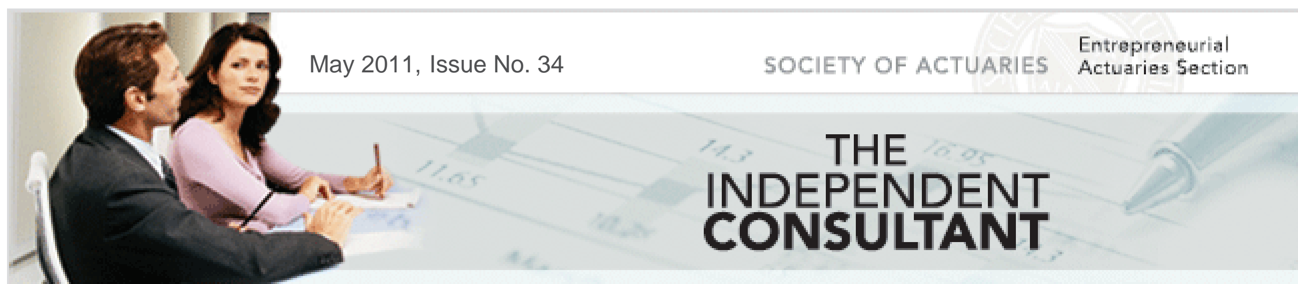

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[Full article]

Influencing for All Seasons: Creating and Influencing Specific Business Relationships

by Libby Wagner

A lot of times, actuaries, like all professionals, imagine it takes entirely different skillsets to influence different people. This may be partially based on their positions in their companies or on their work relationships with their peers and other people in their firms. For example, some believe that influencing "up," that is, toward your clients and/or superiors, is the most challenging of all. Others believe they have no power to influence vendors or suppliers.
[Full article]

An Entrepreneurial Approach to Bending the Health Care Cost Curve

by Ken Beckman

The Patient Protection and Affordable Care Act was passed with the goal of providing more Americans access to health insurance coverage. However, even the law's supporters agree more must be done to address rising health care costs so that insurance is not only accessible, but affordable.
[Full article]

On Counting, Modeling, & Beans

by Syed M. Mehmud

What is an example of the simplest and most straightforward healthcare analytical question you can ask? How much does X cost in this area? X could be a procedure code, a particular DRG-based admission, or any basic claim-based measure. Easy - it costs $750.92 on average. Or $754.34, or $761.12, or ... insert as many unique, precise, and precisely unique estimates as the number of analysts you ask.
[Full article]

Do You Attend Non-SOA Meetings?

We would like feedback from you if you attend meetings that are not sponsored by the SOA to get a better understanding of these meetings and the value they may offer to our members. We are also interested in hearing about meetings you know of, but do not attend, due to cost or other reasons. Would it helpful to you if our section was able to negotiate or subsidize attendee rates for these meetings? Please let us know what meetings you attend and any comments you have on these meetings. These can be sent to Kevin Pledge at kpledge@insightdecision.com

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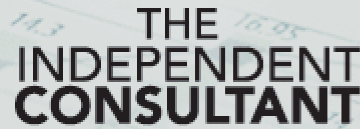

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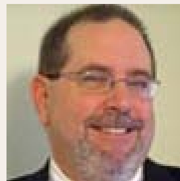

Issue Notes from the Editor

by Bill Ely

In this quarter's issue of *The Independent Consultant*, we offer a varied selection of articles for the actuarial entrepreneur.

- Chairperson James Ramenda discusses the need for big companies to remain connected to the spirit of innovation in his article, "The Job of Chief Entrepreneurial Actuary." Jim also appeals to the EAS membership to volunteer-sharing time, talent and expertise with the section.
- Wayne Bidelman introduces the value of business coaching in his article, "Entrepreneurs as Successful Business Leaders."
- In "Chocolate and Performance: Fuel-Proof Strategies for More Effective Transformation," Laura Stone and Scott Lacy discuss author David Rock's book on brain chemistry and transformational change.
- Libby Wagner walks us through the ins and outs of developing business relationships in her article, "Influencing for All Seasons: Creating and Influencing Specific Business Relationships."
- We are pleased to present two additional essays from the 2010 EAS-sponsored Papers Competition, "An Entrepreneurial Approach to Bending the Health Care Cost Curve," by Ken Beckman and "On Counting, Modeling & Beans," by Syed M. Mehmud.

Beans
by Syed M. Mehmud

Do You Attend Non-SOA Meetings?

Enjoy the issue!

Bill Ely, ASA, MAAA, is director, Actuarial Services for Coventry Health Care. He may be reached at brely@cvty.com or 402.995.7088.

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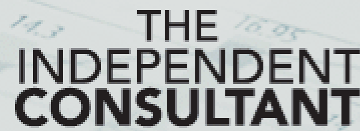

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In the financial world, big companies are getting bigger. Although legislators and regulators bemoan the systemic risk posed by companies "too big to fail," the reality is that the ever-increasing cost of compliance with regulation actually puts the larger companies at a greater relative advantage.

For many independent entrepreneurial actuaries, large financial companies are their target market, so this trend of the big getting bigger is placing more distance between them and their customers. Big companies tend to hire big companies. Yet, at the same time, many big companies realize they need entrepreneurial thinking and are aware that their sheer size tends to preempt it. Indeed, big companies often complain that their technical personnel lack entrepreneurial perspective.

So here's a proposal that would benefit both the big company and the Entrepreneurial Actuaries Section (EAS) members: Each large company should designate an actuary as the "chief entrepreneurial actuary" responsible for acting as a portal for entrepreneurial ideas of an actuarial nature (OK, maybe "chief intrapreneurial actuary;" see this issue's article, "Entrepreneurs as Successful Business Leaders"). These ideas might otherwise flounder in the general business development departments of large companies, if they even make it past nontechnical gatekeepers. The larger companies benefit in several ways:

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1. Ideas from the leading edge of the marketplace can be directed with the personnel most able to evaluate their merits.
2. Managers who receive ideas with actuarial implications that they don't know how to evaluate would now know exactly whom within the company to call.
3. The position of chief entrepreneurial actuary provides a great opportunity for a large company to have its actuarial personnel hone their entrepreneurial instincts.

