

RECORD, Volume 24, No. 3*

New York Annual Meeting

October 18–21, 1998

Session 50SM/L

Be All That You Can Be As An Actuary in a Smaller Insurance Company

Track: Smaller Insurance Company

Key Words: Smaller Insurance Company

Chairperson: JOHN E. WADE

Lecturer: DENNIS L. STANLEY

Recorder: JOHN E. WADE

Summary: The lecturer presents the expectation of top management of the evolving actuarial role in smaller life insurance companies. Topics include:

- *Leadership opportunities*
- *Legislative and regulatory hurdles*
- *Marketing role*
- *Management issues*
- *Personnel issues*

John E. Wade: I'm the chairman this year of the Small Company Section. Denny Stanley, from Milliman & Robertson, will be our speaker. Denny has been in this business for a long time now, and he's been a help to our company and to me personally in my own career path. He and the others at Milliman & Robertson have provided assistance to me as the actuary in a small company as I have taken on more and more responsibilities during the last eight years and tried to think more broadly about the issues that face the company and to be able to not only present the actuarial point of view to management, but also to start to incorporate management's view when working with other people, clients, and the younger actuaries in our own company.

When we start out, we go through the process of the actuarial exams and the promotion thing. It's very easy to get into a mindset that we're able to build a model and that there is an answer to each problem. It seems like the further you get into the business environment, the grayer things get, the less there is one answer, and the more your scope is broadened. Meanwhile, you continue to base your approach to the problem on those fundamentals that you started out with.

Mr. Dennis L. Stanley: This is going to be a very informal discussion. I'm going to ask a few questions as we go along to get more of a dialogue. What I'd like to do is give you some examples of things I've learned along my career path and things I think I do better than I did a number of years ago.

Learning how to communicate clearly is one of the things that is really key if you're going to make that next step within your organization. I don't know how many of you have gone back in the files and read memos or things that you've written maybe 10 or 15 years ago and reflected upon whether you have grown in the last several years in your ability to communicate ideas. I know I have done that in the past, and it's humbling when you go back and see how you used to write things.

John gave me the privilege of having a five-point outline in the program. I'm going to throw out some comments across those five topics one at a time and see if we can have a little interaction on each one.

Leadership opportunities is my first topic. One thing I've learned is the importance of knowing the scale of your business: How big are the numbers, what markets do you serve and why, and what are the profit drivers for the business you work in? Many times I'll walk into a company and ask the actuary, "What were your sales last year, for instance on a premium volume basis?" I'm amazed that people don't have a good sense of the scale of their operations. I've always had a knack of being able to remember numbers well, and I've always felt that it is useful to have rules of thumb about how big your company is from an asset perspective, a premium perspective, and policies in force. These are just little facts that are useful to have on the tip of your tongue. I get amused by my staff when my last question is, "How big is this present value profit relative to what it was a year ago?", which tests my staff's recall skills and ability to relate how profits change. It's probably not that important on a day-to-day basis, but in the whole sense of knowing what things are about, I think it is very helpful.

We get so wrapped up in our actuarial work that we don't always realize that the real celebration is getting to the destination. I remember one of my early projects. I was hired as a computer programmer in a large insurance company, and one of the projects was to write a computer program to summarize a group annuity mortality study called the IEM's project, the Intercompany Group Annuity & Mortality Study. The company hadn't submitted any experience for the last five years, so we were somewhat under the gun. We spent six months designing the system and getting the data organized so we could prepare this group annuity mortality study. I was really proud of all these pretty little reports that we had coming out and all of the mortality statistics. The real challenge came after I delivered this. My supervisor asked if I could interpret the results for the company and write a report for

management as to what it meant. My first reaction was, "Wait a minute! I thought my job was to get these numbers. This is your job."

It's so easy for us to marshal the technical skills to get the data organized, but the real value that we provide is interpreting that information and/or making that information functional. I really learned a lot from that because it was a struggle trying to turn those raw ratios into something that identified trends. One thing I learned is that stating the obvious typically is not dangerous. There may be a lot of things in those trends that seem obvious and intuitive, but often you don't get criticized for stating the obvious because it may not be obvious to everyone else.

