

RECORD OF SOCIETY OF ACTUARIES 1983 VOL. 9 NO. 1

CASE STUDY CONCLUSIONS

Moderator: WALTER T. LIPTAK. Panelists: DAVID E. GOODING, DAVIS A. POLLOCK, BENTTI O. HOISKA, PHILLIP A. TURBERG, JOHN S. HAMMOND. Recorder: DOUGLAS A. ECKLEY*

MR. WALTER T. LIPTAK: Those of you who have participated in the case study workshops will recognize the panel as our chairmen and John Hammond. John is a professional planning consultant who has provided much guidance and catalytic activity for this session, as good professional planners are known to do. The case studies used were developed by the Harvard Business School for use in its academic programs and were made available to us by HBS Case Services. John Hammond, a former member of the Harvard faculty, furnished the author's notes and lesson plans as an aid.

Dave Gooding and Dave Pollock will report and comment on the similarities and differences in the respective Progressive Insurance Company and Guardian Life Insurance Company case studies used for the organizational planning workshops. Then, Bentti Hoiska will provide contrasts in the strategic planning process as applied to the insurance and pension investment workshops. Bentti handled the pension investment workshop. Phil Turberg will then comment on some of the grander issues which the workshops touched on such as the role of actuaries in strategic planning. And finally, John Hammond will lead us in an open discussion of the state of the art of strategic planning in our industry and, time allowing, finish up with a critique of what we have done with the case study workshops. We hope the use of case studies in the workshops, the use of the open forum wrap-up, and the use of professional consulting assistance will provide continuity and an effective way to focus on a given problem. This structure was used for 2 reasons.

First, it is no surprise that many facets of the industry are drastically changing: the distribution system, the players, the consumer, the regulatory environment, and so on. We have all heard, read, and experienced this and know that those companies doing the best job of managing change will come out on top. I believe that formal strategic planning is necessary, and I believe these case studies can be an effective way of experiencing the process for those of us who may not be directly involved in it.

Second, the use of case studies can precipitate a more stimulating and participative workshop session. We thought it would be a worthwhile experiment, since the Society of Actuaries has not used this method before. From the feedback we have obtained, I predict we will see more case study workshops in the future.

Moving to the first topic I spoke of, Dave Gooding will discuss the Progressive study. The Progressive Insurance Company was formed in 1937. Its main line of business is substandard auto, but can be viewed as a specialty company. The case study dealt with organizational questions.

*Dr. Hammond, not a member of the Society, is President of John Hammond & Associates.

MR. DAVID E. GOODING: The Progressive is a very good case to study the relationship between strategy and organization. It involved a number of very good issues that were quite clearly stated. It seems fairly clear that the strategy was developed in reaction to conditions and market forces rather than being carefully defined in advance. There was also general agreement among the workshop sessions that the strategy could be explained reasonably well in the following three elements.

1. Market segmentation, beginning with substandard auto and branching out.
2. Service was more important than price.
3. Profit was to be favored over growth. The company also had a well defined set of financial objectives which it had been very successful in meeting.

Therefore, it may be said that Progressive strategy evolved out of opportunities developed by entrepreneurs who saw those opportunities and capitalized on them.

The Progressive organization could be described as a functional organization with superimposed product managers. Sales were conducted by two separate sales forces; (1) a credit related sales force of 12 individuals working with executives of banking and other lending institutions to mass market substandard automobile insurance; (2) sales representatives working with independent agents to secure substandard auto insurance.

In recent years there has been some decentralization of functions into three regional offices in Florida, Texas and California. This decentralization was not an attempt to change the organizational structure, but rather to get certain functions, such as claims, closer to the market. Because of its market segmentation strategy and emphasis on service, Progressive's overhead was generally higher than most of its competitors. The company's basic strategy was also supported by having its own claim adjusters rather than subcontracting.

These elements of organization tend to be quite consistent with the corporate strategy. On the other hand, there appear to be elements of inconsistency noted by each of the three workshop sessions. There was a strong feeling that the lines of authority were quite unclear, and that the lack of clarity made the product manager's job more difficult.

