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CEO FORUM: OPENING UP YOUR COMPANY TO THE USE OF ACTUARIES IN NONTRADITIONAL ROLES

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Job security within the actuarial profession is a growing concern for many actuaries. As a result, moving actuaries into roles outside the actuarial function is becoming increasingly attractive. A panel of CEOs will discuss how their companies have utilized actuaries in nonactuarial roles. The panel will address:

- *Why actuaries should be encouraged to move into these nontraditional roles*
- *How a company makes this happen*
- *The benefits to the company of placing actuaries in nonactuarial roles*
- *How you can prepare yourself to be considered for a nonactuarial role in your company*

MR. DAVID E. NEVE: Before I introduce our two distinguished panelists and begin our discussion, I'd like to make a few comments about the Society's Committee on Management and Personal Development, which is one of two committees that is sponsoring this session and several other sessions at this meeting. This session is also being cosponsored by the Actuary of the Future Section.

I think you would agree with me that, as actuaries, the vast majority of our training, education and experience is more on the technical side of things, and not so much on other skills that are needed to be an effective actuary, such as communication skills, listening skills, managing people, motivating people—leadership types of skills. Many of us may find ourselves at some point in our career being in a management position, or maybe we aspire to be in a management position at some point, and we may find that we're ill-equipped to be an effective manager of people or to be an effective member of a management team in the role that we're asked to perform for our companies.

The Committee on Management and Personal Development has the mission to plan, implement, and actively promote educational programs for our members on the subjects of management and personal skill development. As our name implies, we have two basic primary focuses. One is management issues such as strategic planning, re-engineering, organizational effectiveness, preparing for our management role in the company—those kinds of corporate management issues that the management of a company deals with and faces.

The second focus of our awareness program and activities is on the personal development side. Improving our own personal set of skills in the areas of communication, listening, managing people, and things like career development, how you can take control of your career and accomplish what you want to accomplish, such as leadership, and so forth.

We are in the process of looking for some new members for our committee. If you feel, as I do, that we need to do a better job of increasing the awareness and the educational opportunities for actuaries in these areas, then I would invite you and encourage you to seriously consider becoming a member of our committee. I will be serving as the chairperson of that committee next year, and you can talk to me about membership.

Just a brief comment on our format. After my opening remarks, we'll have our panelists give some rather brief remarks to hopefully stimulate some questions and discussion. We'll devote the majority of our time to an interactive discussion. The success and benefit of this session will largely depend on the audience and its involvement in asking questions and making comments to our two panelists.

Steve Brown is chairperson and chief executive officer (CEO) of John Hancock Financial Services. Prior to becoming chairperson and CEO in 1992, Steve served as the company's president and chief operations officer. Steve has been a Fellow of the Society of Actuaries (FSA) since 1962 and is a member of the American Academy of Actuaries. During his 37 years at John Hancock, he has held a variety of positions. He also served as senior vice president and treasurer. Six years prior to becoming president, he was Hancock's top investment officer. Steve also serves on the board of directors of John Hancock Mutual Funds. During his career, he has served on the boards of other Hancock subsidiary companies, including Maritime Life, a Canadian insurer, Hancock's leasing and property and casualty subsidiaries. He is a member of the Federal Reserve Bank of Boston and is actively involved in supporting quality education for young people in Boston. I can think of no better person to speak on this subject about the opportunities and the effectiveness of actuaries moving into diverse roles than Steve Brown.

Dave Drury is chairperson and CEO of Principal Mutual Life Insurance Company. Dave also serves on the board of directors and on its executive committee. Dave joined the Principal in 1966 as an actuarial student. He was elected an officer and named assistant actuary in 1970, vice president and chief actuary in 1987, senior vice president and chief actuary in 1989, executive vice president in 1992 (serving as head of the investment operations), and president in 1993. He was elected chairperson and CEO in 1994. A native of Marshalltown, IA, Dave received his bachelor's degree in mathematics from Iowa State University in 1966. Dave is affiliated with a number of private community and industry organizations. He's president of the Iowa Life and Health Insurance Association, a member of the American Council of Life Insurance (ACLI) Tax Steering Committee, a member of the board of the American Council for Capital Formation, a member of the board of Drake University, a member of Iowa State University Business Advisory Council, and a member of the Iowa Natural Heritage Advisory Committee.

Before we turn over the podium to these two distinguished gentlemen, let me just make some very brief introductory remarks to kick off our discussion. It might be helpful to talk about what we mean by nontraditional. We probably all have a different definition of what that means and I think it's changing over time. Five or ten years ago, we probably defined it differently. For the purposes of this discussion, we'll try to define traditional to be those roles and those functions where an actuary is serving as a technician or a statistician of some sort—more on the technical side of things. That's really the primary focus of our training and the exams, so that's what we mean by a traditional career.

The meaning of nontraditional is changing. It's becoming blurred. There are many actuaries moving into nontechnical sort of roles and that's what we want to talk about. What are those opportunities? What are the benefits? The focus of our discussion will be more within the context of an insurance company. To be sure, there are many nontraditional roles that an actuary can play in other industries and in other organizations besides insurance companies; but we're going to be talking primarily about roles within an insurance company.

The purpose of this discussion is to hopefully give you some practical insight into the benefits of moving into a more broader role, perhaps a less technical role in your company. Perhaps you're in a management position at your company and this discussion will help give you some ideas, if you think that's something of value that you might want to try to do at your company.

On the other hand, if you are someone who's currently in a technical role and perhaps at an early point in your career and would like to think about moving into a broader role, hopefully this session will give you some practical insights into how you can do that, and what the benefits are.

MR. STEPHEN L. BROWN: Dave pointed out in his kind introduction that I am an actuary by training, although I have not been actually practicing actuarial work, in its traditional sense, for some years now. But I certainly still understand first-hand the skills that you bring to bear in your particular occupation. I also believe there is a pressing need for companies to know how to effectively utilize your skills, not only in the traditional actuarial scene, but throughout a much more complex business environment that we find ourselves in today.

