21st Century Risks & Rewards for Actuaries

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SYNOPSIS

The 21st Century Consultant Actuary

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Subject: Quo Vadis Actuarius?

We are rapidly approaching the 200th anniversary of our general acceptance as a profession, although the first designated actuary, William Mosdell of the Society for Equitable Assurances on Lives and Survivorships was appointed in 1762. It is perhaps fitting that in the latter part of the 20th century it is the Equitable that has become the symbol for many of the challenges and opportunities facing the profession, including the specific role of the consulting actuary in a modern governance environment.

The key role of the actuary has always been well defined – it is to help people make decisions today in the face of uncertain future cash flows. In this regard the catch phrases such as 'making financial sense of the future' or 'financial engineering' are not particularly helpful. They could apply to any one of a range of financial sector professions and occupations. The key word in all of this is 'uncertain', which in this modern era needs to be differentiated from risk. Risk is something which can be modeled with a degree of confidence; it is business as usual. Uncertainty refers to the largely unknowable but distinctly possible adverse event. I believe that it is the capacity to deal with uncertainty that separates us from the rest, or should. While actuaries can carry out a wide range of functions it is outside the second standard deviation that we have the potential to show our true professionalism.

Thus we should be facing an era of great opportunity as uncertainty has become the key issue in finance. It is unexpected events which have accounted for most of the numerous financial disasters which have stirred the body politic in recent years, led to changed legal environments, questioned received wisdoms and threatened the status of not only our profession but the foundations of modern financial economics. Basel II, corporate governance, financial physics, credit risk transfer, global warming, urbanization, increased longevity and reduced fertility, structured instruments and the Tobin Tax are but a sample of the new language of uncertainty.

The frustration is that the actuarial profession has had techniques in place to deal with uncertainty for many years. However we have been very slow to present the full capacity of our toolkit to the world and to update it in light of the developments in financial economics in the last two decades of the 20th century. In addition we have not helped ourselves by sometimes speaking sotto voce, if at all, when managements and boards have taken risks which appeared to be excessive.

Thus as we enter the 21st century we need to do three things – 1) regain our sense of professionalism, or separate those who have professional responsibility from those who are not prepared to exert it, 2) upgrade our toolkits to deal with a more dangerous and interlinked world and 3) strongly communicate our capacities to those who need our skills. With regard to the first item it seems that the consulting actuaries will be increasingly required to carry the professionalism flag, as it is becoming clear that employed actuaries are decreasingly able to exert the influence that they once did. The ongoing challenge for consulting actuaries will be to put professionalism before fee when necessary.

Aside from the management of uncertainty there is a growing role for consulting actuaries in the larger public policy arena. Pension and health systems are heading for a collision with demographics in many countries. Our profession has a natural role to play here but the economists have taken the lead to date. Economists can be effective at the macro level but they are often not so strong when it comes to the micro implementation level, such as designing the fund management regime, ensuring assets are secured and thinking about how to generate retirement incomes. A related growth area is the design of instruments to intermediate between the rapid growth of institutional investors funds under management and the capital investments required by both developed and developing economies.

These issues largely relate to developed and transition countries. It is becoming clear that traditional actuarial skills will also undergo a resurgence as developing countries employ product and institutional structures which have became standard (and in some cases obsolete) in the advanced industrial countries. For example the rapid emergence of microinsurance will require the skills of Friendly Society Actuaries. We see traditional whole of life and endowment product structures appearing in many jurisdictions and Third Party Liability insurance is now compulsory in most countries. Local para actuarial bodies will undoubtedly develop in most developing markets and the local laws will often require local certification. However until this happens there will be a need for consulting actuaries who are prepared to work in such countries, most of which offer their own particular challenges. Even after local para professionals are produced there will be a need for older seasoned actuaries to add the sheen of judgment which hopefully still differentiates our small group from the other financial sector occupations.