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The public good vs. private profit?

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Is there a conflict in the roles actuaries assume? Can some actuaries serve as internal compliance officers while others lead large corporations and aggressive consulting firms? Can actuaries be regarded by the business community as strategic business people as well as professionals with an obligation to serve the public? Does a given actuary's decision to accept an expanding regulatory role diminish his or her capability to contribute to the strategic direction of a company?

"It is absolutely not an either / or situation," said Dwight Bartlett, III, commissioner of insurance for Maryland, former chief actuary of the Social Security Administration, and past president of the Society of Actuaries. "I don't think there is a negative associated with the enlargement of the legal roles actuaries play in valuation and illustration models.

"Actuaries can play either regulatory or business-oriented roles. You could compare it to the roles accountants play. The accountant who must sign off on the company's audit obviously has a role of responsibility to the public. And the accountant who advises senior management is definitely seen as a member of the management team whose first responsibility is to management," he continued.

"Actuaries fill a variety of roles in insurance. The important thing is to balance them. Valuation and illustration actuaries clearly have a role defined by law, but the pricing actuaries have more of an employee role. They are chiefly responsible to their employers," Bartlett said.

Roles are compatible

David O'Leary, vice president of life product development at Aetna, Hartford, Conn., agreed. "Pricing actuaries, in my opinion, have a final responsibility to the shareholders."

O'Leary said the roles are not mutually exclusive but compatible. In fulfilling their obligation to their employers, they also fulfill responsibility to the public. "Actuaries are the financial stewards of the insurance company. They make sure the company is sound and does things that are appropriate, and in doing so, are responding to the regulators."

Not all agree on roles

One of the most outspoken dissenters is Shane Chalke, president of Chalke / SS&C, Chantilly, Va., who incorporated his ideas on the subject into his platform as an SOA presidential candidate in 1996. "There are two competing models within the SOA leadership of how actuaries can stake out a role for themselves in the modern world — strategic business leaders or internal regulators," Chalke said.

"I object to the tendency of our profession to carve out a role as guardians of the public trust. I remember a resolution from the Academy of Actuaries board about four or five years ago calling for much closer ties to the regulatory process, including a mandated opinion on company solvency. I view this as a form of rent-seeking behavior — building a wall around what actuaries do and forcing firms to buy a service that only actuaries can legally provide," he said.

"I don't want to say there isn't a powerful value in the oversight process. In fact, our most powerful regulatory sector today is the rating agencies. They perform an important private regulatory service. And since they function in a competitive economy, the quality of their work product continually improves and their analysis is more holistic than the more old-fashioned regulatory service," Chalke said.

Becoming marginalized

"When you're an internal auditor, you're being funded by shareholders, but you are functioning as a policeman. You're less valuable to shareholders and senior management than business decision makers. Senior management will view this role as binary — 'We're OK, we're not OK.' This view marginalizes actuaries, who tend not to be let in on the most serious business decisions except as part of the vetting process.

"In some circles in the business world, actuaries have a reputation for manufacturing work to keep themselves employed. There is a significant component of the management branch of the life insurance industry that tends to have this view of the valuation and illustration actuary campaigns.

"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."

Why actuaries have an edge in the marketplace (continued from page 3)

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."