



SOCIETY OF ACTUARIES

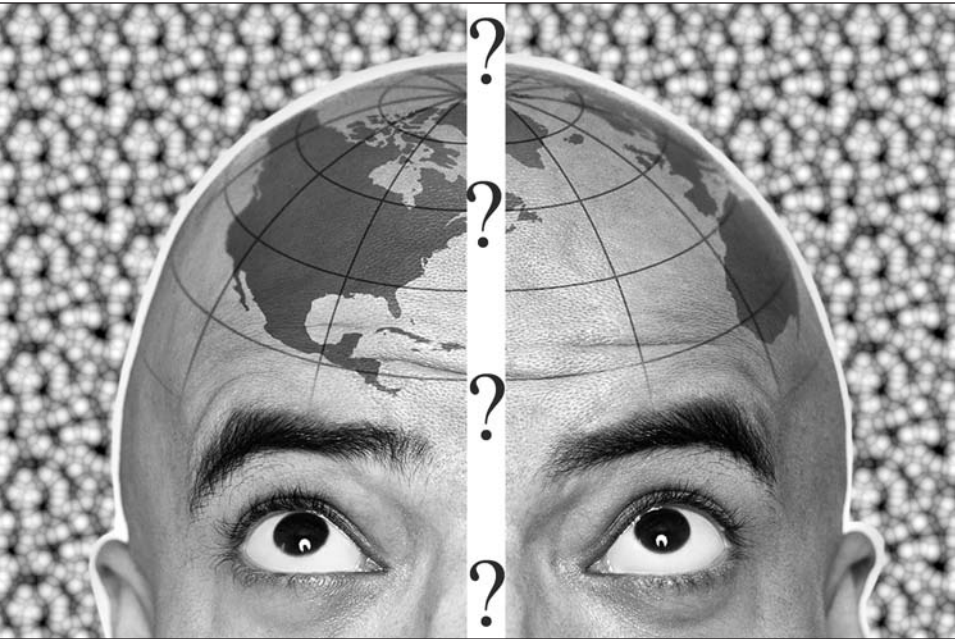
Article from:

International Section News

March 2006 – Issue No. 38

Mind the gap... ...and how to bridge it

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The paper is meant to encourage jovial, but perhaps, thought provoking debate. As both the authors work in the retirement benefits field, it is inevitable that this paper will be flavored by pensions. However, we would hope that this will not prevent non-pensions actuaries from joining the debate. We would like to make it clear that in presenting this paper, we do not intend to be critical of any particular actuary, firm or professional body.

Chapter One

Certainty Out of Uncertainties?

We think that the subject of communication will resonate with many within the profession. Although we believe that many actuaries can, and do, communicate very effectively, is there more we

can do, individually and collectively, to get the message right?

Steps have already been taken in this area. For example, the Institute motto, “certum ex incertis” (“certainty out of uncertainties”) thankfully now seldom quoted, once provided comfort to others that actuarial mathematics could provide a definitive platform for future financial planning. However, in the modern world the promise, no matter how qualified, of certainty will send shivers down the spines of professional indemnity insurers and internal risk management teams everywhere. Actuaries now draw more attention to the uncertainty of future events and often describe more fully the range of possible outcomes. The new catchphrase of the profession, “making financial sense of the future,” is a definite improvement, being a better reflection of modern actuarial advice. But do you make sense when providing advice to others?

Sir Derek Morris, in his review of the actuarial profession, sets out his belief that there is an understanding gap between actuaries and the users of their advice. However, we suspect that it goes further than that in that there are many members of the public who, even after the extensive press coverage given to actuaries recently, still have absolutely no appreciation of what we do and why.

The aim of this paper is to raise the awareness of actuaries, particularly the younger members of the profession, to the importance of good communication skills in the hope that this will lead to the users of our advice, the public and the press, having a better understanding of matters relating to finance and risk.

We recognize that the paper is not a long one. We did not want to say any more than was needed to encourage the members of the profession to think about what they are communicating to non-actuaries, both explicitly and implicitly.

Chapter Two

It's Life, Actuaries, But Not As We Knew It

A new dawn breaks

Consider a typical day in the life of a typical actuary arriving at his typical office on a typical morning, sitting down at his desk ready to face a day of typical actuarial activity. And let's say, for argument's sake, that this typical actuary is the traditional outsiders' perception of what a typical actuary might be—perhaps even the type of actuary that Sir Derek had in mind—one who has trouble communicating complex actuarial information to his clients.

