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Gaming the System

HAVE NEVER BEEN A GAMBLER. I was inoculated early on against that particular vice by a disappointing flutter in the cakewalk competition at a school fair. At the age of 7, I chanced my entire 25-cent weekly allowance on winning a three-tier chocolate cake with fudge icing that appeared intoxicatingly dank and rich. I was absolutely certain that I would win the cake. As the music played and I expectantly stepped from square to square, I was already planning which friends I was going to invite to share the largess when I inevitably won. But I didn't win. Worse, I realized as I watched another more fortunate (if less deserving) child take possession of the cake, with my quarter stake gone, my time at the fair was over.

Ever since, I've looked on gambling, in whatever form, as simply throwing good money after bad. Because I get no thrill from taking chances and all the risks I assume are, I like to think, highly educated ones, I might have made a pretty good actuary. Well, except for the math.

In divergent articles in this issue, Gerry Smedinghoff and Dimitry Mindlin discuss the degree to which actuaries can predict and protect against certain risks. Where's the debate, you ask. Isn't risk analysis and management what actuarial science is all about?

Absolutely. And actuaries, using math, statistics, and financial theory, do about the best job of anyone around in gauging uncertain future events and designing creative ways to manage them. But what about the outlier event that can't be predicted through a Gaussian distribution (what Smedinghoff, quoting best-selling author Nassim Nicholas Taleb, calls a Black Swan event)? At what point in the process does controlling risk move from educated guess to blind gamble?

The debate that Smedinghoff and Mindlin engage us in is actually a philosophical one. As the profession continues to expand beyond its traditional strongholds in the areas of insurance and benefits, actuaries need to ponder how best to employ the formidable skills

that they have learned through examination and practice. Are forward-looking assumptions a reasonable way to go, or is trying to prepare for future events a Sisyphean task that eventually just makes mugs of us all? Do we need to be more discerning about the data that we use and the

use to which we put them? Does thinking smaller help? Where is the right place for risk measurement? And ultimately, as Mindlin puts it, how useful to the world are its actuarial "weathermen"?

While my chosen method of managing risk (avoiding wild gambles or even, for that matter, tame gambles) seems to have worked for me so far, I could be just fooling myself. It's something to think about. One thing I'm sure of: Life is no cakewalk. ●



Linda Mallon