May 2010, Issue No. 30

SOCIETY OF ACTUARIES Entrepreneurial Actuaries Section

THE INDEPENDENT CONSULTANT

Share | Print-Friendly Newsletter | Search Back issues

CONTENTS

ENTREPRENEURIAL ACTUARIES SECTION

Entrepreneurial Actuaries Section Leadership

Issue Notes from the Editor

by Bill Ely

In this quarter's issue of The *Independent Consultant*, we continue to explore the changing world of actuarial entrepreneurs.

[Full article]

From the Chairperson–And the Survey Said ...

by Larry Stern

As you are all aware, the Entrepreneurial Actuaries Section (EAS) Council conducted a membership survey. Our section has a membership of 546. Whenever the SOA conducts surveys, the goal is to receive at least a 10 percent response. For our survey, we received 74 surveys, resulting in an approximate 14 percent response.

[Full article]

The World of Social Media and Risk Management

by J. Eddie Smith

Sony, not Apple, should have given us the iPod. Sony failed miserably because it couldn't collaborate across its many decentralized divisions. It could deliver only one kind of performance–wonderful products coming out of independent business units that had a great deal of freedom. But it couldn't add another level of performance–great products resulting from collaboration across its divisions. It failed to move its performance to a higher plateau–to gain the best of both worlds-by keeping the benefits of having independent business units and reaping big results from collaboration. It lacked disciplined collaboration.

[Full article]

Successfully Build Your Business Network

William Ely, Editor

SOA Staff

Meg Weber, Staff Partner

Jacque Kirkwood, Staff Editor

Sue Martz, Section Specialist

OTHER SITES OF INTEREST

Entrepreneurial Actuaries

Newsletter

Resource Center

Member Benefits

with "E–Blasts"

by Aurélie Hiernaux

During a business meeting, one common thing easily noticed is the plentiful exchange of business cards. It is after all a good way to keep in touch with other business people and build your own business network.
[Full article]

Exit Planning for Actuarial Consultants: The Sooner You Begin, the Better!

by Michael Oleksak

As owner of your own actuarial consulting firm, decisions about succession, control and ownership occur all the time. As you advance toward traditional retirement age, it becomes time to evaluate your options and make preparations early to ensure continuity of business value and transfer of wealth currently tied up in your business. The sooner you begin this process, the better prepared you'll be–financially and emotionally–when the time comes to actually transfer ownership.
[Full article]

A Compensation Overhaul for the Sales Development of the Entrepreneurial Actuary

by Charles P. Preti

Sales development. A term rarely used in the life insurance arena, particularly when it comes to describing actuarial duties. However, who better to "develop sales" for a carrier than the (entrepreneurial) actuary? In its basic form, developing sales requires two components: a product and someone to promote it. Traditionally these two elements have been separated, but this no longer is the case in our entrepreneurial environment.
[Full article]

New SOA Publication ... Buy the Book!

What Do You Think? Preparing for the Question That All Clients Ask is available for purchase. Member Brad Smith, FSA, MAAA, shares insights from his 30+ year career.
[More]

Plan to Attend the SOA '10 Health Meeting!

We've lined up engaging speakers, thought–provoking sessions and plenty of networking opportunities. You won't want to miss our point/counterpoint debate between two leading minds in health care reform, followed by a question–and–answer session. Matt Weinstein, humorist and author of *Work Like Your Dog*, will round out our speakers. Sessions on a wide variety of topics–emotional intelligence, trends and issues facing health insurance companies and reinsurers and untapped opportunities for health actuaries–are also planned. And, we're once again offering a unique learning experience–sign up for our computer–based learning session, where you will design a basic health plan to cover the uninsured. The catch? The money available is one–third less than typical employer–based coverage.

475 North Martingale Road, Suite 600, Schaumburg, Illinois 60173
Phone: 847.706.3500 Fax: 847.706.3599 www.soa.org

May 2010, Issue No. 30

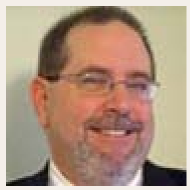
SOCIETY OF ACTUARIES

Entrepreneurial Actuaries Section

THE INDEPENDENT CONSULTANT

CONTENTS

ENTREPRENEURIAL ACTUARIES SECTION



Issue Notes from the Editor

by Bill Ely

In this quarter's issue of The *Independent Consultant*, we continue to explore the changing world of actuarial entrepreneurs.

