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## **The Origins and Meaning of “Professionalism” for Actuaries**

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## **THE ORIGINS AND MEANING OF “PROFESSIONALISM” FOR ACTUARIES.**

**Clare Bellis**

### **Summary**

Actuaries generally place importance on “belonging to a profession” and “acting professionally”. It is useful to examine the origins and meanings of these concepts. The idea of a profession has changed over time and is still evolving. It is also different in different cultures. Structures and ideas tend to persist after the conditions which created them have gone. The concept of professionalism that actuaries hold has been shaped by the circumstances of our past, and we need to check that it is still applicable in today’s conditions. This paper argues that our concept of professionalism has origins in the “learned professions” of the middle ages, the ideal of the “English gentleman”, and the particular structure of the life insurance industry of the eighteenth and nineteenth centuries, and has been shaped by the ongoing modernisation of society.

Sociologists and economists have theorised about the special functions which professions fulfil in society. These theories can help us to understand the benefits which professionalism can offer. They have also criticised the professions as interest groups, whose claims to superior standards of behaviour cannot be accepted without question. It is worth testing the beliefs we hold as professionals against these criticisms to be sure that our views are not coloured by self-interest, conscious or unconscious.

Any profession is a group, and as such is subject to the dynamics of group behaviour and psychology. We need to understand what motivates the members of a group, if we wish to maintain a strong and active professional organisation. It is possible that changes which may be desirable in themselves, such as improvements to the education structure and a widening of the definition of actuary, will affect the strength of the actuarial profession’s sense of identity and ideology, and we should be aware of these possible consequences.

## Introduction

Actuaries, at least in the English-speaking world, share a view of themselves as belonging to a “profession”. This is taken very seriously. Presidential addresses of actuarial bodies around the globe often discuss the importance of professional behaviour, and how to ensure that actuaries act professionally. Some actuarial bodies require newly qualified actuaries to attend a course on the principles of professionalism before they are permitted to practise. Codes of conduct are debated, reviewed, and enforced. Despite this attention, there has been little examination within the actuarial community as to *why* our occupation falls into this special category of a “profession”. In other fields, sociologists and economists have explored the question of why some occupations are recognised as “professions” while others are not, and the consequences which flow from such recognition. This paper draws on the insights of these studies in an attempt to understand where the idea of actuaries as “professionals” comes from, and where it may be heading in the future.

## The Problem of Definition

There have been many attempts to define the terms “profession” and “professionalism”. Freidson [1988], in commenting on the difficulties, points out that:

the word [profession] is evaluative as well as descriptive. Virtually all self-conscious occupational groups apply it to themselves at one time or another ... A second reason for the disagreement surrounding the meaning of the word lies in the strategies commonly underlying the process of definition. People frequently draw up definitions first by deciding that certain occupations “are” professions and then by attempting to determine the characteristics these occupations have in common. Since people do not agree on which occupations “are” professions - librarians? social workers? nurses? - their definitions vary with the occupations they include (and exclude) or else are alike on such an abstract level as to be virtually inapplicable ...

The wide range of different sets of common characteristics which resulted from these attempts to identify the traits of professionalism were summarised by Millerson [1964]. Despite the inconsistencies, the definitions he listed can be distilled to identify three main strands: cognitive, normative and organisational. Cognitive items include specialised knowledge and long training. Normative items include such things as ethical standards and a commitment to provide a service for the public good. Organisational items, such as a national body with disciplinary powers, support the cognitive and normative aspects.

All of these elements can be found for example in the definition of “profession” used by the Australian Council of Professions [1997], a peak body representing ten Australian professions, including actuaries:

A profession is a disciplined group of individuals who adhere to high ethical standards and uphold themselves to, and are accepted by, the public as possessing special knowledge and skills in a widely recognised, organised body of learning derived from education and training at a high level, and who are prepared to exercise this knowledge and these skills in the interest of others.

It is inherent in the definition of a profession that a code of ethics governs the activities of each profession, requiring that professionals shall:

1. at all times place the responsibility for the welfare, health and safety of the community before their responsibility to the profession, to sectional or private interests, or to other professionals;
2. act so as to uphold and enhance the honour, integrity and dignity of the profession;
3. perform professional practice only in their areas of competence;
4. build their professional reputation on merit and shall not compete unfairly;
5. apply their skill and knowledge in the interest of their employer or client for whom they shall act, in professional matters, as faithful agents or trustees;
6. give evidence, express opinions or make statements in an objective and truthful manner and on the basis of adequate knowledge;
7. continue their professional development throughout their careers and actively assist and encourage professionals under their direction to advance their knowledge and experience.