There's no doubt that a company that has this type of portal would be more likely to snag the next great idea.

For EAS members, the benefit of having a portal at each major company would be quite significant—instant network expansion, faster feedback loops, faster product revisions, faster speed to market. If you think this idea has merit and have some thoughts about how we might go about implementing it, please let the EAS Council know of your interest!

Get Involved in Your Section!

By the time you receive this newsletter, the 2011 section election candidates will be in the campaign process. The candidates of these elections are those who will carry our section forward for the next three years.

If you are thinking about becoming more involved in the section, here are some great reasons to do so:

1. The profession is what you make it—volunteer!
2. The section is what you make it—participate!
3. Your network is what you make it—join!

Participation gives you a platform to interact with peers and leaders in the entrepreneurial actuarial world, with actuaries in leadership positions in other sections, and with the leadership of the SOA. Our Section Council offers an added advantage to small companies: Even if you're the only actuary in your firm, or even if you're the only person in the firm, you'll still be one of the biggest companies at the table. So help the profession, help the section, and help yourself!

James Ramenda, FSA, CERA, is managing director of Northington Partners, Inc. in Avon, Conn. He may be reached at jr@northington.net.

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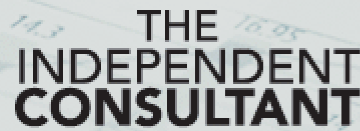

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It is important for the business leader, as well as the coach, to recognize three fundamental differences between the *corporate business leadership positions* and that of an *independent business owner* (which the entrepreneur business owners reading this article will immediately recognize):

1. How business objectives are set: If the business leader is also the owner, the business objectives are established by the owner and should relate to the owner's personal objectives. A corporate business leader will typically have business objectives set for him/her, effectively by the ultimate stakeholders of the corporation.
2. The financial risk of failure: If the business leader is within a corporate environment, the financial effect of a business failure is unlikely to immediately hit his/her pocketbook, or if it does, it is

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unlikely to have a direct correlation to the actual financial loss. For an independent business owner, the loss is immediate and the full amount comes directly from his/her pocket.

3. Ability to make changes: A coaching relationship will likely create agreement between the business leader and coach on necessary changes to the business. Whether those changes can be made at all and/or how quickly would be different if the one being coached is the business owner having complete control over implementation versus the business leader within a corporate environment.

This article will discuss the use of an external business coach primarily for the *entrepreneurial independent owner*. It is important to note, however, that a business coach also brings tremendous value to the corporate business leaders and intrapreneurs mentioned above, since the basics of a business and business leader success are consistent across all types of businesses and all organizational structures. As a result, when the independent business owner is referenced herein, one can also be thinking of such corporate roles as well.

Why a Business Coach

The reality is that almost 50 percent of new businesses fail within the first two years of operation (study by U.S. Bureau of Labor Statistics). About 90 percent fail after 10 years. Of those 90 percent, more than two-thirds lacked a solid business plan and/or the owner did not recognize or ignored weaknesses and did not seek help. (Source: SCORE — counselors to America's small businesses, Score.org).

The owner must take responsibility for such failures. In the vast majority of cases, the failure could have been avoided if the owner had addressed the real problems and sought help to do so. The entrepreneurial business owner is no doubt an expert in the industry within which his business resides, but may not be an expert in running a successful business. To the owners' defense, they are trying to run a business where in most cases they ARE the business—and in all cases, they are so busy IN the business that they do not have the time to work ON the business. Here is a pertinent analogy. The captain of the ship needs to stay focused on steering the ship. And the primary decision-maker cannot be spending a lot of time on more administrative tasks to the exclusion of focus on what creates growth of the business. An outside knowledgeable resource can assist in ensuring the business owner is staying focused on the right things (see later examples).

The need for an outside resource can depend on the size of the entrepreneur owner's business, as well as the position and objectives of the business. Although even a one-man shop can benefit from an

outside influence, it might not be a fit economically. A very large company likely has more internal resources to address issues. An owner, who is making all the money he/she wants or needs, has all the spare time he/she wants, and is about ready to retire with no equity take-out available or desired, is potentially not a candidate. However, it has been determined that 95 percent of all businesses can indeed gain value through retaining outside coaching expertise—and by value it's meant that the benefit exceeds any cost. The role of a small-to medium-sized business owner/leader can be a lonely one. The owner/leader might not have the advantage of a highly experienced management team around them or a Board of Directors or advisory board to provide oversight and direction. A quality outside resource can fill such a gap.

Business owners must have the financial motivation to ensure the success of their own business. From a more holistic macro perspective, ensuring more success of the private and smaller businesses is essential to the recovery of our economy. Of the more than 7 million payrolled businesses in the United States, 98 percent have less than 100 employees. The success rates of such businesses can and should be improved for everyone's benefit. Properly utilizing the existing expertise where and when it is needed is crucial for that to take place.

Consulting Versus Coaching

A business coach plays a significantly different role than a consultant. Typically, a consultant has expertise in select specialized areas and will be retained to solve a specific problem or complete a specific project. Once that has been accomplished, the consultant leaves. A business coach can be likened to a business mentor, focused on helping the owner grow the business. The coaching relationship is more of a long-term relationship, with periodic contact to ensure the "ship is on course." Although there are all types of business coaches, the type described here (and the one this author aspires to) is capable of helping with virtually any business issue—particularly as it relates to ensuring a healthy, growing and successful business. A good business coach in this context will not only have business leadership experience but also will have the tried-and-true tools and processes to assist the client with virtually any business need. It must be understood, and it is important to the effective business coaching relationship, that the business owner is the expert in his/her industry and the business coach is the expert in growing a healthy, successful business. That marriage is what makes the relationship so successful.

