



SOCIETY OF ACTUARIES

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Forecasting & Futurism Newsletter

—A New Name and a New Dimension for Our Section

By Dave Snell

Many mathematicians are familiar with a classic book from 1884 (still in print) by Edwin Abbott called *Flatland: A Romance of Many Dimensions*. The hero, a square (in the geometrical sense, not a personality trait) is visited by a being from spaceland, a sphere, and together they explore the concept of multiple dimensions.

In a similar theme, the former Futurism Section has added an important new dimension to its charter. We are now the Forecasting and Futurism Section and to emphasize how much of an expansion this is, we have chosen to call our newsletter, *Forecasting & Futurism* to signify that we have added a new dimension to our sphere of influence and focus.

In this first issue of the *Forecasting & Futurism Newsletter*, formally called *Actuarial Futures*, we have some articles from Forecasting and Futurism Section council members that further explain these exciting changes.

In “The New Forecasting and Futurism Professional Interest Section,” Alan Mills, vice chair and Ben Wolzenski, chair of the Section, list some of the new (and old) tools associated with forecasting that ought to be part of your toolbox. They also alert us to upcoming events—including a special panel discussion at the SOA Annual Meeting with Nassim Nicholas Taleb, the author of *The Black Swan*.

Scott McInturff gives a detailed but highly readable description of the Delphi Method. Quoting from Scott’s article,

“For many, Delphi conjures up images of a priestess possessed of mystical powers, reeking of sulphur, seated on a stool over a fissure that radiates from the center of the earth, and making indecipherable proclamations about the how the future will unfold.”

Scott demystifies the Delphi Method; and he does it by describing a practical case study he coordinated. He gives us first-hand advice based on what went well, and what didn’t.

Did you know that the Chinese term for actuary translates as master of accurate calculations? Our Section recently published a Delphi report called “Blue Ocean Strategies In Technology For Business Acquisition By The Life Insurance Industry” where we discuss some good, and perhaps not so good implications of that definition. We chose not to reproduce the 280-page report here in this newsletter, but here is a link to it: <http://www.soa.org/research/life/research-blue-ocean-strat.aspx>

Our incoming chair for the Section, Alan Mills, has contributed three articles for us as well as collaborating on another with Ben Wolzenski. His “White, Gray and Black Swans—Identifying, Forecasting and Managing Medical Expenditure Trend Drivers in a Complex World,” differentiates the three types of swans and the challenges they pose for quants (quantitative analysts) trying to make sense of complex adaptive systems. Then, he describes forecasting methods to address these challenges. He supplements his description with anecdotes, quotes and diagrams for a succinct but understandable exposition.

Alan’s “Introduction To Forecasting Methods For Actuaries,” briefly lists some of the forecasting methods actuaries commonly use; and then tells us about several more that are in common use by other professionals in the business community—methods we ought to be considering even though they were not in the study note we might have read years ago.

In “Should Actuaries Get Another Job? Nassim Taleb’s Work and Its Significance for Actuaries,” Alan reviews the recent work of Nassim Taleb—who is clearly not a fan of actuaries—including the very popular books *The Black Swan* and *Fooled By Randomness*.

“To support his thesis, Taleb cites numerous instances when we have been suckers, when dire consequences flowed from our inability to forecast in the fourth quadrant, among which are the

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collapse of the Soviet Union, U.S. stock market collapses, and the current financial crisis. He also observes that in the areas of security analysis, political science, and economics, no one seems to be checking forecast accuracy.”



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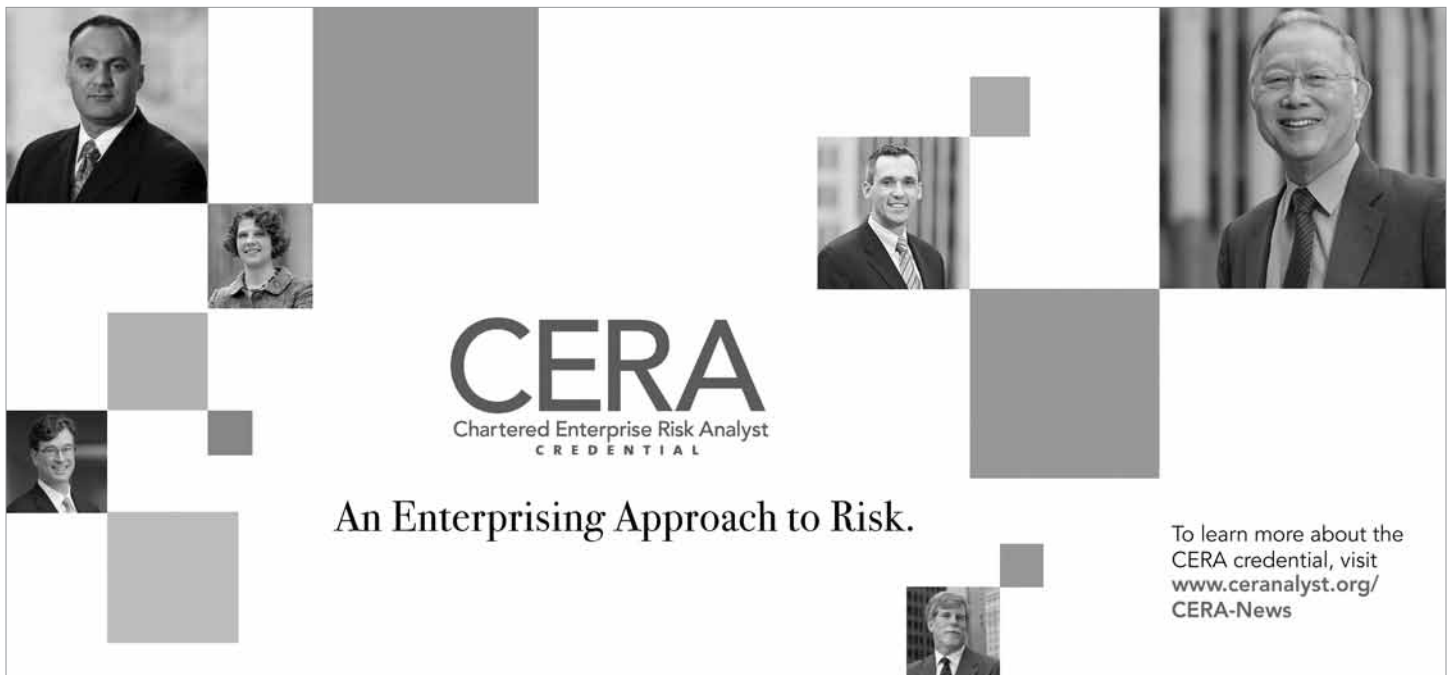
Are we suckers, as suggested by Taleb, or can we still “substitute facts for appearances, and demonstrations for impressions,” as we so often like to quote from John Ruskin?

I have also included a book review. After reading “Fortune’s Formula: The Untold Story of the Scientific Betting System That Beat the Casinos and Wall Street,” by William

Poundstone, I came away with the feeling that: *It takes exceptionally smart people to make truly massive blunders!* I think this ought to be a required read for actuaries. Fortunately, it is also a very entertaining read. I hope my review does it justice and piques your interest enough to read it.

Read through these articles. Think about how they may impact you, and how they may impact our industry. As actuaries, we have the basic mathematical and financial background at our disposal to learn to be better forecasters and futurists ... or we can be complacent and watch as other disciplines assume these roles. ▼

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