



SOCIETY OF ACTUARIES

Article from:

The Actuary

September 1969 – volume 3 - Issue 7



The Actuary

The Newsletter of the Society of Actuaries

VOLUME 3, No. 7

SEPTEMBER, 1969

COMMITTEE ON CONTINUING EDUCATION

by C. L. Trowbridge

The Committee on Continuing Education is finding its assignment to be challenging, and somewhat elusive. There is agreement on certain basic principles:

1. The rapidly changing environment in which actuaries find themselves requires that education continue throughout the actuarial career.
2. The educational needs of Society members cannot be completely met by the existing Educational and Examination system, though this system is effective for qualification purposes.
3. Continuing education, like the program leading to the FSA designation, must rely largely on individual initiative and self-directed learning.
4. The Society's role in continuing education is to uncover the existing educational opportunities, to develop new sources of education and to bring both to the attention of the membership.

The subject areas in which continuing education is most needed and will be most effective have still to be agreed upon.

The Committee has established four subcommittees, each with a specific assignment, as follows:

Subcommittee 1 —

- a. To identify subject areas in which continuing education is particularly needed or desired.
- b. To recommend as to each an appropriate technique for continuing education.

(Continued on page 5)

ACTUARIAL SCIENCE PROGRAM AT THE UNIVERSITY OF NEBRASKA

by Stephen G. Kellison

Since 1957 the University of Nebraska has offered a program in actuarial science, open to regularly enrolled University of Nebraska students, as well as to insurance company employees.

Actuarial courses are offered for all the subjects currently on Parts 1 through 5 of the Society of Actuaries' examinations and these actuarial courses constitute a separate department within the university structure. All students are encouraged to write each actuarial examination upon completion of the course work related to that examination.

The program is open to both undergraduate and graduate students. At the undergraduate level the student has a choice of enrolling in the College of Arts and Sciences or in the College of Business Administration. Although the total program will differ somewhat depending upon which college is selected, in either case the student will take a basic core of courses in mathematics, economics, business, English, and computer science, in addition to the actuarial courses. The balance of a student's program is devoted to obtaining as broad an education as possible in areas such as humanities and the social sciences.

At the graduate level the student can obtain a Master of Science degree in Actuarial Science. This degree requires 36 credit hours, which must include all the actuarial courses not previously taken. The remaining hours are taken in supporting areas—usually mathematics, economics, and business. There is considerable flexibility in the choice of these supporting courses, and the student is relatively free to take courses which best fit his interests.

(Continued on page 4)

THE ACTUARY IN STOCKBROKING

by Alistair T. Grant, F.F.A., F.I.A.

Editor's Note: We are glad to welcome another overseas contributor to our columns. Mr. Grant transferred his actuarial affections from a life insurance company to a firm of London stockbrokers. The interesting field of which he writes is practically uninvaded by actuaries in the United States.

The following comments are written from the point of view of a British actuary belonging to a London stockbroking firm, and it should be stated at the outset that there are some points of difference between stockbroking in the U.S.A. and in Great Britain.

One important difference is that whereas in the United States there is a strong flow of young high grade business school graduates into financial and stock market fields of employment, in Britain graduate business schools of this type have been set up only in the last few years.

The United Kingdom has a sizable capital market and a large and well-established actuarial profession, and as the investing institutions grew in importance and professionalism it was only natural that stockbroking firms, like these institutions, should attract actuaries as well as accountants and economists. There are now about 47 Fellows and Associates of the Institute of Actuaries working in London stockbroking firms—my own firm has seven—against about 650 working in life assurance concerns in the U.K., and the flow of actuaries into stockbroking is continuing. These figures should be increased to allow for Fellows of the Faculty of Actuaries who are well represented on the London and provincial Stock Exchanges.

(Continued on page 8)

Stockbroking

(Continued from page 1)

Another distinctive feature of the London stock market, which has had a strong effect on actuarial recruitment, is the Government bond market. The United Kingdom has a good and uniquely varied Government bond market, with coupon rates varying from 2½% to 6¾%, and ranging in terms from a few weeks or months to undated securities. There is a good volume of switching activity in this market, which is worthwhile both from the viewpoint of institutions and stockbroking firms, and the actuary's understanding of short and long term rates of interest and familiarity with compound interest has been useful here. Many of the stockbroking firms now employing actuaries first recruited an actuary to handle this Government bond market, and many actuaries are still occupied in doing so.