It is understood that there could be times when a business owner must have outside assistance from a specialist in a particular industry, or for resolving a specific problem where millions or billions of dollars are at risk, or for personal assistance in specialty areas. Then special consultants may be required. However, it is also part of the coach's role

to have a network of and knowledge of such people, so as to be able to not only assist in the decision of when they will be utilized, but also who will be utilized. Although a coach may not have perfect knowledge of every industry specialist, a good coach will always have a network of competent lawyers, accountants, investment advisors, financial planners, website constructors, etc. that will be useful to the business owner, if needed.

The Coaching Advantage

A good business coach provides three very critical things:

1. Awareness
2. Education
3. Accountability

Awareness: A coach makes the business owner aware of the possibilities in his business. This can be done in a number of different ways. One is to assess the existing business through discussions, questionnaires and financial information. The coach will focus on areas of known weakness and suggest specific strategies to address them. In addition, financial information and other information can be compared with other businesses in the same industry to assess where this business stands versus other similar ones.

Education: A coach provides information in business-building best practices. A good business coach will have access to a huge library of forms, processes, descriptions, studies, etc., that can be useful to the business owner. The coach also provides information on how to monitor and track key business indicators.

Accountability: A coach ensures accountability to achieve peak business performance. This is the most overlooked, the most important, and also the most painful part of the coaching relationship. It is also a key difference between a consulting relationship and a coaching relationship. A coach's job is to make sure that the business owner does what was jointly agreed as needing to be done—and done within the agreed upon time frame. It needs to be recognized that if doing all the right things at the right time was easy, there would be no need for coaching. The biggest and most obvious issue with business owners is time management issues. An owner will typically have too much to do. It is easy for him/her to get "wrapped around their own axle," constantly putting out fires, and burdened with administrative tasks that do nothing for directing and growing the business. As human beings, we get into bad habits, often believe we are the only ones who can do everything right, and when we are really busy, we gravitate to doing the things that we most like or are most comfortable doing. A coach will have simple

processes for fixing that time management issue, and will help the owner see his/her "blind spots." The necessary changes agreed to by the owner must drive changes in the owner's actions. The coach's role is to ensure that happens.

The Coaching Process

Every good coach has a good process for ensuring a successful coaching relationship, which by definition means that the business has had significant and measureable growth and improvement and that the owner is happy with the relationship. I will describe at a high level the process with which I am familiar, which is a tried-and-true best practice approach, but by no means the only possible approach.

A good coach recognizes that there are distinct stages in the evolution of a business—five, in the model with which I am familiar. Before a coaching relationship is even established, the coach determines which business evolution stage the business is in. The issues affecting the business will vary depending on which evolutionary step it is in. It is essential to determining ways in which to assist in growing the business to the next evolutionary stage. This, in conjunction with the coach's requirement for the owner's own business assessment and the assessment of the business relative to others in the same industry, gives a lot of information for determining the primary areas to address together in the coaching relationship.

For the benefit of the owner and the coach, a key first step in the coaching relationship is to implement at least one strategy that is simple and can provide quick impact to the business. This is important for a couple of reasons. First, it gives the owner confidence that changes can be made that are simple but can have great impact on the business. These are available in every business. Secondly, it helps cement the coaching relationship because, almost without question, the quick value created will exceed the cost of the coaching relationship. A good coach will make sure the owner sees and acknowledges this result before the coaching relationship is even initiated.

An equally important initial step is to ensure there is a current, written business strategy. As referred to earlier in this article, a business plan for an independently owned business must start with the personal plan of the owner. In other words, the objectives of a business must be in line with the objectives of the owner. Any business coach to an independently owned business that does not start with the determination of the owner's personal objectives is doing a poor coaching job. For example, a business advisor might see that the business could grow to monumental proportions on an international basis within just five years and suggest a plan to get there. However, the owner might have the personal objective of just working for a couple of years and then selling

his/her company for a modest amount to supplement his/her retirement because he/she does not have the energy or desire to grow the business to such a size. Therefore, the business plan needs to be consistent with this.

So the initial step is for the business owner to formally acknowledge his/her objectives with respect to income levels, lifestyle, wealth, and equity. Once those are nailed down, there is a process for developing a one-page strategic plan that starts with the long-term business objectives, and builds all the way back to the business activities and results that need to be accomplished today or this quarter to meet those objectives. It is then critical that all other decisions and implemented strategies are consistent with and further the business along the path of the plan. Better than 90 percent of business owners never do this.

Going forward, the coach ensures that the plan is updated regularly, even to make potential changes in the ultimate objectives, if necessary. The coach ensures that activities are in synch with the plan and that they all provide healthy growth for the business. As the business moves through the various growth stages, the issues needing to be addressed will change. At all stages of a business's development, there will be risk of business failure, due to one of the following:

1. Poor leadership
2. Underperforming sales
3. Ineffective marketing
4. Lack of human capital management
5. Lack of financial management

The impact of each of these and the degree to which they are important varies from one business growth stage to another. For example, just in the sales/marketing area, the history of a business is like a constant sprint over hurdles:

- Zero revenue and no customers is the obvious first big hurdle.
- Then comes growth and how to manage early success.
- And the final hurdle separates the leaders from the pack: how to accelerate the momentum you have created.

Even the best leaders cannot do this all by themselves. A business coach helps the owner anticipate the business growth phase they are in and assists in the timing and methodology for addressing the issues. For example, when a business is first starting, it is not likely to be focused on strategies for leadership succession, operations and training manuals, or

implementing expense reduction programs. These could be critical in later stages of development, but not at the initial stages. However, a business in the start-up phase would likely be developing a business plan to project the results of initial activity and determining the related capital requirements, as well as build a break-even plan—things that hopefully become of less importance as the business matures.