Another problem that Progressive seemed to have in the organization as structured was that product manager positions were appealing to a young MBA, but there were problems later in that there didn't seem to be any place for him to go. There appeared to be a blockage in career opportunities as the organization stood at the time of the case study. In one of the workshops an interesting point was made about segmentation strategies. It revolved around the question of whether segmentation is really a viable long-range strategy.

The argument was that anyone who is having success in exploiting marketing segments is going to attract competition in those segments, and it is therefore going to be difficult to maintain margins and a high overhead operation within that niche. So you have got to be prepared to move on to other niches.

The essence of the argument was that a segmentation strategy is perhaps only possible in a small organization. As soon as the organization begins to grow and broaden its bureaucratic overhead it may have to move on to something other than the current marketing concept or at least find a way to very aggressively identify and exploit other niches. There were some issues surrounding the divisional organization that kept cropping up.

Among the key concerns were, what should be the structure of a divisional approach? What functions would be retained in the home office, and what functions would be given to the division manager? How would the reporting relationships work? Could the people within the home office (Dick Haverlin, the president, and Peter Lewis, the chairman) give up enough authority and responsibility to the divisional managers to make them truly viable? What would be the latitude of the authority and what function should be under the division manager in a profit center orientation? Then, again, what would be the impact on the other jobs? There were some fairly large sections that would be carved out of some reasonably important jobs if this divisional decision was made.

We got into the question, then, as to why Peter Lewis wanted to divisionalize. Why would he take a company that had been very successful according to its defined financial objectives, and was continuing to succeed, and consider breaking it into a divisionalized or profit center approach at this time? That particular question got quite a lot of debate, more than any other. What we came up with was basically that Peter Lewis was an entrepreneur. He evaluated people in terms of their ability to make a contribution using their entrepreneurial skills and according to their ability to relate to the entrepreneurial way of doing things. He was probably taking a prospective view. In other words, he was saying that there is not yet a problem, but down the road there will be a problem and now is the time to address it. Maybe this is how a chairman ought to be thinking.

Peter Lewis may have been a little frustrated about not being able to clone himself. It was interesting that apparently every section used that same terminology: Peter Lewis would like to "clone" himself into the organization. His reasoning seemed quite emotional. He tended to think in a forward manner, but his reasons were not well rationalized or articulated. His presentation of this whole question began with a statement that "This is something I think we ought to do". He continued by having Dick Haverlin put it in his 1980 president's objectives, and then by sending a memo to all employees in early 1980 telling them about the issue. Finally he called a meeting of his 26 or so key executives in an informal setting, to be followed by cocktails and dinner.

All of this apparently fit well with the way Peter Lewis did things and with the corporate culture of the organization. But, there was a question raised in each of the groups as to whether or not that really is a very good way of doing things. There seemed to be a generalized conclusion out of the groups that that probably was not a very good way, although maybe it worked for Peter Lewis. It was a little hard to tell enough about his style to say whether it really worked for him or not, but in general that's not a recommended way to approach questions of this type. It is not a democratic issue.

When we finished with the information we had, we asked a question. Although the question was phrased somewhat differently among the different sections, it

was basically as follows: If you were going to advise Peter Lewis right now on the question of divisionalization, would you go ahead with it, would you absolutely not go ahead with it, or would you think about it some more, redefine, and request more information?

We ended up with aggregated responses of the three sections addressing the issue. 20% said yes, he ought to go ahead and divisionalize. If that's what he wants to do, he should do it. 15% said no, divisionalization shouldn't be done at this point. 65% said they would like to have more information and to think about it longer before making a decision. For those of you that were in the two sections that did not discuss the April 10th memo, which actually said what they did, let me cover that very briefly. On April 10th, nearly a month after the March 12th meeting, in which this was all discussed in a very open manner, Lewis wrote a memo to Haverlin. The memo said, in essence: "There probably will be an either partially or completely divisionalized company sometime in the future. Under that structure we may want to go ahead and keep the divisional managers here in the head office. It would be no less divisionalized that way. There would still be the original concept even though the divisional manager would stay here under our direct supervision and control. Therefore, the action that we are going to take right now is to do nothing, but to essentially acknowledge that it is probably going to happen at some time. Let it happen naturally but don't do anything organizationally that would inhibit this coming about."

