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WHAT WOULD YOU DO?
Responses to "A Fresh Perspective?"

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I n the July issue of *The Stepping Stone*, I posed the question *"What would you do?"* to the following work situation faced by an experienced actuary. Here are selected responses and excerpts, edited for space and clarity, followed by the real-life conclusion. Send your own ideas for situations to pose in upcoming issues to *SteppingStone@JHACareers.com*.

A FRESH PERSPECTIVE?

Central Life's chief actuary, Tom, is a disability actuary with many years of experience in the business. He has noticed a disturbing trend in their disability experience that makes him wonder if reserve strengthening may be needed in the near future. They do not currently have a robust administrative system for that line, and simply rely on running totals of year-by-year premiums and losses to assess its performance. Standard demographic data (issue age, etc.) is completely absent. Consequently, Tom doesn't believe there is enough credibility to the data to justify such a significant action.

Walt is the head of Central Life's actuarial department, reporting to Tom. He has been thinking about ways to enhance the data produced to support all of the product lines, and particularly disability, but has so far received a lukewarm reception due to the effort required.

James is corporate actuary of Central Life's parent, also with many years of disability expertise. He's seen the same trend, and is concerned that Tom is not taking action. It feels like Tom has a laissez-faire attitude toward the issue, and James and another actuary very familiar with Central Life's operations come down to assess the situation.

All four sit in a conference room to look at what data exists, what conclusions can be drawn, and whether it is time for action. After much discussion, Tom states the same argument he has made many times, that the data doesn't yet justify any action, and that they simply need to wait for more experience to develop. He insists that no action can be taken until at least the following year.

Walt[1] has a thought: Why not build an entirely new database, linking data from new business applications to premium/loss data that already exists? This would require a team to dig into tens of thousands of manual applications to key the data, and it isn't clear to him where those resources would come from.

If you were Walt, would you bring this up? When and how? Or would you address the issue some other way?

Most respondents leaned toward Walt bringing up his ideas at the meeting. Here are three good discussions of why:

I would explain my idea AND I would throw out the issues as I see them. There have been many times in my career that I sat on an idea that was floating in my head because I wasn't sure it was a good idea or if I was in the right setting, only to say something later and get asked why I didn't bring it up at a meeting. I would hope fellow actuaries are willing to listen to all ideas, and if they won't work, dismiss them professionally. I would avoid any indication that I had raised the idea previously with Tom, because if James likes the idea and realizes Tom was dismissive, then I've put my boss in a bad light by potentially confirming that Tom is not taking this seriously.

It would be appropriate for Walt to brainstorm solutions when the four are gathered. This problem will not fix itself, and an action plan needs to be decided upon while all are present to create accountability and give assurances to all that progress is being made. This an opportunity for Walt to be seen as a creative, solution-oriented leader.

Since they've convened a group to discuss the issue, it's an opportunity to brainstorm. Walt's idea seems to be one end of the spectrum, with the current do-nothing approach at the other end. It's possible that there is a middle ground that would require fewer resources and generate reasonable additional value. Group discussion would help tease out alternatives.

This respondent spelled out a game plan for how Walt should approach the meeting:

A meeting with the four of them is less obviously going around your boss than contacting James in another way. This could be done in a politic way—stating some agreement with Tom that there is not good data on which to do any strengthening, but noting that in a year, there will still be no good data unless steps are taken to improve the data. Walt could bring up technologies to turn the hard copy applications into data and suggest an RFP to price this. Once groundwork is laid for a cross-functional team to address the data, it opens the doors for the IT folks to address this. Approval for the cross-functional team or an RFP opens the channels of communication directly to James. At that point, Walt can talk more openly with James over time.

One said the answer depends on Walt's background:

If Walt is well-established in his career and has a good working relationship with both Tom and James, and the company has an open communication culture that encourages fearless discussions, then Walt should bring up his idea to the group. First, he should think it through and present his idea in a thoughtful manner. For example, he could recommend using data analysis and sampling techniques to reduce the number of contracts needed to get adequate data. He could also suggest acquiring industry and benchmark data to use as a comparison. Just because this company does not keep adequate data does not mean others don't.

Another raised this pertinent issue:

If Walt is not comfortable bringing his idea forward, this company has a big problem—lack of trust to engage in candid discussion about any and all ideas to solve a problem.

This respondent suggested that trust is paramount:

In *The Five Dysfunctions of a Team*, Patrick Lencioni discusses the concept of *healthy conflict*. A meeting amongst these four actuaries would be engaging in some conflict, as there is a clear difference of opinion between Tom and the other three. If they don't trust Tom (and vice versa), they won't be willing to be vulnerable and engage in healthy conflict, which will undermine the effort to positively address the situation.

This actuary outlined the danger of Walt proceeding without Tom's support:

In most company structures, Walt should first propose his solution to Tom. If Tom gives him the approval to move forward, Tom and Walt can present it to James together. If Tom is not willing to move forward, then Walt faces a dilemma. If he really believes his idea will help the company, then he should tell Tom he plans to send his idea to James and be prepared to deal with the political consequences. He really does not want to work for someone who is not interested in improving the company, anyway.

