SMALLER CONSULTING FIRM SECTION

"A KNOWLEDGE COMMUNITY FOR THE SOCIETY OF ACTUARIES"

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THE INDEPENDENT CONSULTANT

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Actuaries
The Best-Kept Secret in Business™

Entrepreneur Spotlight — Bill & Tad's Excellent Adventure

by Arthur J. "Tad" Verney

Editor's Note: As a relative newcomer to this business of being a small consultant, I have found it helpful to hear the stories of others who have been successful and to learn from their experience. I've noticed some themes that seem to be repeated in every story of a consulting actuary (or any other entrepreneur) who has made it work:

1) *It takes longer than you expect to start making money, so have plenty of financial resources in reserve.*
2) *Marketing is your most important work and where you should spend the most time, although actuaries often would prefer to avoid this.*
3) *Expect the unexpected—be flexible and learn from your mistakes, and don't assume these changes to the plan mean that your venture is a failure.*
4) *While these stories often sound like they hinge on a lucky break, when you dig deeper these breaks are always the result of smart thinking about the business plan and hard work—things you can control.*

The experiences of Tad Verney and Bill Bossi, founders of Disability Insurance Specialists in Bloomfield, Conn., are good examples of these points. So I talked with Tad to get some details, in what I hope will be the first of several such profiles in The Independent Consultant.

The Independent Consultant: *Tell me the history of Disability Insurance Specialists—how you started and how you got where you are today.*

Tad Verney: DISpecialists opened its doors on Oct. 15, 1996. Bill Bossi and I founded the company and hired one employee to start with us. After 16- to 18-year careers with major insurance companies, Bill and I had spent the preceding three years providing consulting services to a leading disability insurance carrier. We had observed the deterioration in financial results for carriers in the DI market and watched the consolidation of the industry as firms merged, were taken over or exited the business. Our business premise was that the smaller DI carriers needed technical expertise to be competitive and profitable in this market and that building that expertise in-house could be very expensive. We also anticipated that continued market demand for coverage would eventually lead to new entrants. We proposed to provide the expertise to allow carriers to compete with the cream of the crop without the investment or critical mass necessary to build the expertise in-house.

Our first significant opportunity presented itself in December. We bid on taking over the claim administration of a block of disability claims. We burned the midnight oil assembling a proposal that ran roughly 60 pages, providing extensive detail on the services we would provide and the results we expected to achieve. Our reward for our efforts was the feedback that our proposal was by far the most comprehensive, well-thought-out, and attractive of the several that had been received by our prospect.

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THE INDEPENDENT CONSULTANT

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This newsletter is free to section members. Back issues of section newsletters have been placed in the Society library, and are on the SOA Web site, *www.soa.org*. Photocopies of back issues may be requested for a nominal fee.

The purpose of the section shall be to encourage and facilitate the professional development of actuaries at smaller consulting firms through assistance with the educational, research, networking and other special needs that arise in their practice.

Expressions of opinion stated herein are, unless expressly stated to the contrary, not the opinion or position of the Society of Actuaries, its sections, its committees or the employers of the authors. The Society assumes no responsibility for statements made or opinions expressed in the articles, criticisms and discussions contained in this publication.

Newsletter Editor, Ruth Ann Woodley, FSA, MAAA
Ruark Consulting, LLC
730 Hopmeadow Street
Simsbury, CT | 06070
Phone: (860) 651-6236
Fax: (860) 651-6235
E-mail: *ruthann@ruarkconline.com*

2005-2006 OFFICERS
Chairperson, Daniel P. Cassidy
Vice-Chairperson, Charles E. Ritzke
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COUNCIL MEMBERS
Ian G. Duncan
David C. Hart
Marcus A. Robertson
David Pratt Ward
Vickie N. Williams
Ruth Ann Woodley

SOA STAFF
Joe Adduci, DTP Coordinator
Phone: (847) 706-3548
Fax: (847) 273-8548
E-mail: *jadduci@soa.org*

