Response from Guy Thomas to Morris Interim Report

My comments relate to remarks spread across paragraphs 6.80-6.93 and also 8.23 concerning the role of universities in teaching actuarial science, and the relationship which this might bear to independent research and commentary on actuarial matters. I was an academic actuary from 1993 to 1999, but have since focused on investment and no longer work as an actuary.

1. I agree that a larger academic actuarial community might potentially be conducive to independent research and critical appraisal of the work of actuaries.

2. The extant academic actuarial community has had an influence the profession’s thinking on many technical matters. However, it seems to have had little to say on matters such as the governance of the profession, or the public policy viewpoints espoused by the profession (which often appear to be driven mainly by commercial interests); or more widely on all the scandals in the savings industry in recent years, and the possible role of actuaries therein. (One illustration of this is that (judging by the published responses) you appear to have received few responses to your consultation from the UK academic community.)

3. This is in marked contrast to the position in other professional disciplines, such as law and accounting. There are many accounting academics who are vigorously critical of the ‘big 4’ accounting firms and the accounting professional institutes. Similarly there is a recognisable academic community of critical lawyers. There are also of course many academic lawyers and accountants who are less radical; but the key point is that there is a vibrant diversity of perspectives on the respective professions amongst the academics, which does not presently exist in the academic actuarial community.

4. In my view there are a number of reasons for this lack of diversity and critical commentary in the academic actuarial community:
   i. the small size of the community
   ii. the control which commercial interests exert over the most obvious outlets for publication (this is discussed further in paragraphs 5 to 7 below)
   iii. the larger university departments receive various streams of funding from the insurance industry. In isolation, this is commendable; but when combined with the lack of alternative sources of funding, the undesirable structural effect is that debate has been stifled. Academics have been dissuaded from pursuing critical lines of enquiry.
5. The profession’s governing council, its sub-committees and the editorial policies of its various journals are all dominated by commercial interests. My experience as an academic of seeking to publish papers in British Actuarial Journal or The Actuary, for example, has been that any critique of the insurance industry in a submitted article is an absolute bar to publication. Articles which represented no challenge to the insurance industry were usually accepted with minor revisions (and in one case awarded the Institute of Actuaries’ annual prize); but articles in which I questioned industry practices were invariably rejected. I gradually came to realise that discourse within the profession is constrained within commercial parameters: debate between the competing commercial interests of different firms represented on the profession’s Council is permitted, but any ideas or arguments which might be novel or challenging to the insurance industry or the profession as a whole are not.

6. One example of this is the lobbying efforts over several years by the Faculty & Institute of Actuaries to promote acceptance of genetic discrimination by insurance companies. Another example is the profession’s lobbying campaign against what it calls “compensation culture”, in which the profession makes various insinuations against accident victims (for example, that is in some way blameworthy if accident victims receive compensation for negligence; or that the costs of such compensation are excessive, or rapidly increasing, or otherwise unjustifiable). In both these cases, the spurious veneer of professional independence cannot conceal that the campaigns originate from and are motivated by commercial interests represented on the profession’s Council. But an independent actuary such as myself who examines the data and concludes that perhaps the profession’s campaigns are not justified finds it almost impossible to get a hearing, either by publication in actuarial journals or other means.

7. Members of the profession’s Council would probably dispute much of this: I daresay that they believe that they are very broad-minded – they just draw the line at things which are clearly wrong (that is, in their view, any ideas which might be challenging or unhelpful to the insurance industry). However, even on technical actuarial matters, an independent actuary such as myself finds it much easier to promote debate by addressing audiences outside the profession than inside it. (I have done this by writing papers or giving talks about actuarial issues to bodies such as the Human Genetics Commission, for example.)

8. The editorial policies and practices of actuarial professional journals as described in paragraphs 5 to 7 above compare most unfavourably with those of other professional journals, for example in medicine. The British Medical Journal has rigorous policies requiring declaration of all potential conflicts of interest. The BMJ Ethics Committee meets quarterly to refine policies and consider contentious cases. In contrast, the actuarial profession seems to see nothing wrong with the content of its journals being filtered by commercial interests.
9. Paragraph 6.82 suggests that the “Australian system” promotes innovation in (1) teaching methods and (2) actuarial research. I agree with (1), but not with (2). In Australian universities, academic actuaries receive a substantial supplement to normal academic salary scales, funded by the Institute of Actuaries of Australia. This obviously increases the financial attraction of an academic career; but my observation of and conversations with Australian academics suggest that they are even less inclined than their UK counterparts to pursue any research agenda which might be challenging to industry interests, or lead to any implied criticism of the profession. (I acknowledge that Australian universities have produced actuarial research of high quality – but not from a notably independent or critical perspective.)

10. Following on from this (and as implicitly recognised in your paragraph 6.92), any good intentions about the role of universities and academics need to be considered in the light of the incentives and constraints facing universities and academics. There are many reasons why actuarial science may not be an attractive area for university departments. (For example, whilst student demand for taught courses is high, the subject may be unattractive in the context of the current Research Assessment framework, under which actuarial research is regarded as a minor application of statistics.) And as I have outlined, I believe there is currently very little incentive, and indeed probably considerable disincentive, for academics in extant actuarial departments to pursue any research agenda which might be challenging to the profession or to the insurance industry.

11. Nevertheless, on balance I agree that a larger academic community is more likely to produce robust commentary on actuarial matters than a smaller one.

Guy Thomas
29 January 2005

www.guythomas.org.uk