And this one agreed that Walt should first approach Tom:

I'd first bring the data issue to Tom, my immediate manager. Tom might not be fully aware of the depth and impact of the data issue, and drew his conclusion based on incomplete data. As an experienced actuary, Tom should take note. Ideally, Tom would ask Walt to do further analysis and develop a blueprint to address it. Then the two of them should bring the topic to James to obtain support from the parent company to initiate a project.

If Tom in fact took a laissez-faire attitude and wasn't willing to take action, Walt should do a more in-depth analysis and present it to Tom again to show how the data issue impacts actuarial analyses and the company's bottom line. If this still fails, he should suggest the working group (Tom, Walt, James and the other actuary) look into ways to enhance the analysis of disability experience. Hopefully this would allow more team members to assess the impact of the data issue. Ultimately, a data initiative will need the support from the parent company in order to secure sufficient resources.

This was echoed by another actuary who spoke from personal experience with this sort of situation:

Walt is sitting in a meeting with his boss, Tom. There are two "outside" actuaries coming in—being from the corporate parent. If Walt were to pipe up, Tom may see it as Walt aligning with the "outside," which doesn't bode well for Tom and Walt's relationship once the outsiders leave.

There is no real upside to spouting out a not-even-half-baked idea in a meeting between outsiders and insiders. James and the other outsider seem to be there to convince Tom to take an action he already decided he wouldn't take yet. The purpose of the meeting was not a problem-solving session, where spurting out ideas would be appropriate.

Walt could make it clear that they (Tom and Walt) don't have access to key data from the administrative systems, and if the corporate parent wanted more robust reserve analysis, they would need more administrative support. Walt would be backing up Tom, and it's relevant to the situation.

Walt should wait until after the meeting to approach Tom about his idea. Walt may even want to think for a day or two, and try to develop other ways to get at estimates that may not be as labor-intensive as his first idea. Given more time, he may be able to think of more feasible approaches.

Walt needs to be seen by Tom as trying to jointly solve a problem, rather than showing up Tom in front of outsiders. Tom and Walt can try out various ideas and show results to outsiders later, if anything seems fruitful. Or, if they need the resources, it may be more powerful for Tom and Walt to approach the parent together to indicate the kind of resources needed to improve their estimates.

And, finally, here is an analysis of the situation by one of my personal actuarial mentors, who also faced an analogous situation years ago:

Walt's predicament shows the weakness that can arise within corporate structures when no one is ready to step up to lead. Walt seems to be the natural leader and he is inhibited by an inverse hierarchy. This is common within corporate bureaucracies, when those up the line see no upside in allowing change. No one wants to be responsible for a decision that can be criticized. Inaction, though, can be justified by the excuse that everyone was doing what we're doing.

Walt should write a report to lay out his thinking in a compelling fashion, then build it into talking points. He then has to try to get the hierarchy together around a table to present the ideas. Otherwise it will go up the chain of command layer by layer, risking being shot down by one "no," thereby refusing to recommend it up the line.

If Walt can build consensus around a table, he will help the company that employs him. The table conversation can be a team-building effort with Walt, as subliminal team builder, bringing his overseers into consensus with his own compelling thinking. He may not have organizational or structural authority, but his ideas are what are needed.

If Walt tries to build consensus and fails, but remains convinced of the need, then he will have discerned that the corporation for which he is now working is not where he should be building his career. He will have to start a search to find a more intellectually open environment to which to bring his talents. He needs to find a way to pass his organizational superiors or the company is likely to fail. Bureaucracy is the hobgoblin of corporate success.

Amateurism in the executive suite allows even the largest organizations to be superseded by entrepreneurial, intelligently directed enterprises. Sears is superseded by Amazon, and so on. It's the same in the insurance business. The same old, same old simply isn't enough in a rapidly moving, technologically driven world. It's most likely that Walt will have to find new ground for his superior mind and practical insights.

WHAT ACTUALLY HAPPENED?

Walt decided to bring up his thoughts in the meeting. James and the other actuary from the parent company were excited at the prospect, and the four of them brainstormed about how to do it. They left promising to seek funding to execute Walt's plan, which was quickly secured.

After the meeting, Tom said to Walt, "You know what that means, don't you? You are now in charge of seeing that this project happens!" He was still skeptical about the project, but didn't mind Walt taking it on as long as there would be appropriate funding.

Walt did in fact see the project through, and this provided the justification for a major reserve strengthening at the end of the year, which Tom supported. It also became the backbone of a new experience system used to better manage the disability portfolio going forward. This led to substantial new investments by the parent to continue to expand Central Life's capabilities, dramatically improving the trajectory of the portfolio. And Walt was put in charge of making those expansions happen. ■

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ENDNOTE

1 An eagle eye would spot a change here from what was printed in the July issue. Although the case was presented in July with James thinking about bringing up these ideas, it was really Walt who did so. This has been corrected here, and all of the responses received were to this corrected version.