BY POOJA NAGARAJAN

The actuarial brand in banking

In thinking about how actuaries could bolster their brand in banking, a fellow banking actuary asked an important question – Why does the banking sector need actuaries?

You tend to meet a healthy supply of actuarial graduates in meeting rooms (or now zoom rooms) of major banks, despite there not being a specific statutory role. It may follow that the quantitative risk management skillset translates well from traditional actuarial sectors into banking. What is less clear is whether there is anything specific to the actuarial profession that sets us apart from other similar specialties, when it comes to the banking context. What are the key focus areas where actuaries can add value within banking in the next five years?

To get a better understanding, I interviewed two fellow banking actuaries – Steve Nagle, Banking and Capital Markets Partner, Ernst & Young (and the source of the wise question at the top of this article) and Benjamin Young, Stress Testing Manager, APRA. Below are the main themes from these discussions.

KEY AREAS WHERE ACTUARIES CAN ADD VALUE

Ben pointed out that there are several focus areas where actuaries can add value over the next 3-5 years:

Non-financial risks such as climate risk and cyber risks: regulatory focus in these areas is increasing but approaches to quantifying and forecasting loss are still nascent, presenting a prime opportunity for actuarial thinking.

P. Nagarajan is a banking actuary who has worked in the bank risk modelling space in both Sydney and London for 10+ years. Currently she is a Director in the Institutional Bank Capital Management team at CBA.

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Data science and decision analytics: actuaries are recognised as valuable contributors in this space due to their ability to produce transparent and actionable insights.

New regulations: actuaries are well placed to understand and embed the new regulations (including new APRA prudential standards to align with changes proposed in the latest Basel guidelines) and identifying potential 'upside risks' where increased data accuracy and sharper processes can drive capital efficiency.

FOCUS ON TELLING THE STORY

Banks are seeing an exponential rise in the number of models and complexity of models. Data science and machine learning fields are in vogue with several options for short and long tertiary courses being offered. According to Steve, actuaries can meet this increasing demand for sophisticated modelling. Actuaries should demonstrate their ability to maintain focus on the broader context within which they work, looking to extract meaning from the analysis and 'tell the story'.

SOLVE THE PROBLEM AT HAND

As Steve put it, one should come prepared to think about the problem they are trying to solve, rather than come prepared with a solution which they are itching to implement. With increasing senior management focus on mechanising and industrialising various bank processes, the temptation for many is to rush towards application of complex modelling techniques to prove advancement. Actuaries can help organisations identify and collect the right data in order to build the strong foundation on which complex models can be built.

CROSS SPECIALTY KNOWLEDGE

Banking actuaries can leverage peer networks across other practice areas to share knowledge on topics such as climate risk. Insurers have long been quantifying the impact of climate risk on their portfolios and likely have the data and techniques to help banks reach a similar level of sophistication.

In an era of increased modelling sophistication and regulatory oversight across emerging risk types, actuaries can bolster their brand in banking by driving meaningful analytics with measured application of complex models and leveraging their cross-specialty networks to improve measurement of non-financial risks. ■