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MANAGEMENT OF THE ACTUARIAL RESOURCE

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MR. BURTON D. JAY: We might have titled this session, "Management of the Actuarial Resource in Life Insurance Companies" because most of our backgrounds are, or at least have been, with life insurance companies. However, we think that many of the remarks that we will make also apply to consulting firms and other types of insurance companies as well.

It is our feeling that the subject we are handling today is best covered and may be made more interesting if presented as a real live panel discussion utilizing short questions and responses. Our first major topic is, "What is an Actuary and What is his Function in a Life Insurance Company?" Is there a place for the highly skilled technician who does not care to manage people?

MR. RICHARD A BURROWS: It seems to me that there is not only a place for the skilled technician in the current actuarial environment, but that we should provide greater opportunities for the development of the purely professional actuary. Currently, we may find professional research and development concentrated in individuals with universities, large consulting firms and large insurance companies. I would certainly like to believe that the actuarial field has unexplored horizons, and that we can better provide for their exploration than relegating these efforts to lower level priorities in our current work loads.

Insofar as the skilled technician is concerned, the person who is quite competent to handle the professional tools without desiring to manage, the availability of time-sharing and minicomputers using programming languages easily learned for personal access to the computer, means that such individuals can be well employed performing actuarial tasks without the involvement of clerical staffs. Not only should these people be so employed, but we should probably seek broader application of computers on a cost justified basis. When such a person emerges he is given such tasks but his position is downgraded in the minds of the managing actuaries; he is relegated to the "back room" and his career path is blocked.

MR. PAUL T. BOURDEAU: I would like to make some comments to help put this in focus; that is, we make a mistake in using the either/or principle; either a technician or a manager. I would like to suggest that what we really have is a continuum of a spectrum where on one end you have the bread and butter end of our work which is highly analytical, technical work, such as, pricing, reserving, etc. and as you move through this continuum to the other end, you find more experienced actuaries advising top management on matters of solvency, corporate financial structure, and other more conceptual areas. So I see a spectrum which is very technical all the way but is more conceptual on one end. You can have a highly technical area where there is little management but you could also have a highly technical area such as analyzing mergers and acquisitions, for example, where there would be many management and conceptual considerations. There are many consultants who have little or no staffs that advise top management of many companies. What we are saying is that this dichotomy does not necessarily have to exist, but I have to admit, it is the common way to look at this situation. A few years ago, a renowned futurist addressed a group I was with, and he made an interesting statement. He stated that we frequently talk about how easily we can hire technicians, and how difficult it is to hire managers but he stated that, in the future, it will be completely the other way around. That is, managers and administrators will be a dime a dozen, the real demand will be for technicians. He was possibly thinking ten years ahead as our business, our economy and our social structure becomes more complex. Therefore, there are indications that there is a possibility that things could develop to the point where technicians have a better "place in the sun".

MR. JAY: How large does a company need to be for a "scientist only" type of actuary to be economically feasible or does size or wealth of a company have anything to do with it?

MR. WALTER S. RUGLAND: You could look at it this way. How large should a company be for a technical type actuary to be economically feasible? Perhaps the most feasible spot for a "mature" actuary who does not want to concentrate entirely on management is with a small company. This may be a surprise, but I think that in many instances actuaries in a small company can pursue technical interests as well as supervising a small staff. On the other side there are, of course, large companies that have many important spots for competent technical specialists.

MR. JAY: Do you think that the majority of actuaries strive to be managers as well as scientists or technicians?

MR. KENNETH J. CLARK: I would guess that most actuaries who plan to work for insurance companies strive to be managers instead of technicians and scientists. It is probably obvious to students in actuarial programs, certainly it is at Lincoln Life, that the most responsible and highly paid jobs are the management jobs. This is a realistic evaluation of today's organizations, and the question is how can companies help students become better managers.

MR. BOURDEAU: We have had many discussions of this problem and we have concluded that it is important that we match career expectations. If the young man wants to be either a manager or a technician, this fact should come out in the recruiting process and we should not hire any technician for a management job and vice versa. It is important that we reflect on this matter and discuss options with prospective career actuaries.

MR. JAY: Are specific management training programs necessary to make actuaries effective managers? And if so, what kind of programs do companies have?

MR. BOURDEAU: Certainly for those who aspire to functions other than in the technical areas, additional training and experience is necessary to enhance performance. We, in recent years, have devised a training program for actuarial personnel. It includes officers and students. Our experience is limited at this time but, from what we can see, it is effective. It has been very well received. Moreover, it is also a positive motivational influence. Our program is designed around the needs and desires of the participants which were brought out in surveys and discussions before the program was designed. The program covers such things as supervisory techniques, style awareness, oral presentations and time management. The first year of the program involves eight or nine working days spaced throughout the year; this is a considerable commitment of time. We would expect over the long run that this would average possibly four or five days a year per participant. Most importantly, such a training program develops an awareness that management is a science and there are specific techniques and knowledge to learn. Moreover, the fact that every few months you have a class or session which keeps that train of thought alive, which, over a career, can do much for the individual.

MR. JAY: Is the program for all employees at the Travelers?

MR. BOURDEAU: No, this particular program is specifically for actuarial personnel. We have other programs, but this one was designed specifically for actuaries. Because of the intensity of the exams and the all-out effort required to pass the exams, it is fair to conclude that, when a young man achieves Fellowship, he is probably not as adept in some management areas as some individuals in other disciplines who did not have to wrestle the exams. The average new Fellow has some "catch-up" to do in some of these management related areas.

