INTERNATIONAL ACTUARIAL ASSOCIATION

Feedback of IAA Banking Working Group & ASSA Seminar– October 2017

The International Association of Actuaries Banking Working Group, in conjunction with the Actuarial Society of South Africa, hosted a seminar titled 'The Actuary in Banking' in Chicago on the 3rd of October 2017. This was immediately before the biannual meetings of the IAA held in Chicago as well.

During this seminar, representatives from South Africa, Canada and the United States of America presented on the development of the actuarial banking profession in their respective countries.

The seminar was chaired by Michael Tichareva and the key speakers for the day were Rolf van den Heever (South Africa), Erick von Schilling (Canada) and Brian Brown (USA).

Michael Tichareva opened the seminar by describing the areas that actuaries have been involved in supporting banks to achieve their strategic objectives. Our abilities as risk managers were highlighted as an essential requirement in running all aspects of a banks. To move the actuarial banking profession forward, we need to raise awareness of the work already being done and encourage individual associations to support this new practice area.

Rolf van den Heever, the Principal Examiner for the South African Banking Fellowship and a member of the ASSA Banking Committee, started his presentation by taking questions from the floor and giving us background of his journey from a 15-year career in general insurance to transitioning into banking. He is now the Head of Balance Sheet Management and Capital Markets Execution within ABSA Treasury. He shared his knowledge and perspectives in his personal capacity, and not as a representative of ABSA Bank. The questions from the audience were 'How do other countries get to where South Africa is now in terms of moving actuaries into banking?' and 'What makes actuaries special for banking work?'.

Rolf described the South African landscape to give context to the opportunities available to actuaries operating in South Africa. He identified regulation as a key catalyst followed by the fact that South Africa is a growth economy, driven mainly by the financial sector. The weight carried by telecommunication and the financial industry has also seen actuaries moving fluidly between these industries. The evolution has seen several new entrants into the banking space, with actuaries being involved in several of these initiatives.

The expansion of big data capabilities and transfer of actuarial skills has enabled actuaries working in banking to move into customer analytics by identifying opportunities across the lifetime of customers.

Capital management was identified as another area where actuaries in South Africa have played a pivotal role, as a risk-based approach is required to execute this responsibility effectively.

Rolf discussed the impact of regulation, market failures and political events on South Africa's economic performance. These are elements which actuaries consider, particularly in the development of new styles of capital structures. Conveying both the systematic and idiosyncratic risks inherent in these instruments, in light of macroeconomic events is critical for overall economic risk management. Actuaries have also added value by training stakeholders on the buy-side and sell-side on the considerations to bear in mind when dealing with these instruments.

Rolf walked us through an income statement of a bank to identify the areas where actuaries are having an impact. He also highlighted the process engineering capabilities required in understanding and influencing operational expenses.

The requirement to understand contracts, as seen in other practice areas was also discussed. This includes regulation, and understanding the overall financial impact on the economy.

The key areas of friction in South Africa which have presented both opportunities and challenges are regulation, fintech, unprecedented volatility, systemic risk and finding good people (in leadership and to do the work on the ground).

He stressed the importance of actuarial judgment and wider perspectives, particularly with regards to statistical projections and the use of historical data.

Rolf identified ways in which to accelerate the growth of the actuarial profession in the banking space. There is a strong business imperative to ensure that risk managers with a sound grasp of the overall business are employed into banks. Executive sponsorship is essential to ensure that the voice and skills of actuaries are fully utilized. As mentioned above, regulation and standards have already played a significant role in creating opportunities for actuaries to move into banks. Actuaries should also take advantage of the opportunity to move across from the insurance arms of banks into other banking roles. Training programs could also play an important role to encourage and empower actuaries to move into banking roles.

Key regulation which was identified as having been significant opportunities were Basel III, ICAAP/CCAR, recovery plans, IFRS 9, BCBS 239, anti-money laundering and financial crime. Actuaries have not made the best use of these opportunities but there is more deliberate efforts as the word is being spread.

Rolf made use of South Africa's National Development Plan to highlight the role of 'banking actuaries' in serving in the interest of public good. Banks can be utilized to meet customer needs, grow the economy faster and to boost transformation.

To answer one of the initial questions, Rolf identified key differentiators for actuaries in banks, over and above their peers in mathematics, statistics or economics, is the level of professionalism, independence and actuarial judgement.

From Rolf's presentation, it is clear that there is a wide range of areas that actuaries can add value in banks and have a positive impact on the overall economy.

Brian Brown, the President of the Casualty Actuarial Society and the Global Practice Director of Milliman, provided detail of the work that actuaries in the USA perform within banks and bank-related functions. The key area of involvement is in the mortgage market, mainly driven by property-casualty actuaries.