All constituent bodies must have in place disciplinary provisions under which alleged breaking of codes of ethics by any of their members can be investigated, and if proven penalised.

It can be seen that this definition encompasses the cognitive, normative and organisational elements. In addition, the second line introduces another element: acceptance by the public of an occupation's claims to be a profession. This is an important issue, as claims of professionalism tend to be met with scepticism by the public, and certain conditions are required for the claims to be accepted.

### **Changes in Meaning over Time**

Attempts at a single definition of the word "profession" have been complicated by the fact that the meaning has changed over time. Freidson [1986] traces the early semantic history of "profession". The oldest English usage was "avowal or expression of purpose". It implied religious and moral motives to dedicate oneself to a good end. Even at this early stage, societal distrust of these claims was indicated by attaching connotations of deceit. This survives today in the use of the verb "to profess" to mean "to claim insincerely, to pretend".

By the sixteenth century "profession" had been extended from its original religious connection and was used for all three of the university-educated occupations of divinity, law, and medicine. These three occupations were "learned", and hence associated with the elite, who held the monopoly over formal learning. They were also carried out by high born men, generally in the service of members of the elite. These occupations thus had high status. They shared other characteristics. All three were concerned with the wellbeing - spiritual, financial or physical - of individuals, who were obliged to put their trust in members of these occupations if they wished to consult them. This element of trust encouraged the development of the normative associations. It was also another source, or at least a justification, of status and financial reward - the man of comfortable means was regarded as more trustworthy than a poor man, who, it was assumed, could not afford to be honest.

The further commercialisation and industrialisation of Britain in the eighteenth and nineteenth centuries created new occupations. These included jobs such as actuary, accountant and

engineer. Members of the new non-manual occupations, seeking a place in society at the highest level they could achieve, had as a model the three “learned professions” and they claimed this status for themselves. They also had the model of the “English gentleman” which entailed a sense of “noblesse oblige” and an unspoken but understood set of attributes, such as integrity, dignity, an avoidance of trade. Larson [1979] points out that assuming the qualities of the gentleman was only one of several ways in which professions emerging in nineteenth century Britain drew status from the traditional sources. Other devices included the adoption of a classical education at the ancient universities, and the support of aristocratic patrons.

By the middle of the nineteenth century the term “profession” was being applied to a range of occupations and carried the cognitive and normative connotations referred to above. The organisational aspects followed. Carr-Saunders and Wilson [1933] describe a “wave of association” in which all sorts of learned societies and professional organisations were founded in Britain between about 1840 and 1890. The motives of the founding members included a desire to share the company of like minds, to improve status by formal qualifications, to carry out joint projects (for example, for actuaries the collation of life insurance mortality statistics) or to lobby governments.

While the motives for organising were varied, a key part of the formation of a “profession”, as distinct from a learned society or a lobby group, was the capture of control over an area of expert work. This would often lead to a general restriction of competition. The process was as follows. A group of practitioners who were particularly skilled in the latest techniques and observed the proper practices in their work, might form a society. They would admit to the society only those practitioners who met their standards. Then clients could be confident that all members of the society would deliver work of a high standard. However, the society would probably find its members competing with non-members who claimed to offer an equal service. The society would then lobby government to exclude non-members from practice. The society’s argument would be that it was in the public interest to protect uninformed clients from the damage caused by unskilled practitioners. If the society was successful in its campaign, it would achieve a monopoly for its members over their area of work. The members would now be in a position to reduce competition among themselves, by for example setting minimum fee scales or refusing to take clients away from fellow-members.

Our profession did not quite fit this model because originally most actuaries were employees of life offices. However, in the years after World War II when actuarial consulting was becoming established in Australia, the profession here had a scale of minimum fees, as well as the restrictions on advertising and poaching of clients which were typical of professions until the rise of consumerism (Bellis [1997]).