I think the role of the actuary is evolving simply because the businesses in which we all work are evolving and changing extremely rapidly. And, of course, this has been especially true in the last ten years. Today, there are very clear signs that the professional role of the actuary is expanding beyond its traditional role. Just as Dave indicated, I look at that traditional role as being such things as pricing, reserving, premium setting, and so on; and anything outside that area is nontraditional.

I think that as these roles expand, they bring with them new opportunity; but they also bring with them challenges to you to both sharpen and broaden your skills in order to be able to take advantage of those opportunities. I guess I'm certainly an example of how the actuary's role has evolved in the recent past. As Dave mentioned, in 1981 I was named to head John Hancock's investment operations. I had previously been the chief actuary on the individual insurance side of the company.

At the time that I went into the investment area, I believe I was the first actuary, at least in our company, ever to take on a role within the investment operations and certainly the first actuary to be head of the investment operations. Today, the active involvement of actuaries in investment management and especially in asset/liability management is commonplace within our company and within the insurance industry.

My remarks do focus on the insurance industry, simply because it's the area that I know best, but some of the trends I'll discuss do have an impact on other industries where actuaries work as well. I know many of you work for insurance companies, but

I'm sure others work for consultants or health care organizations such as HMOs. But I do think that the remarks, nevertheless, are pertinent to all of you.

From my perspective, there are a number of significant business trends that are impacting the insurance industry that have definite spillover effects for the careers of all actuaries. I'm going to mention five trends that I find most significant and that I'd like to share with you. These trends include the move by companies like John Hancock to offer not only insurance products, but a broad range of investment products and a whole range of financial services. This means that actuaries are moving beyond the narrower, more traditional range of insurance work; and they're taking on broader-based quantitative work in investment and finance.

The move by insurers away from risk business and toward fee-based and service businesses increasingly assures our assuming less risk in certain businesses, and opting to receive a fee for the services that they provide. You're all familiar with the shift toward Administrative Services Only (ASO) business and away from insured employee benefit programs; and the shift to alternative guaranteed investment contracts (GICs) and traditional GICs is another trend in this direction.

Obviously, with less risk assumption, there is then less need for traditional actuarial work within insurance companies. However, the insurer's clients are now assuming some of those risks and they need to decide how much risk they are willing to assume. Actuarial work is being shifted to these companies or to their consulting firms.

Within the insurance industry, the need for asset/liability management, I think, is of critical importance. Actuaries have great strengths to bring to this area, because the actuary understands how to analyze both assets and liabilities. Now, it's true that MBAs also possess the advanced mathematical skills, at least in some cases, to assess a portfolio's assets; but it is the actuary who has the most expertise in assessing liabilities. At least at our company, we find it's much more effective to train actuaries to analyze the assets in our portfolio than it is to train other professionals to analyze the liability side.

The fourth trend is the increasing complexity of life and annuity products. Of course, this is in response to the demands of the marketplace. Customers today, in many cases, want variable products. They like the flexibility. They like the options which variable products provide. Individual clients want to have the choice of multiple portfolios for their variable annuities. These variable products require more careful analysis by actuaries. They require more precise analysis of each type of risk and more sophisticated pricing techniques because of the underlying guarantees. All these are areas of traditional training for actuaries.

Finally, the increased sophistication of clients is another marketplace trend. Clients crave more information and better information on which to base their buying decisions. Companies like ours need to respond to this need for information so that we can retain and develop new customers.

For many years, we at the Hancock, sent our actuaries along on sales calls to our group insurance clients. That was a pretty common practice. Today, actuaries are part of our marketing teams for retail clients as well. Agents, brokers, client advisors, such as accountants and attorneys, want the access to the technical expertise that actuaries have to offer. Frequently, an effective presentation to a client by an actuary can help close the sale.

Companies like Fidelity are now putting actuaries on teams of experts for specific product lines, such as pension plans. They are, in essence, offering this expertise to clients much like a consulting service. All of these business trends have made financial services a much more complex business than it was a decade ago. As a result, actuaries find that they need to adapt their skills to accommodate these changes.

Currently, as you know, the SOA is redesigning its education curriculum. I think this is a very forward-thinking decision. The Society is focusing on those core competencies that actuaries need to add value to their organizations both now and in the future. This is the kind of focus that we need to ensure that actuaries actually keep their competitive edge in the marketplace and to assure employers that professional actuaries do indeed add strategic value.

At our company, we utilize our 90 actuaries in a variety of roles. They are involved in technical work, product development, investment management, product-line management, and due diligence activities, among other things. They are building on the technical education and training within the narrower insurance areas; and increasing their value to the company by moving into investment and financial analytical work. From my perspective, actuaries need to actively manage their careers in order to continue to be valued, sought after, and highly compensated professionals. As you manage your career, I would suggest that you think about four skills critical for success.

First, you need to maximize your quantitative skills by bringing those skills into broader business areas. We all know the stereotype of the narrowly focused actuary. Many of us, I don't think, fit that stereotype anymore. But it is true that for an actuary to be accepted into an expanded role, he or she must think and act more broadly. He or she must understand the larger business context in which decisions are being made. The Society's educational changes, I think, are geared in this direction, which is good.

Today, many larger companies, such as ours, rotate actuaries into a variety of jobs and departments to provide them with a broader understanding of the company's various business units. This broad-based knowledge maximizes an actuary's value and usefulness from an employer's point of view. Actuaries must demonstrate to skeptical employers the value of applying actuarial training beyond the technical aspects of insurance.

Second, the combination of an actuary's problem-solving skills and advanced mathematical skills can be applied to numerous business issues and with great benefits. The training and complex modeling procedures are examples. Investment management and manufacturing quality control both benefit from actuarial-type analysis. Today, intense competitive pressures cause companies to focus on constantly improving their financial results. The actuary's analytical skills can be effective in interpreting those results and helping to manage them, and in determining ways in which to improve them.

