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## A COMMON FINANCIAL LANGUAGE — A KEY TO OPENING THE DOOR OF CHANGE

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The North American business environment, particularly as it relates to the financial services business, has changed. Most of us expect continued substantial change over the next five years.

Current customers, other consumers (future customers?) and competitors will be different than in the past. Hence product design, pricing and financial management will need to evolve into a fundamentally different form.

Although the development of appropriate new marketing and organizational strategies are essential in virtually every insurance organization, they are unlikely to create the needed level of success without simultaneously developing a consistent, integrated financial management system. Generally this "common financial language" will be characterized by features such as:

1. Characterization of the company as a collection of businesses, not as a collection of functional technicians. The language is one of markets, distribution systems and product lines, not one of investment managers, actuaries and marketing managers.

2. Linkage of the design and pricing of products to specific markets and market needs, not the development and sale of generic products across all markets. There will be a distinct determination of the relationship of incremental cost (and incremental price) to the value-added in meeting and servicing specific customer needs.

3. Motivation towards managing for desired results, not "build in assumptions and wait". There will be specific, strategy-related, plans and financial standards established for each line of business and major "performance module". "Performance modules" would include, for each major line of business, underwriting and risk management, administration, investment and marketing.

4. Development of a compatibility of interest between the company and its distributors, not a concept where there is a perceived "captive agency" (or more appropriately in many career agency organizations, a "captive home office"!) There will be clear definition of the various risks involved in the company/distributor joint venture, with definition of the appropriate sharing of risk and related sharing of potential rewards for managing each of these risks properly.

The changes suggested above have a number of significant implications for the insurance company. Many of these reflect a substantial change in perspective. For example, companies will develop plans, establish systems and set performance standards that focus on *managing customers* instead of on managing policies. In such an environment, where the customer (not the policy) is important, the existing inforce and the potential future inforce are very closely related. In this kind of environment, traditional allocations of expenses, taxes and investment income between existing and new policies have to be re-examined.

As the focus changes from products and distribution systems to customers and markets, the "hype" of the last five years about unbundling products will change to rebundling risk, investment and administrative services in special ways (a) fit to the needs of targeted new markets and (b) leveraging the company's competitive strengths.

With markets driving company strategy (instead of statutory or GAAP financial statements), pricing assumptions, corporate objectives, and unit financial goals will be defined in different forms and in different amounts. Line and performance module manager compensation will be derived directly from performance relative to the established financial goals.

"Important" performance standards in the future will include items such as (a) the increase in value-added during the year, (b) measures of innovations or new developments, (c) measures of customer satisfaction, and (d) measures of quality (within the appropriate definition of quality for the company).

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## DOES ARIA READ TSA?

A recent paper in the *Journal of Risk and Insurance* entitled "What Are the Major Journals that Members of ARIA Read?" is the work of two professors at Laval University. This paper explores the ranking of journals, based on their relative quality and impact, as perceived by members of the American Risk and Insurance Association. ARIA is made up of professors of insurance in universities or colleges. The *JRI* has the same relationship to ARIA as the *Transactions* to the Society.

Society members may be interested to know that *TSA* appears among these rankings, indicating that our journal has *some* readership and *some* reputation among insurance professors. However, it is far from being the ARIA favorite among the 80 or so journals analyzed. The paper displays three rankings for each journal, based on "familiarity", "quality", and "impact". Familiarity and quality mean about what the names suggest, while impact is a melding of the other two.

Excerpts from the rankings shown in the paper appear below. Readers may make of this what they will.

| | *Rankings based on* | | |
|---|---|---|---|
| *Journal* | *Familiarity* | *Quality* | *Impact* |
| Journal of Risk and Insurance | 1 | 11 | 1 |
| Journal of Finance | 4 | 1 | 2 |
| Econometrics | 15 | 3 | 5 |
| Harvard Business Review | 5 | 26 | 6 |
| CPCU Journal | 2.5 | 50 | 7 |
| CLU Journal | 2.5 | 64 | 9 |
| Transactions of the Society of Actuaries | 11 | 21 | 11 |
| ASTIN Bulletin | 32 | 33 | 25 |
| Social Security Bulletin | 16 | 66 | 31 |
| Journal of Institute of Actuaries | n.a. | 17 | 35 |