Clay Baznik, Publications Director
E-mail: cbaznik@soa.org

Meg Weber, Manager of Section Operations
E-Mail: *mweber@soa.org*

Sue Martz, Project Support Specialist
E-mail: *smartz@soa.org*

Society of Actuaries
475 N. Martingale Road | Suite 600
Schaumburg, IL 60173
Phone: (847) 706-3500
Fax: (847) 706-3599
Web: *www.soa.org*

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Editor's Column

Book Reviews

by Ruth Ann Woodley

Clients for Life: Evolving from an Expert-for-Hire to an Extraordinary Advisor, by Jagdish N. Sheth and Andrew Sobel

Influence: The Psychology of Persuasion, by Robert B. Cialdini

I have always been an avid reader, but have rarely read business books and even more rarely enjoyed them. However, since becoming a consultant in a small firm and having less interaction with colleagues, managers and mentors, I am reading more as another way of getting business advice and ideas. I've recently read a couple of books that I found quite rewarding and thought I would share them.

The first is *Clients for Life*, which describes the vast difference between consultants who spout out facts and recommendations from afar and those who come to truly understand their client companies and help them to reach deeper insights about their business. Harry Hopkins, FDR's right-hand-man, is the opening example. Since he's famous for the fact that he lived in the White House and was with the President constantly, despite poor physical health, Hopkins probably is the ultimate extraordinary advisor. (In fact, he was more extraordinary than I want to be!)

Sheth and Sobel did extensive research with both prominent consultants and with company executives who are clients. They developed a list of common traits seen in the best advisors and describe how the traits are developed and how they set these top advisors apart. Some of the traits are self-evident, but a few can be counter-intuitive or are at least not always our first reaction in interactions with real clients. For example, they point out that great advisors are not specialists in a narrow area, but generalists with a broader perspective. That one was a good reminder to me that while actuarial consultants are hired for very specialized skills, we serve our clients much better if we can understand and communicate how they should apply our findings in their business strategy and operations. Even the book's points that I did already know were a good reminder and inspired me to reach for the highest level of service every day.

Robert Cialdani probably didn't write *Influence* to be a "business book," and many of the lessons are applicable as much or more in other areas of life. But his discussion of the thought patterns that unconsciously drive many of our decisions, and the ways marketers in all industries have for manipulating these, is extremely useful. In many cases it would be unethical to use the techniques described to influence our clients, and Cialdani's goal is to arm the reader against them. But many more of the "weapons" described can have very positive applications, like showing you which aspects of a valuable service should be highlighted to make it most attractive to your customers. I came away from the book embarrassed at the number of times I had fallen for some of the more nefarious tricks, but better armed for the future personally and on the job.

Ruth Ann Woodley, FSA, MAAA, is vice president with Ruark Consulting, LLC in Simsbury, Conn., and is editor of The Independent Consultant. *She can be reached at* ruthann@ruarkonline.com.

Chairperson's Column

The Best Value in the SOA

by Dan Cassidy

In November, our council voted to increase our section dues to $20 from $15. No section (or government for that matter) likes to increase dues (taxes); however, we felt it was critical for us to do so in order to achieve our section goals.

Section's Purpose and Success

As defined in our original charter, the purpose of the section shall be to:

> Encourage and facilitate the professional development of actuaries at smaller consulting firms through assistance with the educational, research, networking and other special needs that arise in their practice.

We have been fairly successful in accomplishing these goals in the few years that the section has existed. Some of our accomplishments include:

- Local networking meetings—Boston, Chicago, Toronto
- Newsletter—fantastic newsletter covering various business topics
- Continuing education—both at meetings and through webcasts
- Survey—snapshot survey of FAS assumptions

Why an Increase?

Our section needs a dues increase in order to make our work more effective and to maintain our success. Our section finances are very simple to analyze.

Income

More than 50 percent of our income comes from dues, with the remaining income coming from webcasts. Our webcasts have been very successful, and we plan to continue and expand them. However, we feel the need to increase our income directly by dues.

