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**LIFE AFTER INSURANCE COMPANIES –
A CAREER IN CONSULTING**

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- Why go into consulting?
- How to start a consulting practice
 - Skills inventory
 - Marketing
 - Financing
 - Finding a niche
- Trade-offs: consulting firms versus insurance companies

MR. BRIAN R. BROWN: This is a management topic staged by the Management and Personal Development Committee, of which I am the chairperson. Our committee's mandate is to plan, implement, and actively promote educational programs on management and business skills for actuaries. We're not a section. There's no voting. You just apply to join. For anybody who is interested, I'd be happy to talk to you. We're looking for new members.

This session is intended for career planning and development. That's the part of management and personal development that we're looking to help you with today. Each of us here is a reasonably new consultant, in that we still remember working in life insurance companies. We've deliberately tried, in putting together the panel, to give a different perspective. I work in life insurance actuarial consulting. Mike Hafeman works as a pension consultant for Mercer. Tom Coulter is the really brave one who set up his own consulting operation. They can introduce themselves as part of their talk on why they moved from insurance into consulting.

Everything that you hear is going to be subjective. There's no right answer for any of this. You'll get subjective reasons from three people with very different backgrounds as to why we joined consulting ranks, and you'll hear about our experiences as consultants.

My working career has been in life insurance for 20 plus years. Some of it was in England. Half of that time has been in actuarial, that's valuation and product development. The other half has been across all sorts of different areas: information systems, accounting, marketing, planning, audit. Two years ago I moved to set up a life insurance practice for a medium-sized Canadian consulting firm based here in Toronto. The firm is based in Montreal, so we are, in effect, a branch office of that operation.

Why did I make that move? Why did I go into consulting? Going in, there were three main reasons, plus a fourth that I had not foreseen, but I'll address it because I should have probably foreseen it and I'll share it with you. One of the areas I had never worked in in a life insurance company was sales. It was more than a little daunting to me, but I thought if I wanted to broaden my experience, I should go into

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life insurance sales. But I did want to broaden my skill base. I had worked in marketing, but by going into consulting I could draw up marketing plans for me to sell what I wanted. Whereas by working in a marketing department of a life insurance company, I would draw up marketing plans, etc., for other people to sell.

There's obviously the challenge, as well, having worked 20-odd years in life insurance. Consulting seemed so different. It is so different. But the challenge of trying something very different from what I'd been exposed to in the past was part of what took me from corporate life insurance into consulting. Part of that challenge is the variety of companies you get to deal with. Unless you job hop in life insurance, you really only get to see a few companies. So there are a variety of companies, views, cultures, projects, and people. You just do not get much of that in one, or two, or even three insurance companies.

What I had not foreseen is the autonomy. I cannot say that I was subjected to a lot of control in the life insurance companies I worked in. Some controls obviously exist in a corporate environment, but I did not have bosses who looked over my shoulder every moment of the day. But certainly there are elements of control in insurance companies. Joining this branch operation of a medium-sized consulting firm, I was amazed to find how much autonomy I did have. In effect, it was autonomy to develop my practice, my way, and that surprised me most.

What skills do you need then to start a consulting practice? I will discuss five. Probably Mike and Tom will add others, but these are the key ones that I thought best to share with you. Consulting is a people business. In effect, every business is a people business, but consulting is more than most. Someone has to go and get the new business. It does not just walk in the door, or the phone does not ring off the hook. You have to go and get it. And then you have to work with the client. So you need people skills. You need to be able to talk. Verbal communication skills are very important. But you also need to be able to listen. Some of you may have gone to the effective listening seminars the Management and Personal Development Committee staged at the 1991 Spring meetings. You have to be able to listen. It is what the clients need, not what you want to give them, or sell them, that is most important.

You need some technical skills, obviously. I don't believe you need to be the absolute expert in anything. But you need expertise in one or two fields, otherwise what is it that you're consulting in? What is it that you're selling? If you join a larger consulting firm, quite often you will be given the time to develop the expertise. You don't necessarily have to walk in with it. But you can consult in any specific area of expertise you've built up in your insurance company. You need the technical background, but you do not have to be the absolute expert.

I will use the word "entrepreneurial" loosely. You have to be a self-starter. Consulting is not a corporate environment where people will remind you of the deadlines that you've promised. In consulting, you promise deadlines. You promise work to clients. You could lose clients. You have to be a self-starter and a self-finisher. You have to manage your time and priorities a good deal more than you do in a corporate environment.

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And it helps if you can think of new ideas. You then are not just rehashing the same thing. I said you need verbal communication skills. You obviously need written skills as well. It depends on the field you're working in, but often you have to make complicated issues be understood in writing. To an extent, in life insurance consulting that's less so, because your client tends to be an actuary or somebody who is well versed in life insurance. I will not stray into pensions and other areas, but there, as I see it, the clients are lay people who do not know many of the technical terms that we've all studied. So complicated issues must be understood in writing and often verbally as well.

And finally on my list of skills is something that isn't really a skill. You need a network. You cannot make all the sales individually, one on one. You need referrals. Tom, in particular, will address that. As a person who set up his own consulting firm, a network is even more important than for somebody joining a bigger firm.

The program splits marketing and finding a niche as two distinct topics. To my mind they are one and the same thing, or so close that I cannot address them separately. I thought I would share my thoughts from my perspective in a life insurance or property and casualty insurance practice here in Canada. You can draw some parallels for the United States. Certainly here in Canada, and given I have a Montreal office that carves out Quebec for itself, there are a very limited number of potential customers. There are maybe 150 life insurance companies here in Canada, and that is the market. One can add banks and trust companies, perhaps, but there are still a very limited number.

