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Why actuaries have an edge in the marketplace

by *Jacqueline Bitowt*
SOA Public Relations Specialist

Financial experts were the highly valued professionals of the 1980s. In the '90s, reengineers took the spotlight. By the year 2000 and after, might the high-platform role in the marketplace go to those with credentials and experience as an actuary?

Deloitte & Touche LLP principals Bill Potvin and Frank Buck think so. Practice leaders at a consulting firm that once held business generalists in highest esteem, they now actively seek actuaries to help solve problems in ways that traditional business consultants cannot.

Why is the role of actuary joining the milieu of world-class consultants? Potvin, a nonactuary who is national director of the Actuarial and Insurance Consulting Group, and Buck, an actuary who leads the firm's national Life Practice Group, see problems ahead whose solutions require the skills actuaries have in abundance. Ironically, the forces behind those problems also will redefine the profession itself, the consultants said. These forces will make the current actuarial career path largely outmoded in about 10 years. Equally ironic is Potvin's and Buck's view that actuaries will have to "sell" business and industry leaders on the benefits of actuarial skills, in part by addressing those leaders in terms they understand. Two megatrends are forming the future

"We are looking for actuaries who view their future as expanding into a broader, risk-oriented set of services," said Potvin. "We've done some significant strategic planning in our actuarial practice area to prepare."

What do Potvin and Buck see in that future? "Demographics drive the major trends in this society, and the graying of the 'baby boomers' will create two megatrends," said Potvin.

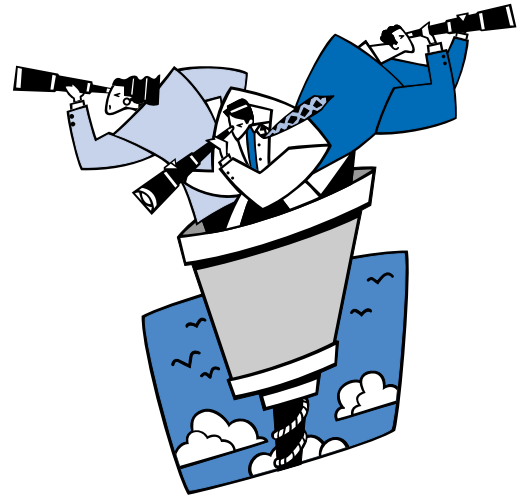
One is declining resources as the nation's workforce shrinks dramatically, leading to much lower production of goods and services per person. "Society will need to find a whole new set of ideas and behaviors to close the gap between the baby boomers' needs and the economy's ability to meet them," Potvin said. Health care and pensions will rank among the major concerns.

The second trend is the growing imperative to manage financial risk in a world of technology and global markets and the resulting breakneck speed of change.

Risk management will be critical to both individuals and corporations in years ahead, Potvin pointed out. "Baby boomers will look for ways to guarantee their income," he said. "On the corporate side, as 401(k) money gets drawn out of the marketplace, the stock market won't be going up so quickly. Capital will be harder to obtain, so managing capital will be very intense. We know that the boom of recent years won't reoccur to the same extent when baby boomers move into the retirement phase and become consumers of money, rather than investors." Who has the tools for risk management?

Potvin believes the ability to deal with future-oriented financial risk in a sophisticated way will be vital to society. "The demand of the financial industry for future management of their financials will be significant. Everyone will want to know: Has the company for the foreseeable future provided for major risks? Participating in the future risk analysis of companies may be the consulting 'product' of the next century."

This work calls for financial forecasts, risk analyses, creation of hedging



strategies — and the modeling behind those and other tools of risk management. Though several categories of professionals may have some of the skills needed to do the job, Potvin and Buck believe none are as thoroughly trained and experienced in those skills as actuaries. "There is a real dearth of programs focusing on probabilistic training for those on financial, social science, or business career paths," Potvin said. "Students with great ability in mathematics are often tracked into math and physics majors, leaving a huge gap."

Furthermore, Potvin observed, "The marketplace values professional certification. Most people in the marketplace don't understand what actuaries do, but they think of them as mathematicians with professional certification."

Potvin said that "this identity gives actuaries an edge" in a world increasingly dependent on successful management of financial risk. But actuaries could lose that edge as other professionals develop the needed skills — and stake their own claim on the financial risk management marketplace. Actuaries must re-tool. Potvin and Buck believe the future world of work for actuaries will be very different from that of the past.