MR. CLARK: It is also true that, if you have a rotational program, your students are most likely to have had jobs that did not involve extensive managerial or supervisory responsibilities. It is our feeling that students not actively managing, cannot benefit from management training programs. This is also the feeling of several consultants to whom we asked that question. But once the actuary has taken a management position and finished the exams, the actuary needs as much management training as any other manager, perhaps more. Because of concentration on the exams, he or she is probably behind other managers at the same level in the company and needs intensive management training.

MR. RUGLAND: Are new Fellows required to participate in these programs?

MR. CLARK: Generally they do want to proceed into management roles, and they have all wanted training.

MR. BOURDEAU: I have never had any one in our company that did not want to take a management training program, unless they were near retirement age.

MR. JAY: Does anyone believe that the Society of Actuaries has a role in providing management training to actuaries?

MR. RUGLAND: I believe that since the Society is a professional, scientific organization, it is appropriate for it to offer opportunity for members to develop some management skills. I do not believe that it is appropriate for the educational requirements to force evidence of that skill prior to designation as a Fellow.

MR. JAY: Do you think it is appropriate to have management topics on the programs of Society meetings or seminars?

MR. RUGLAND: I think that that has a place. How many believe it would be appropriate for the Society to offer in its program structure more information on actuarial or other types of management techniques?*

*A majority indicated approval.

MR. JAY: We have had teaching sessions and other types of sessions in the past on management principles, but perhaps there should be more.

Why is it, in some companies, actuaries are used extensively in other functional units such as Electronic Data Processing, underwriting, investments and even marketing, while in other companies all of the actuaries are located in the actuarial department or division?

MR. BOURDEAU: I cannot answer that directly, but I have a few comments. If you believe in the use of professionals in managing areas outside of this professional function, you have to be willing to consider the possibility that a lawyer may someday be managing the actuarial department. It works both ways; therefore, you have to accept that, if the actuary will be managing other departments, that others may be managing theirs. Realistically, the professional departments should be managed by its own professionals. Therefore, it appears that we are talking primarily about areas that are not strictly professional.

It is always intriguing to us to speculate how extensively actuaries should be used in other functional areas such as data processing, underwriting and marketing. Basically, we can all agree, a requirement is that the skill must be needed and the skill must be available. In recent years there has been a trend to involve financial types in more aspects of business organizations and this is especially noticeable in the higher management ranks where in the 1950's lawyers had a tendency to predominate, and in the 1960's marketing people, and in the 1970's you will find that financial types (actuaries in insurance companies, Certified Public Accountants in general business) are predominating. Financial people seem to be having their day and the reason appears to be that business is becoming more complicated and analytic and, therefore, individuals with financial backgrounds are particularly at home and suited to such disciplines as budgeting, long-range planning, cost control and systems development which are playing a larger role in business today. This trend is one that should continue for the immediate future, therefore, providing attractive opportunities for actuaries in many areas of insurance operations.

MR. CLARK: It is true today that the actuarial training program is the only formal educational process whereby a person can acquire the breadth of knowledge of all aspects of the business that one needs in a large company with a full line of products. Today's managers need to know what each area of the company contributes to the total company operation. It does give the actuary a big head start in pursuit of responsible management roles in many areas even though it does not guarantee the prize.

MR. JAY: Is size the determining factor in this or are there other characteristics of a company that results in the proliferation of actuaries into other areas?

MR. CLARK: While size may be the most important factor, it is not the only one. A wide product line typically will result in an organization by line of business rather than by function. Once you have that kind of organization, dispersion of actuaries throughout the various lines of business is generally found to be a more effective organization than a single actuarial department for all lines. Actuaries are more responsive to the marketing and other needs of the line of business if they are in daily contact with the other people in their line. Another very important factor in proliferation is the professional background of top management during the last five to ten years.

MR. JAY: Are there other advantages and disadvantages of extensive use of professional actuaries in non-actuarial areas?

MR. BURROWS: A natural advantage is that the actuary, by his background, has a general knowledge, and he can relate specifically to the actuarial function as it impinges on his area if he is in a non-actuarial environment. There are some disadvantages. The actuary tends to be a conservative by nature, and the progress of the company may be impeded if the management is heavily actuarial. One other disadvantage is that, if the company is heavily actuarial, good potential management may be stifled for the non-actuarial type. He just may perceive that there is no place for him to go if the boss is always required to be an actuary. That may encourage more people to take the exams.

MR. JAY: From the actuary's point of view, is it desirable to work for an extensively actuarial oriented company? If so, why?

MR. BURROWS: The opportunities for advancement to higher levels would be greater because there are more paths that the actuary can follow in that company. Perhaps beyond a certain point of development, however, it is conceivable that the actuary may find the atmosphere stultifying, prejudicial and close-minded.

MR. JAY: There may be more paths but, perhaps there are more actuaries as well. In this case, the competition might be heightened because of more people.

MR. BOURDEAU: We will be discussing career tracks later, but I think that this is a key point concerning career tracks. If it is important for a young man to ultimately work as other than an actuary, it would be best that he put himself into a career environment that enhances such opportunities.

MR. BURROWS: I think you have referred to males twice. Since we perceive, in the present environment, that to be successful you have to be a manager, is there a prejudice against women being managers? Or, are they usually tending to be "back room" in a purely professional role?