Pension consultants and benefits consultants have life very easy. There are so many companies out there that need such consulting that they can knock on any door and pick up consulting assignments. We life insurance consultants have things far more difficult. Here the market focus is very important and it's very restricted. You cannot be all things to all people. At least to start with, you cannot. You have to start somewhere. You have to find a niche and that niche can be by function. In life insurance you might specialize in valuation, in product development, in mergers and acquisitions, and certainly here in Canada in the near future, in demutualization.

You can specialize by line of business: health, direct marketing, group, etc. What the focus is doesn't really matter, as long as there is an actual market, and that you can back the focus that you pick with expertise.

The company that I joined has a focus that I inherited to a great extent. Its focus is on valuation. That is the background for my company, and therefore that is the focus that we have taken into the market here in Ontario.

The other subheading on the program is financial, which very much is directed at someone like Tom who is setting up his own operation. If you join an established firm as I did, you're likely to be on salary just as you would be in an insurance firm. It's structured slightly different. There are more incentive bonuses in a consulting firm than there are, generally speaking, in a life insurance company. But if you join one of the big firms, you are given a pay raise much as you would receive when moving from one insurance company to another. But the structure of the salary or the compensation is very similar.

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So what are the trade-offs? When you become a consultant, you're in the front line. They're your clients, you are the key person. You do work in teams to an extent, but they're usually small. You are in the front line.

What you do is recognized and the client depends on you. But there's often no one to delegate to, if it's a small team. Often, but not always, you have to do it all yourself. There's no one to share the disappointments with you. Not that we ever have disasters, but if one ever came along there would be no one to share it with. You own it. So on the front line there is nowhere to hide, which is good and bad.

As I said earlier, I found there's much autonomy in consulting. It surprised me to find what I could do. I was left to my own devices. The flip side of that freedom is that if I needed help I had to go and ask for it. People are always happy to give advice, but their main focus is on their clients. They're consultants themselves and they have clients to service. They're not there looking to help other people, other than when they're asked. It's different in an insurance company. For the most part, you have layers above you. There are training departments. There is generally more focus on assisting new people. The entrepreneurship gives you the opportunity to fly your ideas, to draw up your own marketing plans on what you want to do, within the constraints of the company you're working for. But you also have to go out there and sell, and for professionals, actuaries included, I find that's not necessarily the easiest thing to do. Marketing is easy. Selling is a lot more difficult.

But finally, I have found that consulting broadens your experience so much, as opposed to working in a single life insurance company. You get the breadth of experience. You might not get the depth of experience that you get working for three or four years in one department of a company, but the breadth is what makes the difference to me between working as a consultant and working in life insurance. Those are my perspectives, my experience.

MR. MICHAEL J. HAFEMAN: As Brian said, I've spent a good part of my career in the life insurance business and just got into consulting about a year-and-a-half ago. So I want to talk about some of the reasons that I made that career change, how I got started in the consulting business, and some of the differences that I found in the work environment between the insurance company and the consulting firm. These observations are really personal and particular to my situation, and if you're coming from a different point in terms of your insurance background or what you want to get out of consulting, then your focus is going to change. But, hopefully, these observations will be of some use to you.

I want to talk about my background a bit so that you can understand where I am coming from and why I did what I did in moving to consulting. After getting out of the university, I joined a medium-sized life insurance company in Wisconsin and worked there for about nine years. During that time I held a number of positions, both actuarial and management, in quite a variety of departments such as sales, policyholder service, and corporate planning. I left there as the assistant vice president of individual products to join the U.S. holding company office of a large European insurance group. I was the vice president and actuary there, and I did tax planning and looked after the operations of the U.S. and Canadian companies, to

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make sure that they were following their plans. After a year-and-a-half in that office, I moved to Toronto as the president of its small life insurance company.

I did that for about three-and-a-half years, and I found that to be a very stimulating and challenging experience, as I built a management team and made good progress in rebuilding the operation and gaining some foothold in the marketplace. At that time, our owner purchased another life insurance company in Canada, a somewhat bigger company, and we set about merging the two operations together. I don't know how many of you have been through a merger, but I could say my experience was probably better than some and worse than others. But it's not the sort of thing I'd like to go through year after year.

In the new merged firm I was the chief financial and administrative officer and, although I managed about three fourths of the company's staff, the degree of control I had over the company's direction was not really what I was accustomed to. And it was a bit of a frustrating period, so about a year or so after the merger took place, we parted company and I went off looking for something else to do.

However, I didn't really start my career considerations at that point. About a year earlier I took an evening course in starting a business. I had met with several friends in the consulting business to get their views on how they liked consulting. A few had worked in insurance firms before. When I was out of the insurance company environment, that gave me plenty of time to look at those issues and look at myself, see what I enjoyed doing, what I wanted to accomplish in the rest of my career, and to really set my objectives. So I did that and established several objectives that were key to me in deciding what career path I wanted to take.

The first one was control, and I guess part of that was a side effect of the merger process. I looked back over my whole career in the insurance business and I found that a number of opportunities and the not-quite-as-positive events were the results of things that I really didn't have a lot of control over. By and large, I'd say I benefited from them, but I didn't think that I really wanted to spend the rest of my life subjected to somebody else's whims or to a corporate strategy that might be quite good for the firm in a financial and operational sense, but didn't necessarily take me where I wanted to be.