Expenses

Almost 70 percent of our expenses are related to the Society of Actuaries administrative charge of $9 per member. This charge covers the services that the SOA provides to our section including conference calls, staff, newsletter production, etc. We have no control over this number—it is set by the Board—and it would continue to eat up the majority of our income if we did not raise our dues.

Our second biggest expense is travel. To accomplish our goals, our section council believes that we need to participate in many SOA meetings and committees. For example, to meet our goal of continuing education, we participate in the planning committees for the SOA Annual and Spring Meetings. The real work of planning, coordinating and recruiting for sessions happens at these meetings, and we believe it is critical for our section to be represented. To make this happen, we have reimbursed members' travel expenses to attend these meetings. The council voted this dues increase to make sure we have enough money to support our members as they volunteer their time with these expenses. As Woody Allen said, "Seventy percent of success in life is showing up."

Thanks for supporting the section. We value any input by our members, so feel free to contact me at *danc@arguscl.com*.

Dan Cassidy, FSA, MAAA, EA, FCA, is chair of the Smaller Consulting Firm. He is also president of Argus Consulting, Ltd. in Concord, Mass. which provides retirement plan consulting services for qualified and non-qualified benefit plans of clients in the United States, United Kingdom and Canada. He can be reached at *danc@arguscl.com.*

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Unfortunately, we were deemed to be too new and untested to be awarded the contract. It was a discouraging result, but we'd learned the lesson that no matter how perfect we may feel we are for a business opportunity, there are many factors beyond our control that can sway a deal. One key to success is being resilient—when one opportunity is lost, move on to the next.

We landed our first paying customer in February 1997, giving us an assignment to review a disability product they reinsured. I don't recall how we stumbled upon that first assignment. The $1,250 check was small and had taken some time to land, but we were excited to be on our way.

At that point, we embarked on a complementary strategy which we called our MGU strategy—building innovative products that we would market through independent distribution channels, administer on our systems and write on partner company paper with the support of a reinsurer to assume some of the risk. If the market would not come to us, we would go to the market. We devoted resources to developing what we thought would be our hallmark product—an integrated combination DI and long-term care product. We hired a pricing actuary at the astronomical rate of $10 per hour—obviously she was attracted by the long-term prospects of working with us, not the chance to get rich quick. We designed and priced our product, and with the help of a reinsurance intermediary, set out to attract partners to write and reinsure the product. This ultimately did two beneficial things for us. We found partners to help us bring our product to the market, and we established relationships with organizations that could help us market our other services. Ultimately, we developed two versions of our flagship product, one for a company to write, administer and sell through its distribution channels. The other would be written by a third-party carrier but administered by us and sold through distribution sources that we arranged.

In the meantime, we had some additional good fortune. At this point, we were more than two years into our venture and our personal resources were running low. With our strategy for building and marketing innovative products, we were able to attract an investment by one of our reinsurance partners. This allowed us to accelerate the development of our product and relieved us of the need to develop immediate revenue sources. We proceeded with the development of our DI/LTC products and purchased an administrative system to service our products. We continued to take on assignments for product development and were also able to grow our claim services. After launching our DI/LTC products, we also developed two new MGU products, a worksite DI product and a credit DI product to sell through banks. We began to market each of our three MGU products. We were optimistic that we were on our way, some three years into the adventure.

At this point our ship ran into rocky seas. Our resources were running low, and our investor wanted us to cut back on the MGU strategy while we built short-term revenues through our consulting services. We believed that our long-term success hinged on the MGU strategy. After much discussion, some of which became somewhat heated, we mutually agreed with our partner to part ways. We negotiated a favorable repurchase of the share of the company we had sold to them and agreed to part as friends. We felt good to be independent again, but our financial condition was cause for concern. We continued to implement our strategies, while gaining more claim adjudication work. We were finally breaking even, but only because Bill and I were working for slightly better than minimum wage.