The professional organisations would justify such anti-competitive behaviour as necessary to maintain the high quality of service which the public must have in such an important area of work. The normative connotations which the idea of the professions had already attracted were essential in this process. The understanding of how professionals should behave was unspoken, and many professional bodies did not devise written codes of conduct until well into the twentieth century. The desire to write a formal code of conduct usually arose from a period of tension about what was and was not acceptable behaviour. Conflict often arose between those members who had a comfortable niche of employment, and hence clung to anti-

competitive practices, and those who were trying to establish themselves and chafed against the restraints on competition. Codes of conduct have continued to be amended and refined, reflecting the conflict between the unspoken ideal of the nineteenth century gentleman and the commercial realities of the market place for professional services, as well as the increasing resistance of the public to anti-competitive arrangements.

In the twentieth century, the modernisation of society, which continues throughout the world, has been a major influence on the professions. Modernisation involves a shift from traditional to scientific/rational forms of knowledge. Traditional knowledge was based in institutions, such as the tribal elders or the church hierarchy. While such knowledge served practical uses, one of its important purposes was to ensure cohesion of the social group. Rational knowledge, on the other hand, is not controlled within institutions but is accessible to all individuals, who are also able to develop new knowledge by direct observation and experiment. The scientific method requires that knowledge be submitted to questioning, while the traditional method forbade such challenges as a danger to the belief system which held society together. The opposition of the Catholic Church to the activities of astronomers such as Galileo was an example of the conflict between traditional and modern modes of knowledge.

For the professions, the modernisation of British society has placed increased emphasis on their technical expertise, as a more educated and rationalist society is inclined to question and reject claims based on the traditional sources of status. The application of science has also created a large body of knowledge which can be applied to professional work. In the nineteenth century, British medical doctors were respected because of their gentlemanly connections, and not because their treatments could be demonstrated to be effective - in fact Victorian medicine could be a health hazard, and the introduction of effective technology such as antiseptics was often resisted by the medical establishment. In the United States, where an egalitarian, populist ethic opposed the traditions of the gentleman, the professions were more accepted by twentieth century society than they had been in the nineteenth century. Brint [1994] argues that there has been a shift from "trustee professionalism", where the professional worker claims to serve an objective public good, to "expert professionalism", where the professional worker sells his or her expertise to serve the client's ends. Brint thus sees the diminution of some of the normative elements, particularly in the engineering profession on which his study focuses. Along with this has come a greater acceptance of commercial features among professions. For example, rules about the incorporation of firms and the advertising of services have been relaxed.

There are however tensions between the modern form of knowledge and its organisation within professional organisations, and some sociologists have argued that the concept of professions will disappear altogether if the shift to rationalism becomes complete. The idea of a profession involves a monopoly of knowledge - the medical profession claims that only a doctor can decide which drugs should be prescribed for a particular set of symptoms, as the actuarial profession claims that only an actuary can decide whether an insurance company is solvent. This is counter to the nature of modern knowledge, which, in theory, is open to all. Professions have to justify themselves and find their monopolies increasingly under pressure. On the other hand, the sheer growth of modern knowledge means that no one can know everything, and this reinforces the strength of the professions in providing specialist expertise.

The idea of “profession” thus continues to evolve. In each stage, from the first emergence of the word in English until today, beliefs and structures persist from earlier stages unless they are challenged and rejected.

### **Cultural Differences in the Meaning of “Profession”**

Another complication in understanding the meaning of “profession” is the question of language and cultural specificity. Some differences between Britain and the US have been alluded to in the previous section. Since the 1970s, sociologists have realised that the concept of “profession”, for which they were seeking a universal definition, is in fact strongly located in an Anglo-American context, or even more specifically in an English context. In attempting to discuss the question of “professions” in an international context, some sociologists have limited their definition of “profession” to “expert and/or knowledge-based occupation”, in other words omitting the normative and organisational elements for the purely cognitive. This usage does not fully capture what an Australian actuary, for example, would intend when speaking of membership of a “profession”, but it may be a complete description in some countries.

This paper will not attempt a cross-cultural analysis of actuarial work as it is organised in different countries. I simply present the following broad generalisations, on which comment would be welcome:

- In Britain, and in countries such as Australia which derive their institutions from Britain, the actuarial occupation is well organised, with a large extent of self-regulation, and with the education and examination of students firmly under the control of the profession itself. In these countries, the governments have historically delegated considerable authority to the actuarial organisations and to individual actuaries in matters such as the valuation of life insurance liabilities.
- In Continental Europe, actuaries are regulated more by the state than by their own organisations, and education and examination are also under the control of the state-run universities.
- The United States represents somewhat of an intermediate position. The state governments have historically retained more control and the actuarial bodies have not been strongly organised nationally. However, the model has grown closer to the British model in recent years.