MR. LIPTAK: Dave Pollock will be next with the Guardian Life case. Guardian Life, as I am sure all of you are aware, is a mutual company. They are positioned as a strong individual life writer and in 1950 they introduced health lines, principally medical expense and disability income. The case study involved the problem that the health insurance line was generating losses.

MR. DAVIS A. POLLOCK: The Guardian case presented an interesting contrast with the one for Progressive. While there appeared to be a consensus of opinion on the direction that Progressive was trying to take, or at least what the strategy was, the only thing that the three groups agreed upon in the Guardian case was that there was no agreement in the direction that they were trying to take. There were three groups discussing the case and there were several factions within each group, so in trying to pinpoint strategy, perhaps it is not surprising that we came up with 8 different corporate strategies. One was that there was an investment emphasis or financial intermediary orientation.

The second one, and this was mentioned in different ways, was that it was a "maximized profit", or profit center approach. The agency system was the driving force of the corporate strategy for Guardian and one person cleverly phrased that as "agency paternal". They had a growth strategy.

They had an expense control strategy. Others said they had no strategy, and there was some degree of opinion that their strategy was to maintain the status quo. With such a wide divergence of opinion on what the corporate strategy was, it is not surprising that 10 different strategies were suggested for the individual health profit center.

The first health profit center strategy suggested was simply to support the agency system. Factions of all three sections mentioned a strategy of product innovation. Another viewpoint was a strategy of quality over volume: with

a high premium, high service company in the health line. Other suggestions to support life sales, to segment their market to serve the public by providing health care, to simply break even, to simply make a profit, to defend against market share erosion, and finally an image strategy was discerned.

In one section it was maintained that the individual health profit center by itself really didn't have a well-defined or clear strategy. Perhaps because we had so much trouble defining strategy, we covered the waterfront in making our recommendations to management.

Some people said: "Let us merge the health operation into the life operation, tighten up our underwriting, get maximum rate increases through the regulators, and review our dividend policy. Why, if we are a mutual company, are we paying dividends when we are losing money?" One participant agreed with our theoretical solution, but commented further that in reality, if you are viewed as the stepchild of another profit center, you will not be allowed to innovate and will, in effect, be relegated to a defensive position. Others said that we need to develop a longer-term strategy.

There was a strong feeling that we needed more data, and there was even some opinion that we really couldn't act until corporate management tells us what they want. Others proposed segmenting the market, going hard at the disability income, and tightening cost controls; they felt the profit center was not in bad shape based on the financial statement. Some participants threw up their hands and said, "Let's get out, even though we'll lose general agents, we'll lose brokers, and absorb a lot of overhead." Some said there is a different way to bail out: become a distribution arm and stop manufacturing products and only distribute them. Or, other suggestions were to use reinsurance; or to dump individual and start a small group operation. I think all groups were uncomfortable with the data provided, and said we have to have more information. For example, if we decimate our field force, how many agents would be left? Are those people producing health income substantial life producers? Which blocks of business make money? If we got rid of part of the business, how many dollars would we have to eat in overhead?

I think the Guardian case was a good one in that it raised 2 larger issues. One was a personal issue for everyone in this room: the plea for data may be leading us towards "paralysis of analysis". As actuaries, if 65% found in the Progressive case that we needed more data to make any decision, and if in the Guardian case virtually everyone thought we couldn't make the decision without more data, can we even be strategic planners? The second issue was that Guardian's short-term planning was very good, very innovative, but for the long-term they were not even considering strategic planning.

MR. LIPTAK: Bentti, would you like to take us through the investment case?

MR. BENTTI O. HOISKA: There are three steps in any planning process: policy formulation, implementation, and review. This applies to any business. The pension fund investment strategy workshop considered three cases which covered all these steps. Implementation covered operational issues and manager selection. Review includes performance measurement, which is actually a form of financial reporting. Based on the review, corrective action may be taken if it seems warranted. In other words, the review step feeds back to the preceding steps if changes in policy, implementation, or investment managers are required.