The next shock occurred when we were unable to get approval for our DI/LTC product

in our client company's domicile state, New York. This caused our client to withdraw support for the product. That blow was followed by our MGU writing carrier crashing from its A-rating into receivership. We were suddenly, at least temporarily, out of the MGU business. We were discouraged and struck by the irony of the situation—our reinsurer partner had argued for us to exit the MGU business while we built our financial resources. We had held to our guns and lost their support, but we were now out of the business due to a series of unfortunate events.

Fortunately, our claim service business continued to grow, and we reached a level of profitability that would allow us to continue to operate—a mere five years into our venture. In the four years since, we have managed to grow our claim operations and have completed a variety of consulting assignments, from product development, to strategic and operational reviews, to expert witness work. Our staff has grown to a total of 35, many of whom are claim adjudicators. From time to time we run across an opportunity that has the potential to catapult us to a new level of success. So far, we have not brought any of these to fruition, but someday one will land (a healthy dose of optimism is essential for an entrepreneur). Until then, we continue to enjoy the rewards and the challenges of being small businessmen.

TIC: *How did you determine that there was a real opportunity that you were willing to bet on?*

Tad: We were comfortable with our analysis—hey, we're actuaries. We had developed our war chests from our corporate days and our consulting business and were ready to give it a try. We figured that if it failed, we could always return to corporate America.

TIC: *Some practical questions: How do you generate leads and grow your business? How do you differentiate yourselves, especially to compete with bigger firms? And how do you manage the tight budget required in a smaller company—for meetings and seminars, staff support functions, etc.?*

Tad: Over the years we have built a network of industry resources who know our work and the value we bring to our customers. We get referral work from our existing customers, and we see opportunities from partners we have worked with—reinsurers, intermediaries, other consulting firms or TPAs. We attend industry meetings, speaking formally and informally with people about our products and services. We have recently appointed a head of business development to track, manage and generate sales opportunities.

To compete with larger firms Bill and I sell ourselves and our specific skills. We pride ourselves on seeing the services we provide from our customers' eyes. We communicate clearly and openly. We succeed in marketing when prospects are impressed by our knowledge, our clarity of thought and expression, our flexibility in meeting their needs, and of course, our price. And we deliver on what we say we will do.

We manage our expenses very tightly. If it doesn't directly support a revenue stream, it gets great scrutiny. Because we are small, we are able to avoid some expenses that larger firms fund; for example, human resource departments (we are the HR dept), administrative assistants and receptionists (we have none), and corporate oversight departments (we do the oversight). We book our own travel

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and stay in modest accommodations. We minimize overhead—for example, our employees track their own hours and vacation time. We are very efficient with technology; we have built many of our own systems. And we spend wisely on equipment, like buying $900 copiers from eBay rather than contracting with a vendor for copy service at $200 per month.

TIC: *What things turned out as you expected and what did not?*

Tad: First, the not: Things have certainly developed more slowly than we had envisioned. The nature of our business is not quite what we had thought it would be. We thought we would be managing blocks of business, ours and that of our clients. Instead, most of our efforts are devoted to short-term assignments or claim management. We still pursue block management opportunities in the hopes of solidifying our longer term revenue stream.

Nevertheless, we have succeeded in our plan to build a company where people work hard, strive to excel, generate high quality customer service and enjoy doing it. We have succeeded in generating superior performance for our clients. We've done well in getting repeat business from our customers. And we've managed to sustain the dream to the point that we don't expect to ever return to the corporate environment.

TIC: *What were the smartest and dumbest things you did, and what advice would you give others who are starting a business?*

Tad: Our smartest move was to align early on with partners that could help market our services. Our dumbest was attempting to be too creative and expecting to move the market with our innovative product. We also focused on the consumer and learned the hard lesson that in our business producers control sales and must be treated as customers. Although we continue to believe that our DI/LTC product has great merit, we should have started with something less radical and more easily accepted by the producers.

