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# Risk and the Actuarial Profession: Full Steam Ahead

by Charles L. Gilbert



*Editor's Note: The following previously ran in the CIA bulletin. Charles L. Gilbert serves as representative for the Canadian Institute of Actuaries and the Society of Actuaries on the International Actuarial Association Committee on Financial Risks. He is also a member of the International Actuarial Association Task Force on Risk Practice. This article is the second of a two-part series on international developments.*

**A**ctuarial science can be described as the study of the pricing, valuation, analysis and management of risk. The Canadian Institute of Actuaries and the Society of Actuaries state the common vision 'for actuaries to be recognized as the leading professionals in the modeling and management of financial risk and contingent events.'

No doubt about it, actuaries are in the business of risk. Some would argue that the actuarial profession is the world's oldest—and currently the only—bona fide risk profession. That is not meant to be a knock against other esteemed organizations, professionals or

individuals working in the risk field. It is just an observation that the actuarial profession is the only risk profession with rigorous education and examination requirements, standards of practice, rules of professional conduct, continuing professional development requirements, and discipline for its members. In many jurisdictions, actuaries are formally recognized in law.

Traditionally, actuaries have tended to specialize in either the insurance or pension fields. In recent years, however, actuaries have started broadening their skills and applying their risk expertise to areas outside of the traditional actuarial boundaries. Actuaries are now working in banks, assuming roles as chief risk officers and playing a leading role in the evolution of enterprise risk management. This demonstration of the risk expertise and judgment of actuaries outside of the insurance and pension fields is vital for the profession. All actuaries benefit from the application of actuarial approaches to new areas and the contributions actuaries make in the broader risk field.

Internationally, the actuarial profession has been examining its broader role in the risk practice area. In June, an IAA Task Force on Risk Practice was established to examine what course the profession should be taking. At the same time, other groups and individuals have also been exploring what course they should be taking.

Two events took place last November that could have a profound effect on the actuarial profession:

**BOSTON, November 10, 2004**—A group of individuals from various organizations including the Society of Actuaries (SOA), the Casualty Actuarial Society (CAS), the Professional Risk Managers International Association (PRMIA) and two universities form the ERM Institute.

**WASHINGTON, the next day**—The International Association of Actuaries (IAA) Financial Risk Committee supports the recommendation of the IAA Task Force on Risk Practice to create a Risk Section of the IAA and move forward with several specific risk initiatives.

Both of these initiatives seek to extend the risk expertise of actuaries beyond the insurance and pension worlds. Let us take a closer look at each of these.

### **IAA Risk Section—Expanding Risk Practice Within the Actuarial Profession**

The creation of a Risk Section within the IAA will be a major step toward globalizing the profession in the risk practice area. What is currently being envisioned is to expand, re-focus and rename the existing AFIR Section (what was described previously as the Risk Board of the Actuarial Profession). The two primary objectives are:

- 1) Globalize the actuarial profession in the risk practice area
- 2) Promote and demonstrate the risk expertise of actuaries

The first objective of **globalizing the profession in the risk practice area** will be achieved by coordinating activities through the soon to be created Risk Section of the IAA. Some of the proposed initiatives include:

- Establishing formal liaisons with various actuarial sections, committees and working groups related to risk practice worldwide
- Coordinating and jointly sponsoring risk practice related activities
- Creating international working groups to execute global risk practice priorities
- Publishing and promulgating standards and best practices
- Engaging with rating agencies and regulators
- Creating the IAA as a brand

The second objective of promoting and demonstrating risk expertise of actuaries will be achieved through several specific initiatives including:

- Sponsoring risk-related symposia, specialty seminars, meetings
- Raising the profile of these events
- Organizing a global risk event to be held annually
- Conducting a global survey of risk practices
- Developing a survey based on input from regulators, rating agencies, bank and insurance executives, media
- Promoting the survey while it is being conducted
- Promoting risk practice research in the mainstream press
- Expanding and improving IAA Web site

### **ERM Institute—Creating a New Risk Profession**

Building off the success of the jointly sponsored ERM Symposia, the creation of the ERM Institute will involve strategic alliances with various organizations and universities and aim to become the leading professional organization for ERM research, education and practice. The ERM Institute may also seek to create its own designation (i.e. Chartered Risk Analyst), conduct its own exams, and set out its own governance, standards of practice, rules of professional conduct, and discipline for its members—effectively becoming a separate profession. While there is general agreement that there are many positive mutual benefits to be gained by working with other organizations and professions, there are concerns that the creation of a new, separate risk profession would compete with the actuarial profession for jobs and new entrants. One response to those concerns is that this will happen in any event and that it is better for the actuarial profession to be part of it.

While there is some disagreement over the best course of action to pursue, all agree that the window of opportunity to act is about to close very soon. Two courses have been charted and it is time now to move full steam ahead. □

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