MR. BOURDEAU: Admittedly this is a problem in our industry that we must all work on.

MR. BURROWS: I believe that women in general tend more to the "back room" unfortunately. I do not know how much of that was company intent, but times are changing. I believe that there is no greater opportunity for a female who has managerial skills than in our company.

MR. BOURDEAU: There is the thought regarding actuarially oriented companies. I should point out, it is my observation that there is a broad spectrum of actuarial orientation among consulting firms to which actuaries become affiliated. There is at one end of the spectrum a purely actuarial firm and at the other end there are consulting and servicing firms to which actuaries are hired as part of the staff as well as all other kinds of disciplines. Within the consulting arena there is a broad spectrum as to orientation in the same manner as within the life industry itself.

MR. JAY: We have talked about using actuaries in non-actuarial areas; now let us consider the opposite situation for awhile. Are there some real economies in using non-society members to perform what we might think of as actuarial functions within an actuarial department? This is the concept of the para-actuary.

MR. BOURDEAU: We have matched this trend towards para-personnel developing around us in the medical, legal and teaching fields. It is probably more highly developed in those fields, but many of us have been struggling with it in our field for a considerable number of years. I would like to share with you the position we have gravitated to. For the more repetitive and simpler tasks, para-actuaries can be trained, supervised and thereby relieve much of the pressure on the professional actuary. Unfortunately, it is difficult to find para-actuaries who can develop the analytic skills to work independently on research projects and, therefore, their usefulness is limited. However, in these limited areas, they are becoming a factor in many operations. We will be discussing career tracks later. A serious problem with the para-actuary is an appropriate career track.

MR. JAY: It has been stated that the most cost effective way to utilize Fellows and experienced Associates is to assign them only to those areas where their breadth and depth of training is necessary and to train other talented or experienced employees who have not taken or passed actuarial exams, to perform more limited or specific actuarial functions, when possible. Would you agree with this?

MR. CLARK: I would agree in the area of pension actuaries. We have a small program of training para-actuaries in the pension area to assist the work of enrolled actuaries. The shortage of enrolled actuaries, at least in our company, requires us to use para-actuaries to perform some of the simpler and more repetitive functions. That has to be more productive than hiring enrolled actuaries.

MR. RUGLAND: Is the real decision that a company makes regarding its use of non-managing actuaries a result of its objective in terms of developing actuarial management or a total company management pool? For example, if, in fact, all it wants actuarially is one or two qualified actuaries who can sign statements, then it seems wasteful to have a house full of actuaries. The company can contract for consulting assistance as required or continually rotate Fellows through that chair as the need presents itself. But, if the philosophy of the company is to have actuaries advise management or be a part of management, that requires people of all levels of actuarial maturity in the company.

MR. JAY: Before we leave the general topic of who an actuary is and what he does, I will entertain a couple of questions or comments from the floor.

MR. JESSE M. SCHWARTZ: The rotational assignments provided to members of Actuarial Training Programs are usually intended to assist students in their professional development by exposing them to the applications of actuarial science in the various areas of the company. Typically, these assignments are of a staff nature which requires interactions with other professionals as well as non-technical individuals in the performance of the job. This provides the students with the opportunity to develop their interpersonal skills which I believe to be the foundation of management. The manager of the Actuarial Training Program should observe the students' ability to interact with others to determine whether they exhibit management potential.

I agree with the panelists that courses on supervision are helpful but these courses should not be of overriding importance in assigning supervisory positions to actuaries. I hope the panelists are not suggesting that the best managers are necessarily those with a degree in management science.

The student's primary priorities should be to attain the FSA designation while developing as a professional through on-the-job training. Efforts to improve the student's management skills should not detract from these priorities.

Secondly, actuaries by their educational background are knowledgeable in most areas of an insurance company and are uniquely qualified to run non-actuarial departments. I take strong exception to any suggestion that actuaries are conservative by nature and that this conservative tendency would inhibit them from exhibiting creativity as needed in running non-actuarial departments. Actuaries should perform their jobs consistent with their job objectives. The primary difference between an actuary and others is that the actuary should be more aware of the consequences of his actions as they relate to other areas of the company.

Finally, I do not agree with the comments that college graduates who are interested in pursuing a career in actuarial science are preoccupied with the idea of becoming a manager. Typically prospective actuaries are interested in an actuarial career as a means of using their mathematical knowledge to solve practical problems. This seems to indicate their primary interest in being an actuary is related to the technical aspects of the job. Unless they have taken management courses in college, they are unaware of what management is all about. Those who express interest in management do so as a result of their desire to interact with both technical and non-technical personnel.

MR. BOURDEAU: As far as new Fellows' skills are concerned, no rule applies across the board. One way to state the situation is to suggest that, as compared to other aggressive individuals, the young actuary spending time on actuarial exams sometimes cannot make the most of alternate learning opportunities. For example, in our company there are young people taking advantage of evening MBA programs as well as other such opportunities.

It is amazing that young people even know that they want to be actuaries, because most people do not even know that much. It may be unrealistic in most cases to expect young people to know whether they want to be managers or technicians, but in many cases, it is evident. Some know they want to be managers and others do not, but admittedly, in the majority of cases, it requires a lot of probing. However, if it is not brought out at the time of hiring, it should be an item of discussion early in the career track.

