Education

WHADDAYA MEAN, THREE FELLOWSHIP MODULES?

BY PETER HAYES

THE RATHER BLUNT MESSAGE was phrased this way: "The SOA has kindly added another fellowship module for you to do if you don't fully finish by July 1, 2010." It was part of an e-mail sent by the coordinator of a company's actuarial program to students on the cusp of finishing their exams. Its tone was likely replicated in dozens of similar messages in response to the SOA's announcement earlier this year that they were adding an additional e-Learning module as part of the requirements for completing fellowship. Ironically, the response of students has mostly been a fairly passive shrug—sort of a suck-it-up, let's-get-this-thing-done response to a small bit of adversity that many of them don't see as a big deal.

It is a big deal, though, but not because of the extra hurdle it places between students and their fellowship. In fact, the fellowship e-Learning modules for the vast majority are a continuation of the e-Learning initiatives they went through as part of FAP (Fundamentals of Actuarial Practice), which students have embraced with enthusiasm. Furthermore, the additional module will not, for most, delay their travel time, so it has largely been taken in stride by students. The decision to introduce the extra

WHY FILLING THE FE GAP IS IMPORTANT

There are many financial experts who understand investments for the asset side of the balance sheet, and others who focus on the liabilities. The actuarial profession trains actuaries to understand the interaction of assets and liabilities. This requires actuaries to be experts in each separately as well, and offers a communications role interpreting discussions between investment, accounting and actuarial personnel. Often, actuaries are the first to have that "Aha!" moment when the solution appears.

It is therefore vitally important for actuaries to have a thorough working knowledge of Financial Economics (FE). Combining better solutions for companies and clients to manage their risks and enhance shareholder value is the key to serving our employers and clients and helping them to prosper. Both rely strongly on a solid understanding of financial economics.

Regardless of your area of specialization, financial economics is important. Actuaries have the knowledge and skills to integrate financial economics into practice and apply findings to maximize value. With an increased focus on financial economics, the next generation of actuaries will be well-served to have mastered this important intellectual discipline.

This information is excerpted from the current Financial Economics e-Learning module required for candidates pursuing the FSA in the Finance/ERM, Investment, Individual Life & Annuities and Retirement Benefits tracks. Members interested in learning more about financial economics can register for the Financial Economics module and receive CPD credit. *www.soa.org/pd-ecourses* module was not taken lightly, however, and it is a big deal to the SOA because it addresses a couple of fundamental problems that had emerged within the fellowship exam structure.

The treatment of Financial Economics (FE) was particularly troublesome. Candidates on the Investment and Finance/ERM tracks found this material to be redundant with regard to their examination content; candidates on the Individual Life and Annuity and Retirement Benefits tracks did not see how this material related to their specialty; and those on the Group and Health track had no exposure at all.

A little background might be useful as to how all of this came about. In its original incarnation, the fellowship e-Learning component, as conceived in the 2005 redesign, was to have comprised four track-specific modules, not two. Implementation, however, was a different story, driven largely by resource issues (i.e., not enough people!), the expectation was supposed to be that the bulk of the "left out" material would find its way onto the exams, in exchange for there being only two modules per track. As any fellowship candidate will tell you, however, the exams are already overflowing with material, and adding on the module leftovers did not come to pass.

The biggest hole was FE, but this was much more so for tracks other than Finance and Investment. The solution—including insightful direction from the SOA Board—is on the one hand elegant and on the other still a work in progress: the introduction of a third module.

While the third module solution addressed the FE gap, it was greatly facilitated by a second motivation that also involved a third module: the introduction of the CERA designation in 2007. Like all tracks at that time, the Finance/ERM track contained two modules, which, in their case, were Financial Economics and Financial Reporting/ Operational Risk. The only topic determined to be mandatory for the CERA pathway, however, was the Operational Risk part of the second Finance/ERM module, so the solution was to split that module into its two parts and expand the smaller part (Operational Risk)—but this then created three modules for the Finance/ERM track.

Creating a third module for the other tracks ultimately paved the way to a fairly convenient means of resolving the Financial Economics quandary described above, while at the same time restoring parity across all tracks in terms of the number of modules. The third module on the Group and Health track, for instance, provides an opportunity to introduce Financial Economics and Health Economics without eliminating other important material. For other tracks it is an opportunity to move material from the (rather large) exam syllabus to e-Learning. For example, some of the Pension Finance material currently being tested could be moved to a Financial Economics module that is specifically designed for those on the Retirement Benefits track.


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Knowledge of Financial Economics is fundamental to the work of the future actuary, and the Board's direction mandated that all fellowship tracks have a fellowship-level working knowledge. The elegance of the solution is in tailoring each of the Financial Economics modules to be track specific, thereby reflecting legitimate differences in the way FE is applied in practice; the work-in-progress part refers to the fact that imple-

mentation of the Board's directive is still being tackled by the Education Committee, and in particular the e-Learning General Officers responsible for the respective fellowship tracks.

Thinking of this as simply introducing an FE module to those tracks that didn't have one takes away from the most important element of the solution: the FE modules will indeed differ from track to track. For the Finance tracks it will be Advanced Financial Economics, the basic material being learned and tested via the traditional exam route. That's not to say that other tracks may not have some level of exposure to more advanced FE, but the emphasis will be different, reflecting the track-specific mandate.

So, while each track will have to do a Financial Economics module, what's inside each one could vary substantially. The thinking at the moment is that each will have a Financial Economics overview and a Health Economics overview that will be relatively homogeneous across tracks. Sitting on top will be a more advanced FE component for the Finance, ILA and Retirement tracks, and these will not be homogeneous but rather will be track-oriented (for instance, AFE-for-pensions in the case of the Retirement track). The Group Life and Health track will be developing a higher-level Health Economics component, parallel to the AFE in the other tracks, and all tracks will also have a (non-homogeneous, track-specific) Corporate Finance component.

This is the work-in-progress part. The teams to develop the modules are coming together, and the readings, case studies and exercises are being identified and sketched out. One of the guiding principles, reflected well in the work done to date, is that every major topic area should be covered in each of the track modules, but that the depth of coverage of the components can vary greatly. Getting it right is important: financial economics was identified years ago as a key component of the educational experience with which we wanted to endow future actuaries, and its coverage at an advanced level was not where it needed to be. Adding the third module will fill that gap.

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