Another thing that occurs to me is just being aware of the changes in the insurance industry and the financial services business. I have a small company client who asks questions that, maybe five years ago, would have had me struggling for a response. He'll ask my feelings as to where interest rates are going or how the global market and the situation in Japan is going to affect the U.S. market. It's enlightening because you realize that for those types of people, those are the questions that are facing them in this turbulent time. You have to worry about that. One of his concerns is if we move into a recession, are we going to see rising unemployment? That's one of the key drivers to the performance of his assets, because the mortgages that he buys tend to be in areas where properties are difficult to finance. To a large extent, he's not concerned about erosion in value of the underlying collateral. He's more concerned about the ability of the people who are actually servicing that debt to make the payments. The key driver to being able to do that is having a job. If you don't have a job, you don't have income. If you don't have income, you start cutting back on some of your expenses. That may not be the preferred place to cut back, but when it comes to putting food on the table it becomes more important. It really has struck him how much they've grown their company in the last several years with the amount of assets that they have. He hasn't had a major recession facing him with unemployment. He has concerns about today's economy, because if we do have a recession, it's going to affect the performance of his portfolio.

A lot of times, contributing to management is being able to take that technical information or knowledge and turn it into some common sense discussion items. Recently a client from a large company informed me that they were going through a fire drill, preparing their annual plan for the management at the next level of the company. They've had a corporate objective of growing GAAP earnings at 15% a year. They're in somewhat of a mature market and having difficulty, particularly in the last couple of years, matching that growth objective that was set five years ago. They were relatively fat on the expense side and their growth in sales had not been

fully realized, so they've been able through expense reductions and increase of sales to hit those profit and growth objectives.

I've worked with that company for a number of years. It's a life affiliate of a property and casualty organization, and they've had a very high profit margin business in the past. When I first became familiar with them in the early 1980s, they were having GAAP net-to-gross promotion ratios of 80% of gross premiums, which is 20% of premium profit margins on a pretax basis. That is virtually unheard of today. At that time, they were just launching universal life (UL), and I remember they had an active replacement campaign for their business. The GAAP to gross ratios on their UL business was between 90% and 93%. I remember thinking, "This is going to affect this company big time down the road as they see more and more of their business moving from a high margin to a much lower margin level." This is coming back now.

For the last several years, the closed block of traditional business (open in a sense that some of their term was still being written) had a volume that was relatively flat. The profits had been relatively flat, and their growth and earnings had been coming from their UL and annuity blocks of business. Four years ago they introduced a whole life interest sensitive plan, which was now in the traditional life bucket. Suddenly, from a management perspective they were seeing what had been a closed and relatively steady state block of business exhibit rapid revenue growth. The premium revenue had doubled in the last five years, so management's conclusion was, "Revenue has doubled, so profits should double." Profits were probably up 30–40%. The simple answer was that the margins on the new business were not nearly as wide as they had been on the in-force business.

If you look back at the data and the results and started asking some questions, you could see that they had very good mortality experience in two of those five years. You couldn't see this growth or this erosion in profit margin in the early two or three years of that plan because the mortality gains (excess gains) beyond normal mortality were masking the trends. However, if you started looking at the profits as a percentage of revenue, they had been relatively flat for three years into that growth and revenue. This year the mortality gains (or the losses if they have a shortfall in claims that year) were evident. They were faced with preparing next year's projection, and it was obvious that their earnings were not going to meet management's expectations. My role was to help them, the technical people and the life company people, to put a spin on these results and basically sell to their management the unrealistic expectation that they'd be able to grow a profit margin in this block of business at a previously 15% rate of return growth rate. Current management would like even to boost that up to 20%, so they have some pretty big objectives in front of them.

Turning numbers into information and providing leadership in a company is very important. Often I see myself spending all that time buried in the numbers. It can be hard sometimes to step away and ask, "What does this mean?" and turn it from a big journey to a celebration of information that can be carried out. I thought some of you could relate to little stories like that where you've had experiences of simplifying your knowledge and turning it into something a little easier for management to grasp.