One of our cases dealt with long-term policy issues. The other two cases dealt with manager selection, specifically the selection of common stock managers and real estate managers. The central issue in the long-term planning case related to financial control. It basically asked the question, how should a pension fund be structured and controlled? The major conclusion was that the traditional view that investment managers should have a considerable discretion over the allocation of pension assets is being replaced by the more modern view that investment managers play a well-defined role in the overall pension portfolio. In other words, plan sponsors should not delegate policy making to investment managers and they should play a greater coordinating and monitoring role.

The final issue explored was how to make short-term asset allocation decisions. Various schemes were explored to allow the in-house pension manager control of the structure of the pension fund and elicit the best advice from investment managers.

The management and planning of a pension fund can be compared to corporate planning. The first step in the corporation is to select a product mix, and the second is to determine the claim each product line will have on corporate resources. In a pension fund, the first step is to determine the kinds of eligible investments—the second step to determine how much will be invested in each asset class. The final step is implementation. In a corporation, divisional managers are hired to develop operational and administrative procedures and to oversee day-to-day operations. In a pension fund, investment managers are selected and procedures are developed for controlling asset allocation among them. Corporate managers run the Company; investment managers buy/sell securities.

So far, both processes appear to be rather similar. In my opinion, the major difference between managing a pension fund and managing a corporation relates to control. A major determinant of an investment manager's performance is the market performance. Last year many common stock managers generally earned high rates of return simply because the stock market went up. The investment managers have no control over that environmental variable. The basic question in running a pension fund is, how to plan and how to implement financial controls when the basic determinants of the ultimate outcome are beyond the sponsor's control? This is very different (at least in degree) from a corporation where the manager has greater control over profitability. To some extent in money management, if a manager underperforms, another can be hired as a replacement. However, the market is by far the most important variable, over the long run, not the skill of the manager. Thus in my view, the most important task in running a pension fund is to develop a structure (asset mix) that makes sense for the sponsor then to manage this structure rather passively. The pension fund should be monitored so that asset mix policy is followed and investment managers adhere to the investment styles they were hired to implement. This approach endows the pension fund with certain stable statistical characteristics and increases predictability and control over the long run. Sometimes it requires courage to adhere to asset allocation policies when the markets are down and the outlook is bleak.

The second case considered the issues involved in picking a common stock manager. The first dimension is quantitative. We spent a good deal of time

discussing the pros and cons of various performance measures. The other dimension is qualitative. How good is an investment management organization? Does it have sufficient resources to implement its investment approach? Is it a stable organization? Are people compensated to perform, or do they get paid the same salary irrespective of performance? The central issue is if a manager has had excellent performance, is it attributable to skill or luck? Skill is more likely to have played a role if the manager has sound investment philosophy, a stable organization with talented people, and so on.

If a pension fund has a growth stock manager already, does it need another? Should it hire a more conservative manager? How should it diversify across investment approaches? These are some other questions that we discussed.

The final case dealt with selecting a real estate manager. Common stock managers have been monitored closely by performance measurement services. Since most of the real estate funds were introduced in the 70's, little exists in the way of performance statistics. Hence, one problem we discussed was the unavailability of performance data. In the real estate area, you are forced to rely more on qualitative considerations. For example, how good is the organization?

We also discussed open-end funds, which were the first entry into the real estate market and the recent introduction of closed-end funds. What are the pros and cons of each kind of fund? I said before that the market is the major determinant of a common stock manager's performance. The real estate business is different. When a common stock manager buys 10,000 shares of IBM he holds a stock certificate. He is a passive investor in the sense that there is no direct involvement in IBM. A real estate manager buys a business. When he buys an apartment building, he must manage it. Thus, a real estate manager must have both market insight and property management skills to perform well. We must also ask if he can negotiate purchases and sales. Can he keep the property fully leased? Can he operate buildings efficiently? A real estate portfolio is a collection of directly controlled businesses. Some people can run businesses better than others. For this reason I believe that it may be easier to identify good real estate managers than good common stock managers.