By observing this process, one understands more fully the distinctions made earlier between a coach and a consultant. A coach represents more of an ongoing relationship, like a business mentor relationship. It is also important to recognize that a coach not only adds value when there are business problems to resolve, but that also a good coach is a specialist in helping successful business owners to further and dramatically improve their business. The business owner must continue to ensure improvements in his/her knowledge and capability within their own industry and the business coach helps ensure that the owner does likewise as a business person. It is the best possible recipe for business owner and business success.

Epilogue

I am an actuary, an entrepreneur, an independent business owner, and a business coach. For a good part of my career, I was in various corporate business leadership roles and utilized external coaching resources throughout. I currently have my own business coach to assist me in running my independently-owned business. As a result, I believe in, and am passionate about, how an external business coach can make a critical difference in the success of a business, and thus the success of the business owner. You entrepreneurs who also own your own business should give it serious consideration.

The freedom in our nation to exercise the entrepreneurial spirit is what has made our nation—and its economy—great. However, an entrepreneur is not necessarily a great businessman. The failure rate of businesses started by entrepreneurs is way too high, and as mentioned earlier, implementing a process to marry the person taking the business failure risk with an outside business success specialist is a great way to improve the new business success rate. Every great athlete and every great team has a great coach ... and so does every great business!

Wayne Bidelman, FSA, MAAA, has extensive experience as a business line leader for major reinsurance companies. He currently coaches business entrepreneurs as part of a national organization, AdviCoach. He may be reached at 704.997.5022 or wayne.bidelman@gmail.com.

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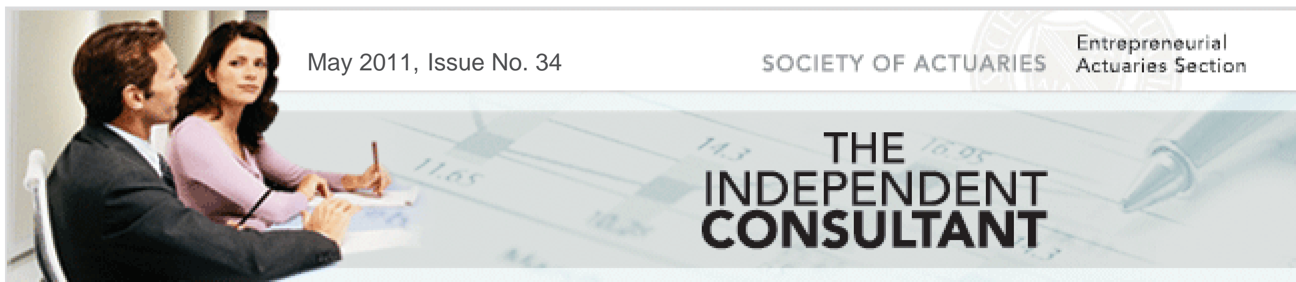

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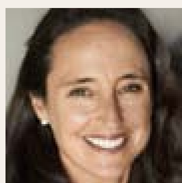

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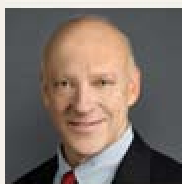

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It sounds almost too good to be true, but we recently learned just this from reading David Rock's latest book, *Your Brain at Work*. In it, Rock shares key findings on the science of the brain and how the brain functions. He also includes tips on how we can be more focused and productive (and help others do the same), and how to understand and correct what's happening when we head off-track. ***Disclaimer:*** A little knowledge can be a dangerous thing, and we by no means hold ourselves up as authorities on brain science. However, we found Rock's insights refreshingly helpful for thinking about ways to better manage change and transformation.

Simply put, Rock likens our brain—especially the pre-frontal cortex where we do most of our thinking—to a theatre stage with a director (our mindfulness), competing actors (our thoughts), and different scenes (situations). Our ability to recognize and utilize the interrelated functioning of the brain's different parts can help us be more focused and productive, and stay cool under pressure.

Beans
by Syed M. Mehmud

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First thing in the morning or after a break or exercise, we concentrate better, are more creative, and find that problem-solving, prioritizing and decision-making all occur faster, with insights coming more easily. Why? Our brain is rested, has more available fuel, and has fewer actors (thoughts) vying for room on the stage. Here's where the chocolate comes in: The pre-frontal cortex (our "stage") is central to making decisions and solving problems. However, this part of the brain has a finite reserve of "fuel" and uses up metabolic resources like glucose quickly, requiring refueling every few hours. Taking in fuel (eating chocolate, for instance) replenishes our glucose levels. Higher glucose levels help our brain (specifically the prefrontal cortex) perform optimally. The more complex the thinking being done, the faster the fuel reserve is used, much as using your cell phone to surf the Web drains the battery faster. Glucose provides fuel for the director to function efficiently.

The idea that glucose levels have implications for individual performance was eye-opening for us. Let's take it one step further. If we are aware of and pay attention to our director, to the director's ability to efficiently move actors on and off the stage, to focus on one scene, and to effectively involve the audience (memory), then performance is dramatically enhanced. We are better in activities like decision-making, dealing with highly emotional business situations (like mergers or acquisitions), or working through complex change management needs, while minimizing the possibility of distractions, reaching an impasse, or defaulting to gridlock.

Rock suggests that when our director helps control the scene, we are better able to deal with conflict. However, when emotions run high, the director is missing. This situation requires us to bring the director back (enter a state of mindfulness) and reappraise the scene to reduce arousal of our limbic system (the brain's "emotional warehouse"). Such mindful reappraisal helps us to be more objective, and brings us down from the high emotional peaks that impede our ability to think clearly.

