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PASSING THE TORCH: AN INTERVIEW WITH DAVE PELLETIER

By Cassie He and Linda Liu

Cassie He and **Linda Liu** had the honor to invite Dave Pelletier to share with us his professional experience and insightful views on the actuarial profession.

LINDA:

Can you tell us about how you chose actuarial science, how you got to where you are now, and run us briefly through your career?

DAVE:

First off, about how I originally chose actuarial science—it was pretty much an accident. I was taking math at McGill. In the previous summers, I'd worked in the States, selling dictionaries door to door and on construction. I didn't know what I wanted to do in the coming summer, and my father used to work at Manulife in the 1930s and 1940s. He was an agent, and said, "I wonder if insurance companies hire people who are good at math." He wrote a letter to someone he knew in Manulife, saying that I would be calling this person, and wondering if I could get an interview. So I called this person—this guy was not an actuary—and he said there's a profession called "actuary," and I decided I would like to give it a try. That's what I ended up doing that summer.

My career history, very briefly—I worked for three summers at Manulife, and then six years afterwards in different areas of Manulife. Manulife was a great experience and a great place to work. However, after a while I was starting to rise through the ranks, but I felt that managing was not what I wanted. I preferred to use my communication and technical skills, and felt that I would be better off as a consultant than in a big company. I decided to take a look at consulting. By fluke, someone contacted me at that time, and I joined Towers Perrin, Toronto, in the pensions consulting area. I was there for four years. Ironically, it turned out that while I joined Towers to do less of management, they put me in charge of the support staff along with my consulting work, so I ended up managing regardless. After that, an opportunity came up in Towers Perrin in Brazil. I went down for five years, where I was a regular consultant in the first year, and for the next four, I was



Dave Pelletier, FSA, FCIA, is chair of the Actuarial Standards Board (ASB) and serves on the board of Equitable Life of Canada and RGA Life Reinsurance Company of Canada. Mr. Pelletier is also a past president of the Canadian Institute of Actuaries. He can be reached at dave@davep.ca.

consulting and managing the office. Again, it turned out that management was following me everywhere. After a while, Towers Perrin was looking to open up an office in either Italy or Singapore. I like to ski, so I chose Milan. I was in Italy for four years, where I opened and ran the office. After Italy, I came back to Canada to run the life insurance consulting operations of Tillinghast, a division of Towers Perrin, for 3 1/2 years. Then one of my reinsurance clients—the Canadian arm of Reinsurance Group of America—called to ask if I knew anyone who could do marketing for them in Canada, and I said I might take a look at it myself. One thing led to another and that's where I went. I was with RGA for about 10 1/2 years in Canada, the last three as the CEO. At that time, RGA was trying to develop a reinsurance admin system for implementation worldwide, and the worldwide board wanted someone from the business side to run that, which I did for a year before deciding not to continue. After that, I stayed with RGA for a few more years, working on client-oriented projects in Asia, the United States, and Canada.

I retired in mid-2010, but I'm still almost as busy as I was before. I'm the chair of the Actuarial Standards Board in Canada. I'm the chair of the Actuarial Standards Committee for the International Actuarial Association, and we're developing international actuarial standards, perhaps analogous in the long run to what the International Accounting Standards Board does for accounting. I'm on the board of RGA Canada and Equitable Life. I'm an advisor to the Financial Supervisory Services of Korea,

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and I'm doing some other consulting as well, as well as taking on a new role as part-time advisor to Samsung Life Insurance Co.

CASSIE:

Wow, that sounds busy! As an industry leader with such an extensive background, what do you think actuaries do well in general, and where do we have room for further improvement?

DAVE:

First of all, we have an understanding of the real financial underpinnings of insurance, pensions, health care, social security, workers' compensation and other financial security systems. We understand these like nobody else does, and we have skills and knowledge that no other profession does. Secondly, the analytical techniques we have are unique to us, and give us a big advantage.

In terms of future improvement, I think we need to be able to communicate more clearly. We have this deep understanding of the underpinnings of financial security systems, but we aren't always good at communicating that. Too often, when actuaries communicate, they act as if they're communicating to other actuaries rather than to users of the financial information. Actuaries focus too much on the mechanics. I think we need to focus more on communicating the consequences and what our results mean rather than how we've done what we've done.

