



SOCIETY OF ACTUARIES

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# New task force on banks and financial institutions explores opportunities

by J. Lynn Peabody

**T**he Society of Actuaries has formed a new Task Force on Banks and Financial Institutions. The task force was established, in part, to work with a working party of the Institute of Actuaries, whose goal is to "consider how best to extend the actuarial role into banks, building societies and other financial institutions."

Actuaries in the United States and Canada historically have played some role with banks, directly or indirectly, through their insurance operations. However, expanding this role is not the goal of the task force. Rather, our focus is more on new areas of involvement, concentrating especially on risk measurement and management techniques that reflect similarities in the business environment between the banking and insurance industries.

## **Banking representatives**

The task force includes actuaries and members from the banking industry. One of the banking representatives is Barbara Oppen, chief officer, Financial Policy and Projections, Risk Management and Financial Policy, the World Bank in Washington, D.C. Her experience with banking regulatory agencies is very useful for the task force to understand banking industry issues. Dennis Uyemura, chief financial officer of the Federal Home Loan Bank of San Francisco, also is on the task force. He is co-author of the book, *Financial Risk Management in Banking*, which discusses the theory and application of asset and liability management in the banking industry. His expertise

provides a direct link to evaluating common issues being addressed by our two industries.

## **Initial activities**

Immediately after its formation in 1993, the task force began review of a joint regulatory proposal by the Federal Reserve Board, the FDIC, and the Office of the Comptroller of the Currency. The proposal concerned the modification of current risk-based standards in the banking industry to specifically account for interest rate risk. The new proposal would extend the requirements to reflect unusual risk from interest rate swings. Although most large banks already have sophisticated risk assessment techniques, banking regulators believe a wider range of safety can be achieved by helping all banks focus on what is likely to happen in the future.

The task force reviewed the proposal in light of our experience with similar concepts in the insurance industry and sent a response to each of the financial organizations involved in its development. Our response included some comments on the technical aspects of the proposal. More importantly, our response stated: "The banking and insurance industries face similar challenges in evaluating the risks inherent in their products and adequately protecting themselves and their publics from the negative impact of those risks. Actuaries have led the way in developing a greater understanding of the insurance industry's risks related to pricing, capital management, interest

rate fluctuations, etc. . . . We hope to inform the (Federal Reserve) Board of the experience and expertise of actuaries in the analysis and monitoring of interest rate risk and its use in risk-based capital and to open the doors for the sharing of information and experience in these areas."

## **Future activities**

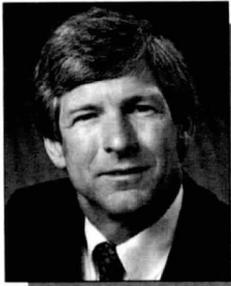
A panel session at the Society's annual meeting in New York was not formed in time for the preliminary program booklet. It will be on Wednesday morning, October 20. Included on the panel will be representatives from the Federal Reserve Board and from banking organizations in Canada and Europe.

The task force is considering other avenues for exposure to the banking industry. Articles in banking trade publications, presentations at seminars, and continued interaction with regulators are possibilities.

Throughout the last year, SOA President Walter Rugland has encouraged actuaries to explore new horizons and help others "ask us to be part of their problem-solving team." The Task Force on Banks and Financial Institutions is an outgrowth of that philosophy, and we're excited about the opportunities it provides to share our talents with the banking industry.

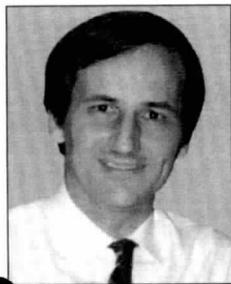
**J. Lynn Peabody is consulting actuary at Milliman & Robertson, Inc., in Seattle and chairperson of the Task Force on Banks and Financial Institutions.**

## New task force (continued)



**J. Lynn Peabody**  
*Task Force Chairperson*

***"I feel there are many commonalities in the issues insurance companies deal with and issues banks deal with. Actuaries are uniquely trained to quantify these risks and to deal with them in real-life business situations."***



**Michel Perreault**  
*Task Force Member*

***"Actuaries have a great opportunity to make inroads in the banking industry. It's fairly easy to find out what challenges and opportunities lie there — read banking publications, go to conferences on asset/liability matters and meet those in the field."***



**Irwin Vanderhoof**  
*Task Force Member*

***"The banking system needs the services of actuaries. Unfortunately, they don't know it yet, and it's up to us to tell them."***



**Neville Henderson**  
*Task Force Member*

***"Canada is somewhat ahead of the United States in having actuaries directly involved in the banking system. A number of insurance companies have entered the trust business and made actuaries responsible for their trust operation management. Our company has started its own bank and placed an actuary in charge. Conversely, several large banks have hired actuaries to help the bank enter the insurance business."***

## SECTION CORNER

As result of Section elections, 10 special interest Sections have added new Council members with three-year terms:

### **Computer Science**

Carol A. Marler, Gregory M. Mateja, and James F. Toole\*

### **Education & Research**

Samuel H. Cox, Dick London, and Virginia R. Young

### **Financial Reporting**

Robert M. Beuerlein, Charles D. Friedstat, and Douglas C. Kolsrud

### **Health**

William F. Bluhm, Allan B. Roby, Jr., and Jean M. Wodarczyk

### **International**

Robert L. Collett\*, Kevin Law\*\*, Yves Guerard, and Catherine Prime

### **Investment**

David N. Becker, Dennis Carr, and Allan M. Fen

### **Nontraditional Marketing**

Paul C. Butler, H. Neil Lund, and Don N. Patterson

### **Pension**

James G. Durfee, Donald J. Segal, and Michael M. C. Sze

### **Product Development**

James D. Atkins, Timothy F. Harris, and Michael J. Roscoe

### **Reinsurance**

Monica Hainer, James W. Pilgrim, and Jeremy Starr

\* Continuing on Council, re-elected after serving for less than 3-year term

\*\* Completing term for Council member elected to the SOA Board