The FASB's current guidance does not require banks to set reserves for bad debts for mortgages until a mortgage payment is delinquent by 60 or 90 days. The new FASB requirement which is referred to as the ' Current Expected Credit Loss' will require banks to use a more sophisticated approach to set a lifetime bad debt reserve for mortgages. This new requirement is effective in 2019. CAS members in the US have been doing lifetime reserving work for their mortgage insurance clients for years. This hopefully will create opportunities for CAS members to do work for banks in the US.

The key challenges to execute these tasks are access to and quality of data, analysis skills and model building skills. This development is similar to that of the transition to IFRS 9 which is being implemented in South Africa from the beginning of 2018. This is a critical area for actuaries to get involved as the skill-set required for this new approach is firmly within actuarial territory.

Brian described the performance of subprime loans by several risk characteristics, clearly displaying the need to stochastically model credit risk for the mortgage market. They have more recently developed default score-cards and repurchase score-cards to improve risk management and optimize customer lifetime opportunities. They have displayed the value the actuaries are bringing to credit-based organisations by discussing how the models are being used across the organisations. The continuous assessment of these models and the risks of these products also requires actuarial skills.

Brian continued by discussing a credit model framework with the audience to display the need for innovative credit risk modelling. Once again, this is extremely valuable in mortgage analysis and risk management.

The role of actuaries in bringing independence and transparency was echoed by Brian as a critical value-add that is required by banks.

Brian further discussed the considerations in introducing a banking syllabus and how to equip and empower actuaries to transition into banks.

The role of research and thought leadership was identified as an additional means to differentiate ourselves within banks. The group discussed developing relationships and dialogue with the regulators, similar to the approach that ASSA has taken.

Erik von Schilling, the Vice President of Pensions and Treasury Investment Management with the Canadian Imperial Bank of Commerce and the co-Chair of the IAA Banking Working Group, discussed the progress that the Canadian actuarial profession has made in penetrating the banking sector. To date, the advancement of actuaries within banks has mainly been at an individual level, as opposed to an organizational level. The key areas of banks where actuaries currently operate are credit and mortgage insurance; asset management; HR benefits and other insurance-related benefits. Erik provided background around his journey within banks working in the Treasury, asset liability management and capital management. He described the value of balancing the business objectives and the statistical rigor required of actuaries.

Erik identified key opportunities for actuaries in Canada and other jurisdictions. These include IFRS9, institutionalizing enterprise-wide stress testing; retail product acquisition, profitability and collections; corporate and commercial credit management; operational and market risk modelling; and credit insurance.

Going forward, the Canadian actuarial profession will be focusing on raising awareness, reaching out to banks and the regulators, providing educational and transition support as well as creating an organized community within the member association.

Michael provided details on how the ASSA Banking Fellowship subject was developed as well as the educational support that ASSA provides the students attempting the Fellowship.

Martin Collins (United Kingdom), Jennifer Lyon (Australia) and Kudzai Chigiji (South Africa) joined them for a lively panel discussion where they answered a range of questions covering education, CPD opportunities, entering banking as an actuarial student and challenges for (and from) banking employers when recruiting and training actuarial students. The panel started with obtaining perspectives on the development of banking which supplemented the presentations.

The role of the brand of actuaries was highlighted several times. The actuarial brand is not strong within banks which creates a barrier of entry.

A Ghanaian student from one of the local universities joined us for the seminar and wanted to know how actuarial students straight from university could obtain employment in banks. He received very similar advice from the panelists. The key is to start by applying for a quantitative role, which is not likely to be called an actuarial role but the skill-set will be closely aligned to parallel tasks in an insurer. From there, one must keep looking for opportunities to add value.

The South African syllabus was discussed further. The subjects currently encouraged to supplement the Banking Fellowship are the Finance and Investments Specialist Technical and the Enterprise Risk Management subject.

A key question raised during the panel discussion was whether the actuarial education equips one to start working in a bank. The panelists expressed different perspectives on what must be used to supplement the actuarial syllabus, if anything at all. However, there was a consensus that individuals need to learn about the overall business to deliver value in a bank.

The key challenges that are faced are lack of a community within banks which identifies as being 'actuarial'; lack of support from leadership within banks and the member associations; poor overall branding of actuaries outside of insurance, healthcare and pensions; and the strong requirement to upskill to be able to navigate the banking world. Rolf provided advice regarding building a strong knowledge base, before attempting to consult to banks.

It was clear that even with the right curriculum, there is a significant amount of work that needs to be done between the profession and banks, and within the banks themselves to ensure that the opportunities for actuaries are more readily presented.

The feedback regarding the seminar has been positive. 18 of the 32 attendees had responded to the online survey. The full report is as follows:

SURVEY Banking
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The presentations made by the speakers can be found on the IAA Banking Working Group website at the following link:
http://www.actuaries.org/index.cfm?lang=EN&DSP=CTTEES_BANKING&ACT=DOCUMENTS

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