To perform well in this broader business role, an actuary obviously needs more than a high level of quantitative skills. Good interpersonal skills are of major importance in sustaining a successful career. The third and fourth critical skills to think about and, I believe, the most crucial interpersonal skills to acquire—and Dave mentioned both of these already—are, first, the ability to communicate well and, second, the ability to manage people.

In this information age, the ability to effectively use and communicate knowledge is a very powerful skill. You need to learn how to communicate clearly and succinctly to diverse and various audiences, most of whom haven't taken the actuarial exams. You need to be able to talk to marketers, to consultants, to customers, and to your own senior management in language that they will understand. At the same time, an actuary is part of the larger organization, so the ability to work with and manage people is an integral part of a successful career.

The communication and management skills can be learned, as well as the quantitative and problem-solving skills. Very few of us are natural communicators or born managers. Actuaries have advanced mathematical skills, but these skills were acquired over time, even if there is a natural talent present. I think the same is true of interpersonal skills. They're acquired in a variety of ways and I would encourage you, for example, to seek out varied assignments. Take advanced management courses. Ask for committee assignments. Work on your presentation skills.

With broad-based technical skills and effective interpersonal skills, I'm sure you will find a career path that is rewarding, personally satisfying, and viable, even as the business environment keeps changing.

MR. DAVID J. DRURY: Let me start with a few words about my interest in our subject and perhaps a little about my qualifications to address it. First, the company that I head, the Principal Financial Group, has long been a leader in using actuaries in nontraditional roles. Second, a good part of my own career has been outside of the actuarial tradition, at least if you define that fairly narrowly as we've talked about. Although I've spent 25 years in the actuarial department, much of that time was spent doing nontraditional work.

Third, our subject has significant implications for future job security for actuaries. You might ask, "Why would that interest me?" Well, it's really of vital concern to me because I have one son who is an ASA and another who is planning on pursuing this career. So I want to be very sure that there's going to be a career there to pursue. With the job security for CEOs being what it is these days, I might want to go back into the career myself some day.

For background, let me briefly describe the Principal's use of actuaries and a little about my own career path. Then I'll give you something to shoot at for the follow-up session by giving you a few quick thoughts about risk, about changes in our business, about what an actuary might do to broaden his or her career opportunities beyond traditional actuarial work, and about what actions a company might take to broaden its use of actuaries. You'll probably notice a little bit of similarity between some of my remarks and Steve's. This is an interactive forum and that's what we really want it to be.

First, the Principal. The Principal has always had a strong actuarial orientation. I suppose one indication of that is that 8 of the 12 CEOs that we've had in our 116 year history have been actuaries. Where else in the organization would you find actuaries? Our chief financial officer is an actuary. An actuary heads our group insurance and managed care business. An actuary heads our individual insurance business. An actuary heads our information services unit. Actuaries have operational management roles below the business unit head level in all three of our major businesses of pension, group, and individual.

We have actuaries doing product and marketing research and development. We have actuaries serving as product managers and product champions in our business units. An actuary leads our strategic and financial development area, and another leads our corporate tax department. We have actuaries sprinkled throughout our fledgling international operations, some in actuarial roles and some in broader roles. Actuaries are a part of our asset/liability management teams that we have for each of our business segments.

I'm sure I've missed a few areas, but I think I've made the point. We do use actuaries outside of traditional roles and, to an extent, that's troubling to talented nonactuaries. Maybe that's something we ought to talk about later on.

A word about my own career at the Principal. Although I spent the first 25 years in my career within the actuarial function, I had some distinctly nontraditional assignments in that time. As a trainee, I had rotational assignments in policyholder service, in investments, in corporate planning, and in mainframe computer programming. As an FSA, I headed the company's financial reporting and tax area, which at that time was part of the actuarial function, and then gradually accumulated responsibilities for the remaining actuarial units, along with accounting, auditing, and information services. With the impending retirement of our long-time chief investment officer, who was not an actuary, I traded in my actuarial career for the chief investment officer role and spent a little less than two years in that role before becoming president and chief operating officer about two-and-a-half years ago. I moved to CEO about a year ago.

Now for my confession. When I look back at it, I wonder whether I ever was a real actuary in the traditional sense; because I certainly spent only a small fraction of my career doing what we've talked about as technical actuarial work.

I think one of the barriers to more nontraditional roles for actuaries is risk—risk for the actuary and risk for the company. Risk is something we're all very familiar with. We're in the business of helping our companies and our clients manage risk, and yet for many of us the perspective shifts just a little bit when we put ourselves or our careers at risk. Trading the security of something that we know for the uncertainty of something new, however exciting or promising that might be, will always carry at least a little bit of doubt and sometimes a great deal of doubt.

Similarly, for the company there's a risk of needing to replace a highly competent actuary and a well-compensated actuary offset by this hope for a pay-off of even more value from that person in a new role. Companies with a history of success in such moves obviously are more willing to take the risk and also more likely to have thought, at least conceptually, about the answer to the question of what happens if it doesn't work; because sometimes it doesn't work. So there's always risk in change and yet there's also a risk in trying to avoid change.

Steve has talked about some of the changes that are going on in our industry. Wherever we look, we see companies reengineering and downsizing. We see competition often from nontraditional competitors and from global organizations. We see team-based organizational structures, with each team member expected to have a portfolio of skills. I think these changes all point to fewer traditional technical actuarial jobs, as well as the need for an expanded skill set for anyone practicing the profession.

I'm going to be presumptuous enough to offer some advice to those of you who want to prepare for the change and to prepare for nontraditional roles. The first piece of advice is to network in your organizations. To make a concerted effort to establish relationships in your company with people in nonactuarial positions and with decision makers in your organization will require, in some cases, that you step outside of your comfort zone as you broaden your perspective and start the dialogue that will give you insight into what other areas have to offer and what you have to offer them.

Second, expand your skills. Communication skills are particularly important in that area. It's crucial that you be able to present your ideas, to negotiate, to build consensus, and to persuade others both in technical and nontechnical language.

Third, get exposure. Seek out positions on committees, task forces, and teams that will broaden your people skills and your visibility within your company. Being involved in these will demonstrate that actuaries have more to offer than number crunching. Fourth, lead. Look for leadership opportunities to develop and demonstrate your technical and nontechnical skills. Show that you can achieve results.

