes, emerging health risks and pandemics etc. that relate to insurance, particularly, non-life and health insurance. Actuaries thus have a central role to play in promoting sustainable insurance.

Innovation is a key ingredient for success in the insurance industry be it life, non-life or health. There is a sense that the insurance industry is too much into its comfort zone and the out of the box thinking is hard to come by. There is more scope for innovation. Optimization such as use of technology for services is often mistaken for innovation. Optimization is important but there are likely to be diminishing returns from such an activity.

For example, a recent report by IBM global business services says that, from 1955 to 2006, the U.S property and casualty (P&C) insurance industry had a return on equity (ROE) below the average for all U.S. industries more than 87percent of the time. Broadening the market through innovation is therefore not only important but is necessary to create win-win for both providers and the consumers of insurance products.

Collaboration is a key source of Innovation. So, it is important to be able to listen and appreciate perspectives of different stakeholders and be open to learn from other industries. For example, there is a great deal to learn about how to apply predictive analytics to help with product design, distribution and understanding the drivers of experience results by looking at how it is applied in some of the industries outside insurance.

Pensions and retirement benefits industry – there is plenty of untapped potential for actuaries coupled with the opportunity to serve a very important social need – the old age security with dignity. There is need for promoting life contingent annuities as against return of purchase price type provision that is most commonly sold. Innovative product design along with tax incentives will help promote this important provision. While we are a young country, on average, the size of the retired and retiring population with no access to defined benefit pension is huge and will only increase over time. With people living longer, the pensions industry will likely be faced with challenges of much longer time horizon even longer than that of life insurance and actuarial inputs in addressing the need would therefore be increasingly important.

While actuarial science has historically been at the core of decision making in the insurance and pension domains, its applicability is much wider and it is pretty much up to members of the profession to expand the universe where the science has a role to play. Significant inroads have already been made into other areas such as Finance and Investment and Enterprise Risk Management. I guess the way to penetrate into the wider fields where actuarial skills add value and complementary to what other professionals may bring to the table is to push ourselves into a situation of excess supply of resources such that the supply then starts to drive demand in the wider fields.

In India, particularly, the outsourcing industry has been very successful in terms the value that it brings to the table for businesses. While outsourcing helps free-up resources for the management to focus their energy on the core business issues, it brings in a whole new dimension to operational efficiency and quality. We have a number of our members working in Global actuarial service delivery units, some of them are outsourced third party units and some are captive units, providing remote actuarial technical support to consultants and actuaries based overseas. It is important that we nurture this industry and create opportunities for our members. Such centralized units is also a source for the insurance and pension industry to learn from as far as operational efficiency and resource optimization is concerned in an increasingly competitive business environment.

Lastly, I want to emphasize on the importance of professionalism and ethics. They are the tickets to the game and without them no one should be allowed in the field – be it an industry player or an individual member of the profession. When we think of professionalism, the ability and willingness to listen to others views and perspectives are important. For us to be able to appreciate other perspectives, we must keep an open mind. Respecting others' views is one of the core values that we advocate our members to imbibe in. Sustainable success is possible only when it is built on high moral, social, professional and ethical grounds. It is therefore important that we stay true to ourselves and to the profession in whatever we do.

I hope you could relate to some these thoughts and reflect upon. For our profession to grow strong I see couple of behavioral attributes that are important – one, mentally our focus should be more on 'what and how' and not as much on 'who and why', and secondly, the willingness to voluntarily contribute and give something back to the profession that we all belong to and be proud of.

Ladies and Gentlemen, let me thank you for your participation in this conference and wish you a fruitful two days of deliberations, networking and fun. Thank you.