The key pieces of advice I would share with others are:

- Be prepared for it to take longer than planned to succeed. Capitalize it with sufficient resources and be prepared to stick with it while you build it to maturity.
- Invest in your marketing methods, whatever they may be. Building a client base is crucial.
- Don't succumb to pressure to grow market share at the expense of sound pricing of products and services.
- Stick with what you believe in. Even as we have struggled through difficult times, we were rewarded by what we were doing because we believed in it.
- Do whatever is necessary to provide exceptional value to your customers. If you are the new kid on the block, or a lesser known name, you need to provide extra value. And your current customers are likely to be your best source of new business.

Arthur J. Verney, FSA, MAAA, and William J. Bossi, FSA, MAAA, are Managing Partners at Disability Insurance Specialists, LLC in Bloomfield, Conn. Each has almost 30 years of insurance experience in a variety of actuarial and financial roles. Prior to establishing DISpecialists, they worked as independent actuarial consultants, primarily for Connecticut Mutual Insurance Company's disability income line of business, and at CIGNA in a broad range of assignments. They can be reached at tverney@dispec.com *and* bbossi@dispec.com, *or at the DISpecialists Web site at* www.dispec.com.

Starting Your Own Business Seminar

New Orleans Spring Meetings, NY Annual Meeting—2005

The Smaller Consulting Firm Section sponsored this informative mini-seminar at the spring and fall meetings this year. Approximately 25 actuaries attended each session with lots of dialogue both during and after the presentations.

David Rintoul, Esq., spoke at both locations on the legal issues involved in setting up for business, including non-competes and legal structure (corporation, partnership, LLC, etc.). David also briefly discussed intellectual property issues around actuarial consulting. Along with his presentation, he passed out a useful "Legal Primer for Independent Consultants" that is still available on the SOA Web site. Dan Cassidy was also a repeat performer and focused on using publishing as a marketing and sales tool and establishing a board of advisors. Dan discussed how he integrated publishing articles into all of his marketing efforts and has just completed a book to expand his reach. Also, he spent time talking about the how and whys of starting an independent advisory board.

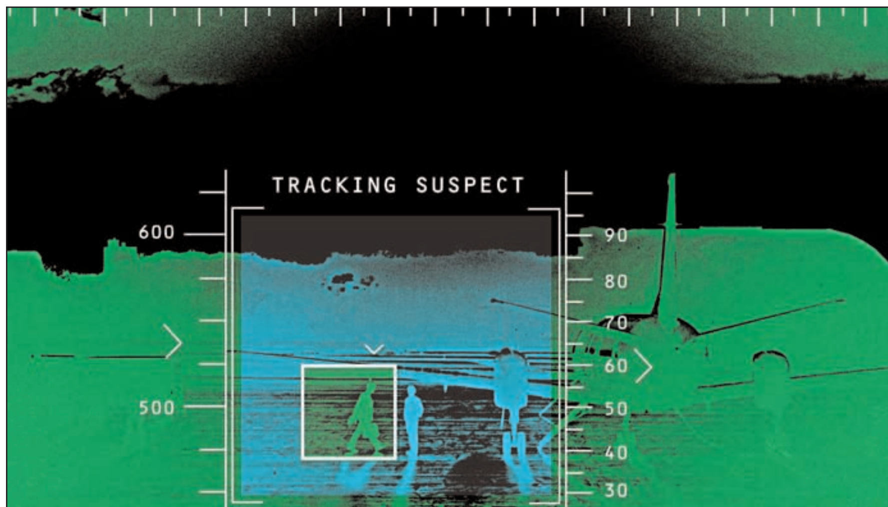
In New Orleans, Karl Volkmar and Margaret Tiller Sherwood gave a talk (one at each meeting) covering general risk and insurance issues in a business, from liability coverage to employee medical and other benefits. They provided a list of risks every business owner should consider and some tips on handling them, both by obtaining insurance coverage and by managing your business to minimize your exposure. Mark Troutman then discussed what he called a "Recipe for Success." His talk focused on the activities that he does to drive a successful consulting firm from strategic planning, marketing, sales, employee management and creating a learning environment. One way he does this is to provide incentives for employees who prepare a "book report" that is delivered at weekly employee meetings. He also discussed setting clear goals and service standards for the company, making sure those are well understood by all employees and by customers, and then measuring progress against them regularly. David Miller, an actuary who has transformed into a business coach, led the group through a process to help align our passions, strengths and marketplace needs. It's amazing what five minutes of work can do to help us focus on a strategy at the intersection of these three areas. Dave has also led several other sessions at SOA meetings along similar themes.

