



SOCIETY OF ACTUARIES

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Make Smart Choices

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“**D**ecisions, decisions ... Oh! Pay me! Lawyer’s salary, please.” Do you remember the commercial for Milton Bradley’s board game, “The Game of Life®?” The game starts with you making the first of many decisions: Start a career or go to college. How much thought do you put into that decision? Later on in the game you have to make more decisions: Do you invest money in the stock market or not? Do you buy insurance for your car and your home? Did you think through the ramifications of those decisions? How did you deal with the consequences?

Decision-making is a life skill. You make decisions every day, decisions that can range from the inconsequential to the potentially life-changing. Are you making good decisions? Do you know how to evaluate whether or not a decision was a good one? Do you want to get better at it? If you do, there’s a way.

If you don’t think decision-making is important, think again. The SOA feels it’s important enough to make a demonstration of decision-making skill one part of the Fellowship Admissions Course, the final component prior to obtaining Fellowship. Employers want and need us to be better business-

persons. We cannot just analyze a complex situation and provide alternatives, we need to make decisions.

EXPERIENCE

Most of us let experience be our guide. For example, at a very young age I learned that practicing my letters with a laundry pen on the family room paneling was a particularly bad decision. I learned a better decision would have been to either use paper or ask first. Looking back you can also see how some decisions you make will affect others. You can’t just replace or paint over paneling, so for years thereafter my parents had to defend their belief that it was all just youthful exuberance and not some major character flaw on my part.

When confronted with a situation that appears to be a familiar experience, we most often choose the path we’ve taken before. However, that’s a very inefficient approach. Very few situations are exactly the same as previous ones. If you don’t know the way to make a decision, you might freeze up when confronted with something new.

Another pitfall is using experience to validate your decisions is not foolproof. Passing an exam after only studying 75 percent of the material does not make the decision a good one, it just means you were lucky.

There are plenty of resources waiting to help you make better decisions. Just type “decision making” into Google™ and you’ll get about 80 million hits. The best book I’ve read on the subject is *Smart Choices: A Practical Guide to Making Better Decisions*. (Hammond, Keeney and Raiffa; Harvard Business School Press, 1999.) The book has everything I look for in an executive book: (1) It is engaging from the start, (2) it is more practical than preachy, and (3) it is reasonably priced. You should be able to find the book for less than \$20, and I strongly recommend you buy or borrow it. I will touch on many high points to help you make better decisions, but the added insights and stories are well worth your time and money.



The authors introduce and advocate a decision making approach they refer to as PrOACT. PrOACT stands for Problem, Objectives, Alternatives, Consequences and Tradeoffs. They like the acronym because it sends the right message. Be proactive about your decision making; don't just let decisions be made for you.

PROBLEM

Make sure you are addressing the right problem. What is your problem statement? Ask yourself why you are even considering this decision. What are you trying to solve? If you are considering "What do I have for lunch?" the problem statement is pretty easy—you're hungry.

If you need to decide "What new product feature should we offer on our company's variable annuity?" the problem statement is less clear:

- "Do we choose this new feature or that one?"
- "Do we even need to create something new, or can we simply enhance existing products?"
- Are you sure the choice of the right product feature is the right problem?
- Is a better question "What's the fastest and least expensive way to increase sales?"

Analyze and question any constraints you've placed on yourself and constraints placed by others. Be prepared to re-examine and question your problem statement as you go. Don't expect to get it right the first time. Significant time and resources can be spent in defining the right problem. This can be time well-spent, knowing that you are solving the right problem and not just the most superficial one.

OBJECTIVES

Clarify your real objectives. What do you really want or need? What are your goals? Defining your objectives and the objectives of all the stakeholders will provide direction to your decision-making. The authors offer five steps to identifying your objectives:

1. Write down all the concerns you hope to address through your decision.
2. Convert your concerns into succinct objectives.
3. Separate ends from means to establish your fundamental objectives.
4. Clarify. Ask yourself, "What do I really mean by this objective?"
5. Test your objectives to see if they capture your interests. Use your list of objectives to evaluate several alternatives and make sure you'd be happy with the result.

For something simple like lunch your objectives might be food that's good, reasonably priced and not too far from the office. For your company's annuity, you might wish to offer great customer value, competitive commissions and state-of-the-art sales support. Inevitably, you'll come up with some competing objectives (e.g. sales vs. profits). Clarifying the objectives and assigning a value to them will help you to rank them when determining alternatives.

ALTERNATIVES

You should work hard to develop creative alternatives. Go through each objective and ask "How?" How can you achieve your goals? You could go to one lunch spot which is next door and reasonably priced, but another one has great food and is only a 15-minute walk. Have you thought about bringing your lunch?

You want your company's annuity to provide its consumers the ability to save for retirement and provide good insurance guarantees. You know the way to reach consumers is through brokers, so you want to make sure you are taking care of them as well and making it easy to do business with you. Challenge perceived constraints. Use all the creative brainstorming techniques you can and be over-inclusive of ideas. You can always rule out the all-actuary sales force idea later.

Ask yourself why you are even considering this decision. What are you trying to solve?

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Once you've come up with that innovative, jaw-dropping, paradigm-shifting idea, can it be sold? Is it legal? Can you administer it?

CONSEQUENCES

Think through the consequences of each alternative. Once you've come up with that innovative, jaw-dropping, paradigm-shifting idea, can it be sold? Is it legal? Can you administer it? Treat this as a role-playing exercise. Mentally (and physically, if you can) put yourself in a post-decision state for each alternative. Evaluate what you feel the consequences are and discard clearly inferior alternatives.

TRADEOFFS

Make appropriate tradeoffs among conflicting objectives. For decisions that only affect you, like lunch, determine appropriate compromises yourself. For broader decisions, work with all the stakeholders to determine appropriate compromises. Your sales force may be willing to accept a slightly lower commission if the product is just right and the sales support is excellent.

The authors provide additional guidance on dealing with uncertainty and determining your own risk tolerance level. They also caution the reader to be aware of and plan ahead for decisions linked over time.

Complex decisions need to be handled in layers. Deal with the biggest issue first. Keeping with my product development example:

- Decide first whether or not you need a new product feature to increase sales.
- Then consider which consumer need you expect it to address.
- Then determine how it will address that need.
- Then decide how you want to market it.

One of the best pieces of advice provided in the book is “know when to quit.” Don't let your propensity to analyze delay the decision unnecessarily. Make the best decision you can with the information you have available to you and move on. You won't always have the luxury of time.

Decision-making is a life skill, and I don't just mean in the board game. You can get better. Read the book. Follow these steps, and you won't just make better decisions, but smart choices. It's your turn. ●