Finally, a quick thought about how a company can broaden its use of actuaries. Steve has already mentioned this, but I think the key is a planned, structured rotation of job assignments, especially early in an actuary's career. Some of those job assignments should take the actuary beyond the technical actuarial role. This allows the actuary to develop a variety of skills, as well as make contacts throughout the organization. It also reduces the risk of nontraditional assignments for both the actuary and the company. Each knows better what to expect. The actuary better understands the requirements of the new position, and the company has a better measure of the actuary's abilities in a range of situations.

I believe that Principal's rotation program has been a key to our success in placing actuaries in nontraditional roles. Furthermore, I believe that our use of actuaries in nontraditional roles has contributed to the business success of the Principal, and that's really the measure of success that has to be applied.

MR. PAUL V. BRUCE: Mr. Drury, you mentioned that occasionally when you move actuaries out of traditional roles they have failed. What has been the single most important thing that you think caused that failure? Why haven't they succeeded?

MR. DRURY: I think it's difficult to generalize. I think the need for the actuary to be able to operate flexibly in a management structure has, on occasion, been a problem. At some points in time, in our history anyway, we had the notion that what an actuary said was right and no one should challenge it. If an actuary reached a conclusion, it must be the right answer. That didn't work very well in some situations where people went in carrying a little bit of that attitude. I think you really have to be a team member in most of those situations, and at times that has been a problem. But I don't know that I'd have a generality.

MR. BROWN: I might just add that I would second what Dave said with regard to going into an area and assuming immediate acceptance. That just doesn't happen. I know when I went into the investment area in my company and had some ideas about doing things that were different, they were not immediately accepted; and it took a fair amount of time to persuade people or to persuade myself that they weren't good ideas. So I think going into a new area with the thought of learning and contributing, but not overwhelming people with how brilliant you are, is helpful. I don't know what Dave's experience has been, but most of our moves have worked fairly well. I can only think of a few that have not worked well and they were generally personal chemistry problems. People are resented for one reason or another and that caused them not to work.

MR. DRURY: Yes. By far, the majority of ours have worked. I wouldn't want to leave you with the impression that it was a 50/50 type of a situation.

MR. DAVID L. KESTER: Mr. Drury, you had mentioned there was kind of a two-sided risk involved with this both from the company's perspective and from the employee's perspective, especially during the interview process or when the decision is still in doubt as to whether or not a person is going to move. What can an employee do to help minimize the risk and comfort the employer into thinking that this is a good idea?

MR. DRURY: I think one of the concerns that we've always had is that the people that we move into nontraditional assignments tend to be very strong contributors in the job that they're leaving. We have not been in a situation where we have had a surplus of strong contributors, so the people in the area from which a person would move are always reluctant to see that person leave. I think one of the things that people always should do in their positions is to try to build the people behind them, to build the strength of the individual who would step into their role. If you can show that you have been preparing someone to step into the role that you'll be leaving, I think you have a much easier selling job with the company.

MS. MARLA A. CELLUCCI: It seems that you're lucky that you are both in insurance companies and you didn't have to convince everyone what an actuary is, who they are, and what their value and their technical experience is. Unfortunately, in our company, we find that our management wants an answer, and not a range of answers, and they also want it extremely quickly. Sometimes as an actuary that's tough to do, because some of us are very analytical and feel that before we give you the answer, the one and only answer, we need to look at some information and some data. It's going to take more than the five or ten minutes. Can you give us some advice or some observations on how you balance the need to answer management's questions quickly, correctly, and precisely?

MR. BROWN: First, I don't think the differences are perhaps as great as they might seem. We have had other actuaries besides myself who have been CEOs. At the time that I was shifting around the company into different areas, particularly during the major shift into the investment area, the CEO was not an actuary, didn't know what an actuary did, and didn't really understand anything about actuarial work, but appreciated some work I had done on some company-wide committees having to do with investment policy and things like that, and felt that I could add something to the investment side of the house. I think all management types are impatient, whether they're actuaries or not. I know I like to get quick answers too. I think the best you could do is give a quick answer, but indicate or surround it with some language that indicates that it is a quick answer. Ask to follow it up in a day or two with a more precise answer. I try to do both.

MR. DRURY: One of the interesting things is to observe how your perspective changes as you move through your career and how the desire to be accurate and precise about issues when you're developing the answers changes. Your perspective of being pushed by other forces changes when you're in a management position wanting the answer. Because I have an actuarial background, I know how long it takes to do some of these things. I still make unreasonable requests of people, so I should know better. I don't know that you can attribute it to management being ignorant or not understanding the actuarial profession. You can attribute it to some other characteristic of management maybe, but that may not be totally the ignorance of the issue.

MR. BROWN: Very often, I think, and I'm sure Dave would agree, management is looking for order of magnitude.

MR. DRURY: With some definite point.

MR. BROWN: Usually, you can do a very small amount of work to get order of magnitude and then weeks of additional work to get the fifth decimal place.

MR. DRURY: Yes. For example, I asked an actuary a question days ago. I said, "I want to know whether the answer is 100 million, 200 million or 300 million, and not precisely what the number is." So if we get a little better about explaining what our need for accuracy is, we'd help a lot in that way, I think.

MR. NEVE: What if you're a technical actuary? If you're a technical actuary, you're very comfortable in your role and you might think you have challenging work. Should I view this as a threat? Is there a wave coming that all of the opportunities are going to be for nontraditional-type roles? What I'm really asking is whether it is more likely that you'll move into upper management and have a broader role in the company if you move into these nontraditional roles as opposed to staying more on the technical, traditional side?

MR. BROWN: I'll speak for my company, and I'm sure this doesn't apply to every company. I think the answer is that if you're a traditional actuary doing traditional actuarial work, that's fine. We're very happy with that if you're doing good work in that area. Does it give you less of a chance to get to the top ranks of the company than somebody who moves around? The answer is yes.