More brain science: When our emotions are running high, the neural transmitters are less able to make the connections required for us to think things through and make good decisions. Our limbic systems then sort through emotions unchecked and we revert to our primal instinctual focus on threats and rewards, and a friend-or-foe mentality. Without our director to help reassess these emotions, we fire before we aim—not helpful to successful change management.

People typically are resistant to change because their limbic systems are sounding the threat alarm. We consultants and leaders must understand that our brains are wired first and foremost on a primitive level (minimize danger/maximize reward). Rock refers to this thinking as "moving toward or away from" things that the brain perceives as either a reward or a

threat. Status, certainty and fairness are a few of the most important potential rewards or threats for the brain. For example, no matter how you consciously think about feedback and performance reviews, these always create "away" feelings, and your defense mechanisms go up involuntarily.

Given this insight, we need to create as much "toward state" as possible. Engaging our clients, for example, in dialogue about the future state can create a positive perception of fairness, status and autonomy, thus enabling better productivity and business results. We don't suggest painting only a rosy picture; in fact, it is better to share both sides of the equation and leave people thinking about the future's upside. Do this often, since people can only focus on either the past or the future, but not both at the same time. As Rock sums it up, "People will be paying attention either to you or to their fears. The stage isn't big enough for both at once." Therefore, "changing culture (or making any major transformation) requires creating a *toward* state everywhere you can."

Better understanding the physiological aspects of our brain can create huge opportunity for better performance. Specifically, the better we can enable and utilize our "director," the better we can perform and help others to do the same.

Laura Stone is CEO of Stone + Company, a firm that specializes in solving the most socially and organizationally complex issues. Scott Lacy is the manager of HR Operations at International Paper. To learn more, please visit StoneandCompany.com or call 781.383.8383.

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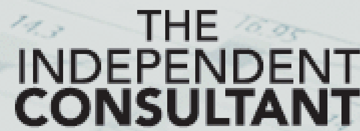
Entrepreneurial Actuaries Section



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Influencing for All Seasons: Creating and Influencing Specific Business Relationships

by Libby Wagner

A lot of times, actuaries, like all professionals, imagine it takes entirely different skillsets to influence different people. This may be partially based on their positions in their companies or on their work relationships with their peers and other people in their firms. For example, some believe that influencing "up," that is, toward your clients and/or superiors, is the most challenging of all. Others believe they have no power to influence vendors or suppliers.

In reality, the person sitting across from you at a conference table or desk is exactly that: a person. There are dynamics that come into play, for sure, but one thing I feel certain about: relationships pretty much trump anything. The strength of your relationships and the level of trust that you have with those in your "circle of influence" is directly related to how these conversations are going to go.

As you enter into important conversations with the people who make up your circle of influence, there are some general and specific things to keep in mind:

- Context of the situation.
- Relationship between you and those you are trying to influence, including history and familiarity with, or attachment to, the issues at hand.
- The existing power dynamic, i.e., are you influencing up, down,

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or across, internally or externally?

- Your skill and experience with delivering high levels of "core dimensions," especially empathy.

That's why—when I help people hone these skills—I always suggest that they assess the relationship based on two foundational elements: trust and commitment.

Question 1: What's your relationship like with this person? What is your level of trust?

Question 2: Do you have commitment to shared vision and/or goals? Are you on the same page?

Here are some general things to keep in mind when you find yourself in these influencing situations:

Influencing the People Who Work for You

1. Normally, when influencing anyone, you always have the three effective choices to use when considering your options or if someone says "no" to you. These are: influence, acceptance or removal. However, when the case involves poor performance, acceptance is not an option. You cannot "accept" poor performance because that means you're really not fulfilling your responsibilities. You either need to *influence* the employee to improve performance or you need to *remove* him or her.

2. Keep in mind the power dynamic here. You need to create opportunities for open, honest communication among you and your team. Your relationship with your employees is the single biggest leveraging point in an organization, since the relationship between the employee and the immediate supervisor is what influences performance, morale, productivity, employee engagement, etc.

Influencing Your Peers and Colleagues

1. Having a high-trust colleague at work is invaluable. Cultivate these relationships and develop them. When you need to confront or influence a peer, keep in mind that saving face may be incredibly important to him or her. Be conscientious of where you have conversations and keep them confidential, if possible.

2. Work to create win-wins if a peer or colleague is creating a roadblock or not performing to standard. Confront and discuss directly rather than borrowing position power and going above someone's head.

Influencing Clients

1. If you take time to develop relationships with your clients, they will not only be satisfied (or better yet, delighted), they will be loyal. Relationship-based selling trumps price and the competition almost all the time. There are exceptions, but not many. Your clients will buy from you because they believe you have great value for a reasonable price. Try not to focus on the one-time sale, but rather on the long-term relationship. That will help you create many sales along the way.

2. Most of the time, influencing clients effectively involves more listening than talking. If you can discern—through careful listening and clarifying questions—what they really need, you can help them. Don't concentrate on yourself—focus on them.

Influencing Superiors

1. Influencing up is necessary! One essential thing to try to keep in mind when using influence as a power dynamic is that another person's focus is most likely very different from yours. The mistake people often make is that they feel like they have to build a strong case and so they spend the whole time focusing on themselves. Really appeal to the WIIFM factor: what does this person care about? What's important to him/her in this scenario?

2. You *can* influence someone to stop micromanaging you! Your language use is critical. Tell your manager what you want, which is increased autonomy. Focus on how allowing you more space or authority will benefit him or her. Offer reassurance that you'll keep him in the loop so he won't be surprised by anything. Again, his or her reputation, how others see him as a leader, and their credibility, are probably important to them. Superiors generally want to be seen as competent, confident and carrying out the mission of the organization. Use alignment to help you.

