SOCIETY OF ACTUARIES Actuary of the Future Section

Actuary of the Future

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A World of Possibilities for the Young at Heart and Open of Mind: The Younger Actuaries Network Mentoring Program

By Ashwini Vaidya

It all began in Sao Paolo, Brazil. Marina Adelsky, jet-setter extraordinaire, a 25-year actuary with the heart and energy of a 25-year-old, met Gisele Immig, a spunky Brazilian actuary, one of the few working toward SOA fellowship. Starting from their taxi ride through Sao Paolo mid-day traffic, to lunch near Gisele's office, through discussions of travel in Brazil and actuarial aspirations, to their recent lunch at the Bridgewater Commons mall in New Jersey, close to where they both now live, the two have enjoyed and benefited from their time together. Marina has learned that she is an (over)ambitious vacationer, and Gisele has learned of and acted on opportunities here in the United States. What they have in common—vivaciousness, enthusiasm and determination—informs their experience as our first mentor-protégé pair.

Gisele enjoyed her experience so much, she told her friend Bruno Lima, an actuarial student at one of the universities in Brazil, about the program. In a recent e-mail thread, Bruno and his mentor, Tom Herget, discussed topics ranging from travel updates and soccer to the recent merger of Watson Wyatt and Towers Perrin and the impact on the actuarial student positions available to foreign candidates due to TARP guidelines. Tom encouraged Bruno not to worry, lauding him on working so hard at finishing his actuarial coursework and his work on his exams, and lauding himself for retiring thus making room for new actuarial candidates …

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Actuary of the Future

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Becoming an Actuary in Sri Lanka and the Future Potential of the Profession in Sri Lanka

By Sujeeva Udayasiri Fernando

Sri Lanka is a beautiful island in the Indian Ocean blessed with enormous natural and human resources. Consisting of a population of about 17 million with an expected life expectancy of 74 years of age, Sri Lanka's literacy rate has reached its peak at more than 93 percent. The key reason for the high literacy rate is the free education system up to the university level in the country. With this solid education foundation, the country has produced clever academics in various disciplines.

However, in spite of its solid foundation, there are very few actuaries currently working in the industry. One actuary is at the fellowship level working in the pension field and the other three actuaries are at the associate level. These basic statistics depict the level of difficulty in becoming an actuary on this soil.

Because of the scarcity of a qualified actuarial community, it is very difficult to find a suitable environment for students to pursue the professional exams. Sri Lankan universities have introduced preliminary actuarial subjects in their academic programs during the past few years, but due to the lack of qualified actuarial academics in the university system, it has failed to reap the expected objectives.

I believe Sri Lankan students have difficulty taking the professional actuarial examinations because of a lack of resources, such as the expense of study materials, scarcity of actuarial experts, and the lack of proper guidance when following the course. The self-study method is the only way to pave the way for exams under the existing environment. Moreover, the majority of students are now studying for the U.K. exams and Indian exams. Some companies have sponsored students for the U.K. actuarial postgraduate courses, because there are exemptions for some papers in the U.K. exams. This may be one of the reasons to choose U.K. exams. But now there is a growing trend for students to take the SOA exams as well. However, due to emerging of demand for the actuarial profession in the Sri Lankan market, in the past three years more students have started to enter the actuarial field.

At present, there are 16 insurance companies operating in the market, and among them 13 companies are engaged in composite insurance businesses, carrying on both long term and property and casualty insurance (general) business, while one company is engaged in long term insurance business and the other two companies are engaged in general insurance business. In addition, there are about 50 insurance brokers and about 25,000 insurance agents.

In spite of the global financial crisis in the insurance sector, the insurance industry has recorded solid growth in premiums and assets during the last few years in Sri Lanka. The insurance sector assets are about 4 percent of the total assets in the financial system. The total assets of insurance companies have grown between 13 and 16 percent in recent years, and the overall profitability of the industry has sustained.

The regulatory framework, supervision and enforcement regime pertaining to the insurance industry continues to strengthen. The insurance regulator, Insurance Board of Sri Lanka (IBSL) has initiated action to conduct risk-based supervision of insurance companies based on the CAMELS (a U.S. rating of U.S. banks) system. The solvency margin is the main indicator to measure the soundness of insurance companies. All companies are compliant to satisfy the required solvency margin ratios with respect to both long-term and general insurance. Consequently, IBSL requested to submit annual actuarial reports to ensure that funds are adequate to meet all current and contingent liabilities of the policyholders. At present, gratuity valuation is being processed by an actuary under government regulations, while pension fund valuations are looking forward to carry this out in the near future. Apart from that, the actuarial association of Sri Lanka was established in the last year.

It is mostly understood that there were no such strict regulations that had been implemented in certain areas of the financial sector in Sri Lanka. Hence, this has led to crucial epidemics. Many massive financial companies have disintegrated within the past few months. It appears that the lack of rules and regulations are the main cause. Therefore, Central Bank of Sri Lanka has made its way to a new scheme of regulations for the financial sector in order to withhold the inconsistencies. I believe this will open many opportunities for actuaries who are interested in the financial and investment field.

Since I have vividly unfolded the truth that lies behind the lack of supremacy in the actuarial field in Sri Lanka, there is a huge gap between supply and demand at both the academic and industrial level. In this article, I have discussed the 'future potential of the actuarial profession in Sri Lanka'. It is undoubtedly evident that there would be a high demand for actuaries ahead.

If expertise is established in this country in a more consistent manner, it is certain that Sri Lanka will be a key figure in the actuarial market in the near future, with its high availability of analytical ability and sound educational background. ☆

Reference: IBSL Report 2008, Central Bank of Sri Lanka -Annual Report 2008

Sujeeva Udayasiri Fernando is an actuarial analyst at Janashakthi Insurance PLC, Sri Lanka. He can be reached at ssurfs@sltnet.lk.

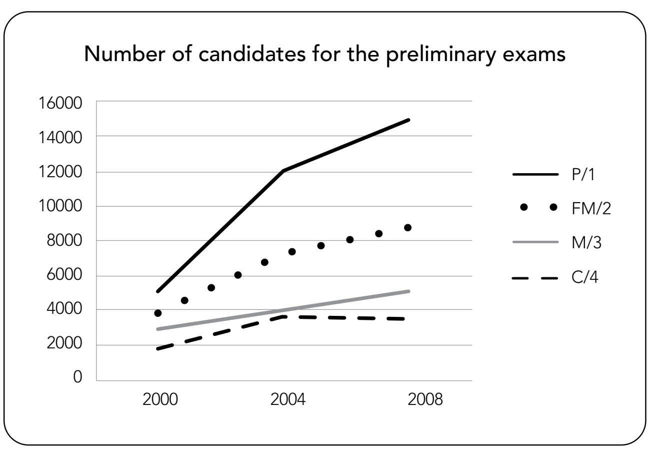
Entry-level Actuaries Caught in Economic Turmoil

By Etienne Lavallée

Etienne Lavallée is a senior student at the Laval University Actuarial School. He can be reached at etienne.lavallee.2@ulaval.ca

Insurance companies being bailed-out, defined-benefit pension plans weighing on companies' balance sheets, loss of confidence in the whole financial industry ... Wow! It certainly sounds like a terrific time to enter the actuarial profession. The current economic crisis obviously impacts the situation faced by entry-level actuaries, like myself, and we have good reason to be concerned. But how bad is it really out there? I discussed these issues with a few recruiters to get their views on the situation.

Everyone agrees that entry-level hiring activity has slowed considerably during the first half of 2009. "Some companies were in total hiring freezes," points out Steve Davis, recruiter for D.W. Simpson. Even though the job market has been quite bad so far in 2009, he remains optimistic as he has seen encouraging signs of the market thawing in the last two months. Also, all disciplines have not been affected in the same way. "While hiring in some of the traditional life areas has slowed considerably versus a year ago … we are seeing an increase in enterprise risk management roles," says Claude Penland, partner at D.W. Simpson. The long-term job outlook remains good. In its 2008-09 edition of the *Occupational Outlook Handbook*, the Bureau of Labor Statistics indicates that it still expects the employment of actuaries to grow by about 24 percent over the 2006-16 period, which is much faster than the average. The fourth edition of the book *200 Best Jobs for College Graduates* published earlier this year ranks the actuarial profession as the 8th best occupation for today's grads.



THAT'S GREAT, BUT THAT DOESN'T HELP ME FIND A JOB!

In this tight market, time invested in searching for a job has been lengthened for many candidates. But what exactly are employers looking for right now? "They're looking for well-rounded candidates showing high GPAs, actuarial/statistical internships, strong exam progress, excellent computer skills and sharp communication skills," says Mr. Davis. Employers are in a position to be extremely picky, so lacking even one of these qualities can delay a job search. Job seekers should make sure they use the extra time they have to acquire or sharpen the above skills.

Obviously, employers look more favourably on entry-level applicants with a few exams successfully behind them. But as the graph demonstrates, more people are taking the first two. You can't rely on those to stand out in the crowd. This only accentuates the importance of developing the other skills outlined earlier. Guillaume Morin, consultant for the specialized actuarial recruiting firm Elliot Bauer, points out that candidates often underestimate the importance of showing a good exam track record. "I often have employers asking me how many tries it took a candidate to pass his or her exams as well as what grade he or she got," he says. This information can tell a lot about your attitude when you commit to something and should not be overlooked. That means you should try to register for an exam only if you are going to give it your best shot and pass on the first attempt.

