

GUEST EDITORIAL

ON THE VIRTUE OF SERVING THE PUBLIC INTEREST

By A. ASHER

At a recent ethics seminar, we were told that we needed to rehabilitate hypocrisy. It can be described as ‘the homage paid by vice to virtue’, and we need to pay homage to virtue, even if we risk hypocrisy. It is a necessary risk, just as higher investment returns cannot be earned without risk of loss. We have, therefore, to confirm our allegiance in public and private. We need, in our frailty, both to reinforce our own commitments, and to train succeeding generations. The virtues speak for themselves, but they are not loud, nor are their advantages overwhelmingly evident in this present age. They have to be repeated at least as frequently as lower forms of propaganda.

Our views are shaped partly by our occupations and the economic structures that allow us to make a living. It is enormously difficult to lift ourselves above our private interests and limited class horizons. Being an academic, I am certainly conscious that I can take a more detached view of the profession’s commercial activities, and it could be predicted that I would suggest that more effort be directed into research.

The converse is also true; our views have shaped our occupations and influence the societies in which we live. Correlation does not prove causation. We have to add gentleness to our debates, for few of us could survive too much scrutiny. In the instance I want to address here, I think we can accept the *bona fides* of those seeking to find ways in which the profession can serve the public good. More than that, we need to express gratitude for their voluntary contributions.

What if we do subject our profession’s current concern to speak in the public interest to interrogation? Might it spring from some guilt we wish to atone? Are we ashamed of our association, over many years, with high-pressure sales processes? Perhaps it is because we wonder whether we are wasting the brightest students in a narrowly defined profession? May it arise from a fear that new technologies will render our services redundant? Alternatively, of course, it may well be that actuaries are just more likely to feel guilt and fear because they are necessary spurs to complete the ‘seven years hard’ examinations.

Walter Merricks, the United Kingdom Financial Services Ombudsman, has recently subjected us to an outsider’s interrogation — even if in the gentlest manner. He has questioned whether we are serving ourselves, or the public interest, and whether our claims to expertise are valid. His questions

are fair. Some public statements issued by professional bodies have been ill informed and self-serving. Most obvious are those supporting tax concessions and other forms of government support for the life and pensions industries.

We say that we fulfil the public interest by doing our particular jobs well. Merricks points out that the Guild of Electricians could say the same without pretensions at being a profession. Our particular jobs relate to the soundness of insurers and retirement funds. Defining these responsibilities too widely would interfere with others. Delineating them too narrowly would leave gaps for which we could be blamed, or into which others will have to step. We are clearly responsible for the direct products of our labour: valuation reports, etc. Not always as obvious is responsibility for the by-products. We are currently facing a number of questions, ranging from mis-selling to the misapplication of retirement fund surpluses and failure to invest in venture capital.

Some would say it is sufficient to leave the public interest to the 'market'. This may well be the answer, because (if we look past the anthropomorphism or idolatry) it indicates the common responsibility of those involved. Markets also provide us with the paradox that they only 'work' if enough people believe that they do not, and that we can serve the common interest by seeking our own interests.

This is the true nature of most virtues. Aristotle described them as necessary for our own flourishing, while, half a millennium earlier, David wrote of the laws that set out the nature of virtue:

"The ordinances of the Lord are pure and righteous altogether ... By them is your servant warned and in the keeping of them is there great reward."

To restate my earlier point, we need to remind ourselves that it is in our interests to consider the bigger picture. The institutions in which we work will only serve the public interest if there are enough people involved with them who are determined that they should do so.

Determination alone is not enough — even in a free market. Of the other ingredients, I would like to discuss the development of skilled people and an expanding knowledge base. These appear to go together — and are the province alike of professional bodies and universities. As a university lecturer, I would like to suggest that we could lift our sights higher in both respects.

Actuaries not familiar with the requirements of postgraduate university degrees can exaggerate the level of the actuarial Fellowship. A recent letter to *The Actuary* suggested that it was equivalent to two Master's degrees. While I would agree that the level of difficulty of the final actuarial examinations is at least at Master's level, less study time is required overall. The current student handbook suggests the following:

- 150 hours for each 100 course;
- 50 hours for 201;
- 200 hours for each 300 course; and
- 300 hours for a 400 course.

