

The Working Group on Risk - CREAR, with the support of the IDS dpt, the group BFA (SFdS) & Institut des Actuaire (IA) , has the pleasure to invite you to the Seminar by:

**Andrew SMITH
Partner, Deloitte
London, United Kingdom**

Quantitative Approaches to Model Uncertainty

Many areas of actuarial work require the use of models, but we seldom have solid grounds to believe that a chosen model is the same, or even close, to the process that generated past observations. Prudence demands that we investigate possible explanations, and consider carefully the business implications of using a model that may turn out to be wrong. Andreas Tsanakas and Andrew Smith discuss Monte Carlo techniques for investigating the impact of model ambiguity. Focus is on VaR calculations and the associated back-testing criterion for assessing the quality of estimation procedures. Approaches to incorporate such uncertainty into decision-making are discussed, reflecting the need for

- (i) practical adjustments to VaR estimates,
- (ii) a deeper understanding of model uncertainty and
- (iii) formulating risk tolerance in relation to model mis-specification.



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Andrew Smith graduated from Cambridge University in 1990, with a first class degree in mathematics. Since joining Deloitte, Andrew has consulted on many diverse areas, including: analysis of market and credit risk, insurance and financial reporting.

For many years Andrew has been at the forefront of developing stochastic investment models for use in asset-liability modelling and pricing. He has published many papers in insurance, pensions and financial matters. In 1996 he won the Institute of Actuaries' prize for his paper "How Actuaries can use Financial Economics", another prize in 2002 for his joint paper "Corporate Bond Models", and a further prize for his 2004 paper "The Cost of Capital for Financial Firms". He serves actively on a number of professional working parties, is frequently quoted in the press and is widely respected as an entertaining and informative conference speaker.



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