Furthermore, all recruiters seem to agree on something: the most important quality that is going to help you find a job right now is FLEXIBILITY! Opportunities are available for candidates willing to make some sacrifices, like moving out of town or working in nontraditional fields.

Finally, I know you've heard this a million times, but recruiters insist on the importance of having a spotless resume and a convincing cover letter. "I see far too many error-riddled or poorly formatted resumes from otherwise brilliant candidates. A lot of would-be actuaries seem to rely too much on their academic performance," says Mr. Davis. For Mr. Morin, being well prepared for an interview is a must. You have to be well informed about the company you're applying to and know as much as possible about its business and its recent developments.

As some of you might have learned already, patience and persistence are certainly going to be other key qualities to have in the coming months. ☆

Networking: The Key to Career Success

By Margaret Resce Milkint and Mary Kilkenny

Margaret Resce Milkint is managing partner of Jacobson Executive Search, the executive search and selection practice of The Jacobson Group. She can be reached at (800) 466-1578 or mmilkint@jacobsononline.com.

Mary Kilkenny is actuarial practice manager of Jacobson Associates. She provides professional recruiting and career coaching services to actuaries. She can be reached at (800) 466-1578 or mkilkenny@jacobsononline.com.

If you're not networking, then you are missing out on a vital part of career management. While credentials are impressive, the ability to build relationships will set you apart from others in your field who share your same qualifications. In fact, networking is a great way to break actuarial stereotypes. Actively networking shows that you are genuinely interested in those around you and that you care about building your social and professional networks.

There are several ways to engage in networking. The most common and effective method is face-to-face networking. Social networking has also become popular. This includes participation on sites such as LinkedIn, Facebook and MySpace. Reserve sites such as Facebook and MySpace for your personal relationships—they are not places to make business connections. However, LinkedIn can be a great resource for building your professional network. It allows you to keep up with your colleagues' projects and professional statuses, as well as to see which of your contacts might be connected to someone at your dream job. Create a profile on a social network to supplement your face-to-face networking time (not to replace it).

A common misconception of networking is that it only matters when you are looking for a new job. While networking is an important part of a job search, you should make it a point to always be networking—not just when you "need" something.

People network to:
- Stay current on what is happening in the business world
- Learn the needs of the organization
- Determine if your transferable skills are a fit for other positions
- Receive career advice and guidance
- Create your own new position
- Be seen as a mover and a shaker
- Set yourself apart
- Be prepared for future career changes

Who do you network with?
- People you know in your organization—your boss, coworkers and clients
- People you know inside other organizations that you admire
- Individuals who are members of target professional organizations
- Anyone else who can provide you with fresh points of view and ideas

There are three main purposes for networking: for ongoing career management, moving up in a current role and finding a new job.

Networking as part of ongoing career management
Even if you are not looking for a promotion or a new role, networking should be a continuous process. Network to build your contact list and hone your relationships. There are several ways you can implement your networking skills every day:

- *Join an industry-specific organization*. Increase your niche network. Attending events with those in your field will keep you up-to-date on current industry trends and also provide tips and insights on your present responsibilities.
- *Volunteer in your community.* Expand your professional network by engaging with those who are not a direct part of your industry. You never know who they might be connected to.
- *Keep in touch with your contacts.* Call or write once a month "just to see how they are" and to keep your name fresh in their minds.

Networking to advance in your organization

If you are looking to advance in your current organization, you have a small target audience. Your networking targets are with you 40+ hours a week and include your co-workers and bosses. That means you are able to network every day, yet must always be "on stage."

- *Stand out.* Show up early and leave late, join committees and be confident in your work.
- *Show initiative.* Successful professionals reach the top by leading, not following. Don't be afraid to try something new; innovative risk takers often open doors for themselves.
- *Get to know your organization's leaders.* Show interest in your work and look to your boss for information; ask how the company is doing, the direction in which it is heading and how you can help.
- *Dress to impress.* Dress for the role you want and outwardly demonstrate that you take pride in yourself and in your work.

Networking to find a job

Networking as part of an active job search is structured and has a specific immediate goal. Remember that networking is not the same as job searching. Your goal should be to meet new people who are able to give you advice and guidance, not necessarily a job.

- *Compile a list.* Make a list of everyone you know: business professionals, friends, family and clients. Don't restrict your list; you never know who could be a link to the CEO of your dream employer. Also, write down several organizations that you would like to work for. In an ideal world, your contacts will provide links to your target companies, but don't be alarmed if this isn't the case.
- *Write your commercial.* Prepare yourself by writing your sales pitch. This one- to three-minute commercial should introduce your professional self to your contacts. Include your credentials and future objectives. Know this by heart and be able to recite it naturally when put on the spot.
- *Schedule meetings.* Call your contacts to set up brief meetings. Before picking up the phone, jot down notes regarding what you want to say.
- *Plan your agenda.* Don't waste your contact's time. Know what it is you wish to accomplish when entering the meeting and do not expect your contact to lead the meeting.
- *Present your best.* Remember you are not there for a job interview; enjoy yourself. Walk into the meeting with confidence and a positive attitude. Build instant rapport by agreeing on a time allocation. Make it clear that you are there to learn; professionals love to share their industry knowledge.
- *Follow up.* Send a note to let your contacts know how much you appreciated their time and insights. Also, be sure to reciprocate when you are tapped as a resource. ☆

Resources for the Re-employment of Actuaries

by Sue Sames

Sue Sames is a senior consultant at Towers Perrin. She can be reached at sue.sames@towersperrin.com

Until the recent economic downturn, actuaries had the luxury of not having to worry about employment opportunities. Now there are more actuaries seeking re-employment than there ever used to be. The Actuary of the Future section council has taken the lead in working with the SOA to review all the ways the SOA can support actuaries, especially mid-career actuaries, seeking re-employment.

Last May, Meg Weber, our section's staff liaison, wrote an article for our newsletter entitled, "What Does the SOA Do to Support Re-employment of Actuaries". It is a terrific summary of the support available to you through the SOA, whether or not you happen to be seeking re-employment. She highlighted ways to network as well as develop skills through SOA programs. Don't forget to look to your local actuarial clubs for other opportunities.

We have created a page on www.imageoftheactuary.org focused on "Resources for Re-employment," which provides links to Meg's article, as well as other articles that may be of particular relevance for those seeking re-employment. There are, of course, numerous other articles that may be useful in the 'Career Articles' pages, but we felt these were particularly worth noting.

In addition, we are working with the SOA to identify ways to improve the Careers portion of SOA.org. For example, we noticed some active resumes were several years old, so we suggested a one-year sunset clause. We are working with the SOA on several other ideas, but since this involves technology, as well as an outside vendor, it takes longer to make changes.

There are several challenges in developing support for those seeking re-employment. For one thing, the SOA does not know who needs support. The income limit for those obtaining a dues waiver is quite low and not often triggered. For another, there is a wide variety of needs. The focus of this initiative is mid-career re-employment, which is a different challenge than seeking an entry-level job. Practice area also makes a difference. A temporary downturn in demand due to the economic environment is different from a permanent shift in demand, say, for pension actuaries. We are looking for ways to help provide a broad level of support.

If you have additional ideas to contribute to this effort, please feel free to contact me or another member of the section council. ☆

Interview with Tonya Manning

By Efrem Epstein

On January 17, Tonya Manning, FSA, and chief actuary of AON Consulting appeared on a four-minute segment on CNN. However, on this night she was not being peppered with questions about pensions, personal finance or the economy. Instead, her interviewer was comedian/actor/entertainer D.L. Hughley. Intrigued and curious that the job of an actuary had ranked among the top three 'recession-proof' careers, the host of the eponymous comedy/news program *D.L. Hughley Breaks the News* had invited Ms. Manning to give further insight about the profession.

Ms. Manning was tested from the start as Hughley facetiously inquired, "Let me get right to it ... what the h*ll is an actuary?"

But Ms. Manning held her own while offering up household names such as Jack Nicholson (who portrayed an actuary in About Schmidt) and Milton Friedman (who sat for multiple SOA exams). Later in the interview, she took on Mr. Hughley at his own game by telling her favorite actuarial joke.

Q: What's the difference between an extroverted actuary and an introverted actuary?
A: The extroverted actuary is going to look at your shoes AND their shoes when they're talking to you.

Judging by the e-mails she received, it is obvious that many an actuary enjoyed watching Ms. Manning show the world that FSAs can have a lighter side, and by the end of the segment it seemed that she may have won our profession a new admirer in Hughley. "I'm going home to rent *About Schmidt*, I promise you," he said. No word as to whether he has applied to be the SOA's new celebrity spokesperson ☆

Efrem L. Epstein is a former journalist and public relations executive who now serves on the Actuary of The Future's YAN Committee. He can be reached at efepst@hotmail.com

Call for Speakers/Ideas: The 2010 SOA Spring Meeting—Actuary of the Future Sessions

The 2010 SOA Life and Health Spring Meetings will be held in May and June 2010. We will be starting our planning for AOF sessions soon. If you have ideas about topics of the sessions you would like AOF to sponsor, or are interested in speaking on certain topics, we would like to hear from you. Please contact Mark Yu, Mark_Yu@SwissRe.com.