These geographical differences are of course blurring with the trend to globalisation. The historical reasons for these differences can however help to illuminate the current model of professionalism. The differences also serve as a reminder to actuaries of Anglo-American background that the concept of themselves as professionals that they may take as universal and self-evident is in fact an outcome of a specific set of historic circumstances. In this context it is interesting to note the reference of a Swedish sociologist to “occupations which can hardly be accepted as professions. For instance, in Sweden, [such obvious non-professions] would include actuaries with insurance companies, ships' officers, lorry and bus drivers, electricians, and welders” (Åmark [1990]).



## **An Explanation of Cultural Differences**

Burridge [1990] explains the different development of professions in England, France and the United States in terms of the political history of these countries. His hypothesis can be summarised as follows. Until the seventeenth century, occupations were organised in a similar way across Europe. All crafts and trades were organised into self-regulating, anti-competitive guilds. The learned occupations had a higher status, as mentioned above. As centralised monarchies became stronger in England and France, there were attempts to reduce local power and privileges, including those of the guilds. In France, the monarchy became an absolute power. The revolution which swept away the French monarchy also led to a very centralised government. The French revolutionaries abolished the corporate institutions of both manual and learned occupational groups, because such institutions were seen as antipathetic to the ideals of egalitarianism and the sovereignty of the people. These ideals persisted in the public consciousness and created resistance to attempts, by the lawyers for example, to regain their privileges of self-regulation. When the need for trained expertise was identified, the government itself established schools of medicine, engineering and law. The old ideas of a self-regulating occupational group controlling entry by apprenticeship largely disappeared from the French professions.

In England, the attempt by the central government to monopolise power was partially reversed by “Glorious Revolution” and the accession of William and Mary, who promised to protect existing liberties and privileges. Because there was no major radical upheaval comparable to the French Revolution, medieval structures survived into the modern age, and, unlike the French, the English had no popular ideology of equality and individual rights. The old professions such as law continued with self-regulating structures and entry by apprenticeship, and this model was followed by the new professions. Education in professional subjects was only slowly transferred to the universities, and the process is still incomplete.

The English professional ideal was imported into the United States, but met with resistance from the populist ideology, which opposed the elitism inherent in the professions as anti-democratic. The professional bodies were weaker than their English counterparts and more subject to government intervention. Burridge argues that the apparent success of the American Medical Association, for example, which is often cited as the world's most powerful lobby group, has been overestimated by many observers. The AMA has no direct control of medical schools, and has to persuade its member bodies to follow its policies, having no disciplinary powers over individual doctors.

The different patterns identified by Burridge in England, France and the US seem to fit well with the differences in the organisation of actuarial work in these countries.

## **Different Approaches to the Study of the Professions**

The professions have been an object of study since the late nineteenth century. At first, the actuarial profession received a considerable amount of attention, reflecting its original prominence in the commercial world. The foundation of the Institute of Actuaries in London in 1848 occurred at an early stage of the “wave of association” in which professional organisations emerged in Britain. In stark contrast, actuaries very rarely receive any mention

at all in work published during the last fifty years, as there are now so many professions and would-be professions which are larger and better-known than our own.

Studies have been made by sociologists and economists, and there are also insights to be drawn from psychology.

### **Sociological Approaches to the Study of the Professions**

Early sociological studies of professions concentrated on identifying the traits which professions had in common, usually with an emphasis on the positive aspects of these traits. There was much debate about which occupations were professions, and which lacked the proper qualities. This was followed by the “functionalist” school of sociology which tried to provide a more theoretical basis for the trait approach by identifying the attributes of professions which were functional either to wider society or to the client relationship. Parsons [1939], for example, concludes that society grants the professions a privileged social and economic position, including the right to self-regulate, in return for the ethical non-exploitative application of a complex body of knowledge to resolve social needs.

As the sociology of professions developed as a discipline, the functionalist approach came under criticism for being too ready to accept the claims of the professions at face value. Thus Wilensky [1964] now seems far too trusting when he says:

the professional man adheres to a set of *professional norms* ... These norms dictate not only that the practitioner do technically competent, high-quality work, but that he adhere to a service ideal - devotion to the client's interests more than personal or commercial profit should guide decisions when the two are in conflict.

Despite the temptation to ... cynicism, the norm of selflessness is more than lip-service. It is probably acted out in the established professions at a somewhat higher rate than in other occupations.