In New York, Michael Libman and Ruth Ann Woodley each spoke about how they became consulting actuaries and started their own businesses. Both gave advice from their experience about how much capital is needed to get started, how to find your niche area of focus, and how to find and retain clients. David Evans, a technology consultant with Geode Software, Inc., gave a presentation outlining what software components are most important to a new business and why. And Emily Neustadt, a leadership coach, discussed some networking ideas and ways to find and retain clients. She also led an exercise to get the audience members thinking about where they want to go over the next few years and specific steps to get there.

Copies of these presentations and speakers' contact information are available on the SOA Web site.

Can Osama See Your Data?

by Daniel K. Kehoe



To be honest, it's more of a rhetorical question than a practical one, but it brings to mind the concern about the sensitive actuarial data sitting on your computer. Because the Internet is largely flat by design, data that is viewable by someone else in your office could also be viewable by Osama Bin Laden and anyone else who is connected to the Internet.

That ought to make you take the time to check your own personal computer for security leaks.

The Right Operating System

First, if you are a Windows user, you should be using Windows XP or Windows 2000 (or 2003 if it is a server). Older versions like 95, 98 and ME are just too problematic to secure. Most of Microsoft's attention to security issues is aimed at their current home and business offerings.

Even if you have a current operating system, the file system could be a problem. The newer NTFS (NT File System) is more secure than the old FAT32 (File Allocation Table) system. To see which you have, open up My Computer and right-click your C drive and choose Properties. It is possible to convert FAT32 disks to NTFS in place.

Windows XP Professional is a better choice for actuarial users than XP Home Edition because it offers EFS (Encrypting File System) and stronger user authentication methods. Most business-class computers tend to ship with this version, but you can also upgrade to Pro for about $170.

Look for Holes

A handy tool for checking your system's security level is available as a free download from Microsoft. The Microsoft Baseline Security Analyzer will look at your system, warn you about a whole host of security problems, and make suggestions to fix them. It's not perfect, but it catches most of the obvious security problems. You can find it here: *http://www.microsoft.com/technet/security/tools/mbsahome.mspx.*

There are some really good Web sites that go into detail about security tips and tricks. Using a search engine is the best way to find sites that can help you shut off unnecessary software modules that could lead to people breaking into your computer. A place to start is: *http://antivirus.about.com/od/securitytips/.*

You can set Outlook Express to read all your e-mail messages in plain text (turn off the ability to read HTML by selecting Tools → Options → Security → Change Automatic Download Settings and check Block images and other external content in HTML e-mail). Plain text can't hurt your PC, whereas HTML components could be virus-laden or could redirect you to Web sites. Also, these HTML components embedded in e-mails can sometimes collect information about you and your computer that could be used to break in.

To keep nosy people out of your network, you need a hardware firewall, period. The software firewall that comes with XP Service Pack 2 is nice, but keeping people from even getting to your computer is better. Most wireless and cable routers come with firewalls

built in. If you have a single computer connected into a cable or DSL modem directly attached to the Internet, you are vulnerable.

Google Yourself

You'd be surprised to find what information exists about you on the Internet. Use Google or your favorite Web search engine and type in your name in a couple of formats. You'll find conference attendance listings (with e-mail addresses), mentions about you in online newsletters, and other mentions about you. Even if you ask the web page owner to take your data offline, these pages hang around in search engine caches for months.

These caches are also a sneaky way to see postings in member-only conferences. In Google, for instance, your search might bring up a link to a posting with your name mentioned in it, but when you click on the link, you get a page telling you that only members can view the postings. Instead, click on the "Cached" link to the stored version of the page, and suddenly you're there, reading a copy of the post inside the conference.