Skills Needed to Survive the Recession

By Jennie McGinnis

Jennie McGinnis is assistant vice president of risk management at Swiss Re Life & Health America Inc. She can be reached at Jennifer_McGinnis@swissre.com.

NOTE: The views expressed are those of the interviewees and not necessarily those of their employers.

During this year's Annual Meeting, the Actuary of the Future Section sponsored a session entitled "Skills Needed to Survive the Recession." The session sought to highlight the skills needed in the current environment and helped attendees recognize how these skills differ from when it's business as usual. No matter where one is on the corporate ladder, adapting to this change is essential to surviving the current economy.

While preparing for the session, the panelists considered several questions on actuaries' minds during this time of change. Highlights are presented below.

Actuary of the Future: What are the key skills needed in the current environment?

Bob Morand: From a functional perspective, strong modeling experience is a key element clients seek in today's environment, as well as exposure to and experience with economic capital. The key is to keep your background relevant to what is transpiring in the overall industry.

"WE SHOULD BE MORE CONFIDENT IN THE SKILLS WE BRING TO THE TABLE."

Dale Hall
Vice President And Chief Actuary
Country Financial

From a personal perspective, actuaries with strong communication skills will trump those who do not have them. In addition, the ability to explain complex concepts to both technical and non-technical audiences in a clear and concise manner are skills needed not only today but are necessary for future advancement.

Dale Hall: Communication and teamwork skills are good places to start, but there is a growing need to focus on being innovative and finding creative solutions. Being able to place yourself in your client's shoes is needed more than ever before since they face increasingly harder choices as to how to spend their time and money.

I think there is also a need to continue to have confidence in your skills more than ever before. Sometimes we as a profession have a tendency to react strangely to any success or failure. For example, we perform a timely and useful analysis within our company, or we obtain a coveted consulting project and then tell ourselves, "Well, we really lucked in to that one." In reality, it's our reward for working hard and smart. We should be more confident in the skills we bring to the table.

Kush Kotecha: I believe the main skill needed is focused initiative. In these times, it is common for employees to become more proactive than they might otherwise be, in an effort to show value. However, in many cases their efforts are often scattered and lack direction. It is essential to identify the top few initiatives which can truly add value to both the company and one's career path.

AOF: How do these differ from those considered necessary when it was business as usual?

DH: If you think of the skills you need as a balance between "what you do" (your accountabilities) and "how you do it" (your competencies), then the balance has swung to emphasize your competencies. In today's environment, you begin to see that resources are tight, so there are better opportunities for those who can go beyond their accountabilities.

KK: Expenses are being watched with more scrutiny and labor is one of the largest expenses to hit the bottom line. As such, adding value is key. Although these skills are

recognized regardless of the environment, they are further applauded during times of economic hardship.

BM: [These] skills always have been needed to varying degrees. In today's market, however, those who have finely honed their communication skills and have pursued areas of current industry relevance have a crucial advantage over those who haven't.

Joe Paesani: Today's climate provides more uncertainty, ambiguity and confusion, and hence more fear, trepidation and tendency to not take action. In this type of environment, those who can master these skills are far better positioned to succeed than those who cannot.

AOF: How has this skill shift affected the way senior management approaches their role?

KK: In general, management will have less time to "babysit" staff. Although mentorship will still exist, their time is more valuable and will be spent on market-facing efforts or ensuring current initiatives proceed with limited errors. It is thus imperative that employees become proactive.

DH: When senior management knows that resources are tightening, there's a quick reaction to ensure they are investing in the right projects, and investing in their staff is a project that will be a top consideration. You might recall an old icebreaker exercise where you are shipwrecked and have but a few moments to decide which five items among 20 choices to pile into your lifeboat to survive. It forces you to make decisions about what items have value not only in the first few hours, but also might be helpful should help not arrive for several days. That's a good analogy to the situation senior management may face — what employees and which skills do I need to bring along for the ride ahead?

"ADDING VALUE IS KEY."

Kush Kotecha
Actuarial Advisor
Ernst & Young

AOF: What can individuals do to highlight their value?

JP: Demonstrate that they can generate profit, reduce costs or both, and become a more visible contributor within their organization.

BM: [Agreed,] be visible. Take on or volunteer for projects. Make yourself known to all areas of the company, not just actuarial, by speaking with the leaders in those

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areas — not in a "suck-up" manner, but from the standpoint that you and your actuarial background are interested in all facets of the company and industry. Actively mentor more junior people in the company, even outside of your defined role, if appropriate. Speak at conferences and publish articles. Be active in the Society and, in doing so, build yourself as a brand (for example, become a subject matter expert).

DH: There's a great opportunity to highlight how your skills and competencies are consistent with the needs of the firm. You should take a step back for a moment and ask, "What's important to the firm's current and future success?" Even if investment in future development is down at a irm, it's not zero. So further embed yourself in things that will be critical to develop over the coming years. Not only will it expand your knowledge, it can help emphasize your teamwork skills and give you a glimpse of how your firm can be successful for many years to come.

"WHILE TIMES LIKE THESE PRESENT CHALLENGES, THEY ALSO PROVIDE OPPORTUNITIES."

Joe Paesani
New Venture Actuary

AOF: What else should actuaries keep in mind in the current environment?

JP: [A number of these skills] have traditionally been viewed as "soft" skills, and hence often get viewed as an after-thought. The average manager in the United States spends less than one day per year on self-development. Actuaries already face the perception of being technical experts and not much more. While times like these present challenges, they also provide opportunities for growth for those able to see and develop themselves to capitalize on the opportunity.

DH: I think smart business requires you to make sure that if your tangible assets might be declining in value, you should be sure to have intangible assets that are appreciating. In our current environment I firmly believe that your intangible asset of "your personal network" is something that can grow exponentially in value. If you don't have a broad network of industry peers, now's the time to develop it. If you do, make sure you're keeping connected to what the current topics and thoughts in your industry might be. Investing a small amount of time along these lines will pay strong dividends. ☆

"BUILD YOURSELF AS A BRAND."

Bob Morand
Partner
D.W. Simpson

What Does the Actuary of the Future Look Like? Online Roundtable—Fall 2009

by Efrem L. Epstein

Efrem L. Epstein is a former journalist and public relations executive who now serves on the Actuary of The Future's YAN Committee. He can be reached at efepst@hotmail.com

What might the 'Actuary of the Future' look like, and how does he or she differ from the actuary of today … or yesterday? We assembled an online roundtable of some of the most respected professionals in our industry and, over the course of a week, posed a series of questions to gauge their view of where we are, where we've been and where we just might be heading.

Roundtable Participants

Chris Lemming
Director and Actuary
WellPoint

Sim Segal
U.S. Leader of ERM Services
Watson Wyatt

Joel Steinberg
Senior Vice President & Chief Actuary
New York Life

Angie Wachholz
Senior Recruiter
DW Simpson Global Actuarial Recruitment

Day Yi
President
The Infinite Actuary

Actuary of the Future: How has the actuarial profession changed over the last five years?

Chris Lemming: One change I have seen is that the career path doesn't seem to follow as much of a standard. For example, the exam system has changed, requiring companies to keep up with the changes—you can't just sit on your actuarial program for 10 years; you have to adapt. Also, more college students are finding out about the profession, resulting in more students to choose from with more exams passed. So as hiring companies, we have had to adapt what we look for in deciding who to interview and who gets job offers.

There also seem to be more cases where an individual's experience level and exam progress don't line up neatly. A little more planning is needed to make sure those folks are getting the appropriate challenges and opportunities.

None of these things are bad; they just require greater flexibility in our recruiting and career development approaches. It increases the need for actuarial managers to build relationships and develop strong interpersonal skills.

Angie Wachholz: Of the changes over the last five years, we have seen a big uptick in CAT modeling, Generalized Linear Modeling (GLM) and other non-traditional areas like ERM and the CERA credential. More companies appear to be interested in hiring actuaries with good business skills, and are hiring actuaries into positions like CFO and CRO. The actuarial skill set is very attractive to companies looking to fill roles that are not specifically 'actuarial' but require a broad understanding of business trends. Perhaps the reason for this is that actuarial student programs seem to be focusing more on developing actuaries with broader business skills—this is especially true of students coming right out of university.

Additionally, we have also seen an increase in roles focusing on health care analytics and health care economics. People are making more extensive use of predictive modeling and qualitative analysis within the health arena.

Furthermore, on a more international scale, fields within the actuarial arena seem to be widening—both in terms of scope of positions as well as geographical location. We have seen several companies in India, Asia and the

Middle East join the global framework of risk and hire actuaries to help assess the risk of our global economy.

CL: I agree with Angie's comments about health care and seeing more focus on health care analytics and predictive modeling.

And technology is having an impact on us as with all industries. We are coming up with more complicated processes, moving them to semi-production and production more quickly, and our reports have to be more user-friendly—easy to read, nice appearance, easy to update and make changes, automated with buttons and graphs, etc.