MR. CLARK: I agree with your first comment, if you define management in the broadest terms, to include developing interpersonal relationships. Certainly students in rotational programs get that. But I would argue that a manager at the Fellowship level and above needs management training in the form of formal training programs.

MR. JAY: Management is more than just being able to get along with people, though that is important.

MR. CHARLIE T. WHITLEY: I would like to hear more about para-actuaries. To what extent and what role and with what results are non-professional actuarial technicians who, let us say are math graduates who have not written and are not writing an actuarial exam, used in your companies?

MR. BOURDEAU: Within my division there are two such areas. One is general life research and the other is the retirement plans area. In life insurance pricing and product development, they are used to make competitive rate studies to handle computer input and output and run computer programs such as our asset-share program. We do not use many of them, but some have been on the job three or four years and they are starting to know the ropes and, in performing these routine tasks, they are quite valuable. They also work on research projects which are not overly analytical. In our retirement plans area, they perform similar functions. They operate the valuation programs and perform related calculations. In this area, we have hopes of developing high-level para-actuaries. These people could possibly become enrolled actuaries without the Society of Actuary exams. Many have that as a goal and it is a real motivation for them. We have several people coming along very strong in this area with a clear career track for at least the next year or two.

MR. CLARK: We use such people in our research area to perform underwriting and other studies. The problem alluded to by Rich is that since their supervisors are actuaries, they see their career paths at a dead end. This is a real problem. The only opportunity for growth they see is to go elsewhere in the company.

MR. MYRON H. MARGOLIN: I am a little surprised by some of the discussion on para-professionals. The implication of the discussion seems to be that there are very few para-professionals. I feel that while we have not used that name, para-professional, it seems to me, at least in my experience, that our company is loaded with para-professionals. That is, with persons who work under the immediate supervision of the actuary and carry on major components of the responsibilities of the actuary. If we use this sort of definition, I think we have to conclude that the idea of para-professional, though not the name, is much further along, much more widely used in our profession than in any other of the professions that you named.

MR. JAY: The next major question has to do with hiring students, Fellows, Associates and actuaries in general. For an established company, what would you say would be the advantages and disadvantages of "growing your own actuaries" as opposed to hiring experienced Society members?

MR. BURROWS: The advantages are: the actuary develops a loyalty to the company he grows up with and adopts the style of the company. He understands the political aspects of management and he is a known quantity when considered as a candidate for a new position. He probably comes at a lower salary than would be necessary to hire from the outside.

Some of the disadvantages are: if the philosophy of growing your own actuaries is absolute, management might have to use a non-qualified individual for some important position. If the philosophy of "growing your own" has the corollary "keeping your own", a large degree of deadwood may develop. New ideas may be hard to come by if companies do not ever hire from the outside. In order to provide sufficient talent, ultimately, the actuarial training program may have to be larger than necessary with the consequence that there will be a continual exodus of new Fellows (paradoxically, often the very ones with the better talent).

MR. JAY: Can this be combated to some extent by a system of rewarding the higher achieving actuaries through promotions, faster salary increases and greater levels of responsibilities, so that at least most of the ones who remain would be those who are most valuable?

MR. BURROWS: Yes. I do not know that it is characteristic, but I presume that it is of the actuarial student programs now, that in addition to the reward for passing the exam, there is an increasing stretch as time goes on to award for merit. I think that this is an excellent way.

MR. BOURDEAU: I would like to comment that, if there is a magic answer to this, we have not found it. We are basically committed to growing our own, but we will go outside to fill the so-called "pipeline". To hire your own, requires considerable resource in order to maintain a recruiting and selection program and the necessary student program to both entice prospects into the company and to bring them along once they are in the company. Going outside, on the other hand, is also a very difficult task. It is very expensive and it presents a real hazard in the sense that individuals that are brought in may not work out and, therefore, causes some very sensitive personnel problems.

MR. JAY: Is the answer to this question different if we are talking about a new or smaller company?

MR. BURROWS: A newer company should probably hire from the outside until it has developed an experienced actuarial corps. For a smaller company, the answer is probably the same as for the larger company, with consideration for difference in scale. However, one factor that may be true is that the best potential actuarial talent gravitates to the large companies with the expectation of leaving once the Fellowship is completed.

MR. JAY: You are speaking of a new student just out of school?

MR. BURROWS: Yes

MR. JAY: I think that this might be true, but our feeling is that it was probably more true several years ago than now. We have found that recently there is more of a tendency for students coming out of school to want to stay close to home.

MR. BURROWS: You mean they do not want their fling in New York for awhile?

MR. JAY: Not as much as they used to.

Do you think that home grown actuaries are more likely to remain with the company and become long term employees?

MR. CLARK: Obviously, anyone who has moved once is more likely to move than someone who has never moved. But to add on to what was said about students staying near home, the most important factor in longevity is finding actuaries that want to live where your company is located. A home raised actuary is more likely to stay than a home grown actuary. Locally born and raised students who take a job with you are probably saying they want to live their lives there.

MR. BURROWS: I think it is true that the actuary who has moved once is more likely to move again than the actuary who has stayed five years beyond Fellowship.

MR. JAY: Do you feel the companies need the cross-pollinization that is provided by actuaries with experience from the outside?

