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CEOs, actuaries in step

Survey ranks distribution as top concern in U.S. and Canada

Two recent Tillinghast-Towers Perrin studies found actuaries to be in broad agreement with CEOs of life insurance companies on the key strategic issues facing the industry.

Both chief executive officers and corporate/chief actuaries at life insurers in the United States and Canada identified distribution channel productivity — how best to acquire and develop customers — as the top strategic issue facing the industry over the next five years. According to Tillinghast-Towers Perrin's "1997 Life Insurance Industry CEO Survey" and the firm's "1997 Life Insurance Industry Corporate and Chief Actuary Survey," 81% of the CEOs and 74% of chief actuaries responding considered distribution productivity as one of the industry's most pressing concerns.

The CEO survey polled the chief executives of more than 300 of the largest life insurers in the United States and Canada; 90 responded. The corporate and chief actuary survey was sent to 250 U.S. actuaries. Findings are based on responses from 109 actuaries.

The productivity issue has grown steadily in importance and visibility over the past several years. Both

actuaries and chief executives increasingly recognize the significance of the distribution challenges they face and the critical role that meeting the challenges will play in determining future competitiveness. In Tillinghast's 1993 CEO survey, this issue ranked third, selected by 52% of the respondents. In the 1995 CEO survey, it rose to the number-one spot, chosen by 67% of the CEOs.

Increased competition was ranked as the number-two issue facing life insurers, with roughly 60% of respondents in both surveys naming it one of the top strategic issues. "The competitive environment has clearly intensified, and it shows no sign of abating," said Douglas Doll, principal, Tillinghast-Towers Perrin. "In fact, the entry of nontraditional competitors may raise the bar on what is needed to satisfy customers and compete effectively."

After the top two issues, the views of CEOs and chief actuaries diverged somewhat:

- CEOs ranked changing market demands as the industry's third top issue, followed by sales practices and financial management.
- Actuaries were somewhat more concerned about sales practices and expense management than the

CEOs, ranking them third and fourth respectively.

The corporate and chief actuary survey results indicate that actuaries are acutely aware of the challenges facing the industry. The results show that actuaries are looking beyond financial risk considerations to recognize the more fundamental market and competitive issues that will determine their companies' success.

Although the actuaries generally agreed with the CEOs on the key issues facing the industry, they seemed less optimistic about their companies' preparedness to address these issues. For instance, just over one-third of the CEOs said their companies are well prepared to make the changes necessary to respond to the issue of distribution channel productivity. However, only 16% of the actuaries said their companies are well prepared. Similarly, nearly 40% of chief executives responded that their companies are well prepared to meet changing market and customer demands, compared to only 16% of the actuaries. "Differences in response rates between actuaries and CEOs may reflect differing degrees of direct control over these issues or differing degrees of conservatism between the actuaries and CEOs," said Doll. The sales practices issue was the exception: 50% of the actuaries said their companies are well prepared, compared to just over 25% of the CEOs.

More from the survey of corporate and chief actuaries

The survey of actuaries reported several other concerns.

Opportunities exist to improve the measurement and management of financial performance within the life insurance industry. Most actuaries surveyed were only moderately satisfied with their ability to measure the

Ranking of Top Strategic Issues in 1997 CEO Survey and 1997 Corporate/Chief Actuaries Survey by Tillinghast-Towers Perrin

Strategic Issue	CEOs' rank	Actuaries' rank
Distribution channel productivity	1	1
Increased competition	2	2
Changing market/customer demands	3	5
Sales practices/compliance/market conduct	4	3
Financial/capital management	5	6
Expense management	6	4

economic contribution of their lines of business. In fact, nearly 25% were dissatisfied — especially small and midsized companies. In addition, 70% of the respondents said their companies do not annually determine the value of new business. Finally, most said their companies rely on fairly traditional methods — GAAP or statutory profits — to measure and manage performance; few use economic value-added measurement tools.

Evaluation and management of risk continues to be an important role for actuaries. Actuaries state that they spend a substantial amount of time measuring and managing risk and providing input to senior management. This is an area in which senior management believes actuaries add value. Although actuaries said they are still using more traditional tools to measure

and control risk (e.g., cash flow testing and duration/convexity analysis), they reported that their companies will increasingly turn to such methods as dynamic solvency testing, value at risk, and efficient frontier analysis in the future. Interestingly, the actuaries ranked general risk factors — such as increased competition, expenses, and new regulations — above traditional actuarial risk factors (i.e., mortality) as potential sources of future problems.

The actuaries see significant opportunities to improve company performance through distribution-related strategies. When asked to evaluate opportunities for improving company performance, actuaries gave the highest ratings to opportunities related to their key strategic issues. The top-rated opportunities were: developing alternate distribution

channels, retooling the current distribution approach, developing new products, entering new markets, and reducing home office costs.

Actuaries will need to be an important part of the solution going forward. Actuaries said that they have a significant amount of influence in senior management decision-making. Further, the actuaries reported they are proactive in using that influence.

“As companies work to respond to the key strategic issues they are facing, corporate and chief actuaries will have a critical role to play,” said Doll. “They will need to work closely with senior management to develop plans and communicate the potential risks of proposed actions to help ensure the company’s future success.”

SOA Web site clicks with its audience

The SOA Web site (www.soa.org) had a record 1 million hits in January 1998. That’s three times the number of hits in December 1997. The number of users also doubled to more than 54,000 during that time.

“The SOA site is undoubtedly a ‘happening’ place,” said Peggy Grillot, the SOA’s online systems manager. “It’s obviously providing value, and we’ll continue to keep it fresh and growing.”

Paper’s author wins trip from 2 SOA divisions

The SOA’s finance practice area and Investment Section have awarded an expense-paid trip to this year’s International Congress of Actuaries to John Mange, managing director, Health Reinsurance Management Partnership, Salem, Mass. The congress will be held this June in Birmingham, England.

Mange received the prize, valued at \$4,000, for his paper “On Measuring the Risk of Foreign Exchange.” The paper was submitted in response to a 1996 call for papers on actuarial aspects of currency exchange risk sponsored by the finance practice area and the Investment Section.

SOA offers monetary awards

SOA calls for papers (CFPs) often offer prizes. Current CFPs with prizes attached are:

- “100-year Term Structure of Interest Rates,” \$3,000 each for a maximum of four papers, March 31, 1998, deadline, sponsored by the Investment Section
- “Retirement Needs Framework,” up to four awards planned — \$2,000 first prize and up to three \$500 prizes for honorable mentions; abstracts due March 16, 1998, papers due November 1998 (see “How do needs change during retirement? A call for papers,”

The Actuary, February 1998)

The SOA now sponsors four periodic competitions in which monetary prizes are awarded. They are the Annual Prize, Triennial Prize, L. Ronald Hill Memorial Prize, and Edward A. Lew Award. Several others are sponsored by the Actuarial Education and Research Fund. Details are available in the *1998 SOA Yearbook*.

Information on calls for papers and annual SOA prizes are available from the Society office (phone: 847/706-3500; fax: 847/706-3599; e-mail: djay@soa.org).