

APPOINTED ACTUARY – INSURE THYSELF

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“Appointed Actuary” position in the Life Insurance companies indicates a significant achievement and acceptance for the profession. But the role has many risky features and unpopular aspects ingrained in it – so much so that in today’s perspective the Appointed Actuary may become the perfect scapegoat in a Life Insurance company. This article attempts to touch upon some of the related issues.

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“Appointed Actuary” position in the Life Insurance companies indicates a significant achievement and acceptance for the profession. But the role has many risky features and unpopular aspects ingrained in it – so much so that in today’s perspective the Appointed Actuary may become the perfect scapegoat in a Life Insurance company. This article attempts to touch upon some of the related issues.

1. Introduction

Appointed Actuary position in a Life Insurance Company received wide acceptance and gained increasing importance over the years since the introduction of the system in the U.K. Undoubtedly, an Appointed Actuary is a very senior executive in a Life Insurance Company and plays a very vital role in the running of the company. In fact this role has brought the actuary’s role to the forefront and got it more widely recognized in the corporate world. Also, because of the honor and the importance of this role the appointed actuaries occupy a special position in the profession as well.

However, every authority has responsibilities attached to it, every respect has its own obligations, every position holds its own risk. The risk aspects of the Appointed Actuary’s position have not always been clearly highlighted. The euphoria of gaining importance in the corporate sphere also subdued the perception of the vulnerabilities associated with this position. But with passage of time the risks involved have started coming to the fore. The present situation in this respect in the U.K., where the idea of Appointed Actuary originated, clearly highlights that it is now very necessary to consider the perspectives leading to the risky aspects of this position.

2. Too many masters – too many directives

Appointed actuary has to report to various authorities – the Employer, the Regulatory Authority and the Professional Body. Obviously the goals of these authorities are entirely different. They issue directives to the Appointed Actuary from their own angles and all these are mandatory. Of course, the Appointed Actuary can be expected to have the maturity to synchronize all these directives and maintain a perfect balance. Nevertheless the risky nature of this balancing act should not be underestimated.

2.1 Employer :

Who is the employer for the Appointed Actuary? He has to be an employee of the company and as such obviously he reports to some designated person. In case of a normal employee, however high his rank is, the Reporting Authority is virtually his employer except that the CEO reports to the Board. The Appointed Actuary may be reporting to a Finance director or the CEO, but by virtue of his access and regulatory responsibilities his obligation to the employer may extend beyond his reporting authority

and may even occasionally extend beyond the Board if the company is a subset of a bigger company. It is by no means easy to get these demarcations clear and it needs to be recognized that some complex circumstances may eventually lead to very precarious, risky situation for the Appointed Actuary.

2.2 Regulatory Authority :

The Appointed Actuary will have various regulatory responsibilities. He is supposed to be the 'eyes and ears' of the Regulatory Authority within the company. He is also empowered to 'blow the whistle' when needed. Obviously, taken in letter and spirit this responsibility creates an intricate situation. Is he a 'regulator's man' in the company or 'company's man' to the regulator or both or neither? Any off the balance situation in this respect may jeopardize the position of the Appointed Actuary. He cannot really play his role unless he is held in trust by both the employer and the regulator and gets adequate support from both.

The Appointed Actuary remains responsible to the Regulatory Authority for providing various information and certification. The Appointed Actuary may be true to his position and provide appropriate information to the Regulatory Authority but the Regulatory Authority may not necessarily rely on him or his information. For their own reasons the Regulatory Authorities may have to make their own moves which may be perceived otherwise and may have their own repercussions leading to some complicated situations for the Appointed Actuary.

2.3 Actuarial Bodies :

The Professional body of the actuaries feels a great deal of responsibility in ensuring that the Appointed Actuary system works well and for that matter the individual Appointed Actuaries discharge their responsibilities in the desired manner. Naturally the body does the parenting and goes on issuing guidance and guidelines. However, no professional guidance or guideline issued for all can be appropriate for all the individual situations. Mandatory guidelines provide an easy (and perhaps safe) route to follow for an Appointed Actuary but in a way blocks his individual judgment and personal application. As a result conflicting situations may arise and the right purpose may not be served when the Appointed Actuary's role warrants skillful judgment of the individual in particular situations. Lack of adequate space in this respect may lead to unwanted crisis. On the other hand, lack of adequate professional support makes the Appointed Actuary's position too risky.