Both point to the consolidation in the life industry. "Experts have predicted it for some time, and it's happening," Potvin said. "What actuaries are currently doing won't be in demand in the future. Look at the

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“It doesn’t speak well for the future of the profession. Because if you become a necessary evil, the executive asks How can I acquire this necessary evil at minimum cost?”

Walter Rugland, consulting actuary with Milliman & Robertson, is sympathetic with Chalke’s views but doesn’t entirely agree. “Because of the nature of the state laws governing valuation and who can do it, there can be a downside for the appointed actuary,” Rugland noted. “Unlike the United Kingdom, where the appointed actuary is named by a company’s board and is almost always the most senior actuary, in the United States they are appointed by management and are often not most senior.

“Therefore,” said Rugland, “there is a potential for appointed actuaries to get boxed in and be viewed by senior

management as whistle blowers and technicians.”

However, in the U.K., “Management gets a lot of technical as well as commercial value out of the appointed actuary,” Rugland said.

Rugland is a believer in self-regulation as a much preferable alternative to government regulation. “I’m troubled by people who think there is a conflict between shareholders and policyholders, because policyholders are customers and shareholders are in business to serve customers. In the long run, what’s appropriate for the customer is good for the shareholder. The insurer has no purpose if it doesn’t serve the policyholders.

“The responsibility of the actuary is as an employee of the shareholders. That’s very clear. The actuary shares the same concern about delivery of

good product to the policyholders as the shareholders. Implicitly, as a professional, the actuary has a responsibility to serve the public.

“The profession has established standards of practice. If the standards don’t seem to serve the shareholder adequately, that’s an issue to discuss. We don’t want a lot of people telling us how to do our business, and we want rules kept to a minimum. In Standards of Practice, we say the public is best served when actuaries use their professional judgment. Then we turn around and say the public can be assured the work product is a good one if it follows the methodology articulated by the standards.

“We are focusing on the future all the time and asking if there are better ways to do things. We’re moving forward in our science.”

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number of insurance executives in their 40s and 50s pounding the pavement. Another example: Just 15 years ago, the proliferation of faxes, PCs, and spreadsheets we have today did not exist, and APL programming was the hot career. If you do not ‘re-tool’ yourself every five years, unemployment is a very cruel possibility.”

Payrolls were larger 15 years ago, and “outsourcing” was not even a word. Today, it’s the trend in business — an unstoppable one, said Potvin, “because it’s a more efficient business model.” That means more professionals will need to take the role of consultant in the years ahead. “This is a fundamental shift in the marketplace,” he said.

So the vision of the actuary employed for decades by the same employer, an insurance company, and growing in that job is coming to an end, Potvin and Buck believe. Creating models to manage financial risk on a consulting basis in a rapidly changing business environment — this is their picture of the actuarial profession’s future.

New skills needed

in the era of outsourcing
 “To be a successful consultant, you must be able to sell and communicate an answer,” Potvin said. “If not, the solution is useless. Those who develop those skills will have a competitive edge in the marketplace. It’s the difference between being a highly paid, highly placed professional and someone sitting in a cubicle somewhere — or even being unemployed.”

Buck said he “grew up” in the insurance industry before moving to consulting about 10 years ago. “Too many actuaries are skilled technically in a very narrow area. They need to turn their attention to a broader range of problems.”

Buck said it usually takes three to four years to acquire successful consulting skills once an actuary has joined a consulting firm. These skills include:

- Listening: “Listen to what the client wants.”
- Comprehension and communication: “We have to work with our employers or clients to help them

understand what options are available. We need to understand what their needs are and develop actions they can take to meet those needs.”

- Presentation: “You must present yourself well. You need to give the right answer — but in such a way that it can be useful to a client. You need to state it in terms of what its impact will be.”

Potvin’s role model for the actuary of the future is the lawyer who helps clients find paths to success, rather than just telling them why they can’t take certain actions. “The successful actuary of tomorrow will assess what a business needs and where it has to go, and then help its leaders move it there,” he said.

“The classic consultant was a business generalist. Actuaries are the opposite of that. They’re highly trained technical specialists, and the needs of the business world are moving in that direction. The ‘sweet spot’ in the market is somewhere in the middle.”