From the Floor: I have a question relating to your example. Do you think they made the right decision or can you make a recommendation?

Mr. Stanley: The question refers to the example of the company I gave in which they had basically reduced profit margins from their business. To maintain total profits, they would have to increase volume. I think there are two sides to that question. First of all, would it have been realistic to expect that they could maintain their margins, given the more competitive market that they were facing? I think at the end of the day they probably could not. It was unrealistic to assume they could maintain the profit margins they had in the past.

I do think that it was not a conscious decision of the entire management group. The actuarial group who was pricing products in the early 1980s was under pressure to be competitive as they priced products. I think it would have been very good for management to have debated whether it was better to follow the market. They still have higher margins than the industry and personally I don't think that's an actuarial decision. I think that's a business decision that management should have the opportunity to participate in. My report alluded to it being a management business decision to cut profit margins, and the current CEO was concerned with those words because it was not a conscious or an actively debated decision among management.

From the Floor: What if it is a conscious decision on the part of my company, so that the pricing will include a certain amount of corporate overhead? It all becomes an unrealistic and unfulfilling process. The only answer is the more competitive the product, the more difficult the pricing.

Mr. Stanley: If you're dealing with a fixed nut of corporate overhead that you know is built into your pricing, I think it could be useful to pull out that overhead component and show that if your provision and your pricing is to cover that overhead with x units of sales and $2x$ units of sales, that can have a big effect on the price of your product and the competitiveness. You can try to present things in a simpler way so they can view the trade-off between volume and price, although again it can get very difficult. There isn't a crystal ball as to where the optimal point

is on the price curve to optimize the income or the profits for that organization. You think that those discussions are unproductive?

From the Floor: Yes, sometimes unproductive for me.

Mr. Stanley: Do you ever measure your total expenses relative to the allowable that you're pricing?

From the Floor: I probably don't communicate total expenses as a part of the pricing on a marginal basis.

Mr. Stanley: I find that is useful, particularly if you can show that on a trend basis. It's usually a pretty easy calculation to apply your pricing allowables against the volumes of sales and the volume of in force to see if that trend is improving. For many companies, it really has not been improving for a number of years and there's not necessarily an actuarial solution to it. I think it's that kind of information that you can provide that brings the challenge back home from a discussion perspective.

From the Floor: As another example, we had six companies in our corporate structure. Three of the companies were owned by one holding company, and almost all of the work was done by one. Management fees were paid from two to the one, but the fees were way too low. We kept saying, "This company's losing money, and it's better than the other two, but they're making money." I used standard assumptions and showed that the two companies were paying about \$50,000 per month too little to the other company, so we changed the agreement.

From the Floor: I have another communication situation. We had introduced a preferred class for the first time and needed 70% in the preferred category. I monitored it for a while and got some statistically significant results. I even measured the significance of it and determined that we were only getting 60% instead of 70%, which was a real deviation. I took it to the president and he said, "It's not significant," meaning in his mind that it was not significant in the overall scope of things. It was another frustrating communication with senior management. The ultimate resolution was that I lobbied the underwriters and we did get up to the level that we had anticipated or that we wanted in the preferred, but it didn't work through the president with the statistics.

Mr. Stanley: It sounds like in the end you put that information to good use. I'd like to give you another situation I encountered several years ago. We were working with a company that we hadn't done much work for. They had been requested to do a company projection for their parent company. They were foreign-owned. The first iteration was a pretty crude projection in which some basic profit studies were

run for the major plans. The whole projection was based upon assuming a composite distribution and all the profits of the assumptions for the basis for the projection. Over a period of about three years, that projection became more and more memorialized as something that was part of the planning process. When the results of the projection were not tracking the experience or the total financials well, it was becoming problematic. As a result we were asked to spend a little more time with that projection to see if we could improve it. We started doing some experience analysis on this UL block of business. The company did not have an internal mechanism for measuring premium persistency, but they thought they had very good persistency. We started finding some trends indicating they were collecting about 60% of billed premium on their in-force block of UL, which was very different from the premium persistency assumption in the underlying pricing. That data mining led to noticing the way their UL product was designed. It lapsed when the cash value became negative rather than the account value, so if you paid minimum premium in the first year and you did not pay subsequent premiums, the policy would carry on for about three or four years.