So I was looking for a career that would give me more control over my life and I thought that consulting would meet that criteria quite well. It would give me the potential to develop a practice that focused on providing services to clients, valuable services that would make me not indispensable to them, but would make my skills somewhat portable anyhow. So even if I didn't like a merger between my consulting firm and another one, I could take my skill set and do my consulting elsewhere. Also, I wanted to make sure that I preserved enough time to spend with my family and my children as they were growing up. I looked at consulting, especially in a large consulting firm environment, certainly not in a personal start-up situation, as providing me with a good degree of control over my time and my schedule. And I have found that to be the case.

The second main area that I wanted to focus on was skills utilization. I really wanted to use the skills that I had built up in my past actuarial and management jobs and not

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go off and do something that really didn't draw on them at all. Opening a donut shop was not really in the cards for me. So consulting in a field with a strong actuarial base had a lot of appeal. I also did consider management consulting from a more general standpoint. But as I say, actuarial consulting seemed to fit the bill better in the end.

The third area was to get new challenges into my career. After 16 years in the insurance business I can't say that I'd seen everything there was to see, but I'd seen a lot of things a few times at least. It was getting perhaps more comfortable than I wanted it to be, and I was looking for some new challenge to broaden my skills and develop my base of experience. Finally, I looked at the strategic position where I wanted to be, both personally and in terms of the line of business that I was in.

The conclusion I reached, and I don't expect that everybody is going to agree with this, is that the aging population in North America and the issues related to it in terms of health care and retirement planning and funding would be an area of good opportunity and perhaps a better growth area than the life insurance business, at least the traditional life insurance business. From a more narrow perspective, I felt that broadening my exposure from the insurance business into pensions, which I really hadn't done very much in before, would be a good move, not just to provide me with more variety and challenge, but also in terms of career positioning, opening more options in the future if I ever tired of the consulting business.

So how did I get started then? Well, one reason that I chose an established consulting firm to join was the assistance that would be available to me in the start-up period. A major area is financial assistance. I have a regular income coming in. My office is provided and my business expenses are paid, so I don't have to worry about those things. One of the options I did look quite seriously at was going into consulting on my own or with a partner, but I just didn't feel like I wanted to take on that burden at that point in my life. There is also the support of being able to develop your skills and your client base, while having an income. There is not the tremendous pressure to get out and get clients from day one in order to get an income flow.

Second was the professional development side, and that's especially obvious if you're changing lines of actuarial specialization as I was, moving into the pension field from primarily insurance and individual-insurance-type work. Some professional support is quite helpful. In addition to the things that a large firm would provide, like technical bulletins and regular formalized training courses, there's also the ability to work with a number of colleagues and share their experiences, learn from them, work with them on projects and learn as you go along.

The third area of support that I got was in client development. As I said, there wasn't the pressure to go out and develop clients right at day one, and I also had the ability to work with other consultants and their clients. Some consultants had been at it for 10-15 years and had reached the point where their client load was really heavier than it should have been to service those clients effectively. In this way, you can work yourself into those accounts on a gradual basis and eventually take them over. I found that to be a useful way of getting my foot in the water on developing pension clients. The other consultants are also able to share their experiences in the

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client development work that they've done in the past and provide you with ideas on what has worked and what hasn't worked for them.

Finally, I'd like to address the topic of developing a niche. And I guess I don't have anything different to say than what Brian did. I think that you need to have a good, general knowledge of the consulting field that you're in, so that you can speak intelligently to your clients or prospective clients about a broad range of topics related to your field of consulting. But you don't have to be the number one world expert in each particular subspecialty. It's probably good to develop a high level of expertise in one or two areas though, from the standpoint of networking within your consulting firm and also developing recognition in the outside world, where clients may be attracted to you for a particular area of expertise.

Now I'd like to turn to the differences that I've found between the insurance and consulting environments. And again, depending on your insurance environment or the consulting firm that you're in, you could find a much different contrast than I have.

In consulting, the client is the focus of your communications. And your communication is often on a remote basis, at least in my pension practice it has been, where many of my clients are not even in the same city or country that I am. I find that a lot of the communication is by telephone or by writing, rather than in person. Also, the knowledge and priorities of your audience are not always obvious. You're sometimes left to guess at how much they know and how you should write the letter or report. What level of background does your audience have? In an insurance company, your communications tend to focus on an internal audience, many of whom you know quite well and have worked with for some time. More of your communication is done in person and you attend a lot more meetings than you do on the consulting side. I found that a refreshing change. I sort of had meetings up to my ears, especially after a year of merger work. So if you don't like meetings, consulting is probably for you.

Second is the nature of time as a resource, and the way it's used as a resource in the two environments. On the consulting side, time, and especially billable time, is an identifiable output. You've got to develop a keen awareness of how much time you're spending on various activities and be able to make a trade-off on the cost and benefit to your client of the time you're putting in. You cannot take it for granted that there's going to be a backlog of billable work to be done.

On the insurance company side, I found that, although staff time is often a constraint in what the company could accomplish, there really is less day-to-day accountability for how time is being spent. I found in my experience that there generally was a good backlog of useful and valuable projects for staff to spend their time on, so if they finished a project earlier than expected, there was plenty to go on to. You can't say that is necessarily true on the consulting side.

