



SOCIETY OF ACTUARIES

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# Actuary of the Future

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# The Financial Crisis—How Actuaries Can Help

by Tsana Nobles



In the midst of the financial crisis, a group of actuaries representing the Joint Risk Management Section, the Investment Section, the International Network of Actuarial Risk Managers, and the Enterprise Risk Management Institute International published an extensive list of articles entitled, “Risk Management: The Current Financial Crisis, Lessons Learned and Future Implications”.

A recurring theme in the articles is “where were the actuaries?” and some interesting follow-up discussions have emerged:

- How will actuaries be more involved going forward?
- What skill sets do we bring to the table?
- How does the culture of our profession (i.e. following an established code of conduct and adhering to standards of practice) contribute to our ability to add value?
- What might we focus on to improve our ability to add value?

I think many actuaries sense that if they had been involved in the everyday surveillance of the blossoming risks that led to the current financial crisis they would have raised larger red flags and would have raised them sooner. Yet looking in the rearview mirror and claiming that we might have done better doesn’t change the status quo. We need to look forward and articulate how we can add value now.

In order to become more involved, actuaries need to be proactive in securing nontraditional roles either internally at their current place of employment or externally in any number of different organizations. Yet in order to secure these types of positions, an actuary needs to have a firm grasp on the core competencies that make an actuary an actuary.

In recent years, the Society of Actuaries has provided many opportunities to learn how to market our business savvy skills. The ability to market our technical skills also needs to be addressed. Through the examination process and the more traditional actuarial training programs, actuaries develop some core competencies that are worth marketing when seeking a nontraditional role.

Many nontraditional positions require actuaries to tackle projects that they would never have encountered in a more traditional role. It will be necessary to think “outside the box” and apply past knowledge to new situations. Actuaries seeking these types of positions must market their mastery of the core fundamentals of mathematics and statistics as opposed to exam-specific material.

The exam syllabus was dramatically overhauled in 2000. At that time topics such as linear algebra, operations research, and numerical analysis were removed from the syllabus. It might be the case that asset-liability modeling, reserving and pricing software have removed the need to “do that type of math by hand”. However, in a nontraditional role you may be building a model or



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developing a methodology from the ground up. It will be necessary to rely on core mathematical concepts and methods. Additionally, you may need to pick up textbooks and refresh your memory on alternative techniques or even new ideas that have emerged since you were taking exams. An actuary needs to market the core competency that he or she is well versed in the fundamentals of mathematics and statistics and can expand on this knowledge to tackle new and different projects.

## EMBRACE THE CULTURE OF OUR PROFESSION AND WEAR IT PROUDLY!

If the nontraditional role you seek involves participating in risk management processes, either in an insurance company or any other financial services organization, you need to know how all the pieces and parts of the company are integrated. Insurance companies have well-thought-out actuarial student training programs designed to encourage passing grades on the exams as well as encourage students to gain experience in product pricing, valuation, reinsurance and asset-liability management.

By the time a student is credentialed, he or she has in-depth experience of all the risks to the company and how they are interrelated. Actuaries seeking nontraditional roles should plan on marketing these types of experiences. Not only do rotations increase the actuary's exposure to all the risks of the company, but they also require an actuary to be a "quick study," flexible and versatile.

These characteristics can only contribute positively in a nontraditional role.

Embrace the culture of our profession and wear it proudly! When I first researched the actuarial profession, I was impressed by the individual responsibility that each actuary takes for his or her work. The responsibility to follow Precept 2 of the Code of Conduct is awesome. "An Actuary shall perform Actuarial Services only when the Actuary is qualified to do so ..." Yet this may be the single most valuable characteristic that an actuary can bring to a nontraditional position. Who would not want an employee who is used to double- and triple-checking his work to be sure the approach was appropriate, the model was sufficient, the documents are in order, the final write-up is complete and useful? This type of approach to personal responsibility and owning our own work may be just what the financial services industry needs right now.

In searching for the right role for actuaries to play as the world sorts out the financial crisis, we need to market the core competencies of actuaries: the ability to apply the fundamentals of mathematics and statistics, the ability to be a "quick study" and apply what we have learned, and the ability to embrace and, in some situations, introduce a culture of personal responsibility. Our culture of personal responsibility may be the single most important competency that we can bring forth to contribute positively to turning the current financial crisis around—one risk management process at a time. ☆



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## PUBLICATION SCHEDULE

<b>Publication Month:</b>	November 2009
<b>Articles Due:</b>	August 26, 2009