MR. DRURY: I think my answer would be similar. I think for a technical actuary, the growth that's needed in just being a technical actuary is a very significant thing. There are many days in my life when I think I wish I could go back and be a technical actuary. As Steve said, that's great. I think even within being a technical actuary, there's a great deal of growth required by the changes. There are many skills that are really survival level skills in communication and working with other people that you need whether or not you're going to move into a nontraditional role.

MR. GREGORY R. CHILDS: I have a couple questions. I may have missed it, but I don't think I saw customer service as one of the nontraditional areas that you employ actuaries in. Is that an area that actuaries are not currently in?

MR. BROWN: I know in our company we have done that. As a matter of fact, a few years ago we started a quality initiative with customer focus being the primary objective. I'm thinking now particularly in our retail area where we have a vice president who's an actuary, whose job is really to lead the way in the retail area on all the quality initiatives, especially customer service. It has ways to go to become world class, but we're getting there. So I do think that's a perfectly legitimate area for a certain type of actuary.

MR. DRURY: At this point, we don't have anyone in what I would describe as a customer service role. You could argue that many of our positions are customer service positions. I think in the sense that you're talking about, where there is significant day-to-day contact as an assignment, we don't have anyone in that role. Many of our actuaries, both technical actuaries and actuaries in nontraditional roles, have a great deal of customer contact and go out on customer calls quite frequently, but that's not their primary role.

MR. CHILDS: The second one is in the investment area. Could you elaborate a little more on the kind of roles actuaries are playing, and especially whether you have any actuaries who are running money as portfolio managers?

MR. DRURY: We don't have any actuaries who are portfolio managers in our investment operation. The primary role that actuaries in the investment area have in our company is a team role where we have a person for each of our segments or investment portfolios—an actuary, an investment professional, and a person from that line of business is what we call a segment team. They're responsible for the asset/liability management within that segment. Many of our actuaries become exposed through these teams, because there are maybe ten teams and they rotate membership. We get many of our actuaries exposed to the asset/liability management process, but don't actually have actuaries located within the investment function.

MR. BROWN: Now, we do it a little bit differently than Dave, although we have those same teams, those coordinating teams that he refers to. We do have actuaries actually within. We actually combined investment and pension some years ago, but even outside of the pension area we have actuaries within the investment area working on asset/liability research, working on a whole variety of other investment type questions, analytic-type questions, theoretical type questions, and analyzing different models of investment policy, and those kinds of things.

We have had, in the past, actuaries who have actually run active portfolios, particularly on the bond side. I don't believe we do at the moment. We have had, and I think still do have, a couple who are on the lending side, the bond department type professional. So I think we have infiltrated the investment area with actuaries more than perhaps some other companies have.

MR. DRURY: To some extent, it's a matter of some of the same functions being performed by a person sitting in an actuarial department as opposed to the same functions performed by a person sitting in the pension department, in a pension actuarial unit working closely with the investment people.

MR. BROWN: The big argument in our company happens when an actuary gets in an investment area. Will he be paid like an actuary or like an investment person?

MR. DRURY: One of the difficulties of moving into and out of nontraditional roles is the issue of compensation. Compensation works differently in the actuarial world, in the investment world, and in some of the other worlds that you may enter in nontraditional roles. That is another barrier to free movement of people with particular backgrounds into these other roles.

MR. NEVE: How do you actually address that? Does it just take a great deal of communication with the management teams in those areas that the actuary moves into? Do you just let the salary administration be performed by somebody else? How do you practically deal with that obstacle?

MR. BROWN: I think it's a senior management responsibility. We make it clear to people throughout the company that if they have actuaries, that the actuaries, at least up to a certain level, have to follow a particular compensation program. Once they get to a certain level, if they get to a senior officer of the company, they're all handled in the same way. That has been pretty well accepted. But when the actuary started infiltrating the investment area, they found an area that was actually paying more than they were and that was kind of an interesting revelation. That one is a little tougher to handle.

MR. DAVID A. SHEA, JR.: Expanding on Marla's question a little bit earlier, you all are fortunate in that you work for real insurance companies where the value of an actuary has always been known. It's inbred in your culture. How do you change a corporate culture? They want the right answer immediately and many times it feels like, they want the right answer quickly, and then they want you to go away until they need another correct, quick answer.

We want to understand the whole process by being involved in the day-to-day operation. We can help you better. How do you change a corporate culture's thinking?

MR. DRURY: It's a long process. We're engaged in a similar process, if you will, within our own organization. We're moving into the HMO business and have been for the last five years or so. We hired people from the HMO business to run our HMO business. That group of people, and many other people in the HMO business, have a different view of the role of an actuary than we were used to at the Principal. It has been a long process of trying to prove to those management people the value that actuaries bring not only on this one-project-at-a-time basis, but on a more continuous basis.

I can't say that we've been totally successful even at this point. I think we've made progress primarily by assigning the right people to that project and maybe by twisting arms a little bit. Now, I recognize you don't have that luxury, but you can't twist the arm very much in this kind of a situation because you want the entrepreneurial vigor of the organization that you're working with to say, "OK, at least sit still long enough to listen and then judge the value. We're not going to tell you that you have to assume the value, but sit still long enough to listen and see whether there is a value." I don't know that that's very helpful, but that's the kind of experience that we've had in a similar situation.

MR. BROWN: I can give you another perspective. First of all, I'm very empathetic and sympathetic to anybody who's trying to change the culture from the bottom or the middle up because it's hard enough to try to change the culture from the top down. I can tell you that, from experience, and I'm sure Dave has had the same experience. I know in our company I would like to see the culture changed to one that contains a greater degree of what I would call personal risk taking, where individuals are willing to do things like set ambitious goals, for example, instead of conservative goals, even on things like reporting net income.

We had a wonderful system in the Hancock where internally we used GAAP accounting, even though we're a mutual company and get earnings estimates quarter by quarter. It was typically the actuaries who were in charge of the financials in each business unit. Invariably, the first quarter we would be maybe 75% behind goal; the second quarter 50% behind goal; the third quarter 25% behind goal; and the fourth quarter we'd be beating the goal.