MR. BOURDEAU: We can generally agree that some cross-pollinization is desirable and, to some extent, it can be brought in by actuaries from the outside. This is probably true only if you are hiring a relatively high-level outsider who will have some influence or some clout to get his ideas implemented. The more realistic thing for most of us is to look for alternatives; we have found that you can get a lot of new ideas into your organization by assiduously maintaining contacts with vital industry groups and a review of substantive literature. It should be kept in mind that many good sources of ideas and procedures are outside our industry, for example, various American Management Association seminars or some university seminars. In summarizing, I am saying that one way to cross-pollinize is to use outside actuaries but a more realistic way is to plug into industry associations as well as similar groups outside the insurance industry.

MR. JAY: At what point should a small company hire its own actuary rather than depend entirely on outside consultants?

MR. BOURDEAU: As a result of serving on the board of a small company for several years, I have developed some observations on this question. It appears that a company, no matter how small, should have some level of actuarial talent "in-house". This could be at a low level and need not be at a very high level and, it is helpful, even if the actuary's major role is simply to interface with the outside actuaries. This actuary could have a dual role in that he could perform underwriting and other functions in the company so his marginal cost would be low. This would provide for a communications link with consultants and regulators as well as provide for much of the routine actuarial work; this is more cost effective than to let the consultants do all the work. Management of all companies should also have available experienced actuarial consultants that can advise them on broad management and financial problems. This would indicate that having an experienced actuary on retainer for consultation in such matters would be a most desirable as well as cost effective thing to do.

MR. CLARK: I would restate what Paul has said by suggesting that the company management in a small company should ask the question, who will be the actuarial advisor to management and to the extent that management does not want to place that responsibility on a young, inexperienced Fellow that they might have on their staff then there is a role for a consultant both to be the adviser to management as well as to be the interface between management and the staff actuary who needs actuarial supervision. I would like to go back to the word "out-house" actuary again if I could. It is probably best to look at that term and reverse the question and ask what is not an "out house" actuary. A simplified way to say that is, that a person who is not an out-house actuary is probably one who, in whatever he or she does, has a little bit of advocacy in their work. In other words, their work has always been reviewed by someone who is anticipating what the future for that period might be within the organization in which they work. Of course, another way to define it is an out house actuary does not have benefits and all the other allocated costs that go along with the cost of having the actuary there, but we will get into that later on with our cost effectiveness question.

MR. BURROWS: Are you suggesting that even though he might be a consultant, a person, whose major source of income is from one company, is not purely an out-house actuary? The consultant, who largely has just one major client, really is involved with that company?

MR. BOURDEAU: I would say that that person is not an out-house actuary but is realistically an "in-house" actuary.

MR. JAY: How extensively are consultants used by larger companies and what does a consultant do for a larger company?

MR. CLARK: I can only speak for one company and perhaps others can give more examples, but we have used them very rarely at Lincoln National. The only case that comes to mind in recent years is to audit our GAAP procedures and assumptions.

MR. BURROWS: By way of preparation for this panel, I examined Schedule G, for the past three or four years, of a number of companies and saw only in one instance a reference to a consulting actuarial firm. Of course, many of them were still "in process of preparation" in our library. But consulting actuaries were rarely used by the large companies and I wondered about this. No matter what the size of the company, it seems to me that it might be well advised to use the facilities of a large consulting firm. In the early days of group dental, when it was an unknown quantity, would not a major company have benefited by soliciting a nationwide consulting firm to pick up as much information as possible and to get off the ground as quickly as possible, and at the same time developing a core of training within the company using the consulting firm to do that? And yet, I do not think that this was done.

MR. RUGLAND: I would comment that the real data here is hard to get. Our experience is that more and more of our work comes from medium sized and large companies and a major reason is the need to bring to the project a lot of concentrated effort and expertise in quick fashion. Companies are realizing that it is easier to do this than try to allocate existing staff into new, short term areas. The alternative of developing the expertise that is required and then facing the problem of cutting back to a routine maintenance staff structure becomes less and less attractive. I believe the role of the consulting actuary in the life insurance companies other than the small companies is going to be greater and greater. I am sure most company actuaries have realized that the actuarial management function has more and more routine requirements placed upon it, from detailed experience analysis to management information to the quarterly reporting for those companies that are on a GAAP basis. When major projects hit, they require a quicker response than ever before with more staff and confidence than ever before. It is in this area that the consultants, who have developed specialties and have additional experience, can fulfill a real service and a real need in the large company.

MR. JAY: Do any of you have any questions at this point in regard to the use of consulting actuaries?

MR. LOUIS WEINSTEIN: My firm has but one employee. I am the president, mailboy and everything else. I would like to say that most of my practice is with medium or large companies. I have found that whenever I have told a client that I had special expertise or whenever any of my colleagues in other consulting firms have said that, there tended to be some degree of disappointment. When the report was finally rendered and the person who had no knowledge read the report they said, Was that it? I could have figured that out myself, and so he could have. I think consultants make a mistake when they make the impression that they have a special insight or special knowledge not available to other actuaries. If a consulting actuary has a function in a large company, it is primarily that he can begin a job, stay with it, not get distracted with other projects and complete the job and perhaps bring to it a versatility which, within a larger company, may require this department, that department, department meetings, department squabblings and when it is all done, more time and more money to get the job done. By going to a consulting firm, a small one or a large one, these things get done more quickly because of the organizational situation. One problem, however, is that of fee. In many large companies, perhaps represented here, the assumption is that the actuarial employees are individuals who have some how won a lottery which entitles them to a temporary annuity to 65. The salary, of course, is not even considered or the group insurance, pension benefits, space consideration, secretarial support and other considerations. So, in comparing the costs of going through a consultant versus doing it in the house, as far as out-house, that is just another insult that consultants have to bear. The equations are so mistated that it is almost difficult to justify that type of improper analytical vein going outside, but if the analysis is made correctly, there are many instances where a large company can go outside to a small or large consulting firm and get the job done as cheaply, certainly more quickly. I would like to make one comment about Item 1. In all your discussion of management, you never spoke about my most difficult problem. That is of managing myself. If I knew how to manage myself, I could certainly do a better job for my company, and that has always been one of my biggest problems?