Third is the political focus of your work. On the consulting side, it's external in orientation. You have to balance the need and the interest in developing business from a client and giving them what they want and telling them what they want to hear, with the duty of delivering professional advice and doing that on a cost-effective basis. In the insurance environment, the political challenges I found were primarily

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internal. They included dealing with establishing the priorities for the company, allocating resources to address those priorities, determining the kinds of strategies you were to take, and deciding generally how to best go about accomplishing the firm's objectives.

Next looking at organization, I find, at least in our consulting firm, as large as it is, that the organization is relatively unstructured. There's not much emphasis on formal reporting relationships or titles. And there's not a lot of functional specialization, such as you would find in the insurance company, with separate departments for systems, human resources, marketing, sales, and you name it. There is a more well-defined hierarchy in the insurance company environment.

The nature of your coworkers is quite a bit different. In a consulting firm, your coworkers are typically actuaries, lawyers, and other professionals. It's a very businesslike environment. And I found not a lot of time is spent on chitchat and developing personal relationships with colleagues. The advantage to this type of environment is that there also seems to be a very low level of office politics. I suppose because there isn't a lot to be achieved by office politics. On the insurance company side, your colleagues come from a much more varied background. There are marketers, customer service people, accountants, and what have you, and you tend to spend more time, I think, in developing personal relationships with your colleagues and with office politics, in order to help you accomplish what you need to in your job.

In the consulting environment, you're applying your professional skills to solve what I would consider to be a broadly similar problem or types of problems in a wide variety of client situations. And your success in meeting the objective of providing viable advice to the client can be determined in a fairly short time frame. You know when your project has been completed, and whether the client felt the advice was valuable or not and is likely to take action on it. However, you really don't have ownership over that advice once you've given it. The client can choose to ignore you or do the opposite, or whatever he or she likes to do, and if the clients botches up the implementation of what you suggested, even if he or she has taken your suggestion, well that's not your problem.

On the insurance company side, I found in the management position that your management skills are used to solve a variety of problems and challenges, but they're all directed toward a single business organization and trying to make that organization successful. You do have more of an ownership of results, in terms of what the impact is on the company's bottom line in the end. However, it may take a good bit of time before you know what that impact has been. The consulting environment, depending on how you define your objective, will provide you with a shorter time horizon and the ability to see whether you've accomplished your goal.

And finally, looking at technical ability, I find in the consulting environment that it's very important that you be up-to-date technically, even if you're not the number one expert in everything. You have to know what the current issues are. On the insurance company management side, technical ability is less important. And I think even if you're managing a relatively technical area, such as a financial division, you generally have staff that can deal with the latest detailed technical issues. The key to

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your success in that environment is really understanding the company and its situation and the market in which it operates.

In closing, I hope that my insights have been useful to you. They've been based on a reasonably long insurance career and a fairly short consulting career. I encourage you, when weighing your own career options, to go back to the basics. Look at what you like to do, what you do best, and what you hope to accomplish in the future; and in that context, make your own decisions.

MR. THOMAS G. COULTER: My talk is going to be quite a bit different, because about three years ago I started my own consulting firm. And what I will concentrate on primarily is what I think is necessary in starting your own actuarial business, as well as the difficulties in staying in business. I might start by listing the elements that most people consider important in starting a new business: financing, products and services, market niche, and customers. So I'll just go down the list and give a couple comments about them.

First is financing and I'll start with a true story about what happened to me when I was starting this business. I had been working my whole career for large corporations, while most of my family members, including my parents, my grandparents, and my sister had started their own business and were all self-employed. I thought that their experiences were sufficiently different than what I wanted to do, that I couldn't really count on them for advice. The local college was sponsoring an evening course called, "Starting Your Own Business" and I signed up for that. The first session was taught by a CPA, and he thoroughly discussed the four items that I listed in detail, with particular emphasis on financing. I learned, for example, that I should retain a lawyer and accountant, and that I should have on hand about six months' working capital. For any kind of reasonable consulting practice, the total investment would be about \$250,000.

Where would I get this money? Well, that was easy. I could put together a business plan stating the qualifications of all the principals, and include the financials from the last three to five years' operations of my firm, and seek out a venture capitalist. Alternatively, I could borrow money from a bank by pledging my home and my other personal assets. Again, this was not something I was eager to do. Or if I had a rich uncle, he would surely help me out. At this point I was very discouraged. This really looked to me like more than I could manage, and I was seriously considering going back to my boss and asking for my old job. I went to the next session anyway and this session was held by three highly successful entrepreneurs. One had started a personnel agency, another had started a restaurant, and the third had started a local business newspaper. The maximum investment from any of these people was \$5,000. Now these were very successful businesses that probably most people in this audience, including myself, would be happy to own, and yet the maximum investment that they had made was \$5,000.

My own investment to start my own firm was \$10,000, which included the purchase of a fancy computer. In fact, I didn't even commit to that purchase until I had sufficient consulting engagements lined up to pay for the computer. So I think the point I'm trying to make is clear. You shouldn't be stopped by the fear of not having any money to get started. And you shouldn't believe that it takes a lot of money to

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get started. In fact, from these examples that I'm giving you, these people did quite well with very few resources, other than their own sweat equity.

