



SOCIETY OF ACTUARIES

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The Importance of Effective Communication

By Jim Filmore

"At this stage of your career, it is not about how smart you are. Rather, it is about how effectively you communicate." That quote was made by an actuary at my former company as advice that they gave to new FSAs. Over the years, I have increasingly realized the importance of that statement.

As we all know, actuaries must pass a rigorous set of exams in order to attain their FSA designation. Those exams cover technical topics such as Markov chain models, Black-Scholes option pricing models, and multivariate probability distributions. While it is important to understand these complex technical topics, it can be just as important to develop the skills to communicate the results to a variety of audiences. Can you explain in two minutes or less the value of using Black-Scholes to the CEO of your company? Is that exercise more or less challenging for you if the CEO is not an actuary?

In my experience, mathematical mistakes occur periodically (yes, even by actuaries) that impact the results. However, the more frequent and often more impactful mistakes occur when there is a break down in communications. Thus, our technical expertise can be best utilized when we can clearly explain the significance of our work to both actuaries and non-actuaries.

For example, an actuary could spend a week creating a detailed pricing model that calculates the loading to add a particular benefit or product feature. After completing their work, the actuary concludes that a 3 percent increase in the mortality charge is required and communicates that result to another individual. In this example, the original mortality charge was expressed as 40 percent of the 2001 VBT select & ultimate table. The question is then whether the new rate is $40\% \times 1.03 = 41.2\%$ or $40\% + 3\% = 43\%$ of the table. At first glance, the difference may not appear material. However, that difference could make up a significant percentage of the profit margin in today's competitive marketplace. When expressed in those terms, one can see how clear communication of the loading can be just as important as the detailed calculations that were performed to develop the loading. By the way, this was based on a real life example that I observed. The actuary that performed the calculations intended the result to be the higher figure, but the lower figure was applied by the recipient. This is a situation where including an example would have ensured that both parties had the same understanding.

To help actuaries develop these softer skills, the product development section council has promoted various presentations and workshops on communication. For example, effective communication was the focus of our one day workshop that followed the 2014 Life & Annuity Symposium. You can also further develop communication skills in organizations such as Toastmasters or take it one step further by presenting technical topics either internally within your organization or externally at industry meetings. In all of these mediums, it is good to have a feedback loop to ensure that the message received by your audience is what you intended.

With those comments in mind, I hope that you are entertained and enlightened by the thoughts shared by the authors in this edition of *Product Matters!* 



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