MR. LIPTAK: Within the workshop sessions many "grand" issues surfaced, such as the actuaries' training and decision making capability. What are the obstacles to doing good strategic planning in the industry right now? Why is it that we have been wringing out hands since the mid 70's about all this turbulence around us?

MR. PHILLIP A TURBERG: I thought I would set a little background with my impressions of strategic planning in the life insurance industry. I will burden you with these remarks for a few minutes. Part of this has become a little bit of a religion to me in the sense that I have strong feelings that actuaries should be more involved in strategic planning. We were all pleasantly surprised with the response and participation in all three sections in the case study workshops.

The tremendous change taking place in the life insurance industry has been reflected in the products we sell, the way we sell them and in the image we desire to present to the public. The next level of change that is starting to emerge, is an intensive view of the way we are organized and the backgrounds

and disciplines of the people who will lead these new organizational structures.

Strategic planning is really just the process to effect change in an orderly manner within an organization. As life insurance organizations examine their structures within the environment of the 1980's in the need for dramatic change in direction and approaches, the actuary and the actuarial role are coming under severe scrutiny.

In the past the career path of the actuary was clearly defined. He entered as an actuarial student, completed his exams, assumed an officership role in the Actuarial Department and moved on within the Actuarial Department into ultimately the role of Chief Actuary. If he exhibited managerial strengths and talents he very often would become the head of the Underwriting Department, the Controller, and in some cases, the Chief Executive. Those few who had finished their examinations and discovered that their paths were blocked within the insurance company would move out into the consulting world and become infinitely wealthy as actuarial consultants.

That is all changing now primarily motivated by the increasing utilization and importance of the computer in the insurance company. The Actuarial Department which at one time would maintain extensive records for dividends, policyowner service transactions, state insurance in-force files and related financial statutory reporting files have been replaced by the computer. No longer are large administrative staffs under the control of the actuary. In many organizations the product development function has been moved into the Marketing Department and actuarial staffs are found in many Marketing Departments.

So where does the future of the actuary lie in a life insurance organization? As companies move into strategic planning the actuary is assuming a significant role, in many cases a leadership role, in the strategic planning process. The actuary is usually brought into this role because of his facility with numbers and the inherent relationship of planning to budgeting and forecasting. However, the actuary also brings a breadth of knowledge, particularly of product knowledge, of all facets of an insurance company's operations attained initially through the examination process and expanded through experience.

I view this as the opportunity for actuaries in the 80's! I believe that the strategic planning officers with managerial and human resource skills in addition to their operational knowledge of the industry can be the future leaders of the industry.

I do not think that to achieve this it is necessary to change the examination structure or to introduce courses in strategic planning or organization design into that structure. It is too lengthy and complex already!

Rather I believe that actuaries should consider taking courses in business schools oriented toward the business process and if possible even consider entering MBA Programs. This is merely to learn techniques and not to specifically become a successful planner. Successful planners are generally people who have a deep interest in the business. They should naturally broaden their view of that business to include all of the publics that are involved in a business organization: management, employees, agents, policyholders, regulators, and society in general.

Strategic planning can only be learned on the job and expertise developed there. We must recognize the need to change the corporate culture within an organization to make it accepting of strategic planning and its implementation at all levels of the organization. Planning is a top-down process if it is to be effective. The goal of the strategic planner is to deal with the Chief Executive Officer and obtain his continuing commitment to the process. It is therefore necessary for the strategic planner to recognize the different styles of different companies and to understand that the strategic planning process within a company is a continuous process. It will change when there is a change in the Chief Executive Officer.

This whole field is a decided challenge to the actuary. Not all successful Fellows of the Society of Actuaries will make strategic planners and in fact a minority will probably be successful. However, far more Fellows of the Society of Actuaries can achieve success and satisfaction in their professional and business life if they are to aggressively pursue this area. It is my hope that this meeting will stimulate interest in this role for actuaries and offer those actuaries who desire a broader managerial role in the corporate environment an enhanced opportunity which did not exist until three or four years ago.

DR. JOHN S. HAMMOND: What I would like to do now is to get you (the audience) involved.

Walter referred to the grander issues involved in these cases, and I would like to get your views for the next few minutes about such issues.