There are other considerations that should be given more importance, I think, than the financing, and these other considerations may end up being the deciding factors on whether or not such a venture makes sense for you. But I don't think that money should be the determining factor. As another example of how you could get around spending money, or having to borrow money or whatever, I know of another actuary who's doing pretty much what I did. He started his own consulting practice, he needed office space, and he wanted use of a secretary. He's a pension actuary. And so he went to one of the local, large insurance agencies and basically told the agency manager, "I'll help you with your pension clients. I'll do valuations for you. I'll work for you five hours, or seven hours a week, or whatever the number is, and in exchange for that you give me office space and use of a secretary." So in that way, you can get around having to spend your money by spending something that's probably not as scarce when starting a business, and that's spending your own time.

The second item I have on the list is products and services. It is very important to know what services you are providing. I find it useful to be able to describe what I do in one or two lines. For example, when I go to casual parties involving noninsurance people, I like to be able to say, "I'm an actuary. I help insurance companies to decide how much to charge for their products." Well, that usually ends the conversation, but it at least tells them what I do. In talking to insurance professionals, you want something that's a little more specific to what you do such as, "I specialize in stop-loss insurance," or "I help companies structure reinsurance transactions," or whatever it is that you do in particular.

I think though that just like financing, the emphasis on the types of products and services you offer can be a little bit overdone. I think the biggest service that I offer, and that consultants can offer in general, is the ability to listen. Listen to what's really on the client's mind, and be willing to be flexible enough in your thinking to modify your approach to meet the clients specific needs. And I think that's a really key point. Sometimes I see consultants who have developed a new technique, or a new survey, or a new computer software, and they make a point to talk about this at every stop. That's good because it gives you something new to talk about. But that can be bad, and I think that can start to hurt the quality of consulting when you make that the focus of your relationships with that client. You begin to believe that that particular service can meet every need of the client. In other words, you stop listening to the client and just talk about what your product is. So just like with financing, I think the emphasis on specific products or services is probably exaggerated. More important is the ability to listen to the client and the willingness to develop creative solutions to the client's problems.

The third item on my list is market niche. And this really is important, because I think it's just a statement of your particular strengths and weaknesses. Well, I won't give away my marketing successes, but I'll give you an example where a small consulting firm like mine can have a real weakness. The Omnibus Budget Reconciliation Act (OBRA) of 1990 had several specific changes that related to the taxation of life insurance companies. Before I could even get a copy of this law, most of the major consulting firms had already distributed to their clients, not only a copy of the law,

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but an analysis of the impact of the law. So you can see that no matter how smart you are, you really have to define your strengths and weaknesses, and this clearly was not one of my strengths.

By now you've guessed that the list that I originally gave you was inverted. What I consider to be of most importance is customers. Number two is market niche. Number three is products and services and number four is financing. The question is, why are customers number one? Well, you can't have a business without customers. And to put it in actuarial terms, there is a strong statistical correlation between no customers and no business.

In fact, here's a rule that I found in one of the books that I read about consulting. It's a rule you can apply to yourself, and determine whether this type of consulting is really for you. The rule is to write down a list of 100 people that you can call or visit with about doing consulting work. I consider that rule to be valid. At least it was valid in my case. If you say you don't know 100 people, but your old boss likes you and will give you work, and you're sure other clients will follow from your boss's good recommendations, I think this is very risky, and I would not proceed on this basis. One client is great, it's a great way to get started, but you can very easily lose that client. Along the same lines, you may say there are 10 people that you have a very solid relationship with, and you think that should be enough to get you started in the business. Again, I think you may be surprised at the discount factor that you have to apply to that list of 10 people to arrive at the people who are really your clients.

When you go and talk to those people, you will find some of them are quite happy right now with their current consulting arrangements and don't want to make any changes. Others aren't using consultants right now because of budget constraints. Some others like you, but they don't have any work right now in your current area of expertise. And some others, and I used to run into this, are very sympathetic that you're between jobs right now and want to talk to you about full-time employment. So this is really what happens to a list of 10 people. Although they may be very good contacts, I don't really think 10 is sufficient to ensure your success in the business. It may take a long time to turn those 10 contacts into real clients. And even when they become real clients, it's very difficult to retain those clients. Especially in today's environment, some of them may go out of business.

Let me just get to a couple of points about staying in business. Another true story. Shortly after I had started my business, I read this in a Chinese fortune cookie: "To open a business very easy, to keep it open very difficult." And that's the basic problem of doing what I have done. There are two good books that I have on my desk, and that I consult every day, and I would recommend them to you. The first one is *Consulting* by Robert E. Kelley. The second is *50 Rules to Keep a Client Happy* by Fred Poppe. Those are both good books that I refer to, and they have some good, general advice on consulting.

There are things that I think you should definitely do that maybe are more particular to being an actuary than to other types of consultants. The first is documentation. I think you should document the agreement that you have with your client company on the work that's to be performed, when it's to be done, and the fees that are

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agreed to, in advance. This is especially important for new clients and for existing clients when the fees are going to be quite large.

The second form of documentation refers to documentation of the work product. Remembering that we are actuaries, and remembering the times that we live in, in this regard I think it important to document not only the assumptions and so forth that you used, but also what efforts were undertaken to have your work reviewed and checked. The client is depending on your work, and so this documentation can keep you out of trouble.

The third point is documenting your relations with your client company, and that includes everything that's happened, how specific decisions were reached with your client company, the results of meetings, of phone calls, and so forth. This is important, because, unfortunately, a lot of times your clients lose track of this information, and they'll end up calling you to provide some continuity in what happened. And, as we all know, actuaries tend to move around, or get promoted, or get rotated, or whatever, and so in certain areas of companies, there's no continuity. Nobody knows what happened before and so you as the consultant can provide that continuity.