- In "From the Chairperson," Larry Stern discusses the results from the recent Entrepreneurial Actuarial Section (EAS) survey.
- J. Eddie Smith talks about the interrelationship of social media and risk management.
- Aurélie Hiernaux explores how to use e–blasts to build your business network.
- Michael Oleksak discusses how it's never too soon for actuarial consultants to begin exit planning.
- In this issue, we continue to showcase our selection of submissions we received for the EAS–sponsored Papers Competition last summer. Our featured essay is Charles Preti's *"A Compensation Overhaul for the Sales Development of the Entrepreneurial Actuary."*

Enjoy the Issue!

Bill Ely is director, Actuarial Services of Coventry Health Care of Nebraska and Iowa. He can be reached at brely@cvty.com or 402.995.7088.

William Ely, Editor

SOA Staff

Meg Weber, Staff Partner

Jacque Kirkwood, Staff Editor

Sue Martz, Section Specialist

OTHER SITES OF INTEREST

Entrepreneurial Actuaries

Newsletter

Resource Center

Member Benefits

Actuaries Risk is Opportunity.®

475 North Martingale Road, Suite 600, Schaumburg, Illinois 60173
Phone: 847.706.3500 Fax: 847.706.3599 www.soa.org

May 2010, Issue No. 30

SOCIETY OF ACTUARIES

Entrepreneurial Actuaries Section

THE INDEPENDENT CONSULTANT

Share

Print-Friendly Newsletter

Search Back issues

CONTENTS

ENTREPRENEURIAL ACTUARIES SECTION

From the Chairperson—And the Survey Said ...

by Larry Stern

As you are all aware, the Entrepreneurial Actuaries Section (EAS) Council conducted a membership survey. Our section has a membership of 546. Whenever the SOA conducts surveys, the goal is to receive at least a 10 percent response. For our survey, we received 74 surveys, resulting in an approximate 14 percent response. The survey period was only for one week because the council wanted to have the results in time for our regular February call (which occurs on the third Wednesday of each month). We are pleased the response rate exceeded 10 percent, especially considering the short time for members to reply. The results were made available to the council members in early February and we have taken the responses to heart in planning activities/events for the membership. I would like to summarize some of the responses that you, our members, provided to show how they have translated into action plans.

Educational Opportunities. We asked about topics for webinars and SOA meetings. Overwhelmingly, you indicated a preference for professionalism issues involving entrepreneurs and ethics. Other highly regarded topics included small business skills and small business start–ups. The EAS sponsored a webinar on May 6 titled "Professionalism for Actuaries in Entrepreneurial and Non-Traditional Roles." As of this writing (end of April) over 130 had registered for this webinar–meaning there were at least 100 active lines open for the webinar (there could be multiple individuals at each location). EAS members receive a discount for subscribing to this webinar. We are very pleased with this result. Presenting during this webinar were Mike Boot, Chris DesRochers, Michael Frank and James Ramenda. (For some former webinars, our registration rate has been around 20 to 25.)

We are planning two additional webinars on project management to be

William Ely, Editor

SOA Staff

Meg Weber, Staff Partner

Jacque Kirkwood, Staff Editor

Sue Martz, Section Specialist

OTHER SITES OF INTEREST

Entrepreneurial Actuaries

Newsletter

Resource Center

Member Benefits

conducted by Doris Orr and moderated by Ruth Ann Woodley. These webinars will be scheduled during the summer and fall. Be on the lookout for them. Doris has presented in our webinars in the past with a very high level of satisfaction on this topic.

Last but not least, at the Spring Life and Annuity Symposium in May (in Tampa), the EAS is sponsoring a session titled "Entrepreneurial Actuary is not an Oxymoron." This session will cover concerns on how to start a small business/sole–practitionership. It will include issues related to legal structure, accounting and tax, technology (website), insurance/retirement planning and marketing to clients. I will be presenting at this session along with a good friend of mine, Steve Sternberger, who is a nonactuary entrepreneur located near Atlanta. Steve deals with tax related and marketing issues involving life insurance and annuities. This session will be informative for those considering "going it alone."

These three educational opportunities all come directly from the survey responses.

Networking. We asked about using social networks for professional networking. The three gathering the most responses were LinkedIn, Facebook and Twitter–in that order of preference. We asked, "If the EAS sponsored a LinkedIn group for entrepreneur actuaries would you join?" Sixty-four percent of you indicated that yes, you would. As of early April, there is now a subgroup of the SOA's LinkedIn group for EAS members. A blast e–mail was distributed to all EAS members inviting you to "become a groupie." I encourage you to sign up if you have not already. The EAS Council will begin utilizing this site for communication to the membership. Mike Kaster, FSA, MAAA, and Michael Frank, FSA, will be the administrators. We welcome your input and postings for discussion topics, as well as feedback from items appearing on the site.