They did a little more research and noticed that the premium persistency from their largest agency was even worse than the average premium persistency, and this was the agency that had been celebrating because they were winning all their top sales contests. What they found was that this particular agency had a marketing plan for which a term policy was issued in year one. That particular policy provided, at the end of the first year, a conversion credit to UL equal to the first year premium. It probably paid 70% to 90% commissions on that return premium. Then the agency itself would upgrade and, out of their own commissions, pay the difference in the second year between the term premium and the minimum premium under the UL plan. Again, that same premium dollar from the first year was recommissioned in the 100% range. The policy would then continue for a total of three years. Thus, a one-term premium was paying four years of insurance coverage, which is a pretty good deal from a consumer's perspective. At the end they had to terminate that agency. It was a sad story if you reflect on it—what they thought was one of their best producing agencies turned out to produce their lowest quality of business.

From the Floor: I'm looking at the agenda for today and thinking in terms of, "What have I been struggling with for the last couple of months?" I'm real lucky in one way. My boss is an actuary and the president of the company, but he really enjoys spending a lot of time with the marketing people. He hasn't practiced anything actuarial for a long time and assumes that I'm taking care of the actuarial function. My department works well with the accounting department on valuation issues. We attempt at all times to support the marketing people with pricing and product development. However, we're having some problems within the company. My difficulty is getting the president to sit down and understand why we're having the

problems and getting him to help me, through the force of his position, to solve those problems. Do you have any suggestions on how I get the management team to operate more as a team rather than as separate, nonintegrated entities?

Mr. Stanley: Is there such a thing as a management committee or does the management team meet on any kind of regular basis?

From the Floor: Sporadically.

Mr. Stanley: Are those planned meetings or spontaneous because of a crisis or situation?

From the Floor: The latter.

Mr. Stanley: What I've seen is that having scheduled management meetings is very useful. Again, it's the company culture and style, and the CEO can really dictate a lot of that. It may not be a possible approach. That was the whole process with one client where I was on retainer and spent about 20% of my time. The company went through a number of situations where they did not have a CFO, so you might say I was the acting chief actuary and CFO. I certainly did not have the title, and I was not on site enough to be wearing that hat anywhere close to the level where the organization needed it. I find that if you're dealing in a group and you're offering ideas and concerns, you may be able to have some support in addressing those issues as opposed to trying to be the messenger and bringing on that one issue. If it is an open dialogue and others agree that there are some issues in common, that could be helpful in getting some of the other corporate resources involved. I always find that when one is talking, the other one can be thinking. It's not necessarily to beat up on people, but you need to have other people supporting your views or understanding your concerns to help you be more influential.

From the Floor: For a few years back, I was the actuary for a family life insurance company in Seattle that was owned by Merrill Lynch. The president and CEO of that company set up a policy committee. It was a formal committee, and they met each Monday morning at 8:00 to cover all the issues that affected the company as a whole. There were two marketing senior vice presidents, the general counsel, the actuary and financial officer, and the human resources (HR) manager. It was the best run of the three or four companies that I've been with over my career. They had the best communication during that period of time. How many of you in a small company participate in such a group? How many companies have that situation? Of that group, how many feel that's an effective tool for maintaining communication and foregrounding issues so that everybody is up-to-date or at least knows what is going on?

From the Floor: It is one of the tools.