And finally as a consulting actuary, especially an independent consulting actuary as myself, you need to be especially careful of the image that you project to people. Actuarial assignments carry a great deal of responsibility with them. And clients will become uneasy about giving actuarial assignments to people they don't have complete trust in, especially if you somehow appear unreliable or unprofessional, or as I've heard said about people in the past, actuaries who appear to have become a marketeer or deal maker. I think it's very important to know what you're trying to accomplish with that client. Decide whether you want to be a deal maker with that client or whether you want to do hourly actuarial work with the client, and do not mix the two.

I think the future of small actuarial consulting firms like mine is good. In the future, there will be more and more actuaries who attempt something like this. I think the reason for that is twofold. First, in other professional fields, consulting firms like mine are more prevalent, but I think that will eventually change and small actuarial firms will be more accepted. And second, I think we've entered a period of uncertainty where, at an unprecedented rate, both insurance companies and the larger consulting firms are downsizing or rightsizing or whatever you want to call it, and more and more people are looking for alternatives. So I believe one of the alternatives that actuaries will explore are these smaller actuarial firms. That's the extent of my comments.

FROM THE FLOOR: I be interested in comments from all three panelists on this subject. To what extent in a consulting environment do you find a different balance between doing work carefully and doing work quickly. The second question was addressed by Mr. Hafeman, but I'd certainly be interested in hearing the others speak a little bit more to it as well. In terms of your own feelings about what you're doing, what is the difference between the ability to see to the implementation of your ideas in a consulting environment versus a corporate environment?

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MR. BROWN: Certainly, there are time pressures and at times that makes one work quicker and not be as careful as one might like. Part of that can be addressed with the client in advance, so that the client knows what he or she is going to get, for what price, on what time scale. But certainly there are pressures that aren't always easy to resolve. Do they want this soon, and if they want it that soon, how carefully and how well can I do it? One can always work 24 hours a day and build up billable hours.

MR. COULTER: Well, I've obviously worked in both environments. I would say there are pressures in both environments that sometimes run in each direction; either to get the work done more quickly or to get the work done more correctly. I think the motivations are different for those pressures, whether they be in an insurance company or in a consulting firm. But I guess I would say I haven't noticed that one environment is more prone to mistakes or less thoughtful work than the other environment is.

MR. HAFEMAN: My observation would be that you probably have to be more careful in your work in the consulting environment, to the extent that you have to generally produce a written product documenting the work that you've done. It should be complete enough so that any other actuary, or any other person reasonably familiar with the issue you're dealing with, can pick it up and make some sense out of it. I found in the insurance company environment (especially in the small- to medium-sized operations that I worked in) that when you're pricing a new product, you may run through many profit studies and adjustments, to take into account the competition and so forth. You come up with a set of rates at the end, and maybe your documentation along the way as to what all your assumptions are and the profit margins you got at different ages and cells and so forth, is not that complete. And you can get away with that if the decision-makers are involved in the process and aware of what's been done. On the consulting side, I think you've got to be a bit more careful about it. I know in our firm, peer review gets quite a high emphasis. Basically everything that goes out of the office is peer reviewed. Some things don't take very long to review, but others do. And it's not just from the standpoint of immunizing yourself, or trying to protect yourself from recourse if you made a mistake, but also to ensure the overall professional quality of the work that you've done. You want to maintain your image as a consultant and the firm's image, and if you send out a piece of shoddy work, then it's not going to reflect well on either of the parties.

MR. BROWN: Please repeat the second question.

FROM THE FLOOR: Okay, what is the difference in how you react in a corporate environment generally? If you go through a process and come up with some recommendations, you are then also typically involved at least in a review mode if nothing else in the implementation. And depending on a person's level of authority, one can actually make decisions that this shall be done versus that. I would think that almost necessarily by definition, a consultant can do nothing more than toss ideas out and there they are. They can be not implemented, or implemented badly, or implemented well. But I would think that quite possibly there would be, on the part of the individual, psychological reactions to the nature of one's work and one's job satisfaction that might relate to that.

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MR. BROWN: It certainly can be difficult at times to make a recommendation that you obviously think is good and well-thought-through, and then have the recipient either trash it or implement it poorly. And that's never easy to handle. That can happen to you inside the company, just as well as outside, but that's part of the world and you shrug your shoulders and go on. I often had to implement in companies what I had recommended, and certainly one's power base then is a bit stronger probably than if as a consultant you make a recommendation and then you are asked to implement it subsequently. In the latter case, the company has made that decision, so you have the overall go-ahead and you do it. But it can be difficult at times to make on-the-fly decisions – the detail decisions while you're implementing as a consultant. Inside the company, you make the decision and get your knuckles rapped if you went over the boundary. It's more difficult, but I don't see dramatic differences when I've had to implement my recommendations.

MR. COULTER: From my perspective, I would guess the job of a consultant is to give advice. A lot of my assignments within insurance companies have been to give advice. Management is obligated to listen to that advice, but not necessarily to follow it. So I would say that my experiences have been similar, both inside and outside insurance companies.