We asked about networking at SOA meetings. For the 2010 Annual Meeting in New York, we would like to get away from the traditional breakfast session, so we asked about other activities. Those receiving the most responses were a Sunday night (premeeting) reception, happy hour/sports bar and a luncheon. A social event taking into consideration the baseball playoffs/World Series and will be cosponsored with the Actuarial Society of Greater New York.

Both of these networking opportunities are direct results of the survey responses.

Satisfaction. We asked you to rate your level of satisfaction with the EAS: 4 percent were very satisfied, 32 percent satisfied and 40 percent were neutral. In addition, we asked whether EAS membership contributed to your ability to perform/complete the duties of your job in the marketplace: 3 percent strongly agree, 25 percent agree and 38 percent were neutral. Of course we would like these results to be much higher. We asked for those willing to volunteer with the section and perhaps run for EAS Council. There were several names submitted of interested members. We have contacted them to become Friends of Council (FoC); some of the names will appear on the upcoming election ballot. Thank you for stepping forward!

The SOA conducted a membership survey in 2009 on various topics, one of which involved satisfaction of sections supporting various areas of specialization. On a scale of 0 (least satisfied) to 10 (most satisfied), from 2005 to 2009 the result was in the range around 6.5. For those who volunteer to participate in SOA sections, committees, meetings, etc., the result was a little higher, around 6.7– not appreciably different. (The survey summary and entire results are available on the SOA website. A blast email was sent to the membership on April 30.)

At the end of April, I attended a one–day Council of Section Chairs meeting in Chicago–chairs and co–chairs of the sections along with SOA Board members and SOA staff were in attendance. A summary of the entire survey results were presented; the section satisfaction result consumed considerable discussion. From the SOA Board to the Leadership Group to the Section Councils membership satisfaction– these are our key components of success. Our organization thrives on member volunteerism and participation. I welcome your suggestions on how we can serve you better. What do you need from us so you can perform better in the workplace and interact with your peers? We want to hear from you. I encourage you to become involved.

Until next time, may all your experiences be profitable ones!

Larry N. Stern, FSA, MAAA, is president of Canterbury Consulting LLC. He can be reached at larry_stern@earthlink.net.

May 2010, Issue No. 30

SOCIETY OF ACTUARIES Entrepreneurial Actuaries Section

THE INDEPENDENT CONSULTANT

Share

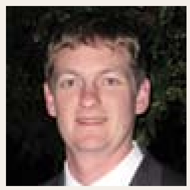
Print-Friendly Newsletter

Search Back issues

CONTENTS

ENTREPRENEURIAL ACTUARIES SECTION

Entrepreneurial Actuaries Section Leadership



The World of Social Media and Risk Management

by J. Eddie Smith

(This article is printed with permission of the author. It combines edited versions of several of his blog entries.)

Sony, not Apple, should have given us the iPod. Sony failed miserably because it couldn't collaborate across its many decentralized divisions. It could deliver only one kind of performance—wonderful products coming out of independent business units that had a great deal of freedom. But it couldn't add another level of performance—great products resulting from collaboration across its divisions. It failed to move its performance to a higher plateau—to gain the best of both worlds—by keeping the benefits of having independent business units and reaping big results from collaboration. It lacked disciplined collaboration.

In his book, *Collaboration: How Leaders Avoid the Traps, Create Unity, and Reap Big Results*, Morten Hansen, professor at the UC Berkeley School of Information, offered one explanation for why Apple succeeded with the iPod and iTunes, while Sony failed with "Sony Connect" (Sony what?). Essentially, Apple was able to harness the collective creativity among its employees, while Sony failed to do the same across independent platforms.

This theme can be applied to a variety of other contexts. Actuaries, like other knowledge workers, store and produce a great deal of valuable information at an individual level. Individual thinking is vitally important because it leads to the pursuit of self-interest in a capitalist economy and also ensures a varied mix of ideas and solutions to problems.

But we can do much more at the company, industry and social level by combining what we know with other actuaries as well as members of other disciplines. To date, we've been encumbered by geographic and

[William Ely, Editor]

SOA Staff

[Meg Weber, Staff Partner]

[Jacque Kirkwood, Staff Editor]

[Sue Martz, Section Specialist]

OTHER SITES OF INTEREST

[Entrepreneurial Actuaries]

[Newsletter]

[Resource Center]

[Member Benefits]

social barriers. This is by no means unique to the actuarial profession; knowledge workers across the globe stare at the same walls and ceilings.