From the Floor: Yes. Another part of the process that I found very important in this was that people didn't come to those meetings unprepared. If you had something that you wanted to talk to the group about for their approval, you wrote up a communicating device ahead of time and distributed it to the committee. You may have even lobbied with the underwriter or the financial officer ahead of time to fill them in more, particularly the people who you thought might not buy into your idea. I didn't mean to imply that every one of those meetings was a rubber stamp. There was some pretty open discussion. One of the things that impressed me was that the CEO almost never had to make any kind of decision. By the time everybody discussed it, the right answer to the given situation was so obvious that all he had to do was acknowledge that "Yes, it seems like we have consensus here." I found that to be a very good model and it's something that I plan to encourage and do with my company.

One way that you can possibly make a contribution at the management and overall corporate level to your own operation is to encourage this kind of process. I think all of us realize that over the last number of years there's been quite a shift in the ability to operate as a top-down company. We must operate as teams from the top down through the whole company, and this is one device to help encourage that.

Mr. Stanley: About a third of the people indicated that they had that type of a management committee in their structures. The other two-thirds of you might try to take this approach home if you can.

I have some closing comments before I move on to the next subject. When you're in these situations, you should be prepared to say what you think, explain why, consider other points of view, admit your mistakes, and make things simple for everyone to understand. I have never been shy of admitting that I have made a mistake or that someone has brought up a better point than I have. Covering up your mistakes or not admitting them, in the long run, does not help build the relationship.

My second topic is legislative and regulatory hurdles. I thought it would be better not to deal with any specific topics. I'm just trying to talk a little bit about ways of dealing with legislative and regulatory issues that I've seen work in smaller companies, or in companies in general. The war story I'm going to tell is from the same client I mentioned earlier who specializes in mortgage situations. This particular life company carries a higher-than-average level of mortgages in its life insurance company portfolio, which tends to ring some of the IRS and regulatory bells. During the 1990s, performance on commercial mortgages, in particular for

some of the large companies, has not been stellar. This caused some difficulties for some of the large companies.

The management of this company recognized they were starting from a position of being perceived as not necessarily good for a life insurance company, just because of the crowd that they were associated with. In that particular company, their relationships with the insurance department in their state of domicile were not strong at all. In fact, they were very poor and had recently gone through an examination. I wasn't the actuary at the time, but I was brought in to help support their examination. It was confrontational from some of the reserve items and some of the asset issues, and it was not a very friendly process. It took nearly two years to get the examination report completed, and I'd say the relationships were very weak.

Shortly after that, the then current president retired and the new internal president came out of the underwriting and marketing area. He set on a mission to meet three to four times a year with the insurance department, largely to build a relationship. They would schedule the meetings with them, sit down with them, explain to them some of the things they had done to address the concerns on the documentation of their loans, and eventually built a relationship in which they could discuss issues. Over a period of about three years, I'd say the situation with the local insurance department changed from being somewhat confrontational to extremely cooperative. The department would not grant them every wish, but they had built a relationship of trust, which is really key as I see it. It had changed from mistrust to trust, so whenever something was proposed, it was viewed with open eyes and an open mind from the regulatory perspective.

For example, the actual code in the state required that for a mortgage to be in the portfolio of the life insurance company, it had to have a valid appraisal by a certified or some type of an appraiser. This particular company didn't actually originate loans; they were buying on a secondary market on a seller financed basis. Because of the nature of what they were buying, they were not allowed to get into the property, so they could only do an inspection from the street. They were moving from that drive-by type of an appraisal process to a statistical appraisal process.

It's amazing what they're doing in technology today, where they can use trends in same-house sales in a neighborhood to predict the growth in property values. They were using those types of techniques from these services, which cost \$25 for a statistical appraisal, whereas a drive-by inspection similar to what they had been using was closer to \$250. It was a substantial cost issue for the volume of mortgages they were doing. We were amazed and started our homework with that, presenting information to the department over a six-month period. We

demonstrated the relationship between the drive-by and the statistical inspections. At the following quarterly meeting with the department, the company was asking for approval. It was pretty much a rubber stamp. It was interesting that the chief examiner, who made the decision to allow the statistical appraisal, open-mindedly said the word “appraiser” in the code was not a defined term, and she basically accepted that a computer program could be an appraiser. She understood that the world was changing and it was not appropriate to interpret words in a very concrete and strict way. I'm certain that, had that request been made three years prior, it never would have been approved.

