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Risk Perspectives

By John Gordon

Over the years I have come to believe that the nature vs nurture debate is fundamentally flawed, in that it tends to exclude an increasingly important third influence: *culture*. And while that might seem an odd way to start an article on risk please bear with me, for I believe the role cultural influence has in shaping our thinking and our decision-making, on matters of risk and so much else, is quite profound.

Each of us views the world from a unique perspective, one shaped by a combination of our genes, formative experiences and cultural influences. Much has been written and much is now understood concerning the fallibility of the human brain when it comes to making what we like to think are rational decisions. Nobel Prize winning psychologist Daniel Kahneman's book *Thinking, Fast and Slow* provides a wonderfully readable synopsis on the subject. Less belligerent than Nassim Taleb (of Black Swan fame) but just as compelling, I'd recommend a reading of Kahneman to any actuary who still sees himself as a risk management expert.

As evidenced not least by the last financial crisis and its aftermath, the challenge these findings represent for an entire discipline (economics) whose central premise is that humans behave rationally, is profound. Yet so far, beyond spawning a related discipline with the word "behavioral" appended, there has been little in the way of substantive reform to our economic model of choice itself. Neither, for that matter, are the implications much discussed by the representatives of professions whose trade is the deployment of a skillset rooted in rational analysis (for we actuaries, too—contrary to popular belief in some quarters—are only human).

What has any of this to do with a perspective on risk? Well, it matters because of the impact these distorting influences—let's call them *deflectors*—have on the efficacy of our decision-making.

Deflectors take many forms, and transcend the nature/nurture/culture spectrum. While our genes undoubtedly help to shape our individual capacity for rational analysis, and while experiences in our formative years (at home and in the classroom) undoubtedly help to shape our views on what constitutes 'normal' and what we regard as 'familiar,' it is the *cultural* influences that tend to dominate.

It was evolutionary biologist and ethologist Richard Dawkins who coined the term meme to describe the mode of transmission of cultural ideas. In a kind of ideological evolution, cultural memes shape our thinking, which in turn shapes teaching, which in turn forms the backdrop and provides the building blocks for new cultural memes. In this sense, culture is little more than the direction in which the sum total of human thought collectively takes us. But it is the *means* by which this happens, the way some ideas catch on and others fall by the wayside that matters. Viewed from the confines of a single human lifetime we often barely notice this happening, yet a cursory glance through the history books is enough to confirm that it does.

For while it would be nice to think that, rather like its evolutionary equivalent (as most famously popularized in the phrase *survival of the fittest*), the best ideas would tend to promulgate and come to predominate, the history of human civilization tells a different story. It is a failure of memes more than genes that explains how a nation once famed for giving philosophy and democracy to the world became the problem child of Europe, and on a lighter note it is memes more than genes that explain why the nation that once gave us the Roman Empire, Michelangelo and Da Vinci is now better-known for its fashion, their footballers and cuisine.

Memes and genes are not unrelated, of course: It is genes that drive human frailties, and it is human frailties that lead our

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different cultures from time to time to adopt memes that are manifestly not in the long-term public interest. Frailties such as greed, tribalism (particularly in the form of its worst modern incarnation, nationalism), short termism, confirmation bias and the prevalence of ego are nearly as old as the evolutionary forces that once helped shaped them, but in a world whose pressing problems can only be solved by more cooperation not more competition they serve us increasingly poorly.

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Why this matters so much now, and why I write about it here, is that one particularly destructive set of memes arguably represents the greatest risk to our collective long-term well-being in the history of human civilization, and may also be shaping up to inflict terminal damage on my chosen profession's reputation to boot.

There are few better illustrations of how our beliefs can compromise our thinking than the contradictory view that many erstwhile intelligent, rational people appear to have of science. On the one hand, faith in a boundless capacity for scientific progress is advanced by those so-minded (a group that seems curiously to include a disproportionate number of people who appear to be quite ignorant of science themselves) as the principal justification for why the rest of us need not worry about how one of our most dangerous memes, an economic model predicated on limitless growth, can work on a planet of finite resources. On the other, many of those same individuals distrust science when it reaches conclusions that conflict with their own belief systems, as evidenced for example by many people in the developed world's views on climate change.

I never thought I'd see the day, but how refreshing to see even the Catholic church now providing leadership on the subject of climate change. Indeed if public discourse is to be our guide, it would seem that Pope Francis, a man not known for making immodest claims about his own risk management credentials, is rather more cognizant of the big risks that now confront us than some professions that trade on the skillset.

His latest encyclical reaches out to many nonbelievers (in God or global warming). It is a damning critique of our modern consumer society and the economic system that promotes it, citing climate change, environmental degradation and resource depletion as consequential outcomes that pose a critical risk to our future well-being (or the long-term public interest, if you will). "Once we lose our humility, and become enthralled with the possibility of limitless mastery over everything, we inevitably end up harming society and the environment," he notes. Quite.

The Pope also had this to say in relation to our present most destructive cultural memes of choice: "We need to reflect on our accountability before those who will have to endure the dire consequences." That was a reference to our collective generational legacy, but it does not require too great a leap of the imagination to envisage that one day it might apply to the members of a profession of self-confessed risk management experts that had little of any substance to say about the risks that mattered.

Why does this matter? It matters because our profession, despite the eminent qualification of its membership to comment on questions of risk, is conflicted by the need not to compromise the interests of any of its core constituencies. It is therefore left to nibble around the edges of the key challenges of our time, instead of providing the kind of thought leadership on the subject that the Pope's encyclical endeavored—with considerable success—to do. For a good illustration of what kind of form this nibbling tends to take, the article on limits to growth in the May online edition of the U.K. actuary magazine, which opines that actuaries need to think "carefully" about the link between sustainability and the financial system, provides a good example.

Back in 2008 I was naive enough to think that the financial crisis then unfolding might be grave enough to induce a change in approach on matters of such profound public interest, but it is clear to me now (as it perhaps should have been then) that our profession as a whole is too conflicted to provide genuine leadership on profound matters such as these. Arguments in defense of the profession's relative anonymity on such matters are well-rehearsed and oft-deployed, but they ignore this crucial point: as and when change *does* come, as one way or another by design or accident it surely shall, history will not record them. As the Pontiff alludes to, the focus will be on accountability rather than excuses.

Our traditional response as individuals in such a situation is to fall back on that other habitual relic from our evolutionary past, namely the herd instinct—or safety in numbers syndrome, as I like to think of it. If neither the profession nor the vast majority of its members see fit to pass comment, why should I? For the first 20 years of my professional life, that was me. But in my case, in the run-up to the last financial crisis all that changed. When I took a year off in 2006 two things happened, the first being a growing conviction that fundamental reform was needed (both inside and outside the profession) and the second (related) being that I came back less disposed towards maintaining a diplomatic silence.

In the wake of the Pontiff's latest encyclical, Canadian author, social activist and unlikely secular recruit to the Pope's climate change campaign Naomi Klein had this to say: "A lot of people have patted the Pope on the head but said he's wrong on the economics. I think he's right on the economics." As you may have gathered, so do I.

If the Pope and many others *are* right on the economics in present form, our profession's reputation will not fare well. If you agree, your risk management skills may be telling you what they once told me: Silence really ought not to be an option.

Speaking out may not change the world, but you never know. There may come a day when it might just spare your own professional reputation. ■

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