Fortunately, this is changing thanks to social technologies that allow individuals to collaborate regardless of conventional barriers. By connecting smart minds more inexpensively and efficiently, I'm confident that we will see new iPods delivered at an even faster pace as we move into the 21st century—one that will take interdisciplinary collaboration to levels we cannot fathom today.

So, how do we use these new social technologies to leverage our existing actuarial skill set data in a way that creates value for customers and clients?

Brass Tacks—Customer Expectations and Getting the Job Done

"If you look deep into the social business movement you will see that we are on the brink of a fundamental change in the way businesses interact with customers, partners, suppliers and employees," said Michael Fauscette, group vice president, IDC Software Business Strategies. "Customers' expectations of technologies and the way they interact with suppliers have changed, driven greatly by the social Web."

The results of a recent IDC study underscore the fact that social media is about much more than just marketing. The concept of Web–based social networks will affect organizations at all levels, as the following statistic points out:

Fifteen percent of 4,710 U.S. workers surveyed reported using a consumer social tool instead of corporate–sponsored social tools for business purposes due to the following top three reasons, (1) ease of use, (2) familiarity due to personal use, and (3) low cost.

This is a very important trend to watch. Driven by the desire to create uniform operating environments and hindered by economic woes, many companies have done little to change their workplace technology "toolbox" in the last 10 years. In fact, most office workers are using essentially the same technology they did in the 1990s—some version of Microsoft Office and e–mail.

Technologically, the world was a very different place in the 1990s. The personal computer was still a new concept, and because of cost, employees naturally relied on their employer to provide work–related technology. Mobile phones basically did one thing 15 years ago—they made calls. But today, more and more households have not one, but several computers. And today's smart phones are arguably more sophisticated than the typical CPUs residing in cubicles across the world.

So while the "getting things done" technology available within the corporate firewall has remained largely unchanged, the technology available to the consumer outside the firewall has grown by leaps and bounds. Social media is a big part of it, and it's very important to consider its benefits, not just its risks.

There are so many examples of acceptable social media use cases that essentially pose no risk at all. For example, consider a department within a large company that no longer has an administrative assistant. If a manager needs to do an unintuitive administrative task like a mail merge, he or she can either spend a few hours figuring out how to do it, delegate it to another knowledge worker, or turn to the Web or social networks to get instruction. If you believe in paying employees to do their jobs, the latter solution is obviously the most attractive.

While somewhat abstract, this is a very real benefit to the enterprise and should be encouraged if anything. Generally, things that add to the "R" in ROI without adding to the "I" are to be coveted.

I have little doubt that the trend toward using more consumer technology in the enterprise will continue. As computer hardware becomes increasingly commoditized, and therefore cheaper, knowledge workers will naturally leverage their own tools to do their jobs more effectively. Social networks do pose threats to companies, but it's important to understand that their use is not being driven entirely by "time–wasting" motivations. Rather, they could be significant time–savers.

Listening to Each Other With Social Media

At this point, those of us with any knowledge at all of social media probably agree that it's not going away. For prudent insurers, the focus must be on how to make use of the information vortex swelling from social media networks. For now, it's just a really loud, mixed conversation—a bit like standing in the middle of a large, outdoor concert crowd. How can insurers detect and make sense of the signals embedded in the cloud of noise resounding from social networks?

Claims investigations and even underwriting—which are both information–collecting exercises—will likely find valuable uses for information volunteered by individuals on the Web. Much like employers now do informal background checks on potential employees by looking at their social media profiles, insurers can be expected to do the same sort of reconnaissance on their current and potential insureds. It's already happening. In 2009, a Canadian was denied future disability benefits by her insurer, who cited evidence from the woman's Facebook profile that contradicted her disability.

Clearly, companies with the best information about their insureds make the best guesses about future outcomes, and consequently, price their premiums the most effectively. Good information is important not only to the financial success and solvency of the insurance company, but also necessary to provide sufficient benefits to claimants at a fair and competitive price.

Data from social networks will certainly be useful on an individual, case–by–case basis, but it will help insurers learn about "the crowd" as well.

In fact, auto insurers are just beginning to use crowd–listening tools like Telematics, a blend of global positioning system and mobile technologies. Telematics allows insurers to harvest valuable information about driving habits as well as provide customers with additional services on–the–go.