Day Yi: From the educational perspective, I have witnessed a migration toward embracing technology to educate, train and evaluate actuaries. We have witnessed an increased utilization of the Web to disseminate information. We have seen actuarial exams being offered using CBT (computer-based testing) to reduce dependencies on manual processes. Many exam preparation services have moved toward the virtual classroom to help students prepare for their exams without having to be physically present to receive the instruction.

With the myriad of information-gathering tools accessible to the 21st century actuary—in particular the PC and smartphones—it was inevitable and necessary that the actuarial profession make use of the available technology with an eye toward improving efficiencies and presenting an image that the profession is keeping up with the times.

Sim Segal: One trend is the increasing desire of employers for actuaries with business-savvy skills, where actuaries are typically not strong. This has been confirmed in SOA employer and member surveys. As a result, in recent years, the number of actuaries in leadership positions has actually declined. Employers have expressed that they would expand the roles of actuaries, particularly in leadership positions, for actuaries who have these skills.

Another trend has been an increasing shortage of actuaries in the health arena. There are a wide range of roles actuaries can play in this field, and employers often go without actuaries due to the lack of availability. The SOA has launched a task force to research these opportunities.

A third trend has been the development of the ERM market, which continues to grow. Virtually all consulting firms, IT firms, universities and conference planners have been emphasizing ERM. The SOA has made a bold move into this space, with the creation of the CERA credential, the most rigorous ERM credential in the world. This has been accompanied by an aggressive SOA marketing campaign. Partly as a result of these

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efforts, actuaries have been landing ERM-related roles at traditional employers (e.g., chief risk officer at insurance companies), and also some opportunities at nontraditional employers, such as non-financial services companies.

A fourth trend has been that new FSAs often have fewer years of experience than those in the past. As a result, employers have been looking to adjust their pay scales for new FSAs, and at least one of the top three U.S. insurance companies has recently done so.

Joel Steinberg: I have gone through a couple of the other responses.

I agree that there has been a significant increase in interest in ERM and the consideration and modeling of risk in general. ERM, along with understanding and modeling economic capital will be a growing area for actuaries. We need to remember that we develop models to help us understand risk. Due to uncertainties in certain critical assumptions, the models often cannot be relied upon as precision instruments. As a result, we can get into more dangerous territory when our models are instead used to justify additional risk taking.

Although moving slowly, there is a clear move toward more principle-based approaches for reserves and capital that will impact how we do our jobs in the future.

In terms of qualifications, the travel time to FSA has shrunk for many. This is a combination of the increasing number of exams new hires have coming out of college, coupled with fewer exams and the ability to complete the exams more quickly (due to computer-based testing, three exams can be passed in a year without doubling up). As a result, new FSAs often have less experience than in the past, and I believe this is beginning to have some impact when considering the value of the FSA designation.

There is also no question that stronger management and communication skills along with business 'smarts' are being sought by employers of actuaries. It is more difficult today to enter the profession and be successful with just a strong mathematics background.

AOF: Has the exam/credentialing process adjusted to the changes in our industry/profession? If not, do you feel they can or should be addressed through continuing education?

AW: I believe that there are some aspects of the exam/credentialing process that can be dealt with via continuing education. However, this should not replace the exam structure.

The exam system/structure is one of the things that sets actuaries apart from other professions. There are few people who understand the amount of time (hundreds of hours) that goes into taking (and passing!) an exam. This rigorous structure is what makes actuaries unique. Replacing the demanding standards of exam passage to include more continuing education might diminish the value of the actuarial designation.

DY: In some ways, yes. The introduction of online modules to complete the ASA designation is in concert with the SOA's movement toward using technology as an educational tool. While some of the rigors of live, in-person testing have been eliminated, the end result should be the same in theory. In my opinion, the exam structure is a constant tweaking process that undergoes changes every few years to address the concerns and needs of the industry.

CL: Certainly the delivery of the exams and study materials is adapting to changing technology. I'm not familiar enough with the content being tested to comment on that portion.

If we carry the question over to whether we should be testing better business skills, communication skills, the broader skills we talked about yesterday, I lean toward no.

The essay nature of the later exams touches on that to some degree. And it's not something you can test and get a definitive score on. They are important skills that actuaries, or anyone, can use to distinguish themselves, and someone without those skills may find that their credentials aren't taking them as far as they had anticipated. But there is an intangible nature to it that can't be captured quantitatively.

SS: The SOA has been adapting to the changing environment in several ways; here are a few examples:

1) Exams: The SOA periodically updates the exam syllabus; as Day said, this is done every few years or so.

2) Continuing education: The SOA just this past year made major changes to the continuing professional development requirements. Also, the SOA has made changes in the content delivered at SOA meetings, including joint sessions between the Management and Personal Development Section and other sections, to incorporate content on business-savvy skills. As Chris said, it's challenging to find the best way to provide these skills, and this is one alternative that has received positive feedback.

3) University actuarial science programs: The SOA has been encouraging university actuarial programs to develop and maintain certain standards; this is a relatively new development and one which should bear fruit over the coming years.

IN MANY WAYS, GAINING ENTRY INTO THE ACTUARIAL PROFESSION IS INDEPENDENT OF THE SIZE AND RENOWN OF THE STUDENT'S ALMA MATER.

DY: Thanks for your comments, Sim. I wasn't aware of #3. We have seen a greater number of college (and even high school) students express interest in taking exams through inquiries made to our company. This might be a result of the SOA's initiatives. We are also seeing many of the smaller colleges develop student programs/actuarial departments/actuarial clubs. In many ways, gaining entry into the actuarial profession is independent of the size and renown of the student's alma mater. Their success on the exams will often speak greater volumes than other skills/knowledge when it comes to placement.

AOF: There have been a lot of news items lately that can impact our profession including a new administration, health care and the economy. Which current events issue or issues do you believe are of greatest interest or concern to the actuarial profession?

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AW: In several of my recent conversations, one of the current areas of concern is first, securing a position with a stable company and second, finding an opportunity that has long-term growth potential. It is important to be as flexible as possible given the current economic situation—this pertains to location, scope of the position, specific responsibilities, etc. What needs to be remembered is that now more than ever, the findings and opinions of actuaries can be viewed as the criterion by which companies project goals and explain trends. As a result, the need for actuaries continues to increase across all disciplines, regardless of any short-term reductions in demand because of economic conditions.

CL: As an actuary at a large health insurer, health care reform is an issue close to my peers and me. I expect that the nature of what we do won't change; we'll still be deciding how to design and price our products within a given framework. There will be some exciting and interesting times, though, as the framework changes and we get to figure out how best to play the game under the new rules.

NOW WITH MANY COMPANIES SLASHING TRAVEL EXPENSES AND REDUCING CAPS ON SPENDING, THERE IS A GREATER EMPHASIS ON SEEKING THE BEST VALUE FOR THE COMPANIES' DOLLAR.

SS: The financial crisis is the largest of the three issues. In the long run, the increased awareness of risk will likely expand opportunities for actuaries across all geographies and industries. In the short run, I agree with Angie that foremost on most actuaries' minds is employment at a stable company. Most of us have likely never seen so many actuaries in transition. These days, the mantra seems to be "survival is the new success."

DY: One issue with which actuarial students are dealing is the cutting back of company-wide expenses. In the past, generous study programs were always an attractor for the exam-taking job candidate. So companies were wise to get their student support programs in line with their competitors'. Now with many companies slashing travel expenses and reducing caps on spending, there is a greater emphasis on seeking the best value for the companies' dollar. Student programs are no longer writing blank checks so that their students can go on a shopping spree. It's hard to predict what will happen five to 10 years from now. But since the rule "more exams passed equals higher pay," will likely never be broken, employers will have to keep a minimum standard for their student programs so that they can recruit the best students to become their future leaders.

AW: I agree with Day that several companies are cutting back on expenses—especially with regard to student programs. What we have seen recently is a 'freeze' with regard to both salary/merit increases as well as exam raises. However, it is just that—a temporary measure—and the programs and raises associated with passing exams will likely be readdressed (and reinstituted) once things stabilize.

JS: While the short-term impacts of the current economic crisis and the impact on individual companies and actuarial employment is foremost in many minds, the fact is that the crisis highlights the need for actuaries going forward. The critical importance of risk management will be emphasized to a greater extent, and in the next few years there will likely be a transformation in the ways companies are examined from an accounting (Principle-Based Reserves?, International Accounting Standards?) and solvency perspective (Solvency II? or Principle-Based Approaches?), along with a possible change in the way the industry is regulated (State/Fed. Regulation?/Optional Federal Charter?).

Along with these changes should come additional opportunities for actuaries. I am optimistic that the next generation of actuaries will be given the opportunity to shine (I continue to recommend the profession to my two oldest kids, but they will undoubtedly continue to ignore me!).

AOF: As alluded to earlier, the CERA credential has given our profession a much stronger presence in the ERM sector. In the long term, are there any other areas into which you could envision actuarial expertise transcending?

AW: It was only a few years ago that the chief risk officer, for example, became an integral component in the insurance/reinsurance arena. Companies have increasingly sought to hire actuaries into such nontraditional roles because of the relevance of the actuarial skill set as well as the actuary's understanding of business trends. Today's actuaries must have acute business acumen and the ability to convey technical ideas to clients and other nontechnical audiences. This integration of actuarial and business strategy skills fosters a continued involvement in enterprise risk management/CERA initiatives and, to name a few, insurance companies, the financial services industry and rating agencies.