3. Too many parties – too much scope for conflict

3.1 Policyholders :

The Appointed Actuary is required to not only serve the interest of the company but has to be fair to the policyholders also. Although commoners sometimes view it as an impossible task, actuaries usually do not envisage any serious conflict between these two objectives perhaps as long as they can resort to traditional methods and practices without recourse to individual judgment. In the newly emerging situations and changing circumstances it may not be easy for an Appointed Actuary to convince all the parties concerned that he has been fair to all.

3.2 Peers in the Company :

Appointed Actuary has been given lots of regulatory privileges, absolute privileges, access and authority to discharge his duties and responsibilities. At the same time, within the company he has to act with his peers who will have various targets at various levels. The peers of the Appointed Actuary don't have the same objective, neither they have the so called regulatory 'insulation', rather they are likely to lose their position if the targets are not achieved. They are under tremendous pressure to move in their own directions. By no means it is an easy task for the Appointed Actuary to manage the harmony amidst these various pulls and to be able to deliver without being unpopular.

3.3 Peers in the Profession :

An Appointed Actuary has to remain acceptable within his profession, particularly with the other Appointed Actuaries in the other companies. Being a sheep in the flock is not a good option – neither always possible nor desirable. Situations differ, and in certain circumstances an Appointed Actuary may have to take his own stand that involves the risk of getting isolated.

3.4 Media :

Projection or criticism by media has its own influence creating corresponding pulls and pressures. In difficult times media may make things more difficult for an Appointed Actuary or even can simply create an insufferable situation.

3.5 Public Interest :

Public interest litigations are also increasingly becoming an important issue and may significantly influence the actions of an Appointed Actuary.

3.6 Shareholders :

Shareholders of a Life Insurance Company are directly affected by the decisions of the Appointed Actuary. They may as such hold the Appointed Actuary responsible if they feel that he did not properly safeguard their interest.

4. Too small a profession – too strange to others

Actuarial profession has been traditionally considered as a learned profession and held in high esteem although its functionality was not very clear to others. Now other professionals (including journalists and auditors) are also learned and they do not always want to allow this benefit of respect to the actuaries until and unless they are themselves satisfied about the 'special' learning of the actuaries. Actuarial profession still remaining 'less understood' by others (may be due to lack of 'proper' communicating ability of the actuaries as a profession) this communication-cum-acceptability problem is adding a new dimension to the Appointed Actuary's role.

In many circumstances the weightage of a profession depends on its visibility, strength and other related factors. Actuarial profession is perhaps at the bottom of this list and its sphere of influence is accordingly limited.

5. Conclusion

5.1 Too many forces to balance :

An Appointed Actuary has to balance too many forces in different directions sticking to his professional stand. This may not be impossible but by no means easy, and obviously calls for many other skills in addition to technical knowledge and professional expertise as an actuary, which are not necessarily part of the actuarial training process. This awareness seems to be quite obvious but is vitally important in effectively (as they say – not just efficiently) discharging the responsibilities as an Appointed Actuary. The risk involved in the Appointed Actuary's role becomes apparent when these forces strongly oppose each other making his position too difficult.

5.2 Too much risk of isolation :

Problem may arise not only because the Appointed Actuary is not right in his task or reasoning, but also because his strategic position is not 'politically correct' or he was not properly aware of the various forces around him and their dimensions. It is not at all impossible for the Appointed Actuary to become the perfect scapegoat when something goes wrong – just because his 'self protection' was not strong enough.

5.3 Too old a stick to lean on ?

For an Appointed Actuary the traditional stick to lean on, and perhaps the only support he can strongly depend on, is his professional skill. Personal honesty, professional integrity and technical expertise kept the actuarial professionals on a stand strong enough not to be moved by the day-to-day pushes. But things are changing – today's actuaries are gradually being stripped of the old glow and are being treated like ordinary mortals. An Appointed Actuary sticking to his old virtues may also be considered to be 'strict', 'arrogant' or simply 'backdated'. But the fact remains that any serious deviation from the actuarial virtues may not only bring down an individual Appointed Actuary, but may also cast dark shadow on the profession as well.

5.4 Too difficult to conclude

So, there is no simple way out. The only conclusion that can be drawn is that the Appointed Actuaries need to fully understand their own risks also and devise suitable 'insurance' plans to 'protect' themselves. As a very senior executive, an Appointed Actuary is not only expected to exercise the highest level of professional judgment, he also needs to acquire the high level corporate skill to survive with dignity and deal with the job hazards in a matured manner.

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