Boards or Governing Groups

1. Depending upon your direct relationship with a board (or members on a board), you will want to remember that their scope of responsibility and charge is different from yours. If you are the CEO, president or director, the dynamic is such that they may support or not support you as a group, but the group is made up of individuals. Cultivate relationships with individuals. Furthermore, take steps to refine your speaking skills.

2. If you are working with agencies or governing bodies (such as councils, departments, etc.) made up of elected officials, this can cause a complex dynamic as well. Again, your ability to influence

people in this group will be enhanced by having one-on-one relationships and getting to know and earn the trust of members. It isn't about manipulation or "politics" (even if it is politics). It's about gaining buy-in, commitment, creating common ground and really working to define a win-win scenario.

Influencing Vendors, Suppliers and Contractors

1. Sometimes, influencing vendors, suppliers and contractors is similar to influencing peers because you have worked to establish a collaborative, collegial relationship. One way to positively impact these relationships is by thinking about how you can help their business outside your typical transactions, i.e., referrals, resources or opportunities you hear about, etc.
2. If you have a misunderstanding or a disagreement with a vendor, supplier or contractor, it's important to confront and resolve it respectfully. They are in your network of "success" partners and you want to make sure that you develop strong ties. If it's not a good relationship, and you decide to end it, always take the high road. Cut ties expeditiously and respectfully.

Your ability to use language well, to enter into conversations boldly and confidently, and to create strong relationships and demonstrate understanding across multiple groups and situations will absolutely determine your ability to create, sustain and maintain a profitable culture. Use the tips presented in this article and watch your profit culture grow.

Libby Wagner, Libby Wagner & Associates, is perhaps America's only poet regularly welcomed into the boardroom. Author of the new book *The Influencing Option: The Art of Building a Profit Culture in Business* (Global Professional Publishing), she has been labeled The Influencing Coach™ by her clients. Her expertise in leadership, strategy, management, and executive team development helps organizations create environments where clarity and increased trust lead to unrivaled results, shaping such Fortune 500 cultures as Boeing, Nike, Philips and Costco. For more information, visit Libbywagner.com or Influencingoptions.com.

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An Entrepreneurial Approach to Bending the Health Care Cost Curve

by Ken Beckman

This essay was submitted for the Society of Actuaries' Entrepreneurial Actuaries Section 2010 Papers Competition.

Executive Summary

This paper proposes an entrepreneurial solution to address the continued, unsustainable increases in health care costs that threaten to deny access to health care for millions of Americans. Entrepreneurs will develop systems providing clear financial motivation for consumers to make decisions that minimize health care spending and maximize positive health outcomes. In so doing, health care providers must necessarily compete to offer the highest quality services at the lowest cost. By relying on the financial self-interest of consumers and free-market competition among health care providers, effective and sustainable systems to bend the health care cost curve can be achieved.

The Patient Protection and Affordable Care Act was passed with the goal of providing more Americans access to health insurance coverage. However, even the law's supporters agree more must be done to address rising health care costs so that insurance is not only accessible, but affordable. A common suggestion is to improve price transparency with the intent of increasing competition among health care providers. Recent examples include a survey showing that 86 percent of actuaries believe that "making prices for treatments more visible and available" will have an effect on "bending the cost curve downward" and a pending bill in Congress that would require all health care providers to disclose their prices.[1] As rising health care costs have resulted in increased

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premiums, deductibles and coinsurance, the incentive for consumers to make decisions based on price is greater than ever. However, while health care price transparency is necessary, it alone is likely to be an incomplete solution. For example, mutual funds disclose detailed cost data, but many consumers are unable to understand this information and often buy higher cost funds when similar lower cost alternatives are available. Health care costs are even more complex as they are driven not only by raw prices for services, but numerous other variables including provider quality, treatment effectiveness, and insurance plan design. A system is needed that translates these complex variables into simple terms that consumers can understand and use to make cost-effective decisions. The development of such systems will require innovative thought and is accompanied by a great potential for financial rewards as well as the risk of failure. Entrepreneurs have both the ability and motivation to play a lead role in the development of these systems that will create the opportunity for a significant reduction in the growth of health care costs.

Although each entrepreneur will have different design and implementation ideas, these systems must all recognize that consumers take actions consistent with their own financial self-interest. Consumers needing health care services must be able to easily determine the true cost (reflecting provider price and quality and other relevant variables) of each available option when health care decisions are being made in order to choose the option that maximizes their financial self-interest. For example, consider an insured that needs minor surgery and has not yet satisfied a calendar year deductible. In today's environment, the insured could call each available provider to obtain price quotes and then calculate a net cost after the impact of their insurance plan's provisions, but this is a complex and labor intensive task that is not often done in practice. Further, this process does not consider any other variables, such as provider quality, and as a result the insured does not have the necessary information to guarantee the most cost-effective choice is made. For the surgery in this example, one provider charges $600 and two other providers each charge $500, so based on price alone the insured would be indifferent between the two $500 providers. However, one of the $500 providers has a lower incidence of medical errors and subsequent complications, so the insured's most cost-effective choice is the high quality provider. To encourage this choice, the entrepreneur would provide the insured with an online tool that instantly displays the net cost for the three providers as $600, $500 and $475. The high quality provider would still charge $500, but the cost to the insured is only $475, with the entrepreneur contributing the remaining $25 as an incentive to motivate the cost-effective choice. In this way, entrepreneurs are using the financial self-interest of consumers to promote competition among health care providers to offer both the highest quality and lowest

cost services.

In the situation where most or all cost sharing provisions have already been met, insureds are not very price sensitive and without the use of financial incentives often make choices that are not cost-effective. Consider an insured needing an MRI and the only out of pocket cost is a $250 deductible that remains to be satisfied. There is an MRI provider very near the insured's home costing $3,000, but a less convenient facility offers an MRI for only $2,000. Regardless of the MRI provider selected, the procedure will only cost the insured $250, but if the insured chooses the more convenient option, the cost to the insurance company is significantly higher, resulting in higher future premiums. To encourage the optimal choice, the entrepreneur uses a $100 financial incentive in the form of a deductible credit. The online tool would show the insured a $250 charge for the high-cost provider, while the charge for low-cost provider would appear as $150, representing the $250 deductible less the $100 financial incentive paid by the entrepreneur.