What this means is that the actuarial skill set is permeating several components of a company's hiring structure. Furthermore, this means that the demand for actuaries (as Joel alluded to in the last question) will continue to rise. With the changing economic climate, what will transcend is the skill set that is specific to actuaries. Therefore, companies will continue to look to the actuary to help evaluate several components of both the internal and external company framework.

SS: To Angie's point about the specific skill set of actuaries, our core skill is measuring and managing risk. The heightened awareness of risk due to the financial crisis is expected to generate opportunities for actuaries in ERM

at all types of companies, far beyond the financial services sector. However, there are other areas where our core skills can add value. Such areas may include government budget projections, homeland security and retail financial planning, to name a few. We just need to think a bit more broadly about our skills and the potential opportunities. A while back, I met an employee of a telecommunications company, whose job was performing projections, who began taking actuarial exams to prepare for an alternate career, in case he was downsized. He soon discovered applications of actuarial science to his work that had never been tried before, and the success he achieved resulted in widespread recognition at his firm. The lesson for us is that once we start looking, we may find a wide variety of opportunities.

DY: One of my good friends works for the Elias Sports Bureau as a sports statistician. I know several actuaries who are successful stock traders. Some operate their own sports fantasy league businesses. In keeping with what Sim said, if you look hard enough where your talents and hobbies intersect, many opportunities can open up for a person with strong actuarial skills.

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AOF: Please finish the following sentence. I'd recommend people enter the actuarial profession because ...

AW: I'd recommend people enter the actuarial profession because it offers a stable, long-term career. Given the economy we are facing, it is important to put one's self in a position to succeed, and the actuarial profession does this. It offers a level of professionalism (through exams, for example) as well as an overarching career trajectory that is unparalleled by other professions. There is a great deal of room for growth—whether this comes in the form of management, presentation skills or movement with one's own company that allows for both personal and professional development.

As we see the demand for risk management rise, surely the demand for actuaries will as well. What we have seen lately is a surge in the number of people choosing an actuarial science major as well as an uptick in the number and scope of companies that employ actuaries. Becoming an actuary puts someone at the forefront of the global insurance and finance sectors—what better place to be now than this?

CL: I recommend the actuarial profession because it is consistently ranked as one of the top professions. It is a stable career with good rewards, filled with opportunities for development and advancement. Even those who decide that the exams are not for them have great opportunities to demonstrate their skills, and from what I've seen, can be pretty successful at finding other good job opportunities.

Perhaps the biggest advantage for younger folks deciding on a career is the initial starting point and early career path. With just an undergraduate degree you can earn a very nice salary immediately, with lots of opportunities to increase that salary, while gaining experience and getting on-the-job time to pursue your credentials.

SS: I recommend people enter our profession for the same reasons I did, which are still just as valid today: It is like continuing university and working at the same time, giving you the best of both worlds; it involves so many different disciplines (e.g., math, IT, investments, law, medicine, etc.) and functions (product development, pricing, financial reporting, etc.) that it's fun and interesting and you have time to select a 'major' in the field; it is a very noble role—we help companies keep the long-term promises they make to society; and it provides you with an extremely intelligent and highly ethical peer group throughout your career.

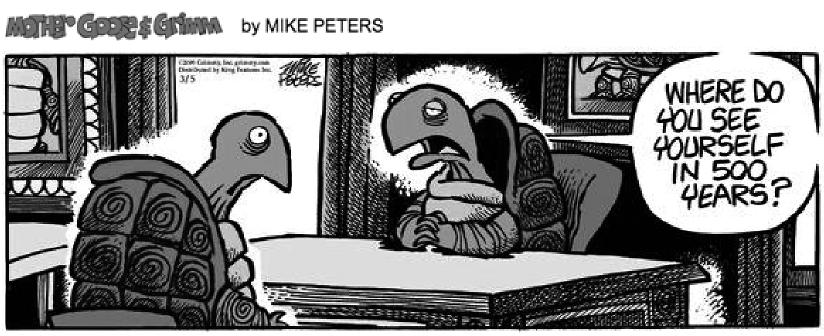
DY: I'd recommend people enter the actuarial profession because, outside of the obvious plusses and not to be redundant, there is a level playing field created for all starting students as a result of the exam system. If you can pass the exams, there will be a job waiting for you. You can graduate from an Ivy League institution or from your local community college. An exam passed is an exam passed. I've witnessed many colleagues rise through the ranks rapidly due to their successful performance on the exams. This objective measuring of a student's progress makes i easy to set goals and gives motivation to studying while others might be out partying. While the exam performance will not entirely define an actuary, it will definitely set the diligent student off on the right foot. Where that ultimately takes the student will then be determined by what he or she can do on the job and bring value to the employer. ☆

Where Do You See Yourself in Five Years?

By John Hadley

When was the last time you sat back for a few minutes and thought about where you want your career to take you, and what you will need to do over the next few years to make that happen?

Too often, we get so wrapped up in the pressing concerns of the 'here and now' that we just let the wave of our past experiences carry us where they will. At the Spring SOA meeting in Denver, we asked workshop participants to take an hour and a quarter to consider their goals, and the personal and business development areas on which they will need to focus to achieve them. (Thanks to the Actuary of the Future and the Entrepreneurial Actuaries Sections for jointly sponsoring the workshop.)



Here are highlights of my own career journey and some key learnings that I shared with the participants …

A guiding principle that followed me throughout my career was something my father said to me when I started in my first actuarial role, "An Actuary with a personality can go anywhere."

This wasn't intended as a knock on the profession. What he meant was that the actuary who breaks out of the stereotype can really stand out. You can put your head down, work hard, do the best work you can, and ignore the 'people' side of the equation; there is certainly room in our profession for great technicians. However, if you really work on 'fuzzy' skills, you will be presented with many more interesting career options.

Even before I started my actuarial career, I discovered the power of networking. During Christmas vacation in my senior year of college, I had an interview at my top choice company (Equitable). The night before, I had a casual conversation with a friend of the family for whom I had worked the summer before in an unrelated industry. It turned out he had an old friend who was a senior actuary at Equitable, and he decided to write him a letter of recommendation on my behalf.

It was clear from how little time they spent with me the next day that I was not considered a serious candidate. However, two days later, the interviewer called to see if I could come back in for another round of interviews before I left for California. I was hired, and I ended up working there for eight years.

Networking has continued to be a powerful driver throughout my career, leading to interesting new opportunities at many points, even at times when I was convinced there weren't any such options.

LEARNING #1: BUILD A STRONG NETWORK FROM DAY ONE

During my first rotation at Equitable, it was very natural to eat lunch with my fellow actuarial students. After a few months, I started to branch out and eat from time to time with other non-actuarial coworkers. I noticed that many times non-actuaries would comment on how cliquish many of the actuaries and actuarial students were, and there was a level of resentment of the 'prima donna'

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John West Hadley is a career counselor who works with job seekers frustrated with their search, and professionals struggling to increase their visibility and influence at work. He can be reached at John@JHACareers.com or 908.725.2437. His free Career Tips newsletter and other career resources are available at www.JHACareers.com.

attitudes many had, as well as a perception of them having tons of time off (e.g., study time) and a lesser degree of work responsibilities relative to their pay levels.

Hearing these discussions helped sensitize me to potential pitfalls that could have unknowingly have held me back in my career—I was pleased that a consistent refrain I heard from non-actuaries was, "You don't seem like an actuary." And having strong non-actuarial connections gave me a much broader perspective on issues.

LEARNING #2: EXPAND INTO A NON-ACTUARIAL NETWORK

LEARNING #3: WORK ON YOUR PEOPLE SKILLS

During my career at Equitable, I was presented with a number of choices for rotations, job opportunities and projects. Many of my fellow students looked for the ones that would provide the most value to their career in a 'traditional' sense. I found myself gravitating toward somewhat more nontraditional opportunities:

- I ran a systems testing unit in my second rotation, which unlocked a new area of interest for me—and in 2003 I opened a successful systems consulting practice.
- I purposely rotated into the underwriting department, where I ended up being tapped for a special "Underwriting in the '80s" task force that introduced me to my dream boss.
- For my final rotation, I took a job that wasn't what I wanted long-term, but was a chance to again work for my dream boss. That directly led to the job I really wanted under him six months later.

LEARNING #4: FOCUS ON THE RIGHT THINGS

A few years after I received my FSA, I left Equitable for my 'dream job', building a new actuarial department for a smaller company. Now I found myself with many eyes on me as the expert. The network I had built up over the

past eight years at Equitable and through the SOA and actuarial club meetings became critical to providing me ideas, new perspectives and resources I could tap into as I faced issues and product lines that I had never before encountered.

I also found myself leading lots of meetings and chairing implementation committees. Within a year, I was asked to represent my boss in a joint presentation with our president, to the chair of our parent company! Having grown up as a bit of a wallflower, I was surprised to find that I really enjoyed making presentations.

This quickly built my visibility, which lead to many interesting opportunities over the rest of my career. This has also become the most powerful way I've found to build my career coaching practice. Actuarial consultants have long recognized this, but often go about it the wrong way. (I shared a template for how to turn speaking into business opportunities for The Stepping Stone—you can find a copy at www.JHACareers.com/ArticlesSpeaking.htm.)