Now, this actuary isn't a bad guy. He is keen to advise his clients as well as he can. He looks around him wondering where to start. He sees the phone, the e-mail, the paper and the pen, the fax and the train sitting in the station ready to whisk him to a meeting. He lives in a world with a startling number of communication options. Not only that, but he now lives in the Brave New Post-Morris Actuarial World. Forget choosing an appropriate funding method. Forget complying with professional guidance. The most pressing problem for this actuary is deciding how best to present his advice to his clients. All that expertise on Ito integrals and attained age rates will mean nothing if his clients are unable to make sensible decisions based on what he is telling them.

We are spoiled for choice on how to get the message across, more than ever before, but is this extensive range of choices actually spoiling our attempts to advise our clients in the most effective way?

Do actuaries speak louder than words?

Is new technology friend or foe of the typical actuary? We can run beautiful stochastic models, but with them comes the need to explain a new and even more complicated technical concept. We could produce pretty pictures in PowerPoint and project them onto screens,

but do we have the creativity to make the most of the possibilities?

It is widely thought that different people absorb information in different ways. Some like pictures (visual), some like to hear things (auditory), some like to move around (kinaesthetic) and some can only process information delivered in limerick form. As a profession of technicians and mathematicians, are we overweight in a particular learning class? How can we cater for people who don't think like actuaries, who don't have our innate familiarity with numbers and formulae? To many of our clients, actuarial jargon and terminology might as well be hieroglyphics. To bridge the gap, we must find ways to translate this to the language of the layman. We challenge readers to identify their Rosetta Stone¹ and so the key to unlocking clients' understanding of the advice that we give.

Risk management or just plain boring?

With the increasing focus on risk management, there is a natural tendency to shy away from anything other than setting out every option, unequivocally and in writing. All angles are covered, all risks are mentioned, the caveats are out in force, our posteriors are protected and our in-house legal team can sleep at night. But they are not the only ones—our clients are also asleep. They got bored from reading our great missive and didn't understand the terminology anyway. They are no better off.

A similar principle arises when you phone up to buy car insurance and have a long statement read robotically from a card. Do you listen? No. Have you understood what the message was designed to say? No. Indeed, the more you say when writing a letter of advice, the more the reader can get confused as to what the message really is. Although the long formal report or letter may have its uses—perhaps to satisfy actuarial Guidance Note 9 (GN9) or to record formally the advice given and the decisions reached—we believe that as

How should we interact with clients?

Get the point across and don't confuse compliance with advice.

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¹ The Rosetta Stone is a stone carved in 196BC and found in Egypt in 1799. It has writing on it in two languages (Egyptian and Greek) using three scripts (hieroglyphic—the scripts used for important or religious documents, demotic—the common script, and Greek—used by the rulers of Egypt at that time). By comparing the demotic and Greek scripts, the anthropologist Francois Champollion was able to decipher hieroglyphics for the first time.

Your advice has to be conveyed in a substantially shorter time than it took you to formulate it. Take it in small bite sized chunks and use simplified models.

Teach as well as advise.

Give an opinion when appropriate.

Beware of the hidden.

an educational tool, it is dead. In fact, a single GN9-compliant document will not do the job that GN9 wants it to do. Is it time to separate compliance and advice? Is the current GN9 in need of a rethink?

Are pictures better than a thousand words?

More use is being made of the technology we have available. PowerPoint presentations are becoming more prevalent and, with carefully selected diagrams and limited (and significantly fewer than a thousand) words, can get across complex issues with so much less effort than lengthy technical letters. However, two-hour presentations given in a dull monotone, simply reading words directly off the slides, are less powerful. Why listen when you can read twice as quickly? What's the value of having the actuary read to you? Is it really good value? "Why not leave the actuary at home and read the slides yourself?" asks the client.

There is also the instinctive suspicion that, although pictures can be easier to grasp, they are also easier to misinterpret and should therefore be replaced with lengthy tomes. We would contend that written advice can be just as easily misunderstood without proper explanation.

But what of the noble art of conversation?

After all, wouldn't dramatic speech make us seem so much more exciting? Even more so if we dispense with the grey suit and invest in a technicolored dreamcoat. The colors (visual), the noise (auditory), the whirling dervish of the presenter (kinaesthetic), these are the ultimate antidote to allegations of the antiquated, over-complicating, boring actuary.