MR. RUGLAND: That might be another item for the program committee. A concurrent session on evaluating the cost of actuarial services.

MR. MILTON F. CHAUNER: One of the reasons consultants are used, besides the obvious ones of providing the specialty knowledge, saving time for the company, is the matter of providing an outsiders perspective. A viewpoint that does not come from the inside of the organization, so to speak. A consultant can be quite frank in what he says and he can also bring a lot of viewpoints from other places within the company. The work that you do as a consultant and the time that you spend there is pretty irrelevant to the important thing that you can add a perspective to the company's viewpoint and it helps the company itself, the actuary himself, in the case of a large company, to do his job better and to not exactly use what the consultant says particularly, but by arranging his own thoughts and rescheduling his own thinking in another perspective.

MR. WILLIAM C. CUTLIP: I would like to share an experience with you that we have had. We hired a consulting firm several years ago to work themselves out of a job which they did most successfully. When I started with the company there were three professionals. We now have a staff of 23 professionals. One of the ways in which we used the consultant was to help our actuarial staff grow within the department. The initial work of the consultant was to provide very strong actuarial support. Initially, the consultants did much of the work themselves, but gradually taught us how to best use the resources that we had and how to develop new resources. We now call on consultants only very occasionally for areas where we really need some detailed, expert knowledge.

MR. JAY: Our next topic has to do with defining career tracks for actuaries. Do you believe that it is a good thing to expose actuarial students to as many actuarially related areas as possible during their first few years with the company?

MR. CLARK: All of us would argue that it is good for both the company and the student that he or she be exposed to as many areas as possible. An important aspect of this exposure is that it provides the background and base from which to define his or her career interest. But, even with substantial rotation, it is not always easy to select a field for specialization.

MR. JAY: Is there an ideal length of time for a student to remain in a given area before rotating to the next on a rotation program?

MR. CLARK: To satisfy the needs of the managers in various areas, we have found we have to be flexible and the time varies but twelve to eighteen months seems to be the best balance between the student's and the company's interest to see as many areas as possible and the manager's desire to retain the students to be more productive employees in their area.

MR. RUGLAND: It seems to me that the key to any rotational program is that the level of decision making opportunity stays at least equal to or ahead of the ability of the person who is rotating. In other words, a person does not just rotate for exposure, but rotates for increased opportunity to make contributions on an accelerated basis.

MR. CLARK: Under our program, students are assigned a position level just like other employees and each of the rotational spots is evaluated and determined to require a specified level of competence. Students progress through their rotations to more demanding spots and do not rotate to a position that requires a lower level of competence and experience.

MR. JAY: Would a new Fellow who has worked under a rotation system and spent maybe one year each in the ordinary, group, pension, and perhaps, financial reporting department be in a better position to define his career path than his counterpart who spent his entire four years in the pension area, loved the work and is not interested in doing anything else?

MR. CLARK: Well, probably not. But, the Fellow in the pension area may be arriving at a short sighted decision that is not in the best long term interest of the student or the company.

We believe strongly in the value of rotation, but we do not require students to be in our rotational program. We counsel them on the benefits of rotation, both from the company's and the student's standpoint. This contrasts with the manager's desire to have permanent people who are more productive today.

MR. BOURDEAU: We all agree somewhat on the length of a rotation, but whether this rotation should be forced or not is another question. In the approach we use, the student has a veto power over his rotation should he not like a particular rotation, however, we would suggest other rotation opportunities until we came to an agreement. Therefore, we insist that a rotation be made but allow a veto for any particular rotation. A student cannot act unilaterally on a rotation because so many others are involved in the process. If a person wants to drop out of the rotation program and feels that he has found a permanent niche, that request will be accommodated, but as long as he wants to stay in the rotation program, he is highly urged to rotate but with veto power on any particular assignment.

MR. JAY: Are many vetoes cast?

MR. BOURDEAU: It never results in an out and out confrontation. The managers talk to their students in advance and know their desires so it rarely gets to a point of refusal. We usually have an advance indication of interest and we work it out.

MR. JAY: Do vetoes go on the company record?

MR. BOURDEAU: No

MR. JAY: We have talked about career paths. What do we mean when we say career path? For what period of time and how specific should this be defined by the company?

MR. BOURDEAU: We have wrestled with this and have come to the conclusion, at least early in the career, as long as an actuary is enjoying his work, challenged by it and is growing in knowledge and experience, a career track at that point is a secondary consideration. Because of the growth of our industry, and frequent promotion and shifting of personnel, anything beyond this becomes difficult to chart out except over a very short range. It is a good point for companies to recognize early the young actuaries who have great potential, and they should be trained and brought along so that he can recognize his potential. When you realize the few number of top management slots that are available in most companies, this does not mean that you have to isolate five or six every year, but one a decade or every five years. But a real man, with real potential should be highly prized because he is valuable, and you do not need that many.