Also, traditionally, the whole focus of what actuaries do was on the expected values, and not enough on variation around expected values and the degree of risk. It's gotten a lot better, but at times I think we still focus a lot on that. I'm hoping that the new education methods will make this better.

Something else that I get concerned about is how actuaries rely a lot on the black boxes of the software.

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Sometimes we put the parameters in and get an answer, and we tell the boss "here it is." The boss, whether an actuary or not, may come back immediately and say, correctly, even if not knowing why, "This is wrong." The actuaries involved have not looked at what popped out of the black box. There's too much reliance on the black boxes, and not enough on checking, verifying and asking if the results make sense.

One other concern I have, and this is more on the side of the whole profession rather than individual actuaries, is that we try to fight too hard for reserved roles and using regulations to justify the existence of actuaries—we're doing this because the regulators say we have to. I would want CEOs, governments, clients, and other potential users to use actuaries because they want to use actuaries, not because they have to use actuaries. Any actuary should be able to justify the value he or she brings, with regard to abilities and communication, which is meaningful to the end users.

LINDA:

With 38 years of work experience, what is the greatest challenge(s) that you've faced? And how did you overcome this?

DAVE:

One big one is that when I went to Brazil, I was supposed to go into Towers Perrin as the third actuary. However, the two guys down there had just decided to go off and establish their own firm in competition with us. All of a sudden, from working with two guys who knew what they were doing, I was it. And this was an environment where I didn't know the language, the clients, the regulatory environment, and the inflation was 100 percent per year and moved shortly to 200 percent per year. It was an amazing situation, but we (we recruited an American actuary to join me down there and we also got some good support from the rest of Towers Perrin) ended up doing fine. We went head-to-head with our competitors for every existing client and lots of new ones, since it was a



time when pension plans just started to develop in Brazil. I had to learn Portuguese immediately because some of the clients expected me to deal with them in Portuguese right from the start. Some of the people in the head office in New York ended up being very surprised that we did as well as we did.

The second one was in Italy. The reason why Towers Perrin wanted to open an office in Italy was that there was an increasing recognition of the need for private pension plans in Italy. Three weeks after I got there, the government changed the rules for social security. So instead of social security pensions being based on only part of your earnings, they were based on the whole of your earnings with a declining formula. It meant that the need of private pension plans was not the same, and it took away the impetus for the growth of the office. In spite of that, we ended up doing fine. We ended up doing work in certain niches of pensions, in the compensation and group benefits areas, and we also started the Tillinghast practice for life and P&C insurance consulting. It was quite a challenge having arrived right before they changed the rules.

The third one was back in Canada, with the Tillinghast life side. I hadn't worked in life insurance for 13 years, and I was out of Canada for nine years. All of a sudden, I was in charge of life insurance consulting, and this was just when the PPM valuation method came into play in 1992. We got an assignment immediately when I got back to do the embedded values and appraisal values for a foreign insurance company looking to get its Canadian operations sold. Embedded value was pretty new back then, and I knew nothing about it. Fortunately, I got really, really good support from the existing staff (well, actually, they taught me).

By the time we were done a few months later, I actually looked like I knew what I was doing.

LINDA:

What are the general lessons that you have learned from those challenges?

DAVE:

First of all, being willing to take the plunge, and going in with a positive attitude. A lot of people would never have gone to Brazil, Italy, and would never go from the security of knowing what they are doing in one area (geographic or actuarial specialty) to another.

These days, people seem to get themselves into a narrow specialty almost too early, and I think it's unfortunate. A lot of what we do as actuaries can be used across a wide variety of things, and we should be willing to take the plunge, to use the skills we've been developing and try them in more areas.

A second thing is to always work on understanding the principles and underlying logic. That's true when studying for exams and true for issues you deal with at work. If you think "that's the way it has always been," or "that's the way it has to be," you won't be able to move from one area to another because you're used to memorizing information and using what you've memorized rather than figuring out the logic. If you can figure out the logic, it makes you better if you move into a new environment, as you can understand what's going on, and think about how to blend the logic you've learned before with the new logic you're faced with.

One other thing, as I've said before, is communication. I like to use small words, not big ones. I keep it informal, use short sentences and bullets, and try to make things clear to the recipient.

CASSIE:

If you could go back in time and change one thing about your career, what would it be?