On the regulatory side, you have to realize that the regulators, and people in general, always have a reason for the way they feel. They don't do things without a reason. You may think there's no way that person has a reason, but they do. The key is to understand what their reason is. If you understand their reason, then you may be able to influence their thinking by providing more information to them because of their different point of view. That's part of building a relationship. From a regulatory perspective, this is a different type of communication from what you would need with internal management. You can't be quite as direct on the regulatory side, and you can't be quick to turn things into a confrontational basis and draw a line in the sand. I find that putting a line in the sand makes it very difficult for either side to back down, so putting a line in the sand should be done only when you absolutely must do it. As soon as it's in the sand, no one wants to back down. It's very difficult for everyone to save face and come to a solution that can be positive for both sides.

Let's move on to the marketing role. Several years ago I had the privilege of working with a consultant based in the U.K. who started spending a fair amount of time in the U.S. We built a pretty good relationship and did a few projects together. He had a marketing background and had invented, if you will, a unique product in the U.K.. We actually promoted that product concept to a few companies in the U.S. One thing that he said to me really stuck: “There is a big difference between marketing and sales.” His definition was that marketing is the whole planning and product service packaging process, whereas sales is really the delivery process or the execution of that strategy. Until he made that distinction, I had viewed marketing and sales interchangeably as the same word, but because of that distinction, he helped me appreciate that there is a big difference. Working with the agents is more of a sales process, whereas marketing in an insurance company is truly a planning process.

One of his insights was that the job of the marketing department was to package products and make it easy for salespeople to execute those strategies so that they could make a living through the execution. He always felt that doing market

research through discussion with the sales force, however productive, should not drive his decision. He always felt that everything sounds great as a concept to a salesperson. He felt they would want you to do everything from a product perspective, and that they were reacting spontaneously; that they never heard of a bad idea—everything was good or better. He always took the input from the sales side, but approached the marketing as planning to be done by a professional.

I saw an interesting story about Nintendo in the *The Wall Street Journal* a few days ago. They have been falling on hard times since last year. They had a new game that was supposed to be launched for the Christmas season. For whatever reason it did not get launched, so they missed that gain. This year, they had been planning to introduce new hardware technology to compete with the better technologies being offered by Sega and Sony. This particular hardware technology is also not going to be ready this year. The Christmas sales represent 40% of their revenue, and they haven't had a best-seller in effect for the last two years. This evidently is putting Nintendo on the ropes.

I look back and think about the critical path of launching products. How often in your company has actuarial been perceived as the reason a product has not been launched on time?

From the Floor: In my company, the resources in actuarial and legal vary with the different products. It depends on the product, whether the filing or a conversion gets done. Sometimes the pricing and filing are not completed, not because of the resources but because of the conversion. We try our best to see that the actuarial department is not a critical element, but it also depends on whether you are doing it in house.

Mr. Stanley: I'm not saying that large companies are necessarily better than small companies in getting products launched on schedule, but they frequently will use a manager for a product launch so that it does not become the responsibility of a single department or a single person championing the product. The manager is charged with critical path management; that is, identifying a critical path and getting all the interdepartment people who need to participate to understand their role and to deliver on time. My perception is that this process may be much less formal in a smaller company. I see it often. The pricing actuary may be the de facto product manager for lack of a better reason—it just happens that way. Your comment about understanding critical path and helping people appreciate critical path is really what I view as the key to it all. As you say, if you're going to be the critical path manager make sure people understand what other resources you're juggling so that it becomes a conscious decision as opposed to a de facto decision of what is more important on a day-to-day basis.

From the Floor: We always bring on the Information Services department and put a lawyer in charge of the product development process so that we're covered on the other side.