This was fine, except that the quarterly results were absolutely meaningless and management couldn't really take any action based upon those. So I think that's just an example of sort of the natural conservatism that permeates an insurance company, which is good up to a point, but I think given the rapid change that's taking place in the competitive marketplace and the fact that we're now competing with everybody in the world and not just other insurance companies, some of that is going to have to be put aside. We're going to have to have a very different culture, a much more entrepreneurial culture, a much more incentive-oriented culture, fewer guarantees, fewer automatics, and that's a world that many of us, including me, are probably not terribly comfortable with.

But how do you change that? Well, you preach it. You reward the people who fit that mold. You do many things along the lines of communication, but you especially, it seems to me, try to put people in key positions who believe that has to be done.

MR. NEVE: I think that's a key question. Do any of you have experiences you can share where maybe that culture has changed either from the top down or bottom up?

FROM THE FLOOR: I've worked for about 15 years for a Blue Cross/Blue Shield plan and for another 10 years for an insurance company, so I can understand what you're doing. Blue Crosses are mainly MBA oriented, and insurance companies are not. At Allianz, everything from reinsurance to group marketing is headed by actuaries—actuaries in nontraditional roles. The type of actuaries we're looking for are entrepreneurial, somebody that will do a job or see a need from a marketing standpoint or whatever and grasp it and run with it.

Those are the type of people we're looking for. I'm not an actuary, but I think the best thing for actuaries to do when they work with a layperson like myself—and I have an underwriting background—is to speak the jargon of the individual that they're talking to. If you don't speak your own jargon, you'll get along immensely. You'll go far field with it if you take that approach.

MR. NEVE: Any other comments on that question before we move on about changing a culture?

MR. FRANKLIN C. CLAPPER, JR.: I guess I'm in a unique position. I've worked for companies that were headed by actuaries and companies that were headed by MBAs. My present company is headed more by entrepreneurs. The problem is that when I do a business plan, it's never optimistic enough. There's big credibility attached to anything that looks good; and anything that looks bad is automatically not credible. How do you deal with that?

MR. BROWN: It's a tough one to generalize about, being on the other end of goal setting. For example, for many years in the company where we had bottom/up goal setting, I'd have to say that the goal setting that came from the bottom up was always way too conservative, and I'm an actuary. People were paid according to how they got to those goals, so that had a lot to do with it.

If we had simply set those goals and met them, we'd be in poor shape today. I guess I'm sort of on the other side of that. Somehow you have to find the right balance of something that's ambitious, but achievable. I was always trying to pull up the ambitious side, and the people below us were telling us that none of this was achievable. We forced the issue by stretching the goals in 99% of the cases, and I guess most of the time beating them. You can surprise yourself over time with how well you can do if you aim high enough. So I'm sort of on the other side of that.

MR. DANIEL J. MCCARTHY: I wonder if you would talk about the implications in your organization of geographic mobility and how it applies to actuaries moving into nontraditional roles. I ask that because both your organizations are international. Traditional actuarial roles were thought of as home office roles, and we all knew that was in downtown Boston or downtown Des Moines, or whatever. Are there some mind set issues there that you've had to deal with as a company, or do you in fact think about geographic and international mobility for your actuaries?

MR. DRURY: We have a number of geographical issues with movement of actuaries into nontraditional roles. One that you mentioned is international. We have people who were actuaries in our Des Moines home office who are now in Hong Kong and in Indonesia. It hasn't always been easy to find people who were willing to make those kinds of moves. I have a hard time saying I blame them. I don't know that I would have necessarily jumped at the chance. We also have our managed care operation, which is located in the Washington, DC area, and moving people between Des Moines and Washington, DC has been an issue for us both ways. The people in the Washington, DC area don't want to move to Des Moines, and the people in Des Moines are not all that anxious to move to Washington, DC. That applies to actuaries, as well as nonactuaries.

We're going to hear that question more often. I think it's an exciting opportunity, because in many cases the geographical moves are moves to areas that are more entrepreneurial in nature—areas where you are not only in a nontraditional role, but also in a many nontraditional roles. You have a much broader range of activities. We've had, for example, a couple of our actuarial trainees go to Europe for a year or so and work in actuarial roles with our international insurance affiliation, what was called Gain Group Insurance Network. We were able to find people who were willing to go for a year, but I don't know if we'd have asked them to go for five years how that would work.

MR. GEORGE CALAT: Dave, you gave us an impressive list of the positions at your company and you, Steve, as well, of positions that are filled by actuaries. I think you suggested that there may be some resentment of nonactuaries because of the numbers of positions that actuaries hold. I have a two-part question. Do you find that there is a call for people in nonactuarial roles to get some of the experience that might allow them to be perceived as having the breadth of experience that actuaries have that you find to be valuable? And does it even make sense that there be a rotation of sorts of nonactuarial people, whether it be actuarial roles or not, into more technical kinds of roles to give them that kind of exposure as well?

MR. DRURY: I think it makes a lot of sense. One of the things that bothered me a little bit about this session is the idea that actuaries are the chosen few who go out and move into all of these nontraditional positions. We think, as an organization, we need to do a much better job of moving around not just actuaries, but all kinds of talented people in the organization.

One of the interesting things, and I don't know what Steve's experience was, but one of the interesting things to me when I moved in as head of the investment operation was it gave me a chance to do that kind of thing with some of the people in the investment operation. I have been moving people in the investment operation out into some of these technical areas.

Now, the interesting question is, "Would you ever have someone who came out of the investment function head your actuarial department without necessarily the credentials of an actuary?" At least in my case, and I think probably in Steve's case, we went in and headed the investment functions of organizations without the credentials, like the chartered financial analyst (CFA) designation or the educational background. If you turn the situation around and look at it from the perspective of a nonactuary, you see things in a little different view. I think we need, as organizations, to recognize that and to give the nonactuarial people the same kinds of rotational opportunities.