It's not unreasonable to imagine a day when macro studies of human online social behavior might aid insurers of all kinds in their quest for the best probabilities available. Social media profiles and interaction patterns among people online will provide an unprecedented view of human behavior at both low and high levels.

Another example: Imagine if Company ABC notices that the customers of Company XYZ, ABC's key competitor, are not very happy about some product feature or level of customer service. (People can be very vocal online if things aren't going their way.) Services like Twitter make it possible to broadcast rants quickly and cheaply. ABC would be able to adjust their marketing efforts to capitalize on the opportunity.

It will be interesting to see if—or rather how quickly—insurers are able to glean information from the crowd that can be used to more effectively price insurance products and aid competitive strategies. It's a data mining exercise of finding patterns and connecting the dots. For better or worse, technology will eventually arrive that makes the dot connecting easy, though it's a seemingly impossible task today. A company called Narus is already working on a technology that will aid the government in catching criminals who are operating anonymously online. It's conceivable that the same technology could be used to data mine social networks for insurance and other intelligence uses.

Don't Overlook the Individual

If you're not an insurance company, but rather the customer of one, this may seem unsettling. The idea that insurance companies are "spying" on you is not comforting. I have two main thoughts to offer on this. First, more consumer education is needed to make people aware of the consequences of broadcasting their lives online. Insurance is the least of your worries if you tell the world everything about yourself. Second, the era we're entering will not only shed more light on your behavior as a customer but also that of insurance companies.

Web 2.0 is not a one-way mirror. Increased transparency will reward the most ethical companies and be punitive for those that the public perceives as exploitative.

One thing is certain to me: as the public becomes more aware of the economic consequences of publicizing their lives, habits will change. And this is by no means a bad thing. Much like people are incentivized today to adopt healthier life styles to qualify for more affordable health or life insurance, the social media era could accelerate this even more.

For example, people who frequently discuss their exercise habits online can be expected to have better health than those that talk about eating cookies. People that like to update public social media sites while on vacation are probably more likely to be robbed.

By putting more of an economic spotlight on people's behaviors, they may find more reason to change bad habits.

Before we fully judge the era we're entering, we should ask the question: Is too much information a bad thing? Yes, it's a loaded question and depends entirely on context, but with insurance, information can have powerful, positive effects. Companies are able to provide fairer, higher quality, more customized products and consumers are better informed on the choices.

Whether it is risk assessment, analytics or some creative use of the torrent of data being produced by modern society, actuaries can play a major role in helping their employers and clients evaluate the new opportunities and risks emerging in the Web 2.0 era.

J. Eddie Smith, IV, FSA, MAAA, writes about collaborative technologies, social media, risk professionals and more in his blog Risk + 2.0. Check out his blog at Risk20.wordpress.com.

May 2010, Issue No. 30

SOCIETY OF ACTUARIES

Entrepreneurial Actuaries Section

THE INDEPENDENT CONSULTANT

CONTENTS

Successfully Build Your Business Network with "E–Blasts"

by Aurélie Hiernaux

During a business meeting, one common thing easily noticed is the plentiful exchange of business cards. It is, after all, a good way to keep in touch with other business people and build your own business network.

But this desirable scenario is not always the case. Here's one example: say you're a guest speaker at a business event. When your talk is done —even if you've done exceptionally well—your audience, including potential future clients, will not automatically contact you. If you have not taken the important step of getting your audience's business cards and then staying in touch with them regularly, you will have lost a grand opportunity to further build your business network.

In such a case, you must *not* simply throw whatever cards you bring back into a basket at your office and forget about them. You must add all e–mail addresses from your contacts to your e–mail list, perhaps putting them into Constant Contact or ACT or some other similar contact database.

Publishing expert Jia–Ling Loo put it this way in her article "Why Staying in Touch by E–Mail is Crucial to Publishing Success," which is published online, "Gathering new business cards at every possible opportunity can never be enough. It's what you DO with these new contacts that reaps rewards."

Business cards and e–mails however are not the endpoint for staying connected with other business people. A next step is crucial for achieving the same result on a long–term basis—sending e–blasts, i.e., e–mails sent all at once to your entire e–mail list. Though too many

William Ely, Editor

SOA Staff

Meg Weber, Staff Partner

Jacque Kirkwood, Staff Editor

Sue Martz, Section Specialist

OTHER SITES OF INTEREST

Entrepreneurial Actuaries

Newsletter

Resource Center

Member Benefits

businesses ignore this practice, sending e–blasts of this kind offers several benefits:

- First, an e–blast can be in any kind of format you like.
- Second, an e–blast need not take too much of your valuable time (compared to an e–newsletter).
- Third, it's a way of communicating with your business contacts that can *systematize* such communications.