Mr. Stanley: My experience with the company I've been with is that it's possible for us as actuaries to get involved with another part of the marketing concept. When I joined the company, we were in the general marketplace, although we did have some final expense and some preneed connected business. We went through a process of brainstorming as to who we could be as a company and what niche we could be in. That's how we started to get into the preneed business. Where we've really made a difference in getting in the preneed business is having a very active, marketing oriented CEO. He dragged me along with him because he wanted somebody to help him make sure that we made some money on the deals that we made. We got involved with some of the large consolidators, particularly Service Corp. International, which is the biggest owner of funeral homes. Over four or five years we got to know their business and their president and CFO. John Streetman and I would work with them, tailoring and constructing things that came from their business's point of view, and we supplied insurance products that could fit and be worked into serving their needs and their industry. The net result of that is they just bought our company this last summer. We are now vertically integrated with our best customer, which has all the signs of working out really well for all of us. Because of the way businesses are going, with the integration among the insurance business, financial service business, and other industries, opportunities exist for us to participate in the marketing function in a way that we haven't participated before. We can interact with the clients in a much more total way.

From the Floor: Here's another aspect of relating to the client that comes to mind, particularly relating to marketing. In our company, we sell individual policies through agents in a middle-income market. I have found it very useful to accompany agents on sales calls and watch what happens. If our company does a survey of members, I'll participate and call people and talk to them. Sometimes groups of members will get together, and I'll be there to talk with them. That's another level of knowing who your customer is, who the agents are selling to, and who the agents are themselves. It certainly makes communications with the marketing department a lot easier. They know you care and they know you know something about what they're doing too.

Mr. Stanley: That's an excellent point. I remember another true story of an actuarial student at Transamerica who was doing profit studies. He looked at the sales cost column and saw it was about 25% of premium, and he looked at the profit column and saw that it was about 5–7% of premium. He left the actuarial

profession and became a very successful corporate-owned life insurance salesperson in the Los Angeles area. He saw where the better column was.

My next topic is management issues, and I'm going to relate this to inter-departmental team building. It's related to the leadership a little bit. Last night at the reception, I had an interesting conversation with an acquaintance who had just changed from one reinsurance company to another. He had a lot of expertise related to pricing minimum death benefit guarantees and variable annuities. He said that he certainly planned to help his new reinsurance company be aware of that market and perhaps continue to serve that side of the marketplace. He made an interesting comment as to what his plan was for working with the company. He said, "What I plan to do is quietly become very valuable to the organization." His whole game plan was to bring his expertise with respect to products to the entire organization. He said that when you compartmentalize your view into thinking, "That's not my job, I only do this and I'm not going to help you solve your problem," you're not really providing a solution for the organization. The cooperative spirit interdepartmentally is really critical to keeping a large or even small organization functioning properly.

From the Floor: I think it's essential in a small company to make yourself more valuable or departments more valuable by doing things voluntarily without being asked. You can add what you know about the company and show how you can help by providing information.

Mr. Stanley: I might add that it's a much bigger problem in a larger organization. There are more empire builders and the wall builders. It's probably easier in a small company because it's more of a small-town community as opposed to a large city where you don't have communities.

From the Floor: In a small company I think you'll find that people don't have the adequate breadth of knowledge that an actuary can bring to provide insight to compliance or legal areas, or complicated technical products.

Mr. Stanley: That's an excellent point. I see actuaries and nonactuaries who have to wear a lot of hats in a small company.

My spin on personnel issues is staff development. Many of the actuarial consultants at Milliman & Robertson are actuaries who didn't want to be managers. That's what it comes down to. We saw that the career path within the organizations we were in was more of a management role as opposed to an actuarial role, and we chose to specialize and exit from the company perspective. We weren't certain we were

going to like the career path that we were moving down in an insurance organization.

You might say that I left the company situation to go into consulting because I wanted to continue to specialize in actuarial work. For many years, my consulting career was very hands-on, and I'm still pretty much hands-on. I had to make a big transition from doing the work myself to relying upon the work of others. A really big challenge, at least for me, is to develop staff so that they solve problems in a way that's consistent with my approach to solving problems. We don't want the friction of having them solve a problem one way and then sending them back to resolve it three or four times until they finally do it the way we would have done it.