LEARNING #5: PRESENT REGULARLY

As actuaries, we are trained to carefully measure risk, and this often leads to a very technical view of risk and risk-averse behavior. If we can't measure the potential outcome, we may avoid the risk completely. I found that each time I took a risk, even if it didn't pan out as I hoped, it provided personal and business growth that far outweighed any negatives in the long run.

For example, when my company went through a merger in 1996, I knew a year ahead that there would be no seat at the table for a chief actuary. However, I had decided that I really wanted to go in a different direction, and set out to create a non-actuarial role for myself. I had ruled out independent consulting, because the idea of marketing myself on a regular basis was daunting, and after all, what did I have that companies would want?

All of that changed when I learned how to present my value proposition quietly, with self-confidence and without bragging. Although my goal was another corporate position, I was offered a systems consulting opportunity and jumped at the chance. Three weeks later I was offered a full-time job at a comparable level, and turned it down. I had already realized that I loved being independent, and that 'marketing myself' was just a relatively straightforward problem for me to solve.

Despite a high level of success in consulting, it was almost a no-brainer for me to start over from scratch six years later with the career coaching that had morphed from a hobby to a passion.

LEARNING #6: SHOW QUIET CONFIDENCE IN EVERYTHING YOU DO

LEARNING #7: SELF-PROMOTE WITHOUT BRAGGING

LEARNING #8: TAKE RISKS

After the Denver workshop, we invited everyone to commit to a concrete action to prevent it from turning out to have been merely a 'feel-good' exercise, but instead something that actually helps them move forward to achieve their goals.

I invite you to do the same by committing to paper at least one action step you will take in the next two weeks after reading this article to move yourself forward toward your own five-year goal. It could be as simple as:

- Scheduling a 15-minute brainstorming meeting with yourself to start defining that five-year goal, or
- Embarking on a plan to expand your network in some way each week, or
- Signing up for a skill building course, or
- Volunteering to give a presentation.

The specific actions are completely up to you.

If you decide to accept this invitation, here's what I will do to support you:

1. Decide on the action step you will take and e-mail that to me at John@JHACareers, along with the date on which you will do it.
2. Once you take the action step, e-mail me to let me know you've completed it and the result.
3. If I don't hear from you by that date, I will e-mail you for a status update.
4. From there on, stay on track, continue to evaluate and re-evaluate and achieve your goals, whatever they may be! ☆

Seeking Actuarial Pioneers

By Janet Deskins

Janet Deskins is senior vice president, marketing resources, at National Financial Partners. She can be reached at jdeskins@nfp.com

Many of you have seen the Actuarial Pioneers articles that have been part of the Image of the Actuary campaign (www.imageoftheactuary.org). Actuary of the Future is once again going to be taking the lead in managing this initiative, so we are soliciting your help in identifying and nominating potential pioneers.

By definition, a pioneer is an actuary who has blazed a new trail for other actuaries by creating a new application for actuarial science, or is among the first to apply the actuarial skill set in a nontraditional setting. The pioneer can be a member of any actuarial organization, so it is not just restricted to members of the SOA.

The key questions to think about when nominating an actuary are:

1) What motivated this candidate to pursue new directions?
2) Has the candidate expanded frontiers of actuarial practice? If so, how? What innovations has the candidate made or introduced?
3) What risks has the candidate taken?
4) What has the candidate done to bring actuarial and business expertise and perspective to other parts of the world?

If you know someone who has a great story to tell relative to one of the above questions, please send their name and contact information to jdeskins@nfp.com. The council members will do all the interviewing and writing; we just need your help to identify the pioneers. ☆

Connecting the Dots

On September 16, the Younger Actuaries Network sponsored their second annual webcast. Entitled "Connecting the Dots to a Brighter Future," the webcast provided attendees with tools to recognize and effectively use mentoring and networking opportunities. Many thanks are due to the presenters, Tom Herget and John Lowell, who brought these opportunities to life through their own experiences. Additional details can be found through the SOA's Web site and will be provided in a future article of the *Actuary of the Future* newsletter..

An Actuarial Tour of the New Economic Landscape

By Jennie McGinnis

NOTE: The views expressed are those of the interviewees and not necessarily those of their employers.

The economic landscape has changed drastically over the past year. With a number of government initiatives being passed and others on the horizon, actuaries are sure to consider how these changes affect them. The Actuary of the Future Section sponsored a session at this year's Annual Meeting that sought to assist actuaries in identifying the different features of the actuarial world as we know it today. Entitled "An Actuarial Tour of the New Economic Landscape," presenters set out to describe:

- The lush forests: The areas in which actuaries will continue to thrive, and perhaps gain even more productivity, as a result of government action.
- The sandy beaches: While the sand may be hot (that is, there's a possibility that actuaries will come under pressure), operating in these areas will generally be like a day at the beach.
- The barren desert: Hot, dry and dreadful — be on the lookout for these areas of increased intensity and scrutiny.

During their preparation for the session, the panelists shared their thoughts on examples of each and their views on possible changes going forward.

Jennie McGinnis is assistant vice president of risk management at Swiss Re Life & Health America Inc. She can be reached at Jennifer_McGinnis@swissre.com.

LUSH FORESTS

Despite the often-negative media attention concerning the economic environment, the presenters found plenty of examples of lush forests that exist today. There is clearly an "opportunity to advance the actuary as expert in managing the risk of financial promises," according to Dave Sandberg, vice president and corporate actuary at Allianz Life Insurance Company of North America.

Referring specifically to the life insurance industry, Fred Andersen, supervising actuary – life, for the New York State Insurance Department, noted that the "industry has fared well relative to other financial services industries.

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In addition, Sandberg stressed the possibility that years of actuarial practice, approaches and skills may bloom into new applications beyond insurance. "Actuaries have spent many years designing and working with models built around the interactive agency effects of policyholders and company management. This may be very useful [when applied] to the systemic issues that impact the larger economy."

There is opportunity for actuaries to be given credit for their piece in maintaining industry solvency, possibly bringing more attention to their services."

The pension arena has its own forests as well. David Driscoll, principal and consulting actuary at Buck Consultants, recognized "governmental pension plans, pension compliance issues (particularly those arising under the Pension Protection Act) requiring actuarial skills, and nonqualified plans" as areas of continued productivity for actuaries.

Companies that made wise decisions regarding risks and sought to ensure their understanding of those risks have found themselves in a situation of being able to better and more easily manage their capital positions, commented Sandberg. The market is also expected to recognize those "companies that can simply explain the risk and rewards of their products."

SANDY BEACHES

Certainly, the industry has not gone unscathed. "Life insurers and their actuaries will be subject to additional disclosure," suggested Andersen. "There will also be more parties within a company providing oversight on the evaluation of nontraditional risks." Sandberg agreed, noting that "expanding ERM (enterprise risk management) to a more comprehensive and proactive view of addressing future risks" will be necessary, but comes with its own difficulties.

There is also the hurdle of raising capital and communicating the need of doing so with stakeholders. Educating "policyholders and agents that scarce capital affects new sales, but is not about the company going under," will be an important challenge to address, shared Sandberg.

A CLEAR MISTAKE WOULD BE TO "HOPE THAT WE CAN ALL JUST GO BACK TO HOW IT USED TO BE"

BARREN DESERT

One well-known example of an area that has come under increased intensity and scrutiny relates to the pension field. Driscoll noted that qualified, private-sector defined benefit plans have faced a difficult struggle as their sponsors cope with a regulatory framework that was extensively changed by the Pension Protection Act and funding problems arising from last year's market meltdown.

Other characteristics of the barren desert relate to how the industry proceeds going forward. A clear mistake would be to "hope that we can all just go back to how it used to be," shared Sandberg. Solutions must be created wisely, though. The "possibility that solutions applied to clean up the broken areas of the financial services arena will be applied to insurance in a blanket fashion [will] increase systemic risk and the cost to society, as well as prevent new product opportunities."

Andersen pointed out that there are also concerns relating to principle-based reserving, as more constraints are expected as a result of the current environment. "Scrutiny will come in the form of additional interactions with regulators."

OUTLOOK

Recognizing that the economic environment can change quickly, what can be expected in the next few years? On the pension front, Driscoll expects very little change in the need for the services of pension actuaries. In the longer term, however, he anticipates that the number of offerings of qualified, private-sector defined benefit plans will continue to shrink.

As firms begin reserving using a principle-based approach, "the amount of disclosures and justification required to be submitted by company actuaries will rise exponentially," warned Andersen. "Actuaries will be under more pressure by their management and by regulators to account for [the volatility of interest rates, equity markets and the overall economy] in their projections."

Sandberg sees two possibilities moving forward. "We choose solutions that are familiar or we use first principles to solve and prevent the real problems." In the case of the former, expect "increased conflict and confusion over regulatory jurisdictions [and] vastly increased noise due to many kinds of reporting that cannot be understood across regions and industry segments." Long-term, this could likely result in yet another systemic failure.

If the latter option emerges, the industry would find that "risk is not buried or lost. Companies [will be] accountable for measuring and managing their risks as clearly as debits and credits track the flow of cash." This will require a steep learning curve, but will also provide an opportunity for actuaries to develop the tools needed to meet these goals. In the long run, it is expected that this direction would "vastly reduce costs of regulation, yet [provide] far [greater] ability for people to choose the risk they want to take." Also, this scenario provides "greater security [for] policyholders and the public …as well [as] the safety of the broader financial system."