One wonders what evidence Wilensky had examined in arriving at the “probably” in the last sentence quoted.

Since about the mid-1960s sociological studies of the professions have generally leaned towards the “cynical” view. There was less concern to identify what was or was not a profession, as it was realised that this was already determined by the “folk”. That is, a profession is an occupation that the public recognises to be a profession. As Freidson [1988] puts it:

[a] profession's position in society does not necessarily (though it may) reflect a distinctively and especially superior skill, theoretical learning, or ethical behaviour on the part of all or most members of the occupation ... What the status reflects is society's *belief* that the occupation has such attributes and society's belief in the dignity and importance of its work.

Much of sociological research into the professions now focuses on how an occupation obtains recognition as a profession. Larson [1979] labels this quest for the status and financial rewards of professional recognition as the “professional project”. Her idea of a conscious or semi-conscious project seems plausible. The concept of profession outlined in definitions

such as that of the Australian Council of Professions quoted above provides a clear model which all sorts of occupational groups can follow. For example, a serious claim by an occupational group to be a profession will normally be accompanied by forming a professional body, defining some sort of qualifications for membership, and publishing a code of conduct.

Success in gaining public acceptance as a profession produces advantages for the members of the occupation - obviously, otherwise the occupation wouldn't bother. These advantages centre around the achievement of a sheltered market or monopoly for their members and autonomy in their work, but there is variation in the advantages that professions seek. This variation caused some confusion for sociologists adopting the "trait" approach. For example, British professions commonly sought and achieved a national register, backed by the power of the state, listing who was entitled to practice that profession, and excluding the unregistered from practice. Accountants and actuaries did not achieve such registration. Did this mean that accountants and actuaries were not really professions? I would argue that actuaries and the dominant members of the accounting occupation (the partners of the large firms) did not need registration. As I will explain below, they found an alternative route to a monopoly.

There are several fruitful lines of approach within this sociological tradition which can help us to understand the actuarial profession.

For example:

- Burrage, Jarauch, and Siegrist [1990] suggest analysing professions within an "actor-based framework", considering the roles and relative strengths of the profession, the universities, the state and the users, as the actors in the struggle that professions engage in to advance their cause. In the actuarial context, it is significant that the traditional users of our services were the life insurance offices. The nature of the life insurance industry, its evolution in Britain and Australia for example into a market dominated by a handful of large offices, has contributed to the nature of the actuarial profession today.
- Abbott [1988] advances the idea of different occupations competing for jurisdiction over areas of knowledge. This analysis can be applied to the co-existence and interaction of actuaries with accountants, statisticians and financial economists.
- A number of sociologists have considered the nature of knowledge. Professional knowledge is attached to individuals - and we can note here the requirement in codes of conduct that actuarial advice be given by an identifiable individual - and yet the rationalist modern mode of knowledge requires that science is verifiable and open to all. Jamous and Peloille [1970] express this paradox in terms of "indeterminacy" and "technique". "Indeterminacy" means the way in which decision-making depends on the capacity for personal judgement which is fostered by training, experience and socialisation in the profession. If an intellectual skill is all objective technique, it can be codified and followed by anyone armed with a set of instructions, or it can be performed by a computer. If a skill is all subjective indeterminacy, then the skill will not have the rigour which will achieve recognition as a profession. This can explain the difficulty of empathetic occupations such as art or social work in establishing their status as professions. According to Jamous and

Peloille, for an occupation to be recognised as a profession, it must contain the right balance between “indeterminacy” and “technique”.

- Linked to indeterminacy is the idea of autonomy. For Freidson [1988] the achievement of autonomy by an occupation is the key indicator that it has succeeded in establishing itself as a profession. Autonomy is a reward in itself - work over which we have control is more enjoyable, satisfying the human need for self-actualisation. Autonomy is also a justification for other pleasant things like status and financial reward - a job which involves “responsibility” usually attracts higher remuneration than one which involves following instructions. The argument in favour of autonomy is that individual judgement is more effective in non-standard situations than a voluminous set of rules and regulations. Nonetheless, it is worth examining our private motivations when we rush to defend the role of “actuarial judgement” from the encroachment of set standards.

### **Economic Approaches to the Study of the Professions**

Economists have also studied the professions and it is possible to classify their work, like that of the sociologists, into “functional” and “cynical” views. For example, one “function” of the professions is to provide quality control and market signals:

[a profession is] a group of individuals who are granted monopoly powers in the provision of certain labour services, with the object of ensuring a supply of services of a higher quality than would otherwise be achieved - a definition which presupposes imperfect information on the part of consumers as to the quality of service offered by any particular individual, at least ex-ante, but possibly ex-post also.