Lost in the Crowd

Oddly, you are practically invisible because there are so many other targets out there. It's why your car is rarely broken into when there are so many other choices parked at the mall around you. But anyone looking specifically for you and the data your customers have entrusted to you now has the power of the Internet to start his search.

There isn't space to tell you how to fix your security issues, but at least you can be aware of them. Browse some the security Web sites and tighten up your security or call in an expert. Keep Osama, and everyone else, out of your data.

Once spyware and viruses get onto your system, you have to go on the offensive and root them out.

Daniel K. Kehoe is president of Bigfoot Labs in Connecticut. He has more than 27 years experience in the computer industry in technical and marketing roles, most recently with Compaq Computer Corporation.

Coaching for the Independent Actuary

by Gerry Fryer

This article is about coaching, particularly as it applies to actuaries who work in small consulting firms or those who are thinking about doing so. I will explore how being coached can improve the performance of actuaries, deepen our learning capabilities and improve our quality of life.

The actuarial profession as a whole has recognized gaps in the skill sets of its members. The Management and Personal Development Section of the Society of Actuaries has been assigned the task of helping actuaries develop better business-savvy skills such as focusing on the big picture, being proactive, communicating clearly, and so on. Other actuarial organizations worldwide subscribe to the need to expand their members' skills beyond just technical ones.

When might an actuary need coaching?

The endorsements above take us into the world of seminars, workshops and publications. But there are times when an independent actuary, or someone contemplating becoming one, can benefit from one-on-one coaching. Let us examine a few classic examples:

1. You have a strong sense that you are not utilizing your full potential or inner resources in your current role or position.
2. You are in a relatively small organization and the in-house human resource support is not adequate.
3. You are concerned that you may not be providing the proper amount of attention or expertise to some or all of the multiple roles needed for your work.
4. As both an independent actuary and a leader, you require a person to act as a confidential sounding board for strategic thinking and decision-making.
5. You have become dissatisfied with the fit between your work and the rest of your life and want to work on ways to bring the situation in line with your emerging vision of a balanced lifestyle.
6. You are, or are about to be, in career or business transition and want to review your options with an independent source.
7. You are taking on a new role and want to achieve a successful transition.
8. The degree of change and uncertainty in the workplace has created an unacceptable degree of personal and career unrest for you, and you want a safe place to talk out the situation and re-establish your goals.
9. You are about to start an exciting new venture that involves many aspects with which you are not yet familiar.
10. You are approaching retirement and beginning to explore the prospect of large changes in how you spend your time.

What is coaching and what are its benefits?

The author of *The Mindful Coach*, Douglas Silsbee, defines coaching broadly yet concisely as: **"that part of a relationship in which one person is primarily dedicated to serving the long-term development of effectiveness and self-generation of another."** Often the relationship begins with the coach helping the client gain more clarity about their essential motivation in life—their values, strengths and purpose.

Silsbee's words focus us on the idea of building the long-term capacities of the person being coached. The "development of effectiveness" incorporates the notions of competency and success for the client, by building on what was already there. "Self-

generation" means that the client will develop and will ultimately take personal responsibility for their own learning, that is, they will outgrow the need for their coach.

According to the authors of *The Coaching at Work Toolkit*, Zeus and Skiffington, **"Change is at the heart of coaching. Coaching plays a critical role in helping individuals and organizations *create, adapt to and accept change as a challenge rather than an obstacle."*** *(italics added)*

Professional coaching is a collaborative partnership between a qualified coach and an individual (or team). Through the process of coaching, individuals focus on the skills and actions needed to successfully produce their personally relevant results. Coaching begins with where individuals are now and concentrates on what they want and need to do to achieve their objectives. The client always is accountable for results.

During a typical coaching session, the individual chooses the focus of the conversation, and the coach listens while contributing observations and questions, as well as concepts and tools that can assist in identifying possible actions. Coaching accelerates an individual's progress by providing greater focus and awareness of possibilities, which leads to more effective choices.