What's the goal and consequence of sending regular e–blasts? Simply that you end up generating word–of–mouth contacts within your business network. Business people tend to forget to keep reminding their connections about their fields of expertise and as a result, despite the simplicity of doing so via e–blasts, over time their connections forget too! This means colleagues, prospects, even clients talking about your good work, your great skills, your professional accomplishments and other word–of–mouth slows down to a halt.

As Loo summarized in her article, "It's really astonishing how few people (and companies) actually take the time to touch base with their newfound contacts, not to mention with past and present clients." Yes ... quite remarkable!

Nowadays, social networks such as Twitter, Facebook and LinkedIn are all very popular and visible on the Internet as well. They too can be effective in terms of building one's business network and keeping you "top–of–mind." But it's also important not to rely solely on these vehicles since e–blasts to an e–mail list allow us to send e–blast messages to *all* our contacts, not just those subscribing to (or checking in with) Twitter, Facebook, etc. Everyone checks their regular e–mail at least a few times per day, though many may check for their social networking messages only sporadically.

To fine–tune this process, consider these tips for effective e–blast communication:

1. When sending an e–blast, make sure to include a button for forwarding your e–blast to recipients' friends and business contacts.
2. On your Web site, place a box in a prominent position so that visitors can easily sign up for your e–list.
3. Do not make people answer lots of information about themselves to get onto your e–list. Name, company name, telephone, e–mail and how did he/she hear about you may be enough. Keep things simple.

4. Always send a nice note to everyone before you officially add their names to your e–list. Say something like, "Great to meet you yesterday at the (business event). Let's put each other on our respective e–lists so we can officially stay in touch."

5. Never *purchase* an e–mail list. Every e–mail on your list should include someone you have actually met even if casually. E–lists work best when permission–based.

Finally, an e–blast must not be a mere self–promotional advertisement for your business, but a message of relevance and genuine value. Here are a few ideas:

1. Offer a short case study of a recent successful project including lessons for your recipients to observe.
2. Announce when you win an award or earn a new educational degree or professional certification.
3. Let your contacts know that you have just published a book or article, which are both fantastic ways to boost your credibility.
4. Offer your opinion of recent business events or business news.
5. Offer clients an "alert" about a change in a law, or a new government policy that might affect them.
6. Write a review of a relevant business book.
7. Create an e–newsletter. If you do this, be careful not to bog yourself down with too ambitious a format. Again, keep things simple!

Despite all I've written here, some people will still shrink from sending out blasts for fear of contributing to the daily flood of spam. Though this argument is understandable, if you translate it into lack of action, i.e., you *never* send e–blasts at all, you may be insuring your invisibility. Send out e–blasts only once a quarter or once a month, but do send them periodically throughout the year. This way, you will build a strong and successful business network that will raise your visibility above that of your competition and keep word–of–mouth about you favourable and ongoing.

Aurélie Hiernaux is a PR specialist at emerson consulting group inc. in Concord, Mass. She has authored several published articles in French and English. A graduate in PR studies at La Haute Ecole Libre de Bruxelles Ilya Prigogine, Hiernaux can be reached at aurelie@thoughtleading.com.

Actuaries
Risk is Opportunity.®

475 North Martingale Road, Suite 600, Schaumburg, Illinois 60173
Phone: 847.706.3500 Fax: 847.706.3599 www.soa.org

May 2010, Issue No. 30

SOCIETY OF ACTUARIES Entrepreneurial Actuaries Section

THE INDEPENDENT CONSULTANT

Share

Print-Friendly Newsletter

Search Back issues

CONTENTS

ENTREPRENEURIAL ACTUARIES SECTION

Exit Planning for Actuarial Consultants: The Sooner You Begin, the Better!

by Michael Oleksak

As owner of your own actuarial consulting firm, decisions about succession, control and ownership occur all the time. As you advance toward traditional retirement age, it becomes time to evaluate your options and make preparations early to ensure continuity of business value and transfer of wealth currently tied up in your business. The sooner you begin this process, the better prepared you'll be—financially and *emotionally*—when the time comes to actually transfer ownership.

