

Michael Josephs  
115A Moriah Avenue  
HAIFA 34617, ISRAEL  
+972 4 8260819  
+972 547 82 9191(mobile)

15 November 2004

Sir Derek Morris  
The Morris Review  
Room GC/08  
1 Horse Guards Road  
London, SW1A 2HQ

**GUILD OR PROFESSION?**

Dear Sir Derek

I am writing to draw your attention to an additional matter which appears to be fundamental to your Review.

I have now read the public submissions as posted on the Review's website, and I have discussed the thrust of those submissions with my colleagues in Investors Association.

We are agreed that the Profession does not function in the way expected of other professions, to such an extent as to call its 'professionalism' into question. No doubt you are already aware of this dysfunction, as there are numerous examples of it in the submissions.

These factors seem particularly relevant here:

- The Profession has no clear concept of its public duties, or their rationale, and many of your respondents doubt that it should have such duties.
- Not one of your actuarial respondents mentioned the immense ethical and prudential duties that must flow from being centrally involved with the safeguarding and fair apportionment of "other peoples' money".
- Very few actuaries are prepared to explain their methods or their assumptions to laymen, even when those laymen have good cause to ask for such explanations.
- The Profession has a pathetic enforcement record, with only 15 cases in 17 years, during an era where there have been endless scandals in financial services with an actuarial connection.
- The Profession has allowed inappropriate and dangerous standards to be applied, without protest, in major areas of life and pensions business, and these deficiencies have contributed to the major loss of confidence in these forms of saving.

It may be helpful to think of the Actuaries, in their present condition, as functioning as a *guild* rather than as a *profession*. What these two structures have in common is that both act to protect the commercial interests and the technical reputation of Members, and they regulate the terms of entry most carefully. Where a *profession* differs is surely in the sense of the duty owed to clients and to the public at large. Certainly one expects a *profession* to have some of the attributes of a learned society

**GUILD OR PROFESSION?**

as regards its field of expertise, to tackle problems in a methodical and objective way, and to advise the public at large as well as other responsible bodies in an accurate and candid manner.

The further matter of importance which I mentioned at the start of this letter is also an example of 'guild like' behaviour: as a result of training, custom and peer-pressure, Actuaries do not criticise one another's decisions in any direct way. In other words, **proper challenge and debate are suppressed.**

We see an example of this in the Consumers Association submission, where they were unable to obtain actuarial advice that might conflict with advice given elsewhere. The general reason given for the suppression of debate in this way is "Loyalty to the Profession", and it is hard to conceive of a more harmful form of loyalty.

I do not know the origins of this obsession with "Loyalty", but it has a particularly detrimental impact on the wider 'professional' role of the Actuaries. It has caused them to disregard the central paradigm of all fact-based professions which utilises the cycle: [→Proposal→Challenge→Disproof→Revision/Withdrawal→] to refine its body of knowledge and its standards. One might well characterise the result as a form of technical anarchy.

This was exemplified by the Equitable Life "WPWM" disaster, referred to in my earlier submission, where the 'challenge' was deliberately muted, the 'disproof' phase suppressed entirely, and thus the vital 'revisions' never occurred.

One factor that may contribute to this general suppression of debate is that in preparing an assessment of *liabilities*, Actuaries are seen as making judgements about the future patterns of investment markets, and this is regarded as a personal talent, and a personal fief. I would suggest that it is legitimate for a profession to recognise the attainment of increasing levels of skill, but that it is not legitimate to recognise or to claim any skill that relates to foretelling the future, particularly where professional lifetimes are inadequate to demonstrate whether such skills actually exist.

There is the further complication that the Profession's technical shortcomings have a way of being incorporated into statute, and thereby frozen in place, and this further inhibits proper debate..

Accordingly, I suggest that in any reform of the Profession, it is vital to remove all vestiges of ***The Suppression of Debate*** from its processes, and that fresh emphasis must be given to the essential role of structured debate and identification of error in the proper workings of the Profession, both as a matter of principle and in practical procedures. Furthermore, that any implied claims that Members of the Profession possess the abilities to predict future market trends should also be regarded with disfavour.

Yours sincerely

Michael Josephs

## **GUILD OR PROFESSION?**

Michael Josephs

Page 2 of 2