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DAVE:

I think the only thing I might not have accepted was the job change in RGA, when I went from CEO of Canada to being in charge of the global admin system IT role. In retrospect, it wasn't the most sensible thing to do. My focus at that point had always been client-focused, with Manulife, Towers Perrin, Tillinghast, and then RGA. It was great dealing with clients, and it was fun trying to get clients, being involved with the selling process, the marketing process, trying to understand what the client needs, and coming up with a solution. When I took over the CyberRe—the name of the system—it was a very internal job. I began to realize really soon that I missed the external client-focused, selling-focused, meeting-client-need-focused position.

However, indirectly, I'm glad I did it. It gave me a whole new perspective because it was so different from what I'd done before. Also, after a year, it got me back into international stuff in Asia, and led me to much of what I'm doing now. It worked out fine.

LINDA:

What are some changes and challenges that you feel are imminent within the profession, and how do you see these changes impacting the profession?

DAVE:

One is the decline of the defined-benefit (DB) plans in pensions. It hasn't hit the employment of the consulting firms yet; but in the long run, we don't need the same level of actuarial involvement in defined-contribution (DC) plans. Even though there are things around the edges that actuaries can be involved in with DC plans, it's not to the same depth as DB plans, and that's going to be a challenge for the profession.

Secondly is the low interest rate environment, and that affects both life insurance companies and pension plans. On the life insurance side, companies try to match assets and liabilities. Because liabilities are so long, it's difficult to find assets to properly match them. As interest rates

go down and stay down, there is a lot of stress on these companies.

The demographer David Foot said back in the 1990s that demographics explained two-thirds of everything. He said that interest rates were going to come way down, and sure enough he was dead right. It took a while, partially because the population was much younger in the '60s to the '80s, when people were buying houses, mortgaging and spending money on possessions. Nowadays there are a lot of old guys like me who aren't borrowing, who are saving, and who don't buy a lot of stuff. All of these things tend to drive the rates down, which was what Foot predicted, and it could stay this way for a long time. So this will pose a problem to both life insurance and pensions.

I think another one is the fact that the profession continues to be over-fragmented in the United States, and I believe there is a lot of time, energy, and money wasted in the existence of five distinct actuarial societies. Now, as a Canadian living next door to the elephant, I can sympathize with the Casualty Actuarial Society (CAS), as it is a smaller organization than the SOA. At the same time, in the long run, I believe that the profession does itself a disservice in having all these separate units, and I really hope that somehow the U.S. profession will find a way to unify itself, and do it in a way that CAS, in particular, will be comfortable with. Otherwise, we are not as strong as we could be, and there is too much effort wasted on coordinating the five organizations instead of solving the underlying problems.

Another area that I think is important is getting known as the experts in risk. Right now, we're patting ourselves on the backs because we have the CERA designation, but how well is the designation known outside the actuarial profession? Something else that I'm on the board of is the Global Risk Institute, which is an organization in Ontario trying to become a bigger player in risk in the financial services area—identifying and managing risk—worldwide. A staff member contracted by GRI

did a 59-page report on organizations active in risk and credentials, and the word “actuary” did not appear once in the first draft of that report. So maybe the actuarial profession thinks it is making good progress with the CERA designation, but it was concerning to me that the word “actuary” did not even show up in the first draft. We have some challenges in figuring out how to gain a bigger profile in risk. Simon Curtis, the president of the Canadian Institute of Actuaries, wrote a very good article and made the point that we should think a little harder on what we’re trying to do in risk, and perhaps focus on becoming the experts in some aspect of risk—for example, risk measurement, and perhaps in just certain sectors—instead of all aspects of risk. In other words, we should pick a spot in risk where we are the experts, figure out what we actually do bring to risk, and make a push to grow our reputations there, instead of unduly spreading our efforts across all areas of risk and maybe not achieving what we want to achieve.

CASSIE:

If you can challenge and change one stereotype or public opinion of the actuarial profession, what would it be?

DAVE:

I’m not sure if I would challenge any one prevailing stereotype, because frankly I think some of these stereotypes are probably right.

However, I would change the one I mentioned about communication. I think the actuary needs to improve his or her ability to communicate from the perspective of the recipient of the message rather than from the perspective of an actuary. The actuary can blather on about what he or she thinks is important because that is the way he or she did something. The recipient of the message probably doesn’t care. The recipient wants to know the outcomes, the results, the consequences, the impacts, the uncertainties and so on, not how it was done. So communicating from the perspective of the recipient is the biggest thing we need to improve.