A Will is a Must

First and foremost, every consultant should have a will in place today which must be kept up–to–date in case of unforeseen events. Too many stories abound of estates and families devastated by poor preparation and planning.

How do you start the planning process for ownership transfer? First, identify your goals. What do you want to be doing in five years? Do you still want to be involved in the business? Whom do you want to own your practice when you're ready to move on? How much will you need to live on after transferring ownership? Of course, if you have saved and invested well, you may have more options.

Selling Your Business? Common Options Available

There are a number of common options available once you decide to sell or transfer ownership, such as selling to a third party, selling to your management team (if your firm is large enough), selling to an Employee Stock Ownership Plan or gifting to next generation of family owners.

Selling to a third party, for example, often brings about the highest proceeds of any transaction. Selling to an owner already in the industry

OTHER SITES OF INTEREST

[Entrepreneurial Actuaries]

[Newsletter]

[Resource Center]

[Member Benefits]

—called a strategic buyer—may yield the highest gross price because of the perceived synergies and cost savings from combining operations that are similar.

If your practice is large enough to include an experienced and capable management team (or person), you could conduct a sale that will likely require bank financing, for a large part of the payment secured by the assets of the business plus personal guarantees of the managers. The bank loan would be paid out of cash flow from the operations. A similar option is an Employee Stock Ownership Plan, or ESOP, but again your practice would obviously need to be large enough to contain a significant number of employees to make this practical.

A third option, desirable to many solo or small practices, would be to transfer ownership to the next generation, if your son/daughter or a combination of relatives possesses sufficient experience and motivation to continue the business.

In this case, gifting of company shares can be an excellent way of effectively transferring ownership, with you the original owner maintaining both voting and operational control during a transfer over time.

Though gifting may mean the lowest financial payout to the owner, an owner can stay on the payroll as an employee and continue receiving salary and benefits. This can be an effective way to minimize tax exposure because the valuation will be lower than if sold to a third party. Gifting inevitably raises issues of what is "fair" to relatives in the next generation, causing questions to be asked about who has worked in the business effectively and who is capable of running it profitably into the future.

Bring in a Professional Consultant

The exit planning process and the demographics of retiring baby boomers have given birth to professional consultants who specialize in helping business owners like you prepare for ownership transition. Consider bringing such a specialist in if you feel the time has come to review the above options and start planning for your exit. Again, the earlier your planning process begins, the better chance for a smooth transition and for fulfillment of your hard–earned retirement goals.

Michael Oleksak, Certified Management Consultant, is a principal of Trek Consulting LLC. Trek works with owner–managed businesses to improve value and exit successfully. For info visit [TrekConsulting.com].

Actuaries
Risk is Opportunity.®

475 North Martingale Road, Suite 600, Schaumburg, Illinois 60173
Phone: 847.706.3500 Fax: 847.706.3599 www.soa.org

May 2010, Issue No. 30

SOCIETY OF ACTUARIES Entrepreneurial Actuaries Section

THE INDEPENDENT CONSULTANT

Share | Print-Friendly Newsletter | Search Back issues

CONTENTS

ENTREPRENEURIAL ACTUARIES SECTION

A Compensation Overhaul for the Sales Development of the Entrepreneurial Actuary

by Charles P. Preti

Executive Summary

Sales development—a term rarely used in the life insurance arena, particularly when it comes to describing actuarial duties. However, who better to "develop sales" for a carrier than the (entrepreneurial) actuary? In its basic form, developing sales requires two components: a product and someone to promote it. Traditionally these two elements have been separated, but this no longer is the case in our entrepreneurial environment.

This paper explores the issues and compensation to the entrepreneurial actuary who accepts the challenge of operating in a setting where true success is not measured by isolating theoretical profit margins or business sold, but rather focusing attention on the unfolding experience of what is hopefully to be truly profitable policies.

Business Problem

All life insurance companies have limited budgets, particularly when it comes to employing the services of outside consultants. This scrutiny is escalated when it comes to external product development actuaries, who are able to design, price and implement new and innovative products. After all, these are commonly the duties of company–employed individuals.

The first challenge for the entrepreneurial actuary is to gain the attention of senior management from the insurance company. Greater value than simply unique product needs to be offered. A committed organization, or group of organizations, who will support the marketing and sale of the product is a strong step toward transforming profit on paper to success on the streets. Creating this environment for the carrier will be a key aspect to this transaction.