The total required for an actuarial qualification is thus some 2,500 hours, of which not much more than the last 300 is at Master's level. A Master's graduate, on the other hand, has spent at least four years of full-time study from the same base. I calculate this at close on 5,000 hours, of which 1,400 would be in the final year. A Ph.D. would require at least another 3,000 hours work.

A qualified actuary is better informed about the practical workings of life offices and retirement funds, but this does not necessarily include much consideration of the social usefulness of their products and by-products. Some of those who are addressing the questions of the public interest are likely to have a doctorate in a related area. This means that they have spent perhaps three times more time formally learning about their area of expertise than the average actuary.

This is not intended to belittle our actuarial courses, but to argue that, in order to make a greater contribution to the advancement of science and to policy debates, we have to prepare ourselves with more than that currently examined.

I would like to make a few suggestions about how we could better prepare ourselves.

The first is the need to incorporate more background reading into the educational system. The syllabuses and core reading include virtually no references. The student handbook has lists of further reading for the 100 and 400 subjects. That for 401 gives a wide range of references, but those for 402 and 404 are restricted to U.K. actuarial literature. There is, however, a mass of literature covering, not only investment, but also many aspects of insurance and retirement. Jed Frees's editorial in the July 2001 issue of the *North American Actuarial Journal* lists a 'small sample' of (17) academic journals that publish research on matters relating to actuarial interest. He also mentions a few of the databases that can be used to find relevant articles.

I do know how difficult it is to get students to visit the background reading. I am, however, convinced that those who do are greatly enriched by the experience. The profession could try a little harder.

The second possibility is for the profession to add greater breadth to the qualification. My preference is a requirement for an appropriate honours level degree (1,200 hours) in accounting, economics, finance, law, mathematics or statistics. The argument is that the professional examinations should ensure the appropriate level of mature judgement; some university training could provide a measure of breadth to the individual, and a resource to the

profession. This could go hand in hand with some trimming of other material. The Society of Actuaries is debating a similar proposal, and would recognise appropriate Master's degrees for exemption from one or other actuarial examination.

The advancement of science requires research. One element is learning from the broader scientific community. Frees's editorial is not so much concerned with education, but that actuarial research efforts are not an 'island', isolated from other academic communities. To the extent that actuarial work is an applied science, we can learn from any one of a dozen academic disciplines. One important task of actuarial researchers is to provide a digest of relevant research accessible to practitioners and those contributing to the public debate.

Research that merely trawls existing literature can, however, feel sterile. The Society of Actuaries' publications used to record a quotation from John Ruskin: "The work of science is to substitute facts for appearances and demonstrations for impressions." Actuaries do a fair amount of modelling to demonstrate impressions. I would suggest that we are weaker in substituting facts for appearances.

I am thinking about the role of insurance and retirement benefits in recipient families. Do we know how much insurance is enough? Can there be too much? Do people waste their lump sums? Even worse, do large sums have the disrupting effect that anecdotes about lottery winners suggest? Are the partially disabled better off if they are encouraged to go back to work?

The list of such questions is long — and many actuaries would think that there should be little trouble in developing a believable answer to them. I confess that, at times, I have. Such answers are speculation at best; at worst, they stem from arrogance and prejudice.

In order to answer these questions, I believe one has to have data from a panel (cohort) study that particularly investigates the financial impacts of insurable events. Cross sectional studies largely record the impressions of those interviewed. Given that we know most of them have not taken the time and effort to understand all their financial arrangements, they are often a poor source of information.

My own experience, while working for a life office in the mid 1980s, illustrates the point. We wrote, for some months, to all policyholders who had lapsed, asking for reasons. A handful replied, and all apologised profusely for having failed to pay their premiums. Given the level of fraud we were then experiencing, I am sure there was an element of overselling. It appeared to me that some of the policyholders blamed themselves for their 'advisors' faults.

The University of Michigan runs the Panel Study on Income Dynamics that has provided material for over 2,000 academic papers over the last 30 years. It has been copied widely. The Institute for Social and Economic Research at the University of Sussex runs the British Household Panel

Survey, and we are trying to develop a South African version. The results that have emerged appear to be similar in all countries. Relatively few families remain persistently in poverty, but a third and more of the population can suffer significant drops in income at some point in a decade. The particular challenge to us, and one crucial to our social role, is to discover ways of reducing that third. My final suggestion is that the profession should become more active in developing and interrogating this type of panel data.

If we are to speak with authority on these matters of public interest, we need to have a wide knowledge of what others are thinking, and empirical data of the by-products of our work.

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