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# Risk and the Actuarial Profession: Two Visions Emerge

by Charles L. Gilbert



*Editor's Note: The following previously ran in the CIA Bulletin. This article is the first of a two-part series on international developments. Part II will outline proposed initiatives the actuarial profession plans to undertake following the IAA meetings in November.*

If we are to thrive as a profession, there is a necessity for the actuarial community at large to globalize and broaden our sights beyond traditional areas of practice. An important first step toward this goal is to establish the actuarial profession globally as experts in the broader risk field.

Actuarial science can be described as the study of the pricing, valuation, analysis and management of risk. For over 150 years, the focus of the actuarial profession has been the application of risk expertise to insurance and pensions. This highly specialized and complex area of focus has required more rigorous study and training than any other profession (indeed, the travel time needed for a Ph.D. in rocket science is less than half!). It has been suggested that this specialization in insurance and pensions has led to missed opportunity. The actuarial profession produces highly trained and specialized risk professionals who have tended to apply their risk expertise to a very narrow field. Few actuaries have ventured outside of traditional boundaries or applied actuarial approaches to other areas such as

banking and investments. Fewer still have ventured beyond the financial institutions sector.

*All of that may be about to change.*

In the past few years, companies have started realizing the importance of Enterprise Risk Management (ERM). Insurance companies in particular have been at the forefront of implementing ERM frameworks. Increasingly, rating agencies, analysts and regulators are starting to look for evidence of ERM when they analyze companies and industries. ERM best practices are still evolving and so far no single profession has been able to claim the ownership of this new discipline. There is a unique window of opportunity for the actuarial profession to champion this new discipline and define the risk profession.

However, this window is closing fast. Other professions and various organizations including PRMIA, GARP and the CFA Institute have been successful in identifying market opportunities and moving to position themselves appropriately. The internal auditors and CPAs are trying to claim ERM and move into this space with their COSO ERM Framework. The current value proposition of these organizations is quite narrow, seeking to provide either 1.) a risk monitoring device (e.g., COSO ERM Framework, influenced by the Sarbanes-Oxley Act), or 2.) fragmented risk analysis (e.g. silos of market, credit and operational risk in banking by GARP, driven by the Basel Accord). These groups deal easily with objective, known quantities and verification, but are less effective addressing ambiguity, correlations, aggregation and disaggregation of risks, long-term uncertainties, and the concept of risk as opportunity for strategic decision-making and leadership at the enterprise level.

To be sure, ERM is a significant subset of the broader risk management field. A further distinction can be made between risk management and risk practice: Financial institutions (and insurance companies in particular) are in

the business of taking risks for which they are fairly compensated. Risk practice includes the pricing, valuation, analysis and management of these risks. Risk practice therefore encompasses both risk management and risk taking activities.

Despite a traditional focus on insurance and pensions, the actuarial profession is currently the closest that exists to a bona fide risk management profession. This is not expected to last for long as other organizations will likely continue to move forward toward establishing themselves as bona fide professions complete with more rigorous education and continuing professional development requirements, standards of practice, rules of professional conduct and discipline for their members.

Actuarial organizations around the world have been recognizing the need for actuaries to expand the application of their risk expertise beyond the traditional actuarial boundaries. The International Actuarial Association (IAA) has created a Task Force on Risk Practice to globalize the actuarial profession in the area of risk and to establish the best way forward.

While the importance of risk practice is universally acknowledged, the exact role the actuarial profession should take is the topic of much debate. The IAA Task Force has received input from various actuarial organizations and a number of proposals have been put forth on how we should move forward. These proposals have included discussions regarding the creation of a new Chief Risk Analyst designation, accreditation of universities, governance and coordination within the actuarial profession, cooperation with other organizations and professions as well as other initiatives.

Over the course of these discussions, two distinct visions have emerged.

### 1) Expand Risk Practice within the Actuarial Profession

The first vision is to further develop and promote the broader application of risk expertise of the actuarial profession and improve coordination internationally. One possible way this might be achieved is through the creation of a Risk Board of the Actuarial Profession. To this end a number of specific initiatives are being proposed aimed at promoting the risk management expertise of the actuarial profession globally.

### 2) Create a New Risk Profession

Another vision is to form a new profession—the International Risk Institute—jointly with other risk organizations to become the leading professional organization for ERM research, education, and practice, and possibly eventually granting a Chartered Risk Analyst designation. This would also be likely to involve strong strategic alliances with a number of risk organizations.

The prima facie reaction of both the Canadian and United Kingdom actuarial professions is that they do not readily support the creation of a separate risk profession. The CIA provided the following statement to the IAA Task Force:

*"The CIA view is that actuaries are risk management professionals. It is important for us to ensure that the capabilities that make us a strong profession in this regard continue to be relevant to the changing environment. We must adapt our educational and qualification processes as necessary to ensure that we continue to produce true professionals to work in the financial risk management arena."*

While there are mixed views regarding the creation of a new, separate profession, there is general support for expanding the actuarial profession to encompass risk practice, which will strengthen both the reputation and credibility of the profession in its traditional areas of insurance and pension practice.

The IAA Task Force on Risk Practice will present its report at the IAA meetings in Washington in November. There is indeed a window of opportunity for the actuarial profession to establish itself as a leading risk profession unconstrained by traditional actuarial boundaries. However, decisive action must be taken now before this window of opportunity slams shut. □

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