

## CHALLENGES AND OPPORTUNITIES OF THE ACTUARIAL PROFESSION

### INTERVIEW WITH THOMAS S. TERRY, PRESIDENT OF THE INTERNATIONAL ACTUARIAL ASSOCIATION

*The interview was made by Gábor Hanák, member of the IAA's Actuarial Standards Committee, Chairperson of the AAE's Standards Project Team, director at KPMG Tanácsadó Kft. gabor.hanak@kpmg.hu*

#### ÖSSZEFOGLALÓ

Thomas S. Terry 2017-ben az aktuáriusok nemzetközi szövetsége, az International Actuarial Association elnöke. Évek óta aktív tagja a nemzetközi aktuárius közösségnek, korábban elnöke volt az IAA nyugdíjjal és munkavállalói juttatásokkal foglalkozó bizottságának, de számos egyéb IAA bizottság munkájában is részt vett.

A fentiekén túlmenően vezető szerepet vállal az USA aktuáriusi életében is, legutóbb (2014) az Amerikai Aktuáriusi Akadémia elnökeként. Ellátta továbbá a Tanácsadó Aktuáriusok Konferenciájának elnökségét, és igazgatósági tagja volt az Aktuárius Társaságnak.

Thomas S. Terry a The Terry Group vezérigazgatója, ami egy chicagói székhelyű, nyugdíjra, egészséggondozásra és analitikai témákra specializálódott tanácsadó cég. További funkciója az Aktuárius Tanács elnöklése, mely ellátja az USA több mint 5 millió tagot számláló köztisztviselői és szövetségi alkalmazottjainak nyugdíjrendszerét igazgató szervezet tanácsadói és felügyeleti feladatait.

Végül, de nem utolsósorban Thomas S. Terry a Globális Idősügyi Intézet igazgatóságának elnöke, amely egy kutatási és oktatási szervezet, célja, hogy segítse a globális öregedés hatásának megértését, tájékoztassa a döntéshozókat és a közvéleményt a kapcsolódó kihívásokról, és ösztönözze, hogy ezekre időszerű és konstruktív válaszok szülessenek.

#### SUMMARY

Thomas S. Terry is the President of the International Actuarial Association (IAA) in 2017. He has been active in the international actuarial community for several years, having chaired the IAA's Pension and Employee Benefits Committee and having served on several other IAA committees.

He has also been active in the leadership of the U.S. actuarial profession, having served most recently as President (in 2014) of the American Academy of Actuaries. He has also served as President of the Conference of Consulting Actuaries and as a board member for the Society of Actuaries.

Thomas S. Terry is CEO of The Terry Group, a pension, healthcare, and analytics consulting firm based in Chicago. He also chairs the Board of Actuaries, the advisory and oversight board for the U.S.'s Civil Service Retirement System and the Federal Employees Retirement System covering over five million participants.

Finally, Thomas S. Terry chairs the board of The Global Aging Institute, a research and educational organization dedicated to improving our understanding of global aging, to informing policymakers and the public about the challenges it poses, and to encouraging timely and constructive policy responses.

**Kulcsszavak:** aktuárius, aktuáriusi szakma, IAA

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#### How do you view the future of the financial industries in 20 years ahead and what roles the actuarial profession will be playing in the future?

Technology will be a driver of substantial change in the financial sector over the next 20 years. Barriers to entry will drop and so we will see more market participants. And size will no longer be as relevant as before due to falling operating costs. Of course, if financial regulation fails to keep pace with technology changes, this will be give an advantage to new, non-traditional (and unregulated) institutions. Regulation that fails to constantly modernize will be a damper that traditional industry will have to deal with.

In nearly all developed economies, there will be extraordinary wealth transfers over the next 20 years as intergenerational transfers from aging baby-boomers begins. Of course, this will be good news for financial services. The only question will be the extent to which traditional players – banks and insurance companies – are able to keep up with the new players and enjoy the fruits of this wave of wealth transfer.

Will traditional life insurers be able to maintain the leading role they have enjoyed for the last 50 years – especially when considering their diminished appetite for traditional risk-taking? We'll see!

The actuarial profession has a significant role to play in facilitating these transitions. Maintaining its reputation for reliability and integrity will help enable faster regulatory changes to keep up with market evolution. The profession needs to take seriously its role as relevant “go-between” between industry and regulator/supervisor.

#### What could be the main risks threatening the global financial stability over the next 3 to 5 years? And what roles actuaries can play in order to mitigate/manage those risks?

It's simple: data. Big data, data security, misuse of data, etc. Big data represents big opportunity for all sectors of the economy, including the financial sector. But our capacity to understand its limitations and risks will lag behind its growth and penetration into all aspects of product design, marketing, underwriting and operations.

Mishaps will happen, for sure. Society in general and regulators/supervisors in particular will sense the threat and respond accordingly. Actuaries are the ideal professionals to help steer industry toward safe, secure, and socially acceptable use of big data. The profession's reputation for high integrity will be a valuable asset in assuring our various publics that risk mitigation is alive and well!

**Currently what are the most topical issues for actuaries globally? What's at stake? How do you think these issues are aligned with those of the relevant industries?**

I see three "mega-issues" on the horizon globally.

Population aging has been anticipated by actuaries and demographers for a long time. But society at large is just beginning to understand the broad-ranging impacts. So many of our financial systems – both commercial and government-sponsored – are coming under enormous stress due to rapidly changing demographics. Not to mention healthcare costs and the inadequacy of retirement savings.

Climate change and related extreme weather-related events is another mega-issue. And, again, commercial insurance, investments, and government insurance programs will be stressed in unprecedented ways.

Finally, I'll mention another mega-issue that the general public doesn't talk about but that is manifesting in some very visible ways: the erosion of traditional risk-pooling. The movement from defined benefit pensions to defined contribution is but one example. But this trend is growing rapidly in all areas of the financial sector as institutions of all sorts seek to "de-risk" and as technology and big data "improve" underwriting.

The relevance of the actuarial contribution to these mega-issues should be evident to all.

**What do you think about how the insurance industry and actuaries and/or the actuarial profession globally can best contribute to the overall well-being of societies?**

We all need to both anticipate change, as well as respond rapidly to observable risks. Individually, as actuaries, we need to keep our skill sets current and we need to be alert to emerging risks. And we need to speak up. We have unique skills and a keen understanding of how systems work. And, while we cannot predict the future, we understand uncertainty and can help systems in their response to an uncertain future.

And there will be a public policy role as well, as we as a profession can shine a bright light on threats to our systems and on unintended consequences of institutional actions.

*(Tom is President of the International Actuarial Association. His remarks in this interview represent his personal views and not necessarily the views of the IAA.)*