MR. HAFEMAN: Well I would have to say that issue you mentioned was one of the major considerations that I had going into consulting. Would there be that satisfaction of taking a job from start to finish? I tend to be a fairly hands-on person that likes to get in there, look at the situation, make a decision, and then go on about getting it done; not sit back and wait for somebody else to do it. So I recognized that might be a problem. That is something that is missing on the consulting side, that sense of being able to take the project all the way through to the end and see the result and see what it did to the company's operations. And it's just one of the things you have to trade off in looking for the perfect position. If consulting had a little bit more of that in it, it would be more ideal, but you get other things in exchange for that. I find consulting to be a much more emotionally steady line of work. You know, I can't think of a day when I've gone home, just really ticked off about something that happened that day. On the other hand, you don't get the same exhilarating moments you might have in a management job. It tends to be a more even and steady kind of day-in and day-out satisfaction. At least that's what I find.

MR. MICHAEL BRAUNSTEIN: Tom made a list of 100 potential clients. I made the transition from an insurance company career to my own business, and I overlooked something, a simple thing. And fortunately it didn't hurt me, but several months after I began my business and things were proceeding nicely, a friend of mine who was also in business for herself as a lawyer told me that business was great, but it was a shame that no one could afford to pay the bills. None of her clients could afford her services and the money just never came in. And in my case, it just turned out to be fortunate that my clients were able to pay my bills, pay the fees when I sent those bills out. So to Tom's list of 100 companies, I would like to just suggest that you make sure that they're viable companies. Make sure that they are not just interested in working with you, but are in a position to pay the fees that they're going to need to pay.

MR. BROWN: Good point. Would you echo that sentiment, Tom?

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MR. COULTER: Yes. It makes sense. Actually I worked for large consulting firms in the past, and sometimes the problem was not so much clients not being able to pay, but clients who wanted to barter down the bill after they saw the work product, or after they saw the extent of the bill, and that can be a problem, too. But actually since I have my own firm, now I have less of those types of problems, less uncollectibles, and less questions about bills than I have in the past. And I don't know what to attribute that to. I do the same work that I did before, except maybe they realize I don't have the deep pockets that does a large consulting firm does.

MR. SPENCER KOPPEL: I'd like to comment on something that Mr. Coulter mentioned. I had a similar experience. I left and went on my own four years ago. And I guess everybody suffers a little bit from the grass-is-always-greener syndrome. I've been able to stay in business for four years and people think it's all easy and so forth. And they ask how I do it, and why I am able to do it, and what I have to do. And they think it sounds pretty easy. All you do is open up shop, hang up your shingle, and people will call you. One of the things that I suggest to people, and I'd say it as a general statement to people here, is write a business plan, what the instructor mentioned to you the first night. I'd say that's a good thing to do. Write your business plan and include all the things that you talked about, including finding your potential clients. I'd consider 200, as opposed to 100, incidentally. I don't mean 200 likely clients, just potential clients. Include people that you met perhaps at a meeting like this, where you can send them a letter and tell them you're in the business and you'd like to talk. Out of that 200, maybe you'll get one or two calls that really amount to something. You'll probably get a lot of other calls that are congratulatory, where they hope to work with you at some time.

Beyond writing the business plan, outline the requirements for what kinds of financing are involved; what you're going to have to do everyday for a period of time in order to get there. How much money can you live on, etc? This is a very useful process, because when you do write it down and look at it, it will tell you whether it's feasible to do. Is your temperament going to allow you to accept that kind of risk? Are you going to be able to discipline yourself to the kind of work that's involved when you're on your own, etc? All those things will probably help you make a decision. It was the best thing to help me decide whether I really wanted to do it. I'll also tell you whatever you write in your business plan won't come to pass. But it will at least tell you whether it's feasible. What I mean by that is that some things will happen that are better and some other things will happen that are worse, but on average it will come out to about that. But it will tell you whether it is feasible.

FROM THE FLOOR: I've noticed that there have been a lot of software developments, and it seems like there are two types of consultants, those that sell their software to others and those that become users of it. And this is where I want to hear your opinions. I think that the overall effect is that with better software, a skilled person does not need to hire staff, and therefore the smaller shops have an advantage now. Could you people comment on this?

MR. HAFEMAN: One of the options that I looked at in going into consulting was to work in areas in which I'd done a lot of work in the past: life insurance product development and sales compensation development. But I really had no interest in developing the software to do those things and not really the time to do it either -- as

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a start-up to go in and just do that, and then be ready to really get into business. So I did work on an arrangement with another small consulting firm that specialized in software to make that tool available to me. If I'd wanted to follow that route I could have. But I would say that I think that it would be especially critical to have decent software support if you're going on your own. If you're doing something that requires software, then you had better make sure that it is available.

MR. COULTER: Yes I agree. You need the software. Of course, there are many different kinds of consulting and not all of it is strictly number crunching, but you do need some software. I have my own software that I use for pricing applications. I have just a bit of a problem with taking another consultant's software, legally, and going out and using it to price products. It would just seem to me that the client would eventually say, "Why use the middle man? Let's either buy the software ourselves or let's go to the people who developed the software." So I don't see that as a value-added approach. I have my own pricing software that I use.

MR. BROWN: I can't address it from a small company perspective. Working for a somewhat larger company, we consult in all sorts of different areas, and we have some excellent software in some areas and some adequate software in other areas. We don't tend to market software, except as I say, where it is excellent. We tended to write it for ourselves, and if it's that good, and in a couple of cases it is, we then market it. The software is good, but we're consultants, not software marketers. So perhaps our marketing of the software is not as good as the actual underlying software itself.

FROM THE FLOOR: One item that hasn't been touched on yet in connection with the small one-man firm that is distinct from the larger firm is the professional liability insurance question. Would you care to comment on what the nuances and complications might be in the start-up of a one-man firm in that area?

