

# BANKING EDUCATION FOR ACTUARIES

BY **DICK RAE**

**C**ontinuous professional development is a personal journey. For qualified actuaries, education doesn't come in shrink-wrapped packages in the way that it does, in large part, for student actuaries. Your educational requirements will depend on where you are in your career. There are various steps along the way for an actuary keen to explore the world of banking.

The observations I make in this article are based on my own experience. I vividly remember my initial confusion back in 1997, when I entered the world of banking. Everything seemed to be the opposite of what I had been used to as a life actuary. The emphasis on capital requirements was with reference to assets rather than liabilities. Bankers thought in terms of floating rates rather than fixed rates. With the exception of credit risk, banks preferred not to carry risks in the way that insurance companies and pension funds do. Market risk was hedged, and everything with a fixed rate duration was swapped to a floating rate.

My first task was to get familiar with the banking jargon. It's a new language, and it's essential to be conversant in it. My suggestion is to listen and talk to any contacts you have that are in banking. Actuarial 'gobbledegook' was often a source of much amusement amongst my former investment banking colleagues.

## **A STRUCTURED APPROACH TO EDUCATION**

If you are serious about getting a thorough overview of banking, a first step could be reading the course material for the fellowship course on the principles

of banking. These are available through either the IFoA or the Actuarial Society of South Africa (ASSA) websites. This is an international course designed by actuaries for actuaries seeking to get broad-based knowledge of the core principles of banking. Not only will this cover the bank balance sheet, but you will get an education in banking regulation, risk management, and product pricing. You will gain the banking perspective on credit risk, market risk, and operational risk along with capital measurement and, vitally important, liquidity measurement. I'm not necessarily suggesting that you take the examination; that's your prerogative, but that would seem an obvious course of action for a student.

IFoA and ASSA websites list the [syllabus for the principles course](#) along with a [syllabus for a banking applications fellowship course](#). It is worth noting that for many years, ASSA has been providing banking education for actuaries, and these international courses arise from a collaboration between the IFoA and ASSA. Links can also be found on both websites to the [additional reading material](#) suggested by ASSA. Additionally, you may refer to an IFoA Banking [reading list](#), which is another useful resource.

## **THE PARALLELS BETWEEN BANKING AND TRADITIONAL ACTUARIAL ROLES YOU MAY KNOW**

There are numerous similarities between in the traditional roles in insurance and their counterparts in banking. In fact, it is astonishing that the actuarial profession has only recently fully embraced banking as an industry where the actuarial skill set has >

relevance and where actuaries may choose to make their career.

This means that you already have a lot of the skills and experience you will need. Here are some examples

- Product pricing/profit testing – the familiar territory of projecting cash flows
- Reserving – for banks, these represent provisions for future losses
- Modelling – a core skill of ours
- Risk management – our bread and butter
- Data management and analysis - banks manage millions of transactions
- Climate change risk – banks, like insurance companies are grappling to come to terms with what this means for them
- Regulation – a bank’s Internal Capital Adequacy Assessment Process (ICAAP) is strikingly familiar to the Own Risk and Solvency Assessment (ORSA)

Whatever your skillset, there will most likely be some equivalent within the banking world. These areas will be the easiest to educate yourself on, and you can read in depth about these similarities in the International Actuarial Association’s publication on ‘[Opportunities for Applying Actuarial Techniques in Banking](#)’.

### **CURRENT THEMES IN BANKING AND KEEPING YOUR KNOWLEDGE RELEVANT**

No matter which part of the world you are in, you won’t go wrong by looking at the [Bank of England’s \(BoE’s\) consultations](#) with the UK banking sector. If there is one thing about banking it is its global nature. The issues elsewhere will be similar to the UK’s. Doubtless you can try other central bank websites; it’s just that I know the BoE’s content and I can recommend their consultations. These often read like text books. So not only do they highlight the current issues in banking and the regulatory issues, but they also provide excellent educational material to boot. You’ll find these covering familiar issues of the day such as climate change stress testing, model risk management, and the implementation of new regulatory standards.



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Banking is more directly connected to the real economy than insurance and pensions. It doesn’t take long for really hot topics to hit the headlines. Silicon Valley Bank and Credit Suisse are interesting recent examples that put much of the educational material I’ve mentioned above into context.

There has never been more opportunity for actuaries to learn about banking irrespective of where they are in their career. There is education to appeal to most actuaries and there is a role we can all play within this fascinating industry. <

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