

- 1: I was a member of the Institute of Actuaries for 25 years from 1977 to 2001.
- 2: During my involvement with the Institute I chaired two Working Parties of the General Insurance Research Organisation and contributed a paper for Volume 2 of the Institute's 'Claims Reserving Manual'. Both WP reports and the paper are in the recommended reading list for the General Insurance examinations. In 1998 I was awarded a Brian Hey prize for a paper on pricing and contributed a number of articles to the Actuary magazine. I am an honorary Senior Visiting Fellow at the Cass Business School and a juror for the SCOR UK Actuarial Prize. Although not an actuary, my name appeared in the top 50 list of a recent poll for the 'The Greatest British Actuary Ever' in the September 2003 issue of the Actuary magazine.
- 3: The interim assessment is focussed primarily on the regulation of the actuarial profession and thus appears to imply that shortcomings in actuarial methodology were not a significant factor in any of the events that eventually led to your review. Based on my close involvement with the profession over a very long period of time it is my view that these methodologies are now woefully inadequate for the tasks that the actuarial profession is supposed to be carrying out on behalf of policyholders and shareholders. I would go further and say that it is the inadequacies in current actuarial methodologies that pose the greatest challenge to the profession rather than the weaknesses in the way it regulates itself.
- 4: Most actuarial problems concern the projection and valuation or pricing of contingent, variable or uncertain cash flows. Seen in this context these cash flow uncertainties are present in many other industries, albeit that for most expenditure comes first rather than income. This reversal creates the need for regulation as money is received from individual policyholders or investors for some future benefit or payment but it does not require a methodology that is currently so esoteric as to be alien to all but a select group of actuaries. The public has a right to expect that the necessary calculations underpinning these values are sound and appropriate. Most would be horrified if they realised the limitations of the methodologies and parameter selections used and may even form a cynical view of the profession's apparent inability to explain these calculations and assumptions to them in a language they can understand.
- 5: There is considerable confusion, as well as a diversity of views, amongst actuaries on what is meant by 'risk' and no clear consensus on how risk and risk costs are calculated. Few if any of their methods are capable of producing the statistical distribution of their 'often selected' result. Any claim that they have really understood the 'risk' in any of these actuarial estimates is based, at best, on their 'experience' in producing many similar estimates. One can only hope that such estimates lie somewhere within the range of the underlying true distribution.

6: An example here is the selection and use of the risk discount rate in life Embedded Value calculations. If pressed for more justification for such a critical choice, a common response is to list a number of factors that were 'taken into account' in selecting this rate but invariably all of this is subjective. If a range is required then this is often estimated by adjusting the discount rate by one or two percent either side of the selected value. If one asks for the calculations at a higher level, say across more than one product or territory, then the choice of the new discount rate or a number of adjustments to the individual results will be made based, generally, on yet another set of subjective arguments.

7: The developments in finance theory and the increasing power of personal computers have revolutionised the financial community's understanding and quantification of risk with, perhaps, only the actuarial community continuing to resist these developments for reasons that appear totally irrational to the outsider.

8: Despite the efforts of a number of young actuaries and other researchers to progress actuarial methodologies to reflect the advances made in both finance and statistical theories over the last half-century, there has been a significant minority within the profession who are determined to silence anyone who voices any opinion to the contrary irrespective of how constructive these criticisms happen to be. This was the main reason behind my decision to discontinue my association with the Institute in 2001.

9: This lack of robustness in actuarial methodology carries across most areas of actuarial work including Life, Pensions and General Insurance. Any profession that seeks exclusive rights to any form of statutory certification or reporting has, in my opinion, to demonstrate to both the regulators and the public in general that it has theoretically-based methods that can provide reliable and complete solutions to the questions posed and which, by their complexity, require an approved and qualified member of that particular organisation to be carried out correctly and to the standards required. The question on how such a body should be regulated is a secondary issue and should not be allowed to absolve the profession of its responsibility to the public for its part in the financial disasters that led to this review.

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4th February 2005