However, many of the Stock Exchange actuaries are engaged in other markets, particularly in the equity market, and it would be wrong for me to concentrate comment on any one sector. I should therefore prefer to concentrate on some main general points which make the work of a stockbroking actuary different from that of an actuary engaged in more conventional life office work. First, the stockbroking actuary has an advisory rather than an executive function. Second, he has a fairly large number of clients. Third, he is in the investment business. Fourth, while the life office actuary operates within a "pyramid" type of corporate structure, the stockbroking actuary does not.

The Nature of the Advisory Role

The stockbroker is essentially selling knowledge, information and judgement, particularly judgement, and in principle selling judgement seems very similar to the decision-taking function exercised by investment managers, but the broker's advisory role strongly influences what he can do and how he does it. This is in essence because the broker has a communication problem completely different from the investment manager.

One aspect of this is that to persuade an investor to follow his recommendation, a broker has to use a considerable degree of overkill. He often has to demonstrate more knowledge of his subject than is really necessary as the basis

for the decision. In fact he is not selling his recommendation on that subject so much as establishing his own credibility as a knowledgeable adviser or as a more knowledgeable expert than other competitors. This is very different from the position of the consulting actuary, where the actuary's credentials as an expert are more obvious, and where there is less of the element of competitive comparison with other similar experts.

Despite the admitted fact that a broker gradually builds up a relationship of mutual respect and trust with a fund investment manager, at any one time the fund manager will deal with the broker who *at that time* is the most knowledgeable and expert. The broker's need to sell himself is, therefore, a continuing need, because of the momentary nature of the business. By contrast, the consulting actuary to a pension fund is normally the sole expert in his field advising that client, and the advice offered by a life office actuary within his office is *not constantly compared directly* with the judgement of life office actuaries of comparable standing in other offices.

The Multiplicity of Clients

The stockbroker has typically quite a large number of clients, and at any time it may be appropriate to communicate with any one of them (whether at the initiative of the broker or the client.) Indeed, events may make communication necessary with a number of clients virtually at the same time. This considerably changes the nature of the job on a day to day basis. For example the stockbroking actuary is much less able to say in the morning how he will spend his afternoon.

The Investment Business

The communication problem is heightened by the personal element entering into much investment work. For reasons of personal knowledge and maintaining security, it often happens that only a small number of stockbroking personnel will be fully briefed to deal with a particular problem. It is also common that the client who will place reliance on the judgement of one man in a stockbroking firm will not accept as a substitute the opinion of another man in that same firm. This unusually high degree of personal involvement is peculiar to the investment business and means that the

stockbroking actuary is not able to delegate work to the same extent as actuaries in other fields.

The Structure of the Firm

In the light of the above comments it will be appreciated that the pyramid form of corporate structure, which is appropriate to insurance companies, is not at all suitable for stockbroking firms. The partnership structure of the stockbroking firms allows considerable range and flexibility to a number of partners and executives in dealing with the very varied needs of the firms' clients. Effectively they operate as principals within a team structure, and it is easier to absorb an additional talented man within such a framework, with fewer problems of seniority and status arising. In his own attitudes, too, the stockbroking actuary is nearer to the entrepreneur than to the company executive. His job tends to be more varied than those of most life office actuaries, and allows scope for a great deal of initiative. He tends to set his own goals rather than have them designated by senior colleagues.

What the Actuary Can Offer

On the whole it is wrong to say that actuaries are suitable or unsuitable for stockbroking, or indeed other investment work. Some actuaries are, and some are not, and the same thing can be said for accountants and economists. In investment work, I believe that the man and his total experience are more important than the original training. However, for those who like investment work, an actuarial training is a definite advantage, partly because it gives one a grasp of basic financial principles, but more importantly because it produces an understanding of chance and risk. The Fellowship scroll of the Faculty of Actuaries in Scotland testifies that the recipient is versed in probabilities, and probably nothing better can be said of the professional investor unless it is that he understands improbabilities.

On the other side of the coin the investment world offers a rapidly expanding area which combines intellectual challenge and fascination with commercial opportunity. There is no optimum solution to the investment problem, but it is fun trying to get near to one at any one time, and in practical terms it is worth trying. □