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Are You A Product Actuary or A Marketing Actuary?

by Mike Kaster

Several years ago, the concept of a marketing actuary was in vogue. Many job titles were changed to reflect this new concept, and some new jobs were created. But the question is, did the job really change? There is a distinct difference between a product development actuary and a marketing actuary. Because this distinction exists, there will be greater demands on actuaries in the future to evolve their skills. Those who add marketing and communication skills to their repertoire will have a distinct advantage over others who simply perfect their technical skills.

The actuarial profession, and actuaries in general, are suffering today from a perception problem. Employers of today's actuaries have decided opinions about actuaries, and whether or not you fit the image, you are being impacted by this image. Recently, the SOA performed some market research to explore exactly what employers of actuaries felt about their professionals. The majority opinion is that very few actuaries have both the quantitative skills and the business savvy to analyze situations and then create common sense solutions that are easily communicated to all target audiences. Is this really how we want to be viewed?

Today, companies expect that, as a product actuary, you will be the technical expert — the person who can “engineer” the product concept into an acceptable design. They expect and assume that you know and understand all the relevant actuarial issues that need to be incorporated into the product design. You must have thorough knowledge of pricing mechanics as well as strong knowledge of the regulatory parameters in order to build a product that is acceptable to the regulators who will need to approve the product prior to introduction.

These same company leaders do not view actuaries as business leaders. Many company executives have expressed frustration, stating that the actuaries they employ are extremely bright and technically proficient, but because they can't communicate, their knowledge and ideas are being left on the boardroom floor. The situation has deteriorated over the last few years. Actuaries have never been known as outstanding communicators, but according to our market research, employers and executives do not expect actuaries to communicate well.

Again, this is not a good situation for our profession to be in.

OK, so company executives have clearly identified an area for improvement — communication. What about our top actuaries? What did they have to say about product actuaries? At a recent gathering of chief actuaries in the life insurance field, they were asked to discuss the needs of product development and product development actuaries. A growing trend that causes them to be concerned is the increasing acceptance of results that come from the actuarial modeling software packages that most companies use for product pricing. These software packages (we all know the usual suspects) have been a godsend in efficiency and productivity. But increasingly, more and more product actuaries are simply accepting the results coming from these “black boxes” without challenging the results or understanding the root of the calculations. How do you know the results you are getting are the right results? Do you check your answers? The chief actuaries stated that it is important to know and understand the calculations. One of my most valuable learning exercises when I was a product actuary was to build a pricing spreadsheet from scratch. I did this for a simple deferred annuity product, so the calculations were not terribly complex. But what it drilled into me regarding the actual mechanics of pricing is something I will never forget.

The “chiefs” also saw the communication problem in the younger generation. They indicated that, in the past, actuaries were actually tested during their credentialing on their ability to communicate and their usage of the English language. Many suggested that our profession should consider evaluating some sort of process where we actually ask our candidates to communicate, rather than regurgitate. Currently there are working groups within the SOA working on these very recommendations.

The typical product actuary today is someone who is technically solid, knowledgeable in the product line, and usually viewed as the “product expert” in his or her company. Product actuaries know how to balance the equity challenge, see the need to balance the tri-pod of constituents — the owner, the distributor and the customer. No other professional in the insurance industry is better positioned to take

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on assignments with these needs. But is this enough? What other skills are needed to be a successful product developer? Many people would say that without a solid foundation in marketing skills, one cannot adequately manage a product development process. Is this true?

Outside the insurance industry, many companies rely on marketing professionals to perform their product development work. Most MBA programs will offer course work in product development, and marketing professors teach these courses. This would certainly imply that, as a product actuary, if you want to step up to the next level, you must turn yourself into a marketing actuary.

How does one become a marketing actuary? It first requires an understanding of what “marketing” is. If you look up the definition of marketing in the dictionary, it is defined by one source as:

“The act or process of selling or purchasing in a market”

This definition may be correct, but it doesn't explain enough. If you look up the definition in a typical MBA program textbook, you might find the following definition:

“Marketing is the process of identifying needs/wants/demands, and establishing products with value to meet such desires, and creating a transaction in a way that produces value and relationship.”

And to quote Peter Drucker:

“Marketing is so basic that it cannot be considered a separate function. It is the whole business seen from the point of view of its final result, that is, from the customer's point of view...Business success is not determined by the producer but by the customer.”

One final definition, from Kotler's Marketing Management it is:

“Marketing's job is to convert societal needs into profitable opportunities.”

There is no one better positioned in the insurance field to take on the role of “marketing” than the actuary, and it is the product development actuary that is best suited to take on this task.

Do you, as a product actuary, know the difference between sales and marketing? I've already told you the definition of marketing, and the function of selling is quite obvious. They are clearly different functions. So, why is it that so many insurance company marketing departments are run by people who came up through the sales side of the house? Do these professionals really understand what it means to “market” products? One could argue that they ascended to these positions in the home

office largely because sales individuals learned business savvy and communications skills well (they practice these every day). The actuaries are severely lacking in this arena.

To become a marketing actuary, you must not only possess the skills of the product actuary, but you must also be able to communicate, understand the whole of the business, realize the relationship between customers and products and know how to do all of this in a manner that results in profitable growth for the company. This is a pretty tall order for anyone.

The following chart may help you better understand the distinction between a product actuary and a marketing actuary:

Skills Required	
Product Actuary <ul style="list-style-type: none"> o Technical actuarial skills o Regulatory knowledge o Pricing mechanics o Assumption development o Product knowledge o Conceptual thinking o Creative problem solving 	Marketing Actuary <ul style="list-style-type: none"> o All skills of a product actuary, plus the following o Strong communication o Marketing savvy o Financial analysis o Customer research o Distribution management

There are many skills here that people in various positions will identify with and say are a part of their job. So, in the ultimate evaluation of whether or not you are a product actuary or a marketing actuary, if you identify skill areas that you need to further improve, I would suggest that you explore the development of these skills. The areas of weakness that I have previously identified for our profession are really opportunities for the eager and ambitious to find ways to excel and prosper.

Above all else, whether you consider yourself a product actuary or a marketing actuary, improving your communication skills will help you in your professional life more than any other skill. Improving your ability to communicate your ideas requires practice. A recent speaker at an SOA function, speaking on the subject of effective presentations, quoted Vince Lombardi. He said it doesn't require practice to make perfect, but rather that “perfect practice makes perfect.” Work at this skill and practice your communication opportunities diligently. It will carry you a long way in the future. □

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