The shape of the future economic landscape will be impacted by the role actuaries play in the resolution of the current recession. By doing our part we can ensure that risk is not seen as bad, dangerous or frightening, but as opportunity. ☆

Insuring the Low-Income Market: Challenges and Solutions for Commercial Insurers

By Craig Churchill

Craig Churchill is a microfinance expert at the International Labour Organization. He recently launched the Microinsurance Innovation Facility and can be reached at churchill@ilo.org

INTRODUCTION

While the term 'microinsurance' has only been around since the late 1990s, the concept is not really new. Some of today's large insurance companies began in the 1800s as mutual protection schemes among low-income workers. In the early 1900s, many insurers built their business by selling 'industrial insurance' at factory gates, and insurance was seen as a financial service for the poor, since wealthy people essentially self-insured. Over the years, however, this perception has reversed—many poor people today think insurance is only for the wealthy. Indeed, microinsurance can be described as a 'back to basics' campaign for the insurance industry, to protect vulnerable people through the solidarity of risk pooling.

In many developing countries, commercial insurers are becoming interested in serving the low-income market by providing microinsurance. To do so, they have to overcome both operational and regulatory obstacles. Although certain regulations actually give commercial insurers an advantage in serving the low-income market, by restricting competition from specialized microinsurance companies, this opportunity is unlikely to last indefinitely. Commercial insurers that are keen to reach out to new markets, such as the huge volume of low-income people in many countries, would be wise to move quickly to overcome key operational issues. In particular, insurers need to recognize that microinsurance is not just existing products with smaller insured sums, but that it requires a significantly different approach from conventional insurance.

This article defines microinsurance, describes its recent emergence and explains the main challenges faced by commercial insurers serving the low-income market. It discusses key strategies commercial insurers need to consider when serving this market. These include a) improving the insurer's familiarity with the preferences and behaviour of poor persons and b) educating the market about insurance to create low-income consumers.

1. WHAT IS MICROINSURANCE?

Microinsurance is the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. It is not a specific product or product line. It is also not limited to a specific provider type. Microinsurance is the provision of cover to a specific market segment: low-income persons.

How poor do people have to be for their insurance protection to be considered micro? The answer varies by country. Generally, microinsurance is for persons ignored by mainstream commercial and social insurance schemes. Since it is easier to offer insurance to persons in the formal economy with a predictable income than to cover informal economy workers with irregular cash flows, the latter represent the microinsurance frontier.

Microinsurance can cover a variety of different risks, including illnesses, accidental injuries, and death and property loss — any risk that is insurable as long as the product is affordable and accessible for low-income households. Microinsurance can be offered as a single risk product or several covers can be bundled together into a composite product, perhaps even underwritten by different risk carriers.

Microinsurance does not refer to the size of the risk carrier. Some providers are small and even informal. There are also some very large companies that offer microinsurance, such as AIG Uganda, Delta Life in Bangladesh and Zurich in Bolivia. In addition, all insurance companies in India are required to serve the 'rural and social sectors' by the regulatory authorities.

Insurance can be delivered to low-income households through a variety of channels. Microinsurance risk carriers include small, community-based schemes, mutuals and cooperatives, as well as joint stock companies and

government-owned insurers. To reach poor households, risk carriers often partner with delivery channels that already have financial transactions with the low-income market. The most common arrangement is with microfinance institutions that provide credit and perhaps savings services, and therefore microinsurance essentially becomes bancassurance. However, delivery channels can also include cooperatives, community organizations, small business associations, trade unions and even retail companies that cater to the low-income market.

2. THE EMERGENCE OF MICROINSURANCE

Microinsurance is primarily a phenomenon in developing countries largely because insurance penetration is low and government social protection schemes cover only a small minority. Consequently, microinsurance has emerged to fill the gap from three parallel entry points. First, to cope with risks, many low-income persons form their own mutual benefit associations, creating unregulated insurance schemes (of which some have grown large enough to pose a dilemma for regulators). Second, some development agencies have encouraged the financially excluded to create risk-pooling mechanisms that can benefit from government's redistribution of resources from the rich to the poor. Third, with encouragement from microfinance institutions, some insurers see the vast number of low-income persons in developing countries as a new market opportunity.

This 'new market' perspective has been best articulated by C.K. Prahalad (2005) in his book Fortune at the Bottom of the Pyramid. Prahalad identifies the more than four billion persons living on less than US$2 per day as a market opportunity if the providers of products and services innovate new business models and create low-income consumers.

In particular, when serving the bottom of the pyramid (BOP), even if the per-unit profit is minuscule, when it is multiplied across a huge number of sales, the return can become attractive. This attribute is a perfect fit for insurance and the Law of Large Numbers, whereby actual claims experience should run much closer to the projected claims when the risk pool is larger. When projections can be estimated with a high degree of confidence, then the product pricing does not have to include a large margin for error, making it more affordable to the poor. Prahalad also makes a strong case for: a) utilizing technology to enhance the efficiency of managing large volumes of small transactions; and b) making significant investments in educating the market in order to create a demand—both of which are essential for the successful uptake of insurance by the poor.

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As Prahalad's thinking filters through the insurance industry, many commercial companies are beginning to look at the low-income market a bit differently, especially when the results from vanguard insurers show that it is possible to provide microinsurance profitably. Yet to serve this market, insurers have to think differently about customers' needs, product design, delivery systems and business models.

3. MAIN CHALLENGES FACED BY COMMERCIAL INSURERS IN SERVING THE POOR?

Although the insurance industry is beginning to take notice of the vast under-served market of low-income households, insurers must overcome numerous obstacles if they are to offer quality insurance products to low-income people.

PRODUCTS GENERALLY AVAILABLE FROM INSURERS ARE NOT DESIGNED TO MEET THE SPECIFIC CHARACTERISTICS OF THE LOW-INCOME MARKET, PARTICULARLY THE IRREGULAR CASH FLOWS OF HOUSEHOLDS WITH BREADWINNERS IN THE INFORMAL ECONOMY.

One of the primary stumbling blocks is the transaction cost associated with managing large volumes of small policies. In serving the poor, insurers incur significant expenses marketing to a clientele that may be unfamiliar with insurance, collecting premiums from persons who may not have bank accounts, and assessing and paying out small claims. A related problem is the distribution of insurance to the low-income market. The system of brokers, agents and direct sales used by commercial insurers is generally appropriate for corporate customers and high-value individual customers, but does not reach the poor.

Products generally available from insurers are not designed to meet the specific characteristics of the low-income market, particularly the irregular cash flows of households with breadwinners in the informal economy. Other key product design challenges include inappropriate insured amounts, complex exclusions and indecipherable legal policy language, all of which conspire against effectively serving the poor.

It is generally assumed that low-income men and women are more vulnerable to risks than the not-so-poor. However, most insurers do not have data to accurately interpret the vulnerabilities of the poor. To address such a problem, insurers may build in a hefty margin for error and then make adjustments once the claims experience starts rolling in. However, this practice often renders the premiums unaffordable for the low-income market.

Insurers do not have the right mechanisms to control certain insurance risks, such as adverse selection and fraud, among the low-income market. For example, the claims documentation requirements and the verification techniques used to ensure that someone with a US$100,000 life policy is not defrauding the insurer are inappropriate for a US$500 policy.

Lastly, another major challenge in extending insurance to the poor is educating the market and overcoming its bias against insurance. Many poor persons are sceptical about paying premiums for an intangible product with future benefits that may never be claimed —and they are often not very trusting of insurance companies. Creating awareness about the value of insurance is time-consuming and costly. This bias goes in both directions. The people who work for insurance companies are usually unfamiliar with the needs and concerns of the poor. They assume that the poor cannot afford insurance. In addition, the culture and incentives in insurance companies reward and encourage focus on larger policies, more profitable clients and discourage staff from the idea of selling insurance to the poor.

Table 1. Illustrative distinctions between commercial and micro insurance

Commercial Insurance	Microinsurance
Premium collected mostly from deductions in bank account	Premium often collected in cash or associated with another financial transaction; should be designed to accommodate customers' irregular cash flows, which may mean frequent payments
Agents and brokers are primarily responsible for sales	Agents may manage the entire customer relationship, perhaps including premium collection
Targeted at wealthy or middle class clients	Targeted at low-income persons
Market is largely familiar with insurance	Market is largely unfamiliar with insurance
Screening requirements may include a medical examination	If there are any screening requirements, they would be limited to a declaration of good health
Sold by licensed intermediaries	Often sold by unlicensed intermediaries
Large sums insured	Small sums insured
Priced based on age/specific risk	Community or group pricing
Limited eligibility with standard exclusions	Broadly inclusive, with few if any exclusions
Complex policy document	Simple, easy to understand policy document

Adapted from McCord and Churchill (2005).

4. HOW CAN COMMERCIAL INSURERS SERVE THE POOR?

Knowing what the challenges are, commercial insurers can identify strategies to overcome them and actually provide valuable insurance coverage to the poor. The first step is to understand the market and identify a particular customer need to be fulfilled. However, this is not so easy given the significant social and economic differences between persons working for insurance companies and those working in the informal economy. Commercial insurers must recognize that they probably do not know very much about the target market, and have an open mind about how to solve the needs of these customers.

