



SOCIETY OF ACTUARIES

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CHAIRPERSON'S CORNER

- 3 Groundhog Goals**
by Kristen Walter Wright

THE ACTUARIAL ETHICIST

- 1 New Case Study: Ahead of the Curve**
by Frank Grossman & John Hadley
- 4 Responses to "DAC Expectations"**
by Frank Grossman

BUSINESS MANAGEMENT

- 10 Managing in the 21st Century: Part 1, The Undercover Boss**
by John Dante

CAREER DEVELOPMENT

- 15 Manage Tension in Interviews**
by John Hadley
- 17 The Actuarial Leadership Conundrum, Part 3**
by Jeanne Hollister Lebens

COMMUNICATION SKILLS

- 23 The Actuarial Rhetorist**
by Nick Jacobi
- 25 From Boring to Beautiful**
by Thomas Skipwith

PEOPLE MANAGEMENT

- 27 Taking Your Actuarial Student Program to Another Level Through Mentoring**
by Paula Hodges
- 28 Leading for Results**
by Meredith Lilley

PERSONAL DEVELOPMENT

- 30 Use the Scoreboard Strategy for More Success**
by David C. Miller
- 32 Dance Your Way to Success, While Eliminating One Thing Each Day**
by Doreen Stern

The Actuarial Ethicist: Ahead of the Curve

by Frank Grossman and John Hadley

This short article sets out a hypothetical workplace dilemma. We invite SOA members to submit comments and suggested solutions which will be summarized and published in the following issue of The Stepping Stone. All member submissions will be received in confidence, and any identifying details removed prior to their inclusion in the discussion of the case.

The past year has been a whirlwind for Neil the FSA. Since becoming the chief actuary of his insurance company four years ago, Neil invested considerable time and resources in the development of his staff and the improvement of their models—and their hard work was just beginning to pay off. But everything changed a little over a year ago, when his company was purchased by a larger competitor, and a new CEO, Roger, was transferred from the parent company and became Neil's boss.

The parent company has considerable expertise with long-term disability products and in markets similar to Neil's LTD lines. Following the acquisition, its claims experts conducted a detailed review of all large outstanding LTD claims at Neil's company. And their final report highlighted substantial opportunities to close, reduce or settle a sizeable number of claims with long tails.

Neil met with Roger to discuss plans for the upcoming financial reporting year-end, during which Roger brought up the LTD claims analysis. Roger observed that the LTD reserves appeared to be overly conser-

vative, and asked what could be done about that. Neil eventually agreed to revise his LTD claim assumptions for the cohort of claimants targeted by the review, partially reflecting the anticipated impact of the parent company's more efficient claims management practice. This meant that Neil's year-end claim reserves for the LTD lines in question decreased by approximately 10 percent on average.

Following year-end, Neil received a routine telephone call from Bruce the auditor, and they discussed the year-end valuation process. Bruce challenged the appropriateness of the reduction in LTD reserves, and asked Neil, "How can you defend your change in assumptions?"

WHAT SHOULD NEIL DO?

Send your suggestions before Feb. 15, 2011, to Craigmore54@aol.com. The discussion of Neil's dilemma will be published in the May 2011 issue of The Stepping Stone. ●

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