The two previous examples focused on consumers having a clear and imminent need for medical care, but these systems can also use financial incentives to control future costs for those not actively seeking treatment. For example, many insurance plans provide no-cost coverage for preventative health care services, but utilization of these services is not optimal. To address this issue, entrepreneurs could offer incentives such as future premium credits or cash payments to those insureds that would most benefit from preventative services (e.g., those with a certain health history or those at specific ages.) Similarly, financial incentives could be used to motivate behavior changes among insureds having risk factors that likely result in greater future health care spending. For example, entrepreneurs could offer smokers a cash payment for taking a smoking cessation class. The concepts illustrated in these two examples are similar to the proven marketing techniques (free offers, coupons, etc.) used with many other products and services that target specific demographic groups in order to influence consumer behavior and achieve desired outcomes. These incentives increase costs in the short term, but future potential health care costs should be reduced.

While it certainly is possible for each insurance company to develop and maintain its own unique system, there are significant expenses and risks involved. As insurers are already under pressure to reduce administrative expenses and profit margins, many will decide against taking on a new venture such as this.[2] Also, the inherent motivation for insurers to assume added risk and expense in order to control costs is limited by their ability to pass-on cost increases to insureds in the form of higher premiums. While entrepreneurs also have expenses and risks, their capacity to manage these factors offers the optimal approach. Entrepreneurs will license their systems to many different insurers for a

small fixed fee that will cover routine operating and administrative expenses, providing insurers a valuable service with no added risk at a reasonable cost. Further compensation from insurers can be earned, but it will be contingent on and directly correlated with the ability of the entrepreneur's system to control an insurer's claim costs. This compensation structure will motivate many entrepreneurs to not only initially develop, but also continually improve the ability of their systems to reduce the growth in health care costs. Entrepreneurs whose systems are unable to control costs will not receive incentive compensation and will likely be replaced by another competing entrepreneur. While this is an unfortunate result for the unsuccessful entrepreneur, it does not impact the solvency of any insurer and facilitates the widespread use of the most effective systems.

Entrepreneurs will need to rely on actuarial models to analyze the numerous variables influencing health care costs and develop the necessary financial incentives. The models will quantify the effect of these incentives on consumer behavior and project the impact of that behavior on current and future health care cost trends. The success or failure of the entrepreneur is largely dependent upon the ability of these models to determine the appropriate level of financial incentives. If the financial incentives used are too low, the entrepreneur faces the risk that consumers will not be motivated to make cost-effective decisions. If the financial incentives used are too high, health care costs may be effectively controlled, but the entrepreneur faces the risk its income[3] will be insufficient to provide the required return on investment. In the earlier MRI example, if the insured could have been motivated to choose the cost-effective provider with a $50 incentive rather than the $100 actually used, the entrepreneur would have increased its income and reduced its risk.

Current health care cost trends are unsustainable. Insurers, health care providers and consumers all have an interest and responsibility for reducing these trends, but currently lack the tools to achieve this goal. Entrepreneurs are ideally suited to address this challenge by developing systems that will motivate consumers to make cost-effective decisions and facilitate price and quality competition among health care providers resulting in a realistic opportunity to achieve sustainable and affordable health care for all Americans.

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[1] Society of Actuaries press release 6/28/2010 "Actuaries Believe More Transparency in the U.S. Healthcare System Would Help Bend the Cost Curve

Downward" H.R. 4700 "Transparency in All Health Care Pricing Act of 2010" Introduced February 25, 2010 by Rep. Steve Kagen, M.D.

[2] This paper focuses on using these systems in context of the private insurance market, but the same principles could be applied to Medicare/Medicaid with legislative changes.

[3] Income = (Incentive compensation earned from insurer) - (Financial incentives paid to insureds)

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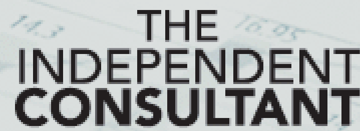

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On Counting, Modeling, &

On Counting, Modeling, & Beans

by Syed M. Mehmud

Honorable Mention Essay for the Society of Actuaries' Entrepreneurial Actuaries Section 2010 Papers Competition

Executive Summary

This paper discusses issues relating to measurement of data in healthcare. Typically data is summarized in deterministic models that produce point estimates for analysis and decision making. The process is resource intensive, fraught with issues relating to unavailable or poor quality data, and can produce inconsistent results. The vision presented in the paper is that of a central repository of actuarially modeled distributions that can either be used as benchmarks or adapted to an organization's experience. In this manner credible, consistent, and comparable information can be made available to the benefit of all, especially in view of the critical performance challenges that lie ahead with healthcare reform.

Caveat Lector: What follows is a *light hearted & tongue-in-cheek* take on how healthcare is typically measured, and an entrepreneurial vision for a better world. No offense is intended to practice and the practitioner, and no beans were harmed in the writing of this paper (only ingested).

The Issue

What is an example of the simplest and most straightforward healthcare analytical question you can ask?

How much does X cost in this area? X could be a procedure code, a particular DRG-based admission, or any basic claim-based measure.

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by Syed M. Mehmud

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Easy-it costs $750.92 on average.

Or $754.34, or $761.12, or ... insert as many unique, precise, and precisely unique estimates as the number of analysts you ask.

The reason for this diversity of answers to the same question is that while one analyst might count the beans from one data base, another might count them from a different one, or a different subset of the same one, or reference the beans that someone else counted and spilled ... err, published.

