Small Talk Newsletter

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Managing Actuarial Functions at Smaller Insurance Companies—Webcast Recap

By Erik Gravelle

Every small company actuary has to deal with the challenge of limited resources in some way. No matter how big a company is in terms of the various metrics (assets, premium, life insurance in force, etc.), there are certain functions that must be performed by qualified actuaries as part of the general operations of the company. These functions include (at a minimum): pricing and product development, valuation (traditional "formula-based" approaches and emerging principle-based approaches), claim reserve setting for health products, asset adequacy analysis, X factor testing, Illustration Model Regulation testing, reinsurance treaty negotiations, experience reporting and analysis, assumption setting, … etc., etc. Small companies unfortunately tend to have smaller budgets for actuarial staff and resources. This leaves the small company chief actuary with the constant challenge of trying to answer the question, "How do I get everything done that needs to be done, with the limited time and resources at my disposal?"

On Sept. 8, 2011, the Smaller Insurance Company Section of the Society of Actuaries (SOA) sponsored the webcast "Managing Actuarial Functions at Smaller Insurance Companies." The webcast was very well received by the more than 50 participants who signed up and tuned in. The webcast featured four speakers: three of whom are chief or corporate actuaries for small or mid-sized life insurance companies, and one who is a consultant who often does work for small insurance companies. The four speakers were:

Paul Retzlaff, FSA, MAAA, chief actuary of Indiana Farm Bureau Insurance;

Dale Hall, FSA, CERA, CFA, MAAA, vice president and chief actuary of Country Financial;

Alan Larson, ASA, MAAA, corporate actuary for Shelter Life Insurance; and

Chris Hause, FSA, CLU, MAAA, president of Hause Actuarial Solutions, Inc.

The presenters on the webcast tackled this issue, gave their insights, talked about the unique challenges they face based on their specific situations, and discussed what they've found has worked well in their situations.

What Drives the Need for Staffing and Resources?

How big of an actuarial staff and what actuarial resources are needed will vary greatly from company to company. Examples of some factors that could determine how much a company needs in terms of actuarial resources include:

The company's geographic footprint
How many states is the company selling in and how many regulators is it then having to deal with?

The company's product portfolio

- Does the company only have life and annuity products, or are there health products to deal with too?
- Are the products traditional and "simpler" products like whole life and term, or are there more complicated products like variable universal life (UL) or equity-indexed annuities?
- Are there asset-intensive products (annuities, whole life, etc.) that necessitate more analysis and expertise with respect to investments and asset/liability management?

Market niches
Does the company offer any niche products that would require specialized actuarial expertise, such as credit insurance?

Corporate structure and culture

- Is the company a stand-alone life insurance company with a management team and board that is active in the operations of the company, or is it an affiliate of a larger property/casualty (P&C) company where the life company may not get the attention it needs or desires and where the board may not understand life company financials as well as they understand those of a P&C company?

- Is the company really a family of companies where one actuarial staff is serving the needs of multiple entities, and do those entities have different traits that make the actuarial operations for each a very different proposition? (For example, the organization of one of the webcast's presenters was made up of two companies. The primary company is the much larger of the two in terms of assets, distributes its business through captive agents, does business in only one state, and has a product portfolio consisting of annuities, fully underwritten term and fully underwritten whole life. The secondary company is much smaller in terms of assets, but does business in 46 states, sells through independent agents, and deals with simplified issue life products.)

Crossing the "magic line" for increased regulatory scrutiny
As a company grows to a level that might be considered more mid-sized than small, it may cross a "magic line" (not explicitly defined, but probably about the $500 million in written premium mark) where there starts to be more regulatory scrutiny and therefore more need for actuaries working with auditors and regulators, and fielding questions from senior management.

The Experts' Tips

Many insights and tips were given by the webcast's presenters as to "get everything done that needs to be done." Some of these tips were:

Find synergies and efficiencies between the various functions.
For example, pricing models can flow straight into cash flow testing models, and mortality experience studies for setting pricing assumptions can be used for X factor testing.

Avoid scope creep.
Don't let projects turn bigger than they were originally intended to be, and don't let responsibilities that are not actuarial in nature become part of the actuarial staff's purview, unless there's good reason to do so. A few examples cited by the presenters of non-actuarial responsibilities that end up being handled by the actuarial department were reinsurance administration and supervision of the model office area (i.e., system implementation for new products or product management). There may be good reasons why those types of functions belong under the actuarial department's umbrella, but it's important for the small company actuary to determine if they fit better in another area, given how much is already on your plate.

> "When you have a small actuarial staff, it's crucial to hire the right people and put them in positions that make sense, given not only the company's needs, but the talents of the individuals you have working for you."

Know when to say "no."
All actuaries, particularly those dealing with product development, are aware of the people in their marketing department who want every shiny new product that hits the industry. Product innovation is certainly a good thing, but a small life insurance company sometimes has to steer clear of variable annuities with guaranteed living benefits or equity-indexed products. These more complicated products can greatly add to the workload of not only the actuarial staff, but to other areas of the company as well, and the sales volume from a small company's sales force may never justify the costs associated with implementation and maintenance.

Staff smart.
When you have a small actuarial staff, it's crucial to hire the right people and put them in positions that make sense, given not only the company's needs, but the talents of the individuals you have working for you. Also, with a small staff, it's very important that everyone is

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able to work together and get along. It's much easier to make the right decision at the time of hire than it is to deal with a problem once someone is on board.

Know where to find help.
Every small company actuary has at least these three broad categories of outside resources at their disposal, each with potential costs, and pros and cons to consider:

1. **Industry resources.** This can include the wealth of information available from the SOA (experience studies, articles, etc.), the Actuarial Standards of Practice, newsletters put out by the various SOA sections (including *smalltalk*), industry meetings, and a personal network of colleagues that are available for questions or available to serve as a sounding board.

2. **Reinsurers.** Reinsurers can be a great source of "free" consulting. They have plenty of data available to them to help their clients build assumptions and have a staff of very qualified actuaries who can give input on what the rest of the industry is doing. Of course, reinsurers are only willing to provide this information and consultation if they are getting something in return (i.e., a big enough piece of the pool), so it's important to be able to understand how much something is costing in terms of ceded profits when deciding whether to use a reinsurer versus spending hard dollars on a consultant.

3. **Consultants.** Most small company actuaries use consultants in some capacity. The level of assistance will depend on the company's specific needs, among other things. Consultants could be used to gain expertise on new product initiatives, peer review work that the in-house actuaries have done, help lighten the load on some of the major functions that must be performed regularly, such as asset adequacy analysis or corporate projections, or advise the company on new markets it might be entering. In some situations, consultants could be kept on retainer with very specific regular functions that they will be performing spelled out in advance, or they could be hired on a project-by-project basis. These types of decisions have to be made based on the company's specific situation, weighing what the biggest needs are and what the various costs are.

To purchase the recorded version of the "Managing Actuarial Functions at Smaller Insurance Companies" webcast, visit: *http://www.soa.org/professional-development/archive/webcast-recordings.aspx.*

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