Article from:

The Stepping Stone

November 2013 – Issue 52

The Zen Actuary
Installment 1: "Balancing the Two Efforts"

By Rich Lauria

***Author's Note:** This starts a series adapted from the book* Awake at Work *by Michael Carroll, covering the application of Buddhist teachings to situations encountered in a modern corporate workplace setting. This series addresses challenges frequently encountered by practicing actuaries.*

Application of significant effort ranks high on the list of requirements to be a successful actuary. The word effort itself means "exertion of physical or mental power." We certainly wouldn't associate effort with laziness or carelessness. Rather success is almost always correlated with high energy and focus. Typically this is expressed in terms of hours worked and measures of achievement, both in terms of quality and quantity.

Early on in an actuarial career, more effort almost always produces the desired result: put in more focused hours studying material and one improves the odds of passing an actuarial examination. In the workplace, increased actuarial effort typically results in more data analysis, more sophisticated and robust modeling, and more communication of actuarial analysis in terms of memos and charts. Presumably, this all results in better product designs, which provide an attractive value proposition to customers at superior risk-adjusted rates of return to capital providers.

This all sounds good and logical, and maps well to the actuary's ordinal way of ranking alternatives. More is better; and the more effort one can exert, the better the results will be as measured by individual productivity and corporate financial performance. As my high school track coach used to say, "No pain. No gain." So just keep going. Run some more scenarios. Slice the data into a few more cross-sections. Include financial data from the late 19th century in parameterizing that economic scenario generator. Make sure that risk memo to the board covers at least 100 risks and takes up twice as many pages. After all, who needs a life?

Some reflection on the above gives pause to this way of thinking. When preparing for exams, the mind needs some rest and recreation, even (and especially) in the days leading up to the moment of truth in order to be performing optimally. How many times have we run into analysis paralysis when assessing a particular risk or product design? And how many lengthy memos get seriously read by executives and board members? Better make sure those have an executive summary which contains the key points!

There is something intuitively appealing to the concept of "non-doing," or not rushing to fill our workspace up with thoughts and analysis. Taking some time out of one's day to just let go of the to-do list and the continual worrying about what to make of our various modeling efforts can help the actuary re-charge the batteries and develop some fresh perspective to the problems at hand. Allowing a brief amount of time to just be in the office or meeting and notice the colors of the graphs, the font on the memo, and the style of the tie worn by a co-worker, can give the actuary's mind the space it needs to consider perhaps a different design to a new product, or a creative approximation to a previously intractable modeling problem.

As I have advanced in my career, the concept of "more is better" has been increasingly replaced with "more is less" or "less is more." A similar sentiment is expressed by the "80/20 rule," where it is assumed that 80 percent of the benefits of an exercise can be achieved by applying 20 percent of the potential effort in the right places. Or, put simply, "work smarter, not harder."

This does not imply that we can always take shortcuts or not put in the necessary brain power. We live in the age of the sound bite and text message—forms of communication that frequently leave the reader begging for more context and detail. Does it really make sense for an Appointed Actuary to perform cash flow testing using only the level interest rate scenario? Should an enterprise risk management report only comment on low-severity, high-frequency risks that generate earnings volatility and remain silent on low-frequency, high-severity tail risks? Should sensitivity testing a new cash value life product design leave out testing higher-than-assumed lapse rates? There are many times when "going the extra mile" produces dividends in terms of valuable information.

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Clearly neither extreme works. Too much effort and we end up with too much data, reports and analysis and not enough sleep. Too little effort, and we may lack the information illuminating one or more critical insights needed to make an optimal decision. How much effort, data, analysis and coffee is enough? When does one let go?

The unsatisfying answer is that it depends. This is where the actuary must use professional judgment and call upon experience in deciding how much effort to put into a given project. There are no hard and fast rules of thumb, but there are some things to consider in coming up with an acceptable range of effort.

- **What is the purpose of the task at hand?** If the task is an M&A assignment that will materially affect the strategic direction of the company or client, then erring on the side of additional information (within reason) probably makes sense. A routine pricing exercise involving a few tweaks to an established product should lead to a focus on analytical efficiency.

- **Who is the target audience?** While rank and status is a reality that must be dealt with, knowing the expectations and management style of the audience is far more important. Not all executives have the same set of information expectations. Some executives cannot get enough information while others start drowning after the third bar chart. The real challenge is when there are multiple audiences with different agendas and styles.

- **What resources are available?** More resources allow for more options in developing a more robust work product. However, one must take care in such a situation to not use available resource simply because it's there.

- **What are the deadlines and how firm are they?** Financial reporting has its own schedule with firm deadlines and potential consequences for missing them. Product development and risk management tend to have softer deadlines, but that should not be mistaken for lack of urgency. Not getting a new product concept to market before a key competitor does can result in a lost or diminished business opportunity. Delays in risk modeling may lead to losses due to unintended risk taking.

- **What competing priorities are you and your team dealing with?** There is no substitute for maintaining a sufficiently detailed project status report and using that to guide resource allocation and personal time commitment.

The demands of today's competitive landscape are challenging companies and employees from industries across the spectrum. Actuaries and their employers and clients are no exception to this trend. The actuarial tendency is to do more and do it faster and with more detail. The idea of pausing periodically and sometimes doing less flies in the face of the breakneck pace of today's corporate world.

Having the discipline to occasionally stop and be present, and applying only the necessary amount of effort to each situation will go a long way toward improving efficiency, reducing stress and anxiety, and increasing the influence and impact of the actuarial function. There are tools and techniques such as prayer and meditation that help to develop the discipline, and they have at their core the building of mindful awareness to remain present and objectively assess reality. Fortunately, the nature of actuarial training requires the mental focus that is a key ingredient for building the mindfulness needed to successfully find the saddle point of effort.