You spent a good part of yesterday discussing cases, and you may have heard my remarks this morning about what strategic planning is. Now you take a look at yourself and your career path, and the questions are: What is the role of the actuary in strategic planning, the process that is so essential to our industry in the next half dozen years or so? How adequate is the actuary's training for this and what are the gaps that need filling? What are some of the major issues that need to be addressed in the strategic planning process in companies of the sort that you represent? Finally, what are some of the obstacles to good strategic planning in the companies that we represent? I would like to spend about 5 or 10 minutes on each of these issues to see what your views are.

What do you think the roles are of an actuary in planning?

MR. JAMES R. THOMPSON: My belief is that the actuary can best participate in strategic planning by using his knowledge of quantitative factors as well as his detailed knowledge of operations. Often the strategic planning depends on the construction of a model. Because of the need for ready answers, often detailed models are impossible. By using his knowledge properly, the actuary can hone in on various critical factors and recommend and follow through on the calculation of very simple models which will provide adequate answers to the problem. When I was in astronomy, we used to call these order-of-magnitude calculations.

DR. HAMMOND: In other words, the actuary's knowledge of the insurance business can help executives develop conceptual models of their business. Now, let me ask a question. Do most actuaries think simply? Those who can think simply can perform an enormous service to their CEO.

I would tend to agree. My own view is that what's needed are simple models of strategic planning rather than complex models. Complex models are needed to hammer out the details. The simple models are useful for chasing ideas, for forming ideas. The right models for strategic planning didn't come from hooking together a lot of complex sub-models into some grander model. They came from making new ones to think new ideas. Actuaries with the right frame of mind can be enormously helpful here. You might want to see my article in the winter of 1974 Sloan Management Review which tells how management scientists can work with top executives in helping them form views, and facilitate thinking as opposed to hammering out detailed projections.

MR. TURBERG: Very often as you go through a strategic planning process, everyone has great ideas and great opinions, but they can't quantify them even in simple terms. I think that is where the actuary really comes to the fore. Quantification adds meat and substance to the strategic planning process.

DR. HAMMOND: Very good, I think quantitative skills are a very important attribute of an actuary. But I do want to point out that there is a real danger in quantifying too early. If you start running numbers too soon, you get caught up in numerical details and you lose sight of the big picture.

MR. MICHAEL SHAMROCK: I think a good step before quantification is to develop good interactive communication so that there can be enough discussion of what the key factors are. Then when the quantification begins it can be more meaningful and everybody is interested in it. If the actuary puts the pieces together without communicating, then nobody really understands.

DR. HAMMOND: What do the actuaries have that allow them to do this better than the other people in the organization?

MR. SHAMROCK: A reasonable background and understanding of all the various theories and operations of the company is perhaps their best attribute.

DR. HAMMOND: So this disciplined knowledge, this theoretical knowledge of the insurance industry allows the actuary to be the broker, the catalyst.

MR. TIMOTHY L. GILES: There are some instances where there is a danger to the actuary who can come on too strong, and actually impair the process of interactive communication. I want to mention three national cases where numbers seem to get in the way.

An example is what happens to the actuary in the Social Security controversy. Another case would be the money supply: What should its level be? Both of those are under congressional debate. The third example would be the federal budget. In all three cases you have people who certainly know the numbers, and the more they know about the numbers, the more likely they are to get caught up in details.

MR. ROGER HANSON: The actuary brings to any sort of discussion of this type his understanding of 3 elements: risk, investment income, and expenses. He also knows how these 3 interrelate and how they can be managed.

DR. HAMMOND: Different strategies are involved with different mixes of these factors. You can have a strategy which trades expenses to get better risk selection. Hartford Steamboiler does this effectively in boiler and machinery

insurance. You can have strategies that take on risks to get the money for investment income, and so forth.

MR. WILLIAM LANDEN: Tax planning is a component of strategy that actuaries certainly respect.

MR. RICHARD J. SQUIRES: Actuaries can make a unique contribution in that they have both a professional memory and a chronological memory. This perspective is developed through years of training.