MR. BROWN: I don't think we have that perception in our company that you have to be an actuary to get ahead. When you look at our management committee, which is the top eight people in the company, you see that I'm the only actuary. We have people from all sorts of backgrounds. The fellow who heads up our retail area came out of corporate communications, for example. That was his background. The fellow who heads up the group area came out of leasing. There are some strange roads that people have followed. I hope that it conveys the message that it isn't important what you were originally; it's what you've become that's important.

It is easier to move certain people around in one direction, as Dave said, than in the other direction. For example, we have lawyers who have moved into nonlegal jobs, managerial jobs in the company of significant content; but I can't think of anybody who's gone into the law department without a law degree. That probably doesn't work on the actuarial side either. It is amazing how different companies are.

I had a president of a large Scottish company in my office not too long ago. He asked me about my management committee and I pointed out to him that I was the only actuary on the management committee. He just started laughing. He thought it was absolutely hilarious, because in his company every single job was headed up by an actuary and he just assumed that's the way it had to be. I guess you would agree with that, right?

MR. DRURY: I believe if we counted, that two out of the six management committee members were actuaries.

MR. NEVE: You talked about nonactuaries coming in to head up the actuarial department. What about the trend? There seems to be a trend. Maybe this is happening at other companies as well. Maybe the entry level or technical work that traditionally has been done by actuaries for cost reasons or other reasons is perhaps now being filled by math majors and other nonactuarial types. Does that pose a threat? How much of a threat does that pose for a traditional actuary who wants to do technical work? Twenty years from now, there won't be much technical work with computers and other things. Is that a threat?

MR. BROWN: I don't see that as a significant threat, but maybe I'm not close enough to the entry level hiring to be as aware of it as I should be. I don't think so. I think there's at least as much need today for actuaries in a traditional nature than there was in the past. Dave, do you see it differently?

MR. DRURY: I know we have some positions that we used to call para-actuaries. I don't know how many of those that we have, but certainly there were some. Anyone who has been an actuary or been through an actuarial training program knows that there were times in your career that you did things that you knew you shouldn't have been doing, and really weren't adding to your development as an actuary. To the extent that you can get those things moved to other people, I think that's a very positive thing for both technical and nontechnical actuaries.

MR. NEVE: Any comments on that from the group?

MR. JOHN W. C. STARK: Yes, we've got a contingent here. We have, in our division, hired many entry level people and some decide to stop taking exams. We figure it's hard enough to find really qualified people and so usually they stay on in the division if they want to, with the provision that if you're not an actuary, you can only rise to a certain point. Many people seem to have accepted that and it seems to have worked out well for us. As Mike pointed out, we're enamored with or by MBAs. One question I have is, "What does an MBA have that an actuary doesn't have?" What would make them attractive?

MR. BROWN: One thing I would say is that I'm a technical person myself and so it has taken a long time for me to come to this conclusion, but I think the hardest thing to find in our company is general management skills. We can find technical skills all over the place, but general management skills are hard to come by. People who can really manage and motivate and solve conflicting issues and resolve personnel problems and so on are hard to come by. Do I think MBAs do that better than actuaries? I'm not sure, but I'm not sure that actuaries are particularly well trained in that area. I don't remember taking any actuarial exams on those subjects, although I did hear Dave Neve talk about an interesting new committee called the Committee on Management and Personal Development.

MR. NEVE: Yes. Join our committee and you'll learn all about that kind of stuff.

MR. BROWN: Yes. I think that's the answer because, in my opinion, that's the single largest need in our company—people who are capable of doing general management jobs and who understand the technical part as well. It's a very difficult combination.

MS. ANNE M. KATCHER: I'm an actuary and also an MBA. The reason I went for an MBA was because I wasn't sure I wanted to take all those exams. I was lucky enough to have an insurance company who gave me an internship and paid my tuition. Most MBAs, and it might have changed since I did it 15 years ago, do not really get enough real-life, applicable examples. I think that once you're an actuary, it's really important for people who have been actuaries for a long time to make sure that the younger actuaries get management training. There are plenty of courses out there that they can go to one or two days at a time to focus on different topics like time management, people management, and things that would help them get the skills they need to rise into general management without an MBA.

MR. BROWN: I think that's a very good point and something we probably should have pointed out. I'm sure in many companies, certainly in our own, we think that education and training is a never-ending kind of thing. It should go on throughout your entire career. Those areas that weren't covered early in your career, whether they be management and personnel issues, are things that you should concentrate on. The company will help you do that, in our case at least, both internally and externally in terms of programs that are available. Many people avail themselves of those. So you're right; that is a very helpful thing.

MR. RAYMOND E. DIDONNA: Given that you have the right actuary rising up through the ranks, are there any roles that you could say categorically they would not fit into? If there are no roles, then if you had an actuary that you were thinking about making the chief marketing officer or sales officer, how would you advise them with that sort of role?

MR. BROWN: I can't think of any role that the right person couldn't go into. I would generalize that and say he or she wouldn't have to be an actuary. So no matter where he or she started, if he exhibited the right kinds of talent and skills, I think we should consider that person for any role in the company. I could see the right actuary having a top marketing position. How does he or she prepare for that? I think actuaries should get involved with the sales process itself, get involved in marketing calls, support general agents in their efforts, work with the marketing people on product development and try to understand their point of view, and so on. All those things could lead, I think, to an actuary having a supervisory or leading position in the marketing area. I think that's happened in a couple of cases, but I don't think it's the case right now in our company.

MR. DRURY: I'd agree with that. We've not had an actuary in that kind of position, although I'm not sure. I sometimes confuse marketing with distribution. We certainly have not had a person heading one of our major distribution systems who was an actuary. We have had an actuary who was in charge of what we called individual insurance marketing, which was designing and developing the products and the promotional material, and the wide variety of things in that regard.

I think the first part of your question is, "Are there positions that you couldn't see putting an actuary into?" Steve may have mentioned one of those. You probably wouldn't have the general counsel of the company be an actuary if he or she didn't have a law degree. That's like saying you probably wouldn't have a lawyer be the chief actuary of the company if he or she didn't have actuarial credentials. There are certain credentialed areas that you might exclude.