(from Foley, Shaked and Sutton [1982])

Membership of the professional body is thus a market signal that the member will deliver a service of the promised quality. It indicates more than just initial ability and knowledge, which academic credentials also serve to signal. Continuing membership signals continuing competence in practical skills, the updating of skills and knowledge, and compliance with an ethical code of conduct. The profession can (in theory) be relied upon to be self-policing, ensuring that all members deliver the promised quality, because a failure to do so will destroy the reputation of the professional body and hence the value of membership for all the other members.

The cynics among the economists have collected evidence that, in practice, professional bodies are very slow to discipline or expel non-complying members. For example, Friedman [1962] delivers a scathing attack on the claims made by the American medical profession. It is indeed hard to find a pure example of a profession fulfilling this sort of market signalling role. There are plenty of occupational organisations attempting this function, whose members display certificates declaring them to be full members of the National Association of panel beaters, funeral directors, manicurists, etc, but they rarely achieve the status or degree of monopoly enjoyed by the recognised professions. The advantages that the recognised professions have in the market generally derive from the granting of some degree of monopoly by the state. Why the state grants monopolies to some groups and not to others is more easily explained by sociology or political science than by economics. Most economic studies in the

“cynical” mode attempt to measure the effects of professional monopolies rather than explaining how some occupations manage to achieve them.

Nonetheless, economists have explained the existence of certain particular professions, notably accountants and actuaries, by expressing their function in terms of the theory of agency and transaction cost economics. Sherris [1987] analyses the role of the actuary in participating life insurance business in this way. Traditional participating policies had a right to participate in profits which were unknowable at outset. An efficient solution to the problem of resolving these incompletely specified contracts was to delegate the allocation of profits to a person whom both parties (the company and the policyholder) agreed was independent, expert and impartial. This person would also signal that the company was soundly managed, relieving the prospective customer from the need to study insurance science before choosing an insurer. This highly significant person was of course the actuary, whose independence, expertise and impartiality were vouched for by membership of the professional body.

This function of the actuary was fully developed in Britain by 1848, even though the first actuarial body was not formed until that year. This is evidenced by the rules drafted for the establishment of the Australian Mutual Provident Society, a mutual life office modelled on British practice, in Sydney in 1848. The AMP had no immediate need for actuarial advice, as it set its premium rates by averaging those charged by the existing British offices. However its rules provided that at the end of every five years, the policies would be valued by “some Professional Actuary or Accountant”, who would also certify that the surplus was divided equitably among the members (AMP [1848]). The directors did not know whether they needed an actuary or an accountant, but they knew that they needed a person with the standing of a “professional” to signal that all was done properly.

Herein lies the explanation for the fact, alluded to above, that the actuarial profession has achieved a high degree of monopoly in some fields without resort to government registration. This is noted as an anomaly by the sociologists Carr-Saunders and Wilson [1933], in their pioneering study of the professions. In that study they identify two types of monopoly. One is the “legal monopoly”, under which for example only registered medical practitioners are permitted by law to prescribe certain drugs. The other type Carr-Saunders and Wilson call the “institutional monopoly”, whereby clients choose to use only members of the profession for particular work. They cite the example of hospitals choosing to employ as nursing staff only state-registered nurses, although there was no law to prevent them employing unregistered staff. They also observe that members of the English and Scottish professional actuarial bodies, the Institute and the Faculty of Actuaries, enjoyed a very strong institutional monopoly in Britain, as did members of the Institute of Chartered Accountants:

The building up of an institutional monopoly is favoured by having a limited clientele among the informed and well-to-do. Of this the actuaries afford a striking instance, inasmuch as the Institute and the Faculty enjoy a complete monopoly of the actuarial appointments in life offices in this country. The position in the accountancy profession is also instructive; there is no monopoly, indeed competition with outsiders is fierce, but only for the less remunerative types of work ... among the auditors of the 5,500 companies whose shares are officially dealt in on the London stock exchange, only a very small percentage are not Chartered Accountants.