MR. MELVILLE J. YOUNG: With this broader understanding comes at least a promise of being able to add creativity to the process. I think some of us take our overall training and get bogged down with numbers, not allowing ourselves to think freely. We missed our opportunity to add the essential ingredient to the whole process: creativity.

DR. HAMMOND: You are saying that being detail oriented is tending to dry up creativity. We need to lift ourselves above the needs of the 19th decimal point in order to ask some bigger questions. And if we learn how to do that, we can be enormously valuable. That is an excellent point.

MR. RICHARD JUNKER: One thing in an actuary's training that may be lacking is marketing. Sometimes I think it would have been good if I had been a salesman for a couple of years. To see firsthand what products apply would give us a lot more perspective and get us away from expertise in numbers that Mel was talking about.

DR. HAMMOND: In other words, it isn't just the numbers that make a product successful. There are other factors. I am mindful of my days as a computer engineer. I worked with other engineers who thought that the computer was only the hardware. They tended to neglect the role of software because they saw the world from the point of view of hardware. What you are saying is similar.

MR. GOODING: One thing that I have found helpful in making this bridge between technical actuarial work and strategic planning and communications was to almost refuse to answer a question in the technical terms in which it was addressed. I found that management very often would ask a question for which they expected a numerical answer. What I would do was try to redefine the question in strategic terms, thereby laying the foundation for a discussion of strategic planning along with answering the question. I found that to be very successful. The people I was trying to communicate with appreciated the effort and got rather used to being involved in that kind of conversation. I think it helped a great deal. Take the more detailed question, ask a broader question, help management wrestle with it and only then answer the detailed question.

MR. JOHN B. CUMMING: The point I want to make goes back to what Dave was just saying. One of the very important functions that an actuary has in strategic planning is to bring detachment and rationality to what is necessarily a somewhat subjective process. There is no one answer to strategic planning for a given situation. The actuary can bring detachment and rationality to the process.

MR. GOODING: I think you eventually have to provide a technical answer. The way to get there is to give a little bit of background as to how this question fits in with strategic planning. You build a framework which your answer fits into. I am not saying that every member of management is necessarily recep-

tive to that approach. I have encountered 1 or 2 individuals who just said "I don't want to hear all that business. Tell me what the answer is and I didn't care to listen to the rest." That is very rare. Normally I have been able to get them to listen to the structuring and framework before they got the answer.

DR. HAMMOND: I have found also, that what you do is build yourself a track record. Then you begin to get asked other questions, too, which is a little bit like the corporate attorney who at first gets asked legal questions and pretty soon his counsel is sought on business matters. The same thing is true I think in the actuarial area. In those situations in which you are successful you already have built up a rapport. It is usually based upon your more narrow skills originally. You don't just walk in and suddenly start popping away with grand schemes for the future of the company when somebody is looking to you as an actuary with a technical answer.

As Phil said, the key thing is not necessarily to reorient the actuarial/development program, but to keep it pretty much as it is while broadening the actuary's career path and education. It seems to me that the actuary is responsible for his or her education.

To some extent, I suppose the Society or the industry could sponsor continuing education in areas like strategic planning, marketing, and so forth and of course career paths are helpful.

Let's go on to address another issue. What are some of the issues that the industry needs to come to grips with in the strategic planning process? I hope your answers will be a healthy blend between problems and opportunities. For instance, if the industry lost its favorable tax treatment on cash build-up, what other advantages would it still enjoy?

MR. ROBERT LIXINS: It seems that one of the most important things is the future period of time in which you try to make your strategic plans.

DR. HAMMOND: What is the time horizon we are looking out over? Is that what you are saying? It turns out, Bob, that that is a simpler problem than most people think. The reason you do strategic planning is not really to make future decisions, but to make present decisions. You want to look out and see how the future affects your present choices. The emphasis is on present choices. That is the reason you look out in the future. You need to look out as far as you can in order to make wise present choices. Once you have recognized that that is what planning is all about, you are much less nervous about whether the time horizon should be five years or seven.

MR. YOUNG: It seems that every strategic plan has an emphasis on being a leader in some market. I think two of the things you can be asking yourselves are: Assuming that the world we live in is going to be even more chaotic than the world we have lived in, what are the ingredients I have to start putting in place in order to help me plan? What are the types of people and the characteristics of the people I should have on staff in order to help me be the leader that my plans call for?