MR. CLARK: One of the problems we have had with the rotational program is that a number of students have voiced anxiety about their career paths. What are we going to be doing two years from now or five years from now? One thing that we have begun to do, which has helped, is to make available a trained industrial psychologist who works with the students to identify their strengths, their interests, potential areas for them to develop, and to help them choose a career path when they have the opportunity to make such decisions which, of course, they do not have while on rotation. This seems to be appreciated and effective.

MR. JAY: Our next major subject matter is the organization of an actuarial staff. Is the centralized actuarial staff, where all the actuaries of the company are in a common pool, under one actuarial officer, more or less effective than a decentralized staff, where actuaries are located in or are part of other organizational units, either line of business or functional units?

MR. RUGLAND: You are asking this question: Should a company that has various lines of business utilize its actuarial staff the same way it uses its cafeteria? Lines of business come and buy services as they need them, and it sits there the rest of the time. The alternative is for every line of business to have its own actuarial organization. The correct direction depends upon the company. I would like to suggest one additional concept. In the future, we may see companies without actuarial departments. In reality, a life insurance company has four or five major functions. One function is marketing. That is not sales, that is marketing and the basic function is implementation of the corporation's marketing strategy.

Second is administration. Third is financial analysis, monitoring the results of the company. Fourth is the actual investment function, the stewardship of the capitol and the investment of the funds that are in the company. Perhaps the fifth is the corporate staff function in which the cafeteria may fit. In this scheme, there is not an actuarial function isolated. Actuarial functions exist in almost every area. For instance in marketing, product development is really an implementation of marketing strategy and I know of companies where product development work is in the marketing area. Administration entails many actuarial skills and we spend a lot of time studying this aspect of the life insurance operation. Financial analysis may be where the statement preparation is done, the reserves are calculated, the experience is analyzed, etc. I believe that in the United States and Canada more and more time will be spent by actuaries in the investment function. So I would like to add a third approach to the cafeteria and centralized approachs; the situation where there is no actuarial department at all.

MR. BURROWS: I am in favor of a centralized staff, even though the assignments may be very different. The quality of professionalism would be enhanced. Interchange of ideas, even between different disciplines, would be fruitful, and a lot of duplication of work would be reduced. Getting the pure professionals together is good. Otherwise, the ordinary actuary might never know what the group actuary is doing and there is something to be learned there.

MR. CLARK: A very large company needs some mechanism for the actuaries to get together. We have an actuarial sub-committee which deals with most questions which cut across more than one line. It often seems to be a waste of time, but there are educational and communication values. We have many actuaries in non-actuarial areas and a substantial number of the people in actuarial areas are electing titles and job descriptions which are not actuarial. The word "actuary" seems to have less appeal than in the past. It just occurred to me that I suppose there are companies such as the Lincoln where you almost have your own actuarial club. That is another way to maintain communication.

MR. JAY: Does the organizational structure of the company have anything to do with how the actuarial functions are organized?

MR. BURROWS: I am sure that the organizational structure is important, but I still go back to favoring one unit. Even though this may not be the vogue for companies, I would like to ask what is the experience with large consulting firms such as yours, Walt? Do the pension actuaries rub elbows with the life company actuaries, and the group people?

MR. RUGLAND: We could answer that by saying that we rub elbows extensively professionally, but within our specialty I think we spend most of our time working with other professionals who are in our own same specialty.

MR. CLARK: We have moved from a predominately functional organization to a line organization over the last 25 years, and in our case, the line organization has been more responsive to the needs of the company.

MR. BOURDEAU: I have been rather quiet on this conversation because I did not want to get embroiled in a discussion of the virtues of a line versus a staff organization. We have found that the young actuaries and the lower-level students probably should not be put on their own in other areas. For instance, if you have a point-of-sales marketing support area in the marketing division, we would hesitate very much to suggest sending an inexperienced actuary there to work on projects. We have several reasons for this, among them would be that an inexperienced actuary can best learn his trade and mature in an actuarial sense if he is working in an actuarial area. I believe Rich alluded to that in some of his comments. This is probably less important as an actuary gains experience, but in an actuarial environment, we can provide him with a broad scope of actuarial projects and responsibilities that would not be available to him if he were isolated in some other functional area.

MR. JAY: Perhaps a basic question might be whether an actuary or a team of actuaries, reporting to a centralized actuarial unit, can be as responsive to the needs of other organizational units as that same actuary or team that is organizationally a part of such other unit.

MR. BOURDEAU: This question can go either way and it is a matter of management style. Top management will influence whether this is the case or not and you can roll with those punches. However, it is a valid issue since all of us are surviving on one method or the other.

MR. RUGLAND: One of the dangers you get into with the centralized approach is that there is competition for manpower allocation and my observation is that in many instances the decision on the manpower allocation is dependent on a guess as to what the result of the research will be for which you are fighting for the allocation. That gets to be a circular trap and the result is that the job does not get done at all.

MR. JAY: The next major topic area has to do with the cost effectiveness or "capitalized value" of an actuarial staff or of an actuary.

How would you define the word "cost effectiveness" for an actuarial staff?