Carr-Saunders and Wilson conclude that the advantages of the “institutional” monopoly, which derive not from statute but from “a self-denying ordinance of the client or employer”, accrue because of the prestige and standing which the profession has gained, usually through government registration, but in the case of actuaries and accountants, through the strength of the professional bodies in establishing a reputation. However, they feel that the fact that actuaries and accountants had achieved such standing without registration and therefore as completely self-governing professions “is distinctly anomalous. Generally speaking, where privileges of this nature have been granted, the State has intervened to control admission to the privileged inclosure, In other words, there has been no monopoly without registration - a principle which would appear both intelligible and just.” They conclude that accountants and actuaries should be included on a government register.

The point which Carr-Saunders and Wilson do not draw out is that all the “limited clientele among the informed and well-to-do” in the examples they give are in fact institutions which provide a service to the end-users, rather than being clients directly of the services concerned. In economic language, there is a question of agency. Thus hospitals may have employed registered nurses not merely because of the information about the quality of a potential employee that the fact of registration provided - many other employers were happy to find this sort of information out for themselves - but also so that they could offer patients the reassurance that they would be nursed by qualified people.

The use of “professional” auditors had similar origins. For example, Davidson and Anderson [1987] describe how the use of chartered accountants as auditors became good company practice in the United States, before it was a statutory requirement, when US Steel, the nation’s largest corporation, decided at its first annual general meeting that a full disclosure, properly attested, would enhance public acceptance.

The fact that the life insurance companies gave actuaries a monopoly meant that actuaries did not have to seek government assistance in the form of a register to achieve a monopoly. When there is a register, the professional body will admittedly have a very strong say in who appears on it, but the government will normally seek the views of others, such as members of the public service department which has dealings with the profession, and/or representatives of the consumers of the profession’s services. The actuaries largely escaped such scrutiny in Britain and Australia and remained self-defining and self-regulating to a degree which I believe is much greater than for other professions.

### **The Logic of Collective Action**

It is often assumed that groups come together out of motives of individual self-interest to seek some common goal. This assumption underlies many of the theories about how and why the professions organise. Olson [1971] points out that, according to economic theory, such collective action will not happen where the common goal is in the nature of a “public good”, ie available to all, unless the group is very small or there exists some other mechanism of coercion or extra benefit, apart from the shared self-interest.

In very large groups, each individual will leave it to the others to act, and nothing will be done. This is sometimes called the “free rider problem”. When numbers are small, an individual who makes up a large proportion of the group receives a large proportion of the

benefit. This may be a large enough return for the individual to be willing to undertake alone all or almost all the effort required to achieve the public good. Other individuals will be willing to join in if only a notional contribution is required of them. In this case, the group will act.

An example of a large group situation would be workers in an industry considering whether to strike for higher pay. All workers will receive the higher pay whether they join the strike or not - it is a "public good" (in the economists' meaning of the term). Therefore it is not in any individual worker's interests to strike. For this reason, unions usually depend on coercion - either compulsory union membership, or intimidation of the strikebreakers.

An example of a small group situation would be a small number of companies in a particular industry who want tariff protection. Again, all companies will benefit from the protection, whether or not they join in the expense of lobbying politicians for the tariff. There may be one large company which will benefit so much that it would undertake all the lobbying itself. The group will therefore form and act, the large company undertaking most of the expense and the other companies adding their names to the action without contributing much to meet the expense. There are many examples of industries which have organised in this way. They meet little organised opposition from consumers, although the latter have as much to lose in total as the companies have to gain from the tariffs, because the consumers suffer the handicap described above of being a large group. A consumer organisation may however be formed if it offers those who join it some extra benefit which is available only to members - for example, a magazine which reports the results of tests on products.

In some circumstances large groups do act, without coercion or added individual benefits, because of ideology. For example, a country may be able to rely on voluntary armies rather than conscription during a war, by using the ideology of patriotism and shaming the non-volunteers as cowards. Except in such extreme cases, ideology is more effective in smaller groups, where the individuals know each other and shirkers can be made to feel ashamed.

Olson's theory has a number of applications to the actuarial profession. For example, it can be used to explain why the largest insurance companies, such as AMP and National Mutual in Australia, have historically been strong supporters of actuarial organisations, providing secretarial services and the time of their senior actuaries. The life insurance industry as a whole benefited from the existence of an actuarial forum, and the industry was sufficiently concentrated to meet the conditions of being a "small group". The greater ability of small groups than large groups to organise and to control their members through ideology also has implications for the actuarial profession as it attempts to expand.

