



COLIN WILSON

INVESTMENT AND RISK

TAKING UP THE NEW POST OF HEAD OF INVESTMENT AND RISK



Why has the Government Actuary's Department set up the new post of Head of Investment and Risk?



"Because of the growing interest within Government on asset related matters and our clients have been asking us for help in this area", confirmed Government Actuary, Trevor Llanwarne. So what is different about Colin Wilson's expertise, compared to traditional actuarial techniques?

TRADITIONAL TECHNIQUES

GAD has for many years been able to produce cash flow projections, and the discounted value of liabilities, as the orthodox methods of actuarial analysis.

For the actuarial purist, the methods are described as deterministic. Assumptions are made about the future course of economic and demographic factors which are applied to produce a single projection of cash flows (which is a series of numbers) or a single number for a discounted value. In essence, the methodology produces a single expected outcome (either as a cash flow or as a discounted value) reflecting what will happen if the assumptions are actually borne out in practice.

So far so good, the arithmetic might be intricate, but the concept is simple: make assumptions, produce a single answer. The downside is that the single answer depends totally on the assumptions. If the assumptions are changed, then the answer changes and, crucially, the assumptions are only assumptions, not predictions, as making precise predictions is impossible.

NOW ADD IN THE UNCERTAINTY

Modern computing power now enables deeper and more sophisticated thinking, and consequently a more intricate and intellectually challenging analysis. Let's take the analysis to the next level, asking two supplementary questions:

- > What if what actually happens in practice is slightly different to what has been assumed, and
- > What is a sensible measure of the risk of that difference arising?



Now that is starting to be materially tricky. Applying the principle to a pension fund, a typical question might be:

- > “What is the chance that equity yields will fall below gilt yields over the next three years, and – if that were to happen;
- > What would be the financial impact to the security of pensions?
- > How might the investment portfolio be re-structured now to give some protection against any detrimental impact of that happening?
- > What other contingency plans should be in place as protection?

This is a question about the risk of something (usually bad) happening, the impact of it happening, and consideration of how to put some protection in place.

RISK AND UNCERTAINTY NOW A PART OF LIFE

“Now more than ever, investment and risk are recognised as being of central importance to economic activity and government planning,” Colin explained.

Government Actuary, Trevor Llanwarne, adds, “We expect a high demand for Colin’s expertise as it applies specifically to the identification and control of financial and investment risks inherent in the structuring of financial institutions and economic levers, as well as to the provision of benefits and services by government”.

These are complex subjects, but Colin thrives on hard questions about complex subjects.

HOW COLIN THINKS:

- > ***I CANNOT PREDICT THE FUTURE***
- > ***BUT WHAT IS THE CHANCE OF SOMETHING BAD HAPPENING?***
- > ***...AND WHAT PROTECTION IS NEEDED IF IT DOES?***

CAREER BACKGROUND

A relative latecomer to the actuarial profession, he started actuarial training 10 years after leaving Cambridge with a degree in mathematics, in the meantime having worked as an analyst programmer and consultant in a software company.

“What persuaded me to become an actuary was the opportunity to apply advanced mathematical techniques to the world of finance and business,” he explains. That is a common actuarial trait, but the Wilson CV is impressive, confirming his keenness to set about solving the most challenging problems in the largest arenas:

- > Three years developing new products at The Prudential, while training to be an actuary,
- > Nine years in the investment department of The Prudential, producing and interpreting asset-liability models to analyse cash flows and associated risks for an annuity fund of £25 billion and a with-profits life fund of £80 billion.
- > Three and a half years at consulting firm Barrie & Hibbert advising insurance companies on investment strategy and financial risk management.

There is a common theme; the experience in each role has been used to powerful effect as the foundation for the next role. He wants that trend to continue.

Looking back, Colin reflects that much of what he has done has actually required him to be an interpreter, fluent in three languages: Actuaryspeak, FundManagerspeak, and plain English. Ask him a question about whether to include a complex derivative, such as a credit default swap, in an investment strategy, and the technical analysis will be thorough yet proportionate, but the ultimate answer will be based on simple and penetrating criteria – Will it help us, and what could go wrong?

MAKING SENSE OF UNCERTAINTY

To most people, the uncertainty of risk is a cause for concern. The actuaries of the 21st century are comfortable with risk, because they are trained to look at the sources of risk, to examine the consequences, and to control the financial impact of any downside. Colin Wilson has joined GAD to build and lead the effort in helping clients to do exactly that.

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