You cannot manage what you cannot measure—and actuaries are advertised experts at both with regard to risk. How can we get the experts to measure consistently? Yes, the axiomatic addition, multiplication, and weighted averaging are all wonderful, consistent things—but that is not what I mean.

I mean that we have gotten away from actuarial modeling of data. We live in the *Data Age*. The ready access to data and the power to process it have rendered modeling of it obsolete. Why sample or model something when I can run PROC SUMMARIES on the entire thing! I'm not trading my power tools in for a chisel! Well, there may be reasons why one should.

Summarizing data does not confer understanding. The process of abstracting key elements of complex transactional data to build a model that resembles reality allows one to discover and focus on important relationships. A clear narrative emerges from the development and use of models in lieu of rough and messy empirical evidence—a clarity that leads to better decisions.

An empirical approach rests on the belief that what happened in the past can be adjusted for factors (multiplicative nonetheless, leading to a multiplicative increase in error terms—but that is another thought for another day!) such as inflation and trend to exactly predict the future. Even if we suspend disbelief at the precision of such point estimates, they convey little regarding the underlying uncertainty or a degree of belief in the estimate. One cannot easily and seamlessly factor in the effects of changing important quantities such as cost sharing, results from combining risks, or quantifying the riskiness of an estimate (e.g., tail risks). If I had a bean for every time someone said, "if only we could find a benchmark for this ..."—I could have them stacked in a giant stalk.

The vision presented in this article would constitute a *mega* change in how health care is measured, understood, and managed—in the United States and internationally. The ideas take on increased significance in a dramatically changing environment of health reform.

I know what you are thinking—do actuaries not learn all this on exams? Are we not already creating and running actuarial models? Is every spreadsheet with an input and output not an actuarial model? What's for lunch?

Typical healthcare actuarial analyses are based on spreadsheets containing summaries of data by various breakdowns. There is an exuberant optimism in which it is hoped that if we only deconstruct data to manipulate it at deeper detail—we will end up with a well understood and accurate model. Complexity does not beget accuracy, and such empiricism does not identify cause, effect, or interactions thereof. Think of the last time you calculated trends, measured utilization management savings, created cost projections, a rating model, a benefit model, an underwriting model, etc. Did the model calculate point estimates based on summarized data? Was the data credible at the detailed level? Did actuarial judgment elbow out credibility theory when it was not? How certain were the estimates, and were there readily available benchmarks to compare to? Did you think the analysis passed the 'sniff test'? Did it 'feel reasonable', 'look right', or 'sound good'? Is it not time to get less touchy feely about empirical estimation and think more in terms of distribution based modeling?

Measurement of data has a tremendous impact in healthcare decision making, and will play a critical role in healthcare reform. Proper measurement of data will result in actuarially sound rates for services, appropriate allocation of resources, incentivize better care not selection, and directly impact profitability and solvency of plans through mechanisms of risk adjustment and quality improvement. While the issue of measuring and benchmarking data may not look a big deal—it underscores everything in healthcare. Investment in IT is near the top of the healthcare agenda—but collected information will only be as good as its use. Are point estimates reached deterministically the best we can do?

The Solution

In college we used to have a manual of integrals published by some chemical company. The thick book full of the most difficult results of integration was an invaluable reference when studying mathematical physics. It saved us a lot of time to give the results we needed to focus on the important, big-picture questions at hand.

What if we had a similar reference for all important benchmark distributions in healthcare? "The set of all possible distribution functions is too large to comprehend"—but it would be great to have all fitted distributions available to practitioners in some sort of a giant reference book.

This leads into the entrepreneurial solution and vision that I would like to present in this paper. Imagine a reference that has a menu of parametric distributions and a table of parameters to tailor them to specific situations. The family of probability density functions is identified using multiple sources of claim data, and parameters are informed by the same sources. As research turns up more evidence for variance in costs by conditions, procedures, geography, etc.—the parameters are adjusted to the extent that the new information is credible relative to that already incorporated.

You want to know the distribution of charges for an appendectomy in a particular state? This reference would provide the appropriate distribution function and parameters specific for this purpose. It is less work than it sounds. The family of distribution that models claims is unlikely to change much, while the associated table of parameters will adjust it for appendectomy, geography, and any benefit or reimbursement levels.

You want to calibrate the set of distributions to your data? There exists mathematics that will do just that. All you would need to do is run a programmatic code against your data, and it will adjust the global table of parameters to your data to the extent that it is credible. Once you have made this adjustment, you can model the impact of benefit changes, calculate expected values along with associated confidence levels, and discover important relationships.

No more spending hours researching disparate sources of information only to find contradictions, spending days creating models to understand cost levels and benefit impacts, spending months populating such models with data, and updating/massaging/kneading/tenderizing data to prepare that perfect morsel of information—only to have it not make sense and be replaced by actuarial judgment.

The goodness of an idea is not necessarily commensurate with monetary investment. Such an idea will require mostly an investment of time and talent. The resulting set of distributions and parametric tables could be uploaded to a website for the use of fellow professionals. Even better, this effort could be collaborative in nature where the parameters are informed not just by publicly available sources of data, but by professionals in industry running scripts against in-house data to share fairly non-proprietary information for the benefit of the actuarial community. There could be a modest monetization too via a subscription fee etc.—but at the end of the day I think that being an entrepreneur is really about putting a dent in the universe, and less about money. One would rather try to advance the actuarial skill set and be paid in beans, than to leave it as found.

Note: The opinions expressed in this article are solely those of the

author.

Syed M. Mehmud, ASA, MAAA, FCA, is a consulting actuary with Wakely Consulting Group (WCG). Mehmud can be reached at syedm@wakelyconsulting.com.

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[1] Diagnosis Related Group

[2] Spicy bean curd...

[3] Stuart A. Klugman et al. *Loss Models: From Data to Decisions*, Second Edition

[4] This is of course, an exaggeration.

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