Insurance professionals who have spent time interacting with poor persons, through surveys and focus groups, invariably come away with two pertinent observations: 1) these people definitely need insurance as a tool to help them manage risks; and 2) a different approach to product design and delivery is required to serve this market.

Key differences between microinsurance and commercial insurance are not just in the products themselves, but also in how they are made accessible to poor persons. As summarized in Table 1, microinsurance products are not just scaled down versions of existing products. They should be as simple as possible, with a minimum of exclusions or restrictions. The product and its related processes must be simple enough so that illiterate people can understand them.

After insurers educate themselves, they need to think about educating the prospective market. Unconventional but effective communication methods, such as street theatre and soap opera-style videos can go a long way to help poor persons understand how insurance works, what it can and cannot accomplish, and how it complements other financial services. Efforts to sell insurance to the poor will be more effective if the target market can make informed choices as to the best tools to employ to manage the risks they face. Communication and education efforts have to move beyond sales to create an insurance culture. In many developed countries, it took generations before people commonly turned to insurance to address

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their risk-management needs. Microinsurance providers can help build the culture of insurance if they serve their clients' needs in a fair and equitable way.

Microinsurance products that respond appropriately to potential policyholder needs and demands will help to generate an insurance culture. The key strategy to achieve this goal is to involve policyholders (or prospective clients) in the process of making hard choices between benefits and price. The poor cannot afford comprehensive coverage, so which benefits are they most willing to pay for, and how much are they willing to pay? Tools that can enable clients to see the trade-offs and voice their preferences will go a long way toward appropriate product design.

Paying a claim — delivering on a promise — is arguably the most important opportunity to reinforce the value of insurance. Because insurers have a reputation of being quick to take the policyholder's money and slow to pay it out, microinsurance has to prove otherwise. The best marketing opportunity for an insurer, the best way to change the opinion of a lukewarm and sceptical market, the best way to demonstrate its trustworthiness, is to pay claims. At least, insurers should take great pains to avoid rejecting claims, for example, by keeping the product simple, making sure policyholders are crystal clear about what is and is not covered, and requiring only the most basic claims documentation, which is easy to access.

There is no room for fat in a microinsurance budget. By keeping the product simple, it may be possible to hire less expensive staff members, ideally people from the local communities. Where possible, insurers should rely on existing groupings to conduct bulk transactions. One way to earn the trust of the market and maximize efficiencies is to collaborate with community organizations. Well-respected organizations and community leaders can enhance the credibility of insurance (or of insurers). If the local organization already engages in some sort of financial transaction with the target market, then efficiencies could be generated by 'piggybacking' premium collection onto a loan, savings or money transfer service.

Great expectations are placed on the potential of technology to enhance efficiency. Technology can improve the microinsurance business because of the information-processing nature of the sector. Even before the birth of the computer, large insurance companies drove the development of sorting, tabulating and calculating machines to improve efficiency. Today, these capabilities are available to small insurers as well. Microinsurers big and small must take advantage of ways of improving efficiency, through the use of smartcards, mobile phones, the Internet and wireless communications, among others.

To succeed in an insurance company, microinsurance needs dedicated human resources, as well as some space to experiment and innovate, to do things differently than the insurer has done them in the past. Different sets of incentives and targets should be considered for microinsurance staff members. To provide good value to customers, insurers must take a long-term perspective and assume that real returns will only come several years down the line. Efforts to generate quick returns may backfire by reinforcing the market's negative perception of insurers. Instead, the focus should be on maximizing customer loyalty under the expectation that today's low-income household may be in tomorrow's middle class, demanding larger sums assured and additional covers.

6. CONCLUSION

To take advantage of this opportunity, commercial insurers will have to overcome some key obstacles. Internally, insurers need to make a commitment to serve the poor, which involves getting to know the market, and having the resources and latitude to innovate. In many companies, this 'willingness' issue is not an easy one to overcome, at least not until senior executives are convinced that the low-income market is worth the trouble. Externally, insurers have to work hard at securing acceptance by the low-income market, about insurance as a relevant risk-management tool, and about the insurer itself.

Backed by a grant from the Bill & Melinda Gates Foundation, the ILO's Microinsurance Innovation Facility was established in 2008 to support the extension of insurance to millions of low-income people in the developing world, with the overall aim of reducing their vulnerability to risk.

The Microinsurance Innovation Facility engages in four sets of activities:

- *giving grants to institutions to devise and test innovative approaches to providing better insurance products to low-income women and men in developing countries*
- *supporting the development of technical assistance providers and encouraging the demand for technical assistance*
- *supporting research on core issues related to insurance cover for low-income*
- *households disseminating information and lessons learned to key stakeholders*

To find out more, contact us at:
International Labour Office
Social Finance Programme – Employment Sector
4, route des Morillons
CH-1211 Geneva 22
Switzerland
Tel.: +41 22 799 67 86
Fax: +41 22 799 68 96
Website: www.ilo.org/microinsurance

About the author

Craig Churchill joined the ILO's Social Finance Programme in 2001. Craig has 15 years of microfinance experience in both developed and developing countries. Prior to joining the ILO, he worked with Get Ahead Foundation in South Africa, ACCION International, the MicroFinance Network, and Calmeadow. In his current position, he focuses primarily on the role of financial services that the poor can use to manage risks and reduce their vulnerability, including microinsurance and emergency loans. He serves of the Chair of the Microinsurance Network and on the Editorial Board of the MicroBanking Bulletin. A graduate of Williams College and Clark University, both in Massachusetts, Craig has authored and edited over 40 articles, papers, monographs and training manuals on various microfinance topics including microinsurance, customer loyalty, organizational development, governance, lending methodologies, and regulation and supervision.

"For it's hard, you will find, to be narrow of mind; If you're young at heart" — Frank Sinatra

What our mentors and protégés have in common is curiosity, enthusiasm and a can-do attitude. True to the Younger Actuaries Network philosophy, they are all young at heart and open of mind. Our volunteer mentors and protégés are a diverse, determined and dedicated group of people. Between our volunteer mentors and their proactive protégés, we span the globe, covering four continents and between five and eight countries—depending on where in the world the many travelers among us are at the moment. We have mentors who live in China, the United States and Canada. Most travel extensively for work and pleasure. Many have lived or worked elsewhere in the world. Our current protégés are Chinese, Korean, Brazilian and American. Some are students studying actuarial science in a graduate program, some have been actuaries for a bit, others have decided to become actuaries after working elsewhere. Thus the program participants have an ever-widening range of perspectives and experiences to share with one another which enriches the lives—personal and professional—of both the mentors and protégés.

"Mentoring is a brain to pick, an ear to listen, and a push in the right direction" — John C. Crosby, politician

So do you have it in you to be a mentor? You probably have already mentored someone and not even known it. All that it takes is a willingness to share your experiences and your ability to be an enthusiastic listener. A mentor will also encourage and develop their protégé to find his or her own way in the actuarial world through inquiry, lively discussion around his or her perspectives, and a willingness to provide guidance. Mentors find that they learn to be a better leader and manager. They might even discover a new perspective on topics that they've come to consider areas of expertise. They typically find that they learn something new about themselves as well, actuarial or otherwise. From senior actuaries with busy travel and work schedules, to new ASAs and FSAs, our mentors are eager to share what they have learned and to learn from their protégés, whether it be management skills or the best restaurants to eat at in their hometowns, and have enjoyed the experience immensely. We're sure that our future mentors (that means you!) will agree.

"Mentor: Someone whose hindsight can become your foresight" — Anonymous

Our protégés are eager to broaden their horizons, have an advisor in whom they can confide and seek opportunities to learn from their advisor's experiences. They are eager to share themselves, ask good questions, have a personal cheerleader and reach out to someone who has 'been there, done that' in order to ease their journey through the unfamiliar. Perhaps an obvious benefit of being a protégé is that one has access to a more senior actuary —someone they might never have met on their own or may have been intimidated to talk to otherwise—in a comfortable and casual environment. They have the opportunity to learn from their mentor's experience, and have someone to share their ideas with in order to receive good, informed feedback. This is a great privilege and with it comes great responsibility:

- to learn as much as possible by being available and arranging opportunities to make contact with the mentor
- to show interest by asking thoughtful questions, being curious and sharing their own views
- to take initiative by reading up on current issues or topics of interest so that they can be discussed with the mentor, and having goals that the mentor can help the protégé clarify and plan a means of achieving.

A mentor is not only a friend, but serves as an experienced, thoughtful and accessible guide.

For more information on the Younger Actuaries Network mentoring program, including program information for both protégés and mentors, as well as a form asking for basic introductory information, visit: http://www.soa.org/professional-interests/actuary-of-the-future/aof-mentor-prgm.aspx. We hope that you will join us.

Ashwini Vaidya runs the Younger Actuaries Network mentoring program. She encourages you to contact her at ashwini_a_vaidya @ yahoo.com with any questions you have or to participate in the program.

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475 N. Martingale Road, Suite 600
Schaumburg, Illinois 60173
p: 847.706.3500 f: 847.706.3599
w: www.soa.org

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