MR. BOURDEAU: We spend a lot of time wrestling with the question of the actuarial efficiency of one company versus another. We have not been particularly successful in this venture because of the different functions performed by various actuarial departments. For instance, contract design and communication with the regulatory authorities may be done in the actuarial division in one company whereas another company may have a separate regulatory affairs division. The same can be said of such items as planning and control, tax planning and financial reporting which are one in actuarial departments in some cases and not in others. Therefore, we find that it is very difficult to define actuarial efficiency, because each actuarial department is doing a job with a different scope. We also find that there is a thread that weaves through this whole fabric and that is the management style of a particular company. Maybe I can make that clearer with an example. Some companies do little analysis and more so called "shooting from the hip", and therefore will not utilize as much actuarial resource as other companies which are more deliberate in their planning and analysis. Anybody who is really interested in actuarial efficiency should review management style and the demands it places on analytic services. This goes back to an old adage that the best way to become efficient at a job is not to undertake it in the first place unless it really has to be done. I would like to conclude with a plea to actuaries to define functions that are commonly the responsibility of actuarial staffs, and possibly develop an index relative to new premiums or inforce business that would give us a proper "ball park" figure for these functions which could be modified for various management styles. At this point in time, we are not aware of any such index.

MR. JAY: We often hear the phrase, cost benefit analysis. It is easy to measure the cost of an actuarial staff, but how do we determine its value to the company?

MR. BURROWS: The value of actuarial functions is surely of a subjective nature, but I am wondering, and I did not attend the teaching session yesterday because we were working on our panel, but zero base budgeting may provide some sort of an answer. At each level of break down of the task there is a cost figure associated. Perhaps some kind of standard of comparison may emerge within the company. You can perhaps value a lapse study that will uncover market problems for the developing agents and that value then may be compared to the cost of the TV advertising campaign. I do not know, but this discipline may provide an answer.

MR. RUGLAND: I had thoughts like that; for example, what is the value of doing an experience study? Many of us have perhaps said, we sure would like to look at our mortality experience, but we do not have the people or time so we will wait until next year (or the year after). If that study would have turned up a significant deviation reflecting marketing or administrative procedures, it would have been of real value and made the cost small. The same might be said of developments of product ideas, how many developments can you afford to fail on. Some say that everything that is done needs to be successful, while others say, if success is attained with one out of five developments, they have the right type of relationship between developmental cost and value.

MR. JAY: We have considered the concept of capitalized value. In the marketing area some work has been done. I am sure that you are familiar with the capitalized value of an agent, using the agent's turnover rate and his expected future production and, in effect, trying to measure the present value of the profit of all of the business that he is expected to produce in his future career. After talking at some length, we have concluded that conceptually this might be applied to actuaries, but practically, we could not think of any way to approach it on a quantitative basis.

Should particular organizational steps be taken to insulate the needs of professionalism for an actuary and protect him from the pressures of management? We had a very fine panel on professional ethics yesterday morning, but we thought we could add a couple of comments with respect to managing actuaries. What are some examples of situations where management pressures could be in conflict with professional ethics?

MR. RUGLAND: I do not believe that the centralized organization is the real step toward insulating the actuary from the pressures of management, especially for those who are staff actuaries within that department. I believe the guides of the Academy and the Society and the Canadian Institute have a lot of applicability to the company actuary's practice as well as to the consultant's. Perhaps I had to become a consultant to realize this. The guides do apply to the work actuaries do whether in the public or private arena.

MR. JAY: What are examples of situations where management pressures could be in conflict with professional ethics?

MR. RUGLAND: There was an example yesterday in the professional conduct session regarding whether the statistical validity of a mortality ratio should be ignored in a report to a company's directors in order to maintain a market position.

MR. JAY: What are some of the ways to resolve these conflicts short of resigning?

MR. BOURDEAU: These situations do not happen overnight, and until guidelines and procedures are clearer, it behooves all actuaries to consider this problem as they evaluate their career tracks. As he sees such problems developing on the horizon, there are several techniques that an actuary can utilize; one is to bring about change by educating management, appropriate persuasion, public relations or politicking. In other words, if a situation is deteriorating he should do all he can, in a nice but firm way, to bring it around. If this fails, the actuary can at least choose a good time to resign and not wait until he is forced to do so.

MR. BURROWS: This is important! I have been distressed in talking to people who may be disaffected with the management, not just on a personality basis but with regard to professional matters. There seems to me to be a predominant attitude of protecting oneself, saving one's skin and not doing something that goes to taking a position of professionalism. If you see at some point that something you consider serious is happening, should you get the news out to the regulatory authority, or the professional society, or what should you do professionally?

MR. RUGLAND: I believe that the greatest benefit of Society membership is that there are guides to professional conduct and standards of practice. Our peers have established these for our use and we can continue to use them as bench marks. We have support within the guides and standards which will help us handle difficult situations, if they come up.

MR. JOSEPH R. GALKO: I have a comment relevant to point number four and also on number seven. I was involved with the administration of the actuarial student program for a number of years and all of the comments directed from this forum seem to relate to the development of the student up to the Fellowship level, and I am giving you this thought from the perspective of a large company. Given the mobility of the work force currently in this country and particularly the actuarial work force, I think a lot more attention is going to have to be paid to development beyond the Fellowship level within the large companies. Unless some mobility is given to these Fellows, retention levels are going to be very low, as we are experiencing in our company.

With respect to the last point, I would just like to offer my own personal opinion. I would take exception to the word insulate or insulation. The development of the actuarial profession is only going to be through interaction with management and not through insulation.