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Intellectual Capital: The Key to Surviving and Prospering as a Consulting Actuary During an Economic Depression

by Jay M. Jaffe

Consulting actuaries are not immune to economic crises. Severe economic climates, however, provide opportunities for consulting actuaries to address two issues. First, how to grow income when many business are failing and, second, how to take advantage of all the intellectual capital that has been generated during their careers. This paper is intended to demonstrate how these initiatives can assist a consulting actuary to become more successful and offer an alternative approach to expanding a consulting business.

The Problem

Since World War II there have been mostly good times for consulting actuaries. The consulting field has grown both in terms of numbers and breath of practice areas. During the past decade, however, there have been two "events" that have occurred which have seriously impacted the general economy of both the United States and the world. The first was the terrorist attacks on 9/11/01. The other and more recent event is the economic meltdown that started sometime around 2007. Both of these events have created a less favorable atmosphere not only for the general economy but also for consulting actuaries.

Coupled with the global changes in economic conditions, within the spheres of business in which actuaries work there have also been events and/or trends which have an impact on consulting actuaries. For example, the termination of many defined benefit pension plans has had or will have a direct reduction in the amount of work available for consulting actuaries who provide the services required by these plans. Similarly, health actuaries could be facing a lessening in demand if the looming changes in the way health insurance in the United States reduce or materially change the role of private insurers.

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To put it bluntly, consulting actuaries, no matter how successful they are, face career and income challenges from both general economic conditions as well as specific factors relating to their areas of practice. None of us are immune to these issues but we can understand and take actions that will cushion the impact of those situations we can't control.

The Choices

If you are a consulting actuary who is financially able to leave your practice or a person who has "had it" with the actuarial profession, there's no need to read further. But for most of us we either like our work or see the actuarial profession as a good place to earn a living, there a couple of choices once you understand that it is possible not only to survive but prosper during less favorable economic climates.

Your first option is to let events continue and simply "go with the flow." The risk of this course of inaction is that you may suddenly or eventually find yourself in a position that leaves no option but to find another livelihood. If you don't grow professionally, you can easily become professionally obsolete. Second, you can do something about what's happening in your world and increase the odds of being one of the survivors as well as one of the happier survivors.

It may be more dangerous to your personal mental health to take no action than to try something and possibly fail. Once you've made up your mind to become proactive and take some control over your future, you will also be faced with many excellent choices. The remainder of this paper will describe one option that may be of interest to entrepreneurial inclined consulting actuaries because it is a fairly low risk path but with excellent return possibilities.

One Possible Solution

The solution proposed is to market your intellectual capital. Many consulting actuaries have amassed immense amounts of intellectual capital during their careers. In the sense that it is being used in this paper, intellectual capital does not mean your knowledge of rules, regulations, formulas, etc. but rather a consulting actuary's knowledge of how business in his or her field of expertise operates and what is needed by companies in a field to improve performance and become more profitable.

The current economic environment creates an excellent opportunity for consulting actuaries to develop income from the intellectual capital they possess and at the same time change a fee-for-service business into an annuity by receiving royalties or other non-hourly based compensation for your ideas. This concept is particularly attractive if a consulting actuary is working at less than 100 percent capacity because the time to develop the intellectual capital that you own is available.

Each consulting actuary needs to think through his own history and experiences to identify those concepts that would create a new opportunity. A few examples might be helpful to get you started creating tangible value from your intellectual capital:

- **Product development experiences:** Probably during the times you've participated in the development of new products for an insurance company or distributor, you've had many product ideas that you thought were just as good as or better than those which you were directed to create. Why not build the product yourself and then take a product development or royalty fee from carriers? If you go this route, consider disclosing your concept only after you've signed a non-disclosure agreement with the prospect to protect your intellectual capital. You'll need to find carriers and distributors willing to work with you but these parties are now having to go outside their normal new business channels if they want to grow.
- **Systems improvements:** Most of us have seen opportunities to reduce costs or increase the efficiency of a process. You probably know or can contact the key people who can benefit from your ideas because the formation of one or more strategic partnerships with such entities is necessary for you to benefit from your intellectual capital. Your role is to identify and explain the new processes and your partners' role would be to incorporate the new ideas into their existing operations. For your work you'll receive a fee per transaction or some other measurable unit of activity.

The transformation of your intellectual capital into innovative concepts is only limited by your understanding of your business and gaining the realization that all those things you've thought about during the times when you were too busy to do anything but crank out the work can now be transformed into saleable products and a new stream of income. Even during an economic depression, there are good opportunities available for creative minds.

[The Pitfalls and Caveats](#)

Becoming an entrepreneur rather than a consulting actuary who operates a professional practice and has some business responsibilities has many pitfalls and caveats. For example:

- Many concepts will be rejected by the marketplace so don't take it personally.
- Just "getting your foot in the door" to explain your concept will require persistence so be prepared for the inevitable delays that you will encounter.

- Not all concepts are good or workable. Most ideas probably fail so learn to prudently invest your time in new entrepreneurial activities.
- Even when your new concepts are accepted, don't expect the implementation process to zip along.
- Since implementation takes time, it normally follows that it will be a while until you start to receive income from the new venture.
- In many cases you simply can't or don't want to leave your idea for someone else to manage. You may find it advisable to continue to play an ongoing role with your new partners. Staying with your idea will also justify a higher fee for your idea because you will continue to make improvements and refinements.
- Some people will try to steal your concept so require intellectual property protection for those concepts that have the potential for wide market appeal.

One way to prequalify some partners is to require them to "have some skin in the game." An example would be to a business partner partially fund any additional work that you or someone else may be required to do. The absence of a willingness to make some monetary commitment to the project may be an indication that a third party's level of interest is minimal and often the result is more foot dragging and slower progress.

Developing your intellectual capital into innovative products and solutions can be a very low cost activity assuming that your time is available and that whatever additional research is required can be done with little or no out-of-pocket cost.

And, Finally

Being a consulting actuary means not only does the actuary need to be a good professional but also be aware of the risks and changes now facing all businesses. Even during trying times, there are opportunities to innovate. For consulting actuaries, the result of developing your intellectual capital into innovative concepts can be a new business that either enhances or even replaces your current practice.

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