Also, a professional organisation will normally have among its objectives improving the status of the profession. This improvement in status will be a public good, available to all practitioners of that profession, unless the organisation can restrict it to the members who pay for the improvement by the use of their subscriptions to support advertising campaigns, etc. This is one reason why professional organisations attempt to capture all practitioners. Alternatively, the organisation can campaign to raise the status of its membership, specifically. Thus for example a recent advertising campaign by one of the Australian accountancy organisations stressed the expertise of the "CPA", not of the "accountant". A goal such as that expressed by the Society of Actuaries' vision statement "... for actuaries to be recognised as the leading professionals in the modelling and management of financial risk

and contingent events” is open to undermining by “free riders” if the SOA does not have other incentives to offer members, given that SOA members do not have *exclusive* rights to describe themselves as actuaries.

### **The Ideology of Professionalism**

Economic theory can explain the role of ideology and the benefits of “shame”. A sense of shame leads to self-monitoring and self-control, with considerable savings in monitoring and policing costs. In communities where there is a strong sense of shame about stealing, there is no need for non-productive expenditure on locks and other security devices. As mentioned above, shaming is more effective in a small community, or at least one where people know their neighbours/colleagues. The effects of ideology can be very strong, but can also be weakened by exposure to alternative ideologies - the “everybody else does it” syndrome. Actuarial organisations endeavour to inculcate a professional conscience in new recruits, but this is unlikely to be heeded if it runs counter to the belief system of the wider community.

### **The Psychology of the Group**

Psychologists have also studied “the group”, of which a profession is an example. Actuaries have in the past had a strong sense of identity as members of the actuarial community, and this has helped to reinforce the professional ideology. Such a sense of belonging is created as much or more from shared experiences as from a common interest. Successful groups reinforce the shared experiences with initiation ceremonies and other rituals. The role of the examination system as an initiation ceremony should not be underestimated. The proliferation of alternative routes, such as different university courses, and specialisations, and the improvement of what in the past has been a gruelling process, while all educationally desirable, tend to weaken the bonding process. The movement of actuaries into different areas of work, as compared with the traditional environment of large life office or all-actuary consulting firm, also means that there are fewer shared experiences.

Group behaviour has its downside. Conformity is encouraged, and criticism can be seen as disloyalty. There is also protection in numbers. The claim that one was following standard actuarial practice can be sufficient defence against outside criticism. This can lead to stagnation and complacency, and a profession which is out of step with wider public opinion.

### **Some Conclusions**

This paper merely touches briefly on some of the theories of professionalism. Listed below are a few examples of how these theories can help us to understand developments in our profession.

- The ideal of the “professional” is an elusive and shifting concept. The President of the Society of Actuaries recently expressed disappointment at new Fellows who jokingly described their view of professionalism as “Show me the money!” (Holland [1997]). This apparent cynicism may reflect a change in the concept of the “professional”, which has shed some of its normative associations. Perhaps we should accept that the attributes of the English gentleman, who did not soil his hands with trade, have been supplanted by those of the modern expert, who sells her or his expertise for the highest possible price. It is at least



necessary to acknowledge that noble professional sentiments have served in the past as a useful cloak for anti-competitive practices.

- The effectiveness of ideology in inducing self-monitoring may be weakened by such things as changing values in the community, the growing size of the profession, and changes to work and educational experiences. If our profession wishes to claim high standards, we may need to rely more on other forms of monitoring.
- Some at least of the functions of the actuary as a member of a profession, and not just as a technical expert, are disappearing, with changes in the traditional areas of employment, such as the diminution of participating life insurance and defined benefit superannuation, and with the movement of actuaries into new areas. This may reduce or change the need for some of the normative aspects of professionalism.
- Universities have taken over from professional organisations most of the function of issuing initial credentials (in most areas to a greater extent than in British and American actuarial science). The unique credential which only professions can offer is an ongoing warranty that the member is up-to-date. For this reason Continuing Professional Development procedures should be formalised and enforced. There is already a trend towards this in some actuarial bodies, but perhaps more should be done.
- I have heard it suggested by actuaries from various countries that their actuarial associations should consider offering some form of membership to expert non-actuaries who are applying techniques in finance, etc, which the actuarial profession would like to be recognised as actuarial techniques. The issues raised in this paper may help us to understand what such an offer of membership would mean. Do these experts need a market signal of their competence or a guarantee of their independence? Would they share a sense of community with actuaries, without initiation rituals and with only limited shared work experiences?

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