OTHER SITES OF INTEREST

[Entrepreneurial Actuaries]

[Newsletter]

[Resource Center]

[Member Benefits]

The best product and focused sales group still do not address the possible carrier expense limitations. The entrepreneurial actuary does not work for free. However, if deferring some or all compensation is an option, then we might just have the possibility of not only addressing budget constraints but also creating a climate where all parties—the carrier, sales organization, and entrepreneurial actuary—prosper proportionately to the business written.

Business Impact

The desire of many insurance company executives is to compensate all those involved in the sales process by providing substantial financial payments many years after the policy is sold. Often this has been viewed as a means of promoting persistency. However, this renewal form of remuneration sometimes comes at a price—inferior product performance, lower commissions when the policy is sold, or both. The intention of this paper is not to debate the merits of trail commission. Rather, it is to highlight the benefits of gently placing the entrepreneurial actuary in this land of sales development when it comes to structuring compensation. How those truly involved in the sales process are paid is somewhat independent—financial payments to the entrepreneurial actuaries are tied to quantifiable measures such as:

Number of policies sold
First year premium
Policy Accumulation Value

A deferral of income to the entrepreneurial actuary clearly has a cost. One dollar today is not the same as one dollar at the end of one year. Even if one places a time value of money at 10 percent per year, it would not be reasonable to expect the actuary to trade $1 today for $1.10 in one year, unless the certainty of payment was 100 percent. Two connected items are: (1) The defining of the amount to be deferred, and (2) The financial measurement to which the deferred income will be tied. All these points should be examined in a homogeneous manner.

The first step in the entrepreneurial environment is to depart from the traditional means of valuing the services provided by a sales development expert. The notion of basing compensation on time for service or even a fixed fare has to be retired. The truly accomplished realize the reward should only occur when the carrier, sales intermediaries and policy owner all are satisfied with the encounter. This occurs when a profitable product to the carrier is properly sold to a customer under a reasonable compensation structure to the sales intermediaries AND that product satisfies one or more needs of the policy owner. If this has been accomplished, and continues to be accomplished for many different policy owners, then the sales development process was properly performed. Compensation to the entrepreneurial actuary should therefore not be tied to the amount of work performed in order to arrive at this destination, but rather be based upon the success realized.

Of course, the entrepreneurial actuary should never be placed in a position where his or her motives could be second–guessed. The first priority should be the actuarial soundness of the design and assumptions. The goal of every product development assignment should be to create attractive customer–focused products, which meet carrier profitability targets and fall within acceptable risk parameters. This cannot change based upon the means by which the entrepreneurial actuary is compensated.

Carriers should embrace this model because it comes with a high probability of success due to the sales commitment. It furthermore lowers the upfront fixed costs associated with the product development process.

Solution

ABC Life Insurance Company wants to increase its sales of nonregistered deferred annuities. Their internal marketing team has determined that sales from an "exciting" new product can reach $10 million per month with their existing distribution outlets. Internal product development estimates the cost of getting making the product available for sale to be $1.5 million.

The independent entrepreneurial actuary proposes a unique and market-friendly product that is liked by carrier senior management. Profit targets can be obtained, and the risks associated with the new product are manageable. The sales organization supporting the sale of this new product is new to ABC Life Insurance Company, but they have an excellent reputation for delivering top–notch business. The premium commitment they offer is $20 million per month (i.e., twice that could otherwise be the case) plus, if they fail to deliver, a financial penalty is incurred and payable to the carrier to help offset product development costs.

In return for bringing product and distribution, the independent entrepreneurial actuary proposes that 0.50 percent of premium be paid to them in lieu of any upfront fees. They also will perform many of the duties the internal staff of the ABC life insurance company would otherwise have to perform. This reduces the development costs by 30 percent to $1.05 million (a savings of $450,000).

Traditional actuaries could have saved the time of internal resources, but estimates suggest this would have cost $600,000 to $700,000 for the same amount of effort. Critics of the independent entrepreneurial actuary are quick to notice that $20 million per month in sales means $100,000 of revenue to the outside organization. It will not take long for the payments to the entrepreneurial actuary to surpass that which the traditional actuary would have charged. Keep in mind, however, the traditional actuaries would not have brought distribution to ABC Life Insurance Company nor would they likely be willing to take the risk that the product does not sell as anticipated.

Perhaps this proposal is not the perfect solution for sales development seekers to follow. However if it serves as the quintessential model for which certain entrepreneurial actuaries may strive, then we may see a new landscape begin to take shape in the years ahead.

Charles P. Preti is chief executive officer of Pretime Financial in Niagra Falls. He can be reached at Preti@Juno.com.