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# View from the top

## Global outlook shows deputy a future path for actuaries

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**A**mong the actuaries who have moved from looking closely at numbers to taking a big view of the world, John R. Thompson must be counted an important member of their ranks.

He began his actuarial career while in college, when he started taking SOA exams and crunching numbers for Canada's London Life Insurance Company during the summers. Since then, he has worked for Canada Life Assurance Co. in a range of actuarial and management roles, and more recently he has served as a senior regulator of insurance companies, deposit-taking institutions, and private pension plans as one of two deputy superintendents in Canada's Office of the Superintendent of Financial Institutions. In addition, he chairs the executive committee of an international organization that sets standards for insurance supervisors worldwide.

So it's no surprise that he has a clear view of the actuarial profession and strong ideas about where the profession should be going.

### Approaching the mountain

For 24 years of Thompson's 30-year career, he worked for Canada Life. More than 10 years were devoted to technical work, including valuation of private pension plans and individual insurance and annuity products for acquisitions and for statutory reporting. He rose through the management ranks, supervising the actuarial function in Canada Life's office in England, running the individual product development area in Canada, directing the agency sales force in Canada, and then managing the entire Canadian division.

Thompson left in 1991 to become an independent consultant. Then he was asked to serve as an insurance regulator. "My first thought was that I didn't want to work for the

government, but eventually I said yes, and now I'm finding this experience even more stimulating than I might have expected," he said. "I am exposed to most of the challenging issues that face our financial institutions."

### The day-to-day climb

His earlier actuarial work and his years in senior management helped prepare Thompson for his current role. He has held three positions in the Office of the Superintendent of Financial Institutions since joining in 1992 — first, deputy superintendent of insurance and pensions, then deputy superintendent of operations, and, as of October 1997, deputy superintendent of policy.

### Setting the pace

This story is part of a series that periodically highlights personal careers and offers new perspectives on actuarial job paths.

In the first post, Thompson supervised the operations and policy work for federally regulated companies and private pension plans. When the office was restructured in 1995, the two deputy positions were divided into policy and operations, and banking supervision was added to Thompson's job as deputy superintendent of operations. In his current post as deputy superintendent of policy, "rather than focusing on the institutions, I'm focusing on the policy makers, politicians, professional associations, committees of Parliament, etc. We make recommendations on changes to regulations and legislation. We deal with questions and



John R. Thompson

concerns from members of Parliament and parliamentary committees. And we deal at the international level with banking supervisors and insurance supervisors in other jurisdictions."

The Canadian financial supervisor's office provides a clear view of big events.

"For almost three years, until this past September, we were technically the liquidator of Confederation Life," Thompson said. "It was extremely interesting to work with the company during its troubled stage as well as its insolvency. We had a lot of dealings with U.S. and U.K. regulators because the company had a strong presence outside Canada. Also, we've had several liquidations of property and casualty companies and of trust and loan companies.

"Those are all very instructive. You learn a great deal about the regulatory regime, as well as business practices, going through those experiences."

Also, the Canadian government is reviewing its demutualization regulations for large mutual life insurance companies in the wake of an announcement by one of the country's largest life insurers, Mutual Life of Canada, that it intends to demutualize. "We

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have to see all sides of this issue in working with a demutualization proposal, because most of Canada's large mutuals are very active in foreign markets. We have to recognize that U.S. regulators, for example, will have opinions on demutualization, as we would in a similar situation. Our work with foreign regulators in dealing with the demutualization of foreign companies with operations in Canada has been helpful in building our experience in working through the issues."

### At the international peak

Deputy superintendents have an increasingly global view as companies expand worldwide. Their roles include working with Canadian operations of foreign companies, a job that requires deputies to understand the regulatory and market environments elsewhere. But this is just one avenue for Thompson's interest in international financial services activities.

Thompson chairs the Executive Committee of the International Association of Insurance Supervisors (IAIS). Formed in 1992, the young organization has achieved some important goals, and more are being pursued, Thompson said.

"The members have agreed on a bylaw allowing us to do two things of substance: one, to speak on behalf of regulators around the world, and two, to make us the standard-setting body internationally," Thompson noted. "Within the past year, we've built the framework on which we're going to build our standards."

"At our annual meeting last September, we adopted principles for insurance supervision. That was a very interesting process — to get buy-ins from insurance regulators and supervisors from around the world, especially when the range of business, accounting, and actuarial practices are so diverse.

"We also have made statements about how to supervise insurance operations with cross-border activities, primarily addressing how insurance

supervisors of internationally active insurance companies should work with each other. The issues involve greater cooperation and sharing information — which sound very basic, but the legislation in some countries does not allow supervisors to share information. So this is a difficult but necessary task."

IAIS also has begun an education program for insurance supervisors in less-developed markets. The first of these seminars was held in Mexico last November. Two more activities now on IAIS' plate are "trying to define the difference between a direct-writing insurance company and a reinsurance company" and "trying to set capital standards internationally," said Thompson. "On the surface, you would think these would be simple, but they're not."

### From the top: a view of the profession's future

Thompson has seen the business world from a senior management post and the financial services industry from national and international perspectives. He works closely with the Canadian Institute of Actuaries (CIA) and with individual actuaries. In fact, his office is actively involved with the CIA in developing a professional review process.

So what do these views tell him about the future of the profession?

"If you step back and look at the skills actuaries have," began Thompson, "you'll see they're in determining what risks enterprises or individuals are exposed to, in developing processes to quantify those risks, and in establishing techniques for mitigating those risks. That's a one-sentence, highly simplified version of what the insurance/reinsurance business is all about.

"Then, if you look at what's going on internationally in other areas of financial services, you find that the banking business is changing dramatically. Banks are very active in developing financial products that support national and international

trading activities and that involve derivatives and a whole host of very new and innovative products." This activity is demanding that banks carry out the modeling of market risks and manage their market risk exposures for two reasons: for risk management of a bank's book of business and to manage its required capital. "If they have a model that's acceptable to regulators, they may be able to hold less capital than if they don't have such a model," Thompson observed.

"My assessment is that if you cut through the complexities of the derivatives business, you end up in the reinsurance business. They both essentially involve a risk transfer and a way of pricing the risk you're going to transfer to someone else. Then it's a matter of valuing that risk and managing it once it's transferred. That's an immense oversimplification, but I truly believe the basics are the same.

"Yet very few actuaries are involved in this work. Banks around the world typically have the work done by staff and by consultants with doctorates in mathematics and statistics. It seems to me that to a large extent, the work they're doing is reinventing actuarial practices.

"I think there is a tremendous opportunity for actuaries to expand their thinking — from being actuaries or being insurance or pension experts to being risk managers. If actuaries think of themselves as risk managers, not only will doors open for them, but the profession will discover areas of training and education that we might otherwise have ignored or minimized.

"If actuaries believe they should do what they did yesterday and do more of it, we're in trouble; the world is changing so fast, it is unbelievable. But if actuaries expand their thinking and grab hold of the opportunities, the future looks very, very good."

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