MR. COULTER: Well, there are nuances and complications involved in professional liability. I guess I'd say that the best defense is a good offence, or the best offence is a good defense, and what I mean by that is you really need to avoid situations where you can be sued. I haven't found any truly great affordable way of protecting myself. I've protected myself in ways I prefer to keep unidentified. My feeling is that an ounce of prevention is worth a pound of cure. Be careful of the assignments that you take on. I mentioned documentation. I think that's extremely important. Peer review, which Mike also mentioned, is extremely important, too. Just try not to get yourself into situations where you can be sued. And I admit that's difficult. But that said, there is no way I've found to completely protect yourself from being sued, so I would just say be careful.

FROM THE FLOOR: One generalization that I've heard over the years is that consulting generally involves a higher compensation level, as opposed to insurance company work; that it also entails a more intense work environment and a greater personal sacrifice in terms of time. And I'd be interested in hearing your comments with respect to that generalization. And another question kind of approaches the issue from the other direction. Are you aware of actuaries who have tried the consulting field and then have gone back into insurance work? And if so, do you have any

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comments regarding perhaps any errors that they made in assessing the consulting environment?

MR. BROWN: You catch me on a bad day. As well as this presentation, I was at work at 6 a.m. and I'll be there at 9 p.m. tonight. Generally speaking, though, I would lean to it being more intense in consulting than it generally is in a life insurance environment. As Mike said earlier, there's not day-to-day accountability in an insurance environment, with billable hours, etc. It's not everyday you have to put in seven or eight billable hours, but I find there is more pressure in consulting than in life insurance.

I can think of one or two people who have moved back into insurance. But I do not know what they may have done that was wrong. People may go into consulting and then back into insurance for positive reasons. For example, my aim in going into consulting was to primarily get sales experience, and my ambition is to go back into insurance. I'm not in consulting necessarily to be a consultant for the rest of my life.

MR. COULTER: When I started my own business, I knew three independent-minded people like myself who also started their own businesses about the same time I did, and I'm the only one left. One was an actuary and two were insurance marketing professionals. They're now back in full-time employment with insurance companies.

Why did they fail or what did they not take into account? I think it was pure and simple, they couldn't get the business. And I go back to my advice to write down a list of 100 people you could contact. They either didn't have the number, or they couldn't convert them into clients, and that to me is the real key. All these people were competent, good communicators. They knew their areas, but couldn't get the business. There is no real downside to consulting. If you decide that you want to try it, what happens if you don't like it? What happens if you can't make a go of it? I think as actuaries, even today, you're eminently employable and, if anything, I think employers might look favorably upon the entrepreneurial experience that you gained. So I don't think there is any real downside to it.

I guess Mike and Brian can talk about workloads in a large consulting company. From my own perspective there are trade-offs. I wouldn't say I'm working any harder than I was when I was with larger consulting firms. I think the benefits can be as good as anywhere else in the insurance industry.

MR. HAFEMAN: I've heard of people who have gone back from consulting into insurance, but I didn't talk to any of them personally when I was making my decision. Regarding work intensity, I would say that the consulting environment does give you that time pressure of making sure that you're using time effectively and producing something reasonable within an hour or a couple of hours. And if you get a magazine across your desk or something, you tend to put it aside and save it for the evening, whereas in the insurance environment, you might pick it up and leaf through it for five minutes and then send it on its way. So that's sort of a subtle change in the way you approach your work. Overall, I think, in the consulting environment that I'm in anyhow, if you're a good time and project manager, you've got pretty good control over your time. Clients will come up with requests kind of out of the blue, where they want something soon, but generally I haven't found them to be all that

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hard to fit into the schedule and juggle with other things. However, the consultants who have been in the business longer and who have a heavier client load certainly would have more difficulty with that than I would at this stage. But you probably have more control over your time in terms of not being dragged into meetings that you don't really want to be in but that you have to be in anyhow.

FROM THE FLOOR: Mr. Coulter, when you first started, did you hire a secretary, and if not, what did you do instead? Did you open an office outside of your home? Did you maintain professional memberships and travel to meetings? Generally did you keep overhead lower than maybe the current level at which you're maintaining it?

MR. COULTER: Very definitely I kept overhead lower when I first started. I think one of the biggest mistakes people could make would be to right away go out and rent office space and get a secretary. It just puts that much more pressure on you to get the business going quickly. Some things you can't cut back on are marketing activities like going to Society meetings and maintaining professional memberships. You really can't cut back on those, but my overhead was nonexistent basically when I started. And I don't think that that's a liability. Even today I'm very careful in the type of overhead that I incur.

FROM THE FLOOR: I've just become an ASA. I've been working for two years for the government and I've been thinking of going into the consulting area. I was wondering what I should expect at my level. Would I be working with a group? Would I be doing just computer work? How long would it take before I could go out and meet clients and do things other than just computer programming?

MR. BROWN: I don't think it depends on whether you're an ASA as opposed to an FSA, but a lot depends on your skills and talents and what you want to do. If you want to go into consulting and not just do programming, certainly there are and should be opportunities for client contact at whatever your level, if you have the skills. I would suggest if that's what you want to do, then that's the sort of job you look for. Wait until you're offered the opportunity by a consulting company to do just that. I have ASAs in my organization who do go out and consult. They're not usually the key client contact, but equally well they're not kept in the back room. If it's what you want to do, the question should be, do you have the skills and talent to do it?