DR. HAMMOND: I had an interesting conversation this morning. Someone asked: What about these large companies that are saddled with large career agency systems? Can they ever change? The answer is, not only can they change, but they will have to change. It will be particularly painful because they are like the Queen Mary going full speed in the open ocean. It is going to take a

long time to turn them around. And what you are saying is that if you have a sense of the direction that you want to go, you can begin to lay the groundwork and begin to redeploy.

It may take several years to do that. You have to know what direction you want to redeploy in so that you will be in the position to take advantage of the opportunities ahead. In the meantime you want to try to use that momentum to gather the resources that you need to strengthen yourself in the future. Now, what are some other issues that we need to address in our strategic planning process?

MR. CHARLES E. ROHM: It seems to me that a critical one is getting top management to believe in strategic planning and then to do it.

DR. HAMMOND: I think everybody does strategic planning in one form or another. It can be explicit or implicit and good or poor. Strategic choices will get made. But what you are basically arguing for is explicit strategic planning. Get them to consciously think things through and you really foster the process. And that is hard to do.

What are the obstacles to doing good strategic planning in the industry right now? Why is it that we have been wringing our hands since the mid 70's about all this turbulence around us in our industry?

MR. HOISKA: We may be unconsciously limiting the scope of planning exercise. Life company planning may focus too much on products. The planning exercise also can be developed along a functional lines. Take the life company you just mentioned with the very expensive, very large sales force. It might be an excellent sales force but the company might have the wrong products. An alternative that could be considered is to become a marketing organization and sell another firm's products.

There is a presumption that every company must make it, sell it, and service it. What I am suggesting is marketing per se that could be a viable business. An example of this may be a company with an excellent sales force but inadequate investment talents. The idea would be to sell someone else's investment products and exploit your strength. Think of functional choices as well as product choices.

DR. HAMMOND: That is interesting. What you are saying is that we have a series of habits in mind or implicit assumptions in our thinking that kill creativity. The insurance executive has certain traps that he or she is in. We have to break those traps and take a broader point of view. What is the value that the customer is getting from us?

MR. JAMES R. THOMPSON: Would you please give us an example of what it means to rent out our agency force? How does the company profit from this rather than the agent?

DR. HAMMOND: Reinsurers are an example of this. They have decided to get out of selling directly to the public. They are essentially in the wholesale business. They let the other people do the selling and they are the risk-takers.

MR. GOODING: A number of companies do this in disability income. They know their people need a product. They want to provide it for them, but they don't want to get into that line of business. It is too risky, or too highly specialized. They may enter into a product agreement with someone who specializes in it. In fact, Transamerica has done so with a carrier for disability income. You can simply give the business to that company for a period of time. Over a period of time you may feel as though there is a demonstrated need and enough value to justify going ahead yourself. It is a make or buy situation.

MR. LEWIS P. ROTH: We have entered into that kind of arrangement for several mutual funds.

DR. HAMMOND: These are dramatic new concepts and these ideas need to be considered more often. The concept of renting your sales force in the insurance industry is pretty foreign, isn't it? These are new ideas and they have to be more developed.

MR. ROTH: We are still oriented to the short run because we really haven't been hurt yet, as the automobile companies have.

DR. HAMMOND: Our past business is a big flywheel that is carrying us along. It is going to take a long time for that flywheel to spin down. We can see that it is going to slow down but the reality hasn't hit us yet.

MR. TURBERG: The obstacle is having this heavy product orientation without thinking in terms of markets and customers, or even distribution systems. The distribution system can be used for more things than it has been in the past. There has been this focus on solving everything with a new product.

Inadequate management information systems has been an obstacle to strategic planning. We are organized too much according to financial reporting rather than operational reporting. We have a difficult time seeing what the impact of change will be.

DR. HAMMOND: I want to close with a personal message. It has been a real pleasure working with you as a facilitator and as one of your speakers. Based on the degree of interest and creativity in this room, I think there is at least a small group of people who are going to make a big difference. Thank you.