



SOCIETY OF ACTUARIES

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The Next Big Thing ...

by Paula Hodges

Challenging the way we've done things is never easy. Coming up with a great idea is only a small part of true innovation. Funding that idea from inception to implementation can be the real challenge, especially in an environment where even the status quo doesn't have guaranteed financial backing. How do you make something big happen? Do we need to make changes to address the challenges facing the financial industry today?

Resistance to change comes from those feeling threatened. Those who are bringing about the change and those who know they will benefit will likely be in the minority, but they will be in your corner. Many great ideas take far too long to germinate, because of the ever-powerful force of inertia—specifically, the part that says that an object at rest will stay at rest. The outside force acting upon it will need much more inertia to get things moving along.

The movie industry provides great illustrations of ingenuity and the challenges of change.¹ I'd like to share some successes from that industry that can illustrate that even the best ideas face challenges.

Over the last 100 years, movies have evolved from silent films in black-and-white to computer-generated sensations with surround sound that makes the theater rumble. When these new technologies became available, it is easy to imagine that everyone welcomed these changes with open arms—but that wasn't generally the case. At every innovation, there were challenges.

In the late 1920s, when the technology was first available to integrate sound with moving pictures, only a few theaters had sound equipment, and

owners were reluctant to invest in something so different and untested. Compounding the issue, the various production companies recorded on two different formats and the theaters had to choose which format to adopt. The vendor of one format—the Vitaphone—had high costs to implement and they had difficulties keeping up with demand. This sealed their fate. The competing format—Movietone—became the standard for movies with sound.

Another transitional point in the movie industry was going digital. In the early 1990s digital video didn't have the color quality that we see today. Selling the technology took two decades of research, development and marketing efforts. At the time, major theaters wouldn't take interest in such a gamble, so the developers of the technology approached the largest independent producer of films—Lucasfilm. Fortunately the timing of their approach was good—the color issues had been resolved in time for their big demo to the technicians of Lucasfilm.

The *Phantom Menace*, although shot on film, became the first movie to be shown in a digital theater in 1999, to rave reviews. Disney's animated *Tarzan* movie was the first completely digital movie. The animation was generated in digital, and it was transferred directly to digital projection format—no film. It was also released in 1999. As with the move to sound, now theaters were scrambling to figure out how to finance and install new equipment for this great new idea.

The digital revolution came just on the heels of many movie theaters converting their facilities into multiplexes. The cost of converting to digital



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¹ From *Inventing the Movies* by Scott Kirsner

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was not cheap—estimated at \$100,000 - \$250,000 per screen! Some theaters were able to take on the financial challenge, others were not.

Our industry has had challenges as well, although different. How can we take the lessons of the movie industry and apply them to actuarial work? A few key lessons:

- 1) Dramatic change and innovation is required in any industry that will thrive in the long run. The movie industry and the insurance industry are both relatively young. Are we prepared to drive the changes that will be required to continue to be a vital competitor in the financial sector? Courage and determination will be needed for the long haul.
- 2) Change is never easy. While competing forces may create winners and losers, the competition can speed up the process by adding urgency to price containment

and delivery. Treat competition as a driving force that helps us all achieve more.

- 3) When the idea is right, and the delivery and implementation works, there will be winners and losers. There are risks to be taken, and rewards to reap. Be sure that you have a great team to back your great idea. The marketing and implementation are vitally important for success.

Necessity is the mother of all invention.

Hard times bring out the best in us.

Our current economic environment will demand that we think differently and do things differently. Are you up to the challenge? Are you ready to be at the front edge of change? Actuaries are uniquely equipped to view today's Risks as Opportunities. I encourage you to continue to challenge the status quo, and be prepared to face the obstacles presented by change. ●

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