LINDA:

What’s your opinion on what the SOA, CIA and all other organizations can do in the development of new ASAs and FSAs?

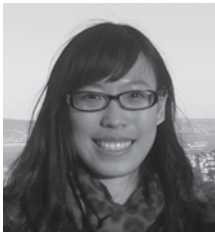
DAVE:

First of all, as I’ve mentioned earlier, is the unification of the profession within the United States in a way that CAS, in particular, will be happy. I liked the fact that Brad Smith tried to take it forward, and somehow it has to be done in a way CAS will be comfortable with. I don’t know how it should be done, or who can pull it off, but I do think it needs to be done.

Second, I think it will be to make better use of university education in the earlier part of our training. The rest of the world has done better in this than we have. Take Australia and the United Kingdom, for example—they are recognized as very strong actuaries, but they make better use of the universities in their credentialing process than North America has until now. I’m glad that Canada has decided to do this (FEM), and I’m glad that CAS supports it, but I really hope that the SOA comes on board as well. Doctors, lawyers, engineers, pharmacists, accountants, architects, nurses, and more all make heavy use of university training, and do not re-examine the knowledge after students have graduated, so it is not clear to me why the SOA thinks actuaries are different from all these other professions.

Another thought would be to find a way to introduce into the syllabus how things are done in other countries. There is so much about U.S. and Canadian regulations, but it will be useful for younger actuaries to understand that things are done differently in other countries. It can help open their minds so that they are not locked into U.S. and Canadian approaches. It may also help them understand the logic better, so that they can contrast and understand why there are different approaches in different countries. I remember, for example, that there was someone from Britain

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Linda Liu is a senior student at the University of Toronto, studying Actuarial Science and Statistics. She can be reached at lindayi.liu@mail.utoronto.ca.



Cassie Minyu He is a senior student studying Actuarial Science at the University of Waterloo. She can be reached at cassie.minyu.he@gmail.com.

working for me in Brazil. In the second week there, he made a comment: “Gee, why don’t they do it the way we do it in the UK?” It was clear that his mindset was locked into the environment he was brought up in, instead of understanding that the world was different and things could be done in different ways. I think somewhere in the syllabus, something on practices in other countries would be worthwhile.

Finally, more on communication—I’m not sure how this can be worked into the syllabus because you cannot teach this from a book, but more on finding ways to improve communication.

CASSIE:

In addition to IFRS, ERM, Basel III, and Solvency II, what other buzzwords do you think we’ll hear a lot of in the coming years?

DAVE:

I’m not sure. I think one will be ORSA (Own Risk and Solvency Assessment). This started off as part of Solvency II, and the focus is to get companies to go beyond mere regulatory requirements and figure out themselves if they are properly solvent. ORSA is being taken up in the United States in some form, and Canada is looking into it as well. In some ways, ORSA is an extension of the DCAT (Dynamic Capital Adequacy Testing) in Canada, but ORSA has taken it to the next level. I think this will be a meaningful word for companies in the future.

Another one, but I wouldn’t call it a buzzword, is low interest rates. Actually, one buzzword that I’ve heard somewhere else is “low for long,” meaning “low interest rates for a long time.” If so, what is that going to do with the financial securities institutions we are all involved with?

LINDA:

Lastly, one fun question—if you weren’t an actuary, what other professions would you have been a part of?

DAVE:

I don’t know. Possibly I would have ended up as an accountant. Hopefully, again, I would be in one of those public accounting firms where the focus is on clients. Another possibility is a math professor, but I don’t think I would have liked that.

As I think about this, the actuarial career is really good for someone with a business orientation and good mathematical analytical skills. I am glad that I fell into this by accident, and I’m not sure what I would have done otherwise, but it wouldn’t be nearly as much fun.

One thing I forgot to mention about what every aspiring actuary should try to develop is to have a genuine interest and curiosity for the clients’ business. Having a genuine interest in what the clients do, what they want, what their business does, and what their problems are, means that you’re asking more questions and having better discussions. You could end up being a successful salesman because you are able to tailor what you can do for them since you recognize what their needs are. I think this is one of the most important attributes of a good consultant, salesperson, or indeed anybody in business trying to help others solve problems. ☆