MR. BROWN: Incidentally, many of our actuaries, including myself, have gone after marketing designations—chartered life underwriter (CLU), chartered financial consultant (ChFC), certified financial planner (CFP), which is, first, additional education, and second, respected by the marketing people and the field people.

MR. DRURY: Which do you put on your card?

MR. BROWN: I put both CLU and FSA on my card. It depends on whether I'm in the field or at a SOA meeting.

MR. ROBERT C. TOOKEY: I think if there's one position the FSA should not be in it's agency director. I was with two companies where they assigned the job of agency director to a FSA. One was very ambitious and he thought this was the stepping stone to the presidency. I almost suspect they gave him the job so they could get rid of him. It was a total bust. The other instance was a company very heavy in reinsurance, but it did have a direct operation, and the actuaries were in charge of every department, including agency director. He was a sweet old guy, but didn't really insist on the results from the agents. When they did have a layperson take over that job, the ordinary production went up 50% the next year. It would be a very rare actuary that would fit into that job that would also go through our obstacle course. I just want to make the point that, from experience, it's very unusual to find somebody that would be capable of getting a Fellowship, temperamentally and intellectually, and still be a top-notch agency director dealing with people and listening to all of their stories.

FROM THE FLOOR: The answer to that is it takes the right individual. It's not the credentials behind your name. My boss happens to be an FSA and he's very market oriented and very people oriented. When he has the ability to travel to my accounts, to the insurance companies I work with, I can't wait to grab him and take him along. He has that marketing flair, plus he has the actuarial background. You just can't do better than that when you're trying to work with a client. It's not the degree, it's the individual. You have to find the right individual.

MR. NEVE: Is there a risk as the profession moves more and more into using actuaries in nontraditional roles? In order to make that successful you probably want to move your better people. You know they're going to succeed despite all the barriers we talked about. Is there a risk if you put all the good actuaries and all the good people into nontraditional roles, that we, as a profession, will be weakening the technical expertise and the technical underpinnings of our business? Is that a risk or is that not a risk in your view?

MR. DRURY: I think conceptually it could be a risk. As a practical matter, I doubt that it's a risk, because I think there are, at least in our organization, many very fine actuaries who don't particularly desire to move into nontraditional roles. I think when you talk about taking the best of the actuaries and moving them into nontraditional roles, you'd have to really be very careful about what you mean by best.

I think you move people who maybe are stronger in certain areas, but not necessarily the strongest technical actuaries. I don't think it's a practical limitation. I think the expansion of actuaries into nontraditional roles will add a lot of additional flavor to the profession, so I don't think it's a threat to the profession.

MR. BROWN: I would agree with what Dave said. I have the same feeling.

MR. ROBERT J. SMARDON: Both of you gentlemen have managed a variety of professionals, nonactuarial as well as actuarial, over the years. I just wondered if you had some insights into the different management styles you've used with nonactuaries versus actuaries that have paid off for you.

MR. BROWN: I don't believe that I've used a different management style with different types of people. Maybe that is something you should do. I think that people are so different. It's so hard to generalize that you should use a particular style with actuaries. You run the whole gamut among the 90 actuaries in our company. There are people who are very technically oriented and those who are much broader and aren't particularly technically oriented. It's very hard to generalize. The same thing would be true, I think, of the nonactuaries.

I think the main thing that I've learned over the years is to be as open as possible with everyone and to listen as hard as you can to what people have to say. I think if you do that, it really doesn't matter what the credentials are next to that person's name.

MR. DRURY: I'd say that the only real difference is that when I was managing actuaries, I had a kind of instant credibility with actuaries because I was an actuary. Then when you move and manage people in a different profession, you don't carry that instant credibility with you. You have to overcome a certain amount of skepticism that perhaps people feel you don't know anything about their business. You have to get past the thinking that you can't manage people because you don't understand their jobs.

The strategies to overcome that obstacle, I think, are really the only main difference when managing professionals. I don't think there's that much difference between the attitude toward professionalism that you have in a group of actuaries, or in people in the investment area, the information systems area, or the legal area.

MR. ALLAN G. RICHMOND: I guess both of you run mutual companies, so maybe only part of this relates to you. I haven't seen actuaries used, given the broad-brush education that they have, especially the technical side, in relating to the rating agencies, or in investor relations in talking about their companies in the kind of detail that equity analysts like to hear. I'm interested in what your thoughts are in that regard.

MR. BROWN: Of course, I guess neither one of us would have the investor relations department because we don't have stock.

MR. RICHMOND: But if you were coming out with surplus notes, I'm sure that you'd want to go public there.

MR. BROWN: You're absolutely right. There have been exceptions, like surplus notes in our own case. If you go back years before, we actually did Eurodollar deals a couple of times. There have been a couple of exceptions, but we don't have full-scale departments doing that because they're such rare exceptions. But certainly in the case of dealing with the rating agencies, both the actuaries and the financial people really lead the way. They're really sort of our Wall Street these days. They provide much of the same discipline, some of it just as unreasonable as Wall Street provides. I think the actuaries played a very significant role in dealing with the rating agencies.

In those few cases where we did raise money in the capital markets, I think it was primarily a financial area relationship and the actuaries did not get involved.

MR. DRURY: In our situation, the senior management person who is in charge of the rating agency relationships is our chief financial officer, is an actuary. He was also the leader in the surplus note involvement that we had and made arrangements for the road show and all of the things that were involved in that. From our one-company perspective, yes, we do use actuaries heavily in working with rating agencies in what limited work we do with investment bankers.

MR. NEVE: What about those of you who are from stock companies? Do you use actuaries in investor relations?

MS. KATCHER: We have an investor relations department that's not headed by an actuary. At Aetna, where I was for about two years, the person in charge of investor relations was an actuary. Also, the people that do all the presentations to the rating agencies, the heads of both the life and annuity business, are actuaries. The person in charge of our student program just convinced the investor relations head, and I think it's based on the experiences that he's had with actuaries, to have a student position there.