The Pension Regulator's draft "Code of Practice no 4: Funding Defined Benefit Schemes," which was published recently, stresses the need for trustees to understand the advice given. How is this to be done? The title of one SIAS paper (Taylor, 2000) suggested making actuaries less human. We believe that if we are to address our communication difficulties, the opposite is true.

The draft code itself asks trustees to consider whether or not a face-to-face meeting would be effective. We would argue that it is essential, not only for the trustees' benefit, but also for the actuary. It enables any misunderstandings to be addressed before they are firmly fixed in the mind of a client and gives the actuary an opportunity to adjust the complexity of the advice and explanations given to suit the comprehension of the non-actuary. How about combining spoken advice with real-time picture drawing on good, old-fashioned blackboards? Yes, we need to be an actuary, an actor (see section 4) and now a teacher as well. But at least this would enable us to move at the same speed as our clients, increasing the level of complexity that they can take one step at a time. It may also increase the opportunity to simplify otherwise detailed concepts. Introducing simplifications may be more acceptable in that format as the aim would be to educate and explain the concept, increasing the overall understanding before hitting the audience with the more complex detail of the situation in hand (if this is indeed at any stage deemed necessary).

Stepping up to the plate

Given the inherent subjectivity in the issues we consider, should we climb off the fence and drum up the courage to provide a positive steer in our advice? Or, are we right to explain the options and leave trustees in charge of their own destiny? After all, when it comes to the biggest decision of all, it is still George Bush who decides whether or not to press that big red button. He relies heavily on his advisers. Would we have it any other way?

We mentioned above the long missive that covers every possible option. This reminded us of a story once told to us by a senior member of the profession, the story of the even-handed actuary. You know the even-handed actuary—we all do. ("Is it me?" I hear you ask.)

Well, the even-handed actuary met an unpleasant fate at the hands of one particularly exasperated client. Are you sitting comfortably? Then, let's tell you the tale ...

Once upon a time this particular actuary went to see his client at the enchanted castle of

Trusteeland. He presented his work to the Elders of Trusteeland who had limited knowledge of complex finance, but had yet another significant decision to make. His advice was of a familiar form: 'well, on the one hand you could do this, but, on the other hand you could do that.' He came to a close and, all of a sudden, the Earl of Trusteeland chopped off his hand. 'Now,' said the Earl, 'What does your one remaining hand suggest I do?'

The moral of the story is that providing 'complete' advice may actually get in the way of providing good, easily understood, advice. Have we got to the stage where we are too afraid of doing anything other than spelling out every option—to avoid being criticized for not warning about the possible downsides—but then by not suggesting a sensible way forward for our clients, we miss the point totally? Yes, it's their decision as to what they should do, but should we be afraid of saying what we really think?

Research into decision making where risks must be assessed suggests that advisers might be most effective through asking simple questions about their client's preferences and objectives and then translating their expressed preferences into the appropriate course of action (see Alan Goodman's summary report on Consumer Understanding of Risk). This would require a shift of focus where actuaries make clearer recommendations rather than providing information and leaving the client to decide. However, it would also require a greater degree of understanding from clients as to what we need to know from them, so that the suggested way forward does indeed reflect their circumstances.

Inadvertent or deliberate presentational influence?

Disturbingly, even in the absence of our explicit recommendations, further lessons from behavioral finance show that we can often influence clients' decisions significantly by the way we present information and the range of options we show. So, for example, clients might prefer the results of a valuation on a basis that delivers a surplus. Do they understand that changing the assumptions does not necessarily change the true funding position, which is of

course unknown until future events have unfolded? Another example is where decisions are based on choosing an outcome within a range of options. More often than not, experiments show that the middle course of action is followed.

This feature is obviously a useful tool when trying to justify a biased approach in a negotiating situation, but we should be aware that we may be doing this inadvertently. For example, scheme actuaries presenting results as an independent expert to both trustees and sponsoring employer (see paragraph 22 of the draft Code of practice) may unintentionally influence the debate one way or another depending on the content of the advice and how it is presented.

This concept doesn't just extend to how numbers are presented. It is quite possible to prepare written advice that taken literally says one thing, but the tone of the advice could imply something rather different. How many of us realize what might be read into our advice in normal circumstances? What happens when our hieroglyphics cannot be read by our Greek-speaking clients?

However careful you are to ensure that the tone of the advice is as you intend, there is always scope for it to be received in a different way. Again, it seems to us that regular face-to-face communication with clients is essential to minimize this potential for misunderstanding. □



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