I try to instill in my staff that anything you do may be wrong the first time and will probably take three to five iterations before you get it right. I always impress upon them to make sure the methodology is easy to redo since it's going to have to be done a few times, simply because the definition of the problem is not well understood at the outset. We'd like to have it somewhat automated with a "go" button to redo it so it's easier to do the second or third time.

Another thing I've tried to teach is that they don't bring me a stack of paper without a cover note summarizing the contents and their observations and conclusions. From my perspective, it is extremely difficult as a manager, after being out of the office for a week, to find an in box piled up with a very thick stack of computer output from the staff with no perspective of what this is and why and what we were trying to do. All you need is a handwritten note identifying it, with observations and conclusions or recommendations. That can go very far in organizing your life. I think it teaches people to think in terms of chunks of work, of which every chunk has to have a conclusion. Otherwise, it just becomes another stack of paper that accumulates into the pile. It's much easier to deal with chunks after six weeks than an increasingly taller stack.

It's difficult for junior people to make that transition from getting the numbers right, worrying about checking the input, and making sure that they did everything mechanically correct. These actuarial systems and the tools that they're using are complex, and junior people can suffer from constipation concern about making mistakes. I'm not the best at it, but I think the other thing to help people develop is to sit down with them after they bring their results back and help them understand how to summarize these results. My favorite trick is to approach the problem from another way, make an estimate of what the answer should be, and determine if the results are consistent with my intuitive answer. I can only teach that through example, and it's only through osmosis that I've been successful in making that happen. If you can teach that, I think your staff becomes extremely valuable

because it allows you to leverage your time from the experience perspective, and you can divorce yourself from the mechanical side of things.

The whole growing of the younger people is so important in my mind. I find it fun. It's a thrill to start seeing younger people get excited about the things that used to excite me. I find it a fulfilling experience to see them grow.

From the Floor: I find it necessary to instill a sense of personal responsibility in the owner of the project.

Mr. Stanley: That's very good. Yes, that's right.

From the Floor: I think what you're talking about is a critical point. I've had trouble with some of the younger students who are exceptionally technical, who can generate tremendous numbers and use great tools, but are happy with completely unreasonable results because they don't know the results are unreasonable. Maybe asking for an estimate and being sure the people are aware of the magnitude and significance of the numbers that they're working on is important too. There's no question that can happen. Ultimately, for actuarial work, I'm responsible, but how do you make them responsible?

From the Floor: Part of it is structuring performance based on the actual projects that they are working on.

From the Floor: I can share another example. Our compliance area also reports to me in our company. We've been in some discussions about having a private labeling of our product or having another company basically do everything. Our president feels that we can basically get out of doing anything for this. I'm trying to convince her otherwise, but I'm having only modest success. In discussing this with our compliance person, I said that I had some concerns because it meant I needed to sign all the filings and I didn't necessarily want to spend the time reviewing them to my satisfaction. Her thought was, "This is great. I can get someone else to do everything and I won't have to do anything." She didn't really understand my point until I asked, "How about if we said that every letter goes out with your name on it and they will write it and you will just sign it and send it off?" She said something like, "I see your point. That's a little different now." I didn't think of this ahead, but I thought that was probably a good thing to ask, so I'll remember it.

Mr. Stanley: Putting it in terms that they can relate to, that's excellent. I might echo that in the consulting area, it's critical to our success, but in our structure it's extremely difficult to develop and train people. We don't have the luxury of bringing on staff. We have a very easy way of measuring productivity in the

consulting environment, and it's called billed and collected hours. When you bring people on and they're not generating billed and collectible hours, there's a recognition that perhaps those people are not carrying their weight or they're not making the necessary contribution. In order to move those people to the next level, it's important to develop them, but we don't always have the luxury of training projects that we're willing to invest in. We are always trying to find ways of training on the job so that we can help those people develop. We're always in the constant struggle of getting a job done on time, efficiently, within budget, while developing staff. It's always a challenge, but I guess that's what life is all about.