Actuaries who engage in a coaching relationship usually benefit from one or more of the following:

- Fresh perspectives on personal challenges and opportunities,
- Enhanced thinking and decision-making skills,
- Better interpersonal effectiveness,
- Increased confidence in carrying out their chosen work and life roles, and
- Consistent with a commitment to enhancing their personal effectiveness, appreciable results in these areas:
  1. Productivity,
  2. Personal satisfaction with life and work, and
  3. The achievement of personally relevant goals.

Coaching Compared to Similar Fields

We can gain further understanding about the nature of coaching by comparing it to related disciplines such as:

Consulting

Consultants are retained by organizations for the purpose of accessing specialized expertise. While consulting approaches vary widely, it is often the case that the consultant diagnoses problems and prescribes and sometimes implements solutions. On the other hand, the coaching paradigm is that individuals or teams are capable of generating and implementing *their own* solutions, with the coach facilitating their progress and providing tools, support and encouragement.

Mentoring

In general, mentoring relationships tend to be looser than coaching ones. In coaching, there is usually an informal contract between the parties. A coach tends to have more expertise in the process of coaching than a mentor. Finally, a professional coach usually does not offer expertise in a subject area, as often happens in mentoring.

In general, mentoring relationships tend to be looser than coaching ones.

Training

Training programs are based on the acquisition of certain learning objectives as set out by the trainer or instructor. Conversely, the individual or team being coached sets their own objectives, assisted by their coach. Training also assumes a linear learning path that coincides with an established curriculum, unlike coaching.

Therapy

Coaching clients are not seeking emotional healing or relief from psychological pain. They do not depend on resolution of past difficulties in order to move forward. The working assumption of the coach is that the client is "creative, resourceful and whole" and this enables the coaching process to unfold.

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Gerry Fryer, FSA, FCIA, ATC, is principal of Renaissance Coaching, in Thornhill, Ontario. He can be reached at rencoach@ rogers.com or 905.731.6362.

Accounting for the Implicit Rate Subsidy in OPEB Plans

by David Pratt Ward

Implicit rate subsidies in OPEB (Other Postemployment Benefit) plans received significant attention in the Governmental Accounting Standards Board Statements No. 43 and No. 45 (GASB 43/45). Implicit rate subsidies are not a new topic, as some OPEB plans have recognized their significance since the beginning of OPEB financial disclosure in Statement of Financial Accounting Standards No. 106 (SFAS 106). This article will illustrate that when the implicit rate subsidy is recognized in a plan's obligations, an offsetting implicit subsidy contribution should also be recognized, in order to maintain balance in the financial disclosure information. This is most clearly illustrated by describing the issue in the SFAS 106 environment. Clearly, recognition of a similar implicit subsidy contribution may also be developed for the GASB 43/45 environment.

For some plans it may be quite clear that there is significant impact of an implicit rate subsidy in its measured SFAS 106 obligations. What is not as clear is how that plan should recognize the employer's "implicit subsidy contributions." This article will illustrate a method to recognize the implicit subsidy contribution. Two examples will also be given to distinguish a difference in possible financial disclosure for an employer who pays 100 percent of the active employee group health premiums (and thereby is paying 100 percent of the implicit rate subsidy) compared to an employer who pays only a fraction, say 60 percent, of the active employee premium (thereby paying only a fraction of the subsidy). When active employees are paying a portion of the group health premium, they are in fact paying a portion of the subsidy.

The **implicit rate subsidy** is often described as follows: It is a common practice for employers to permit retired employees (and their spouses or dependents) to continue in the employer's group health insurance plan (which also covers active employees) by paying the group premium charged to active employees once eligibility for employer paid benefits is exhausted. This practice creates an OPEB liability based on the theory that retirees have higher utilization of health care benefits than active employees. Unless the premium rate for retirees is set to fully recover their health costs, the premium for active employees is implicitly overstated to subsidize utilization by retirees. Similarly, unless the premium rate for retirees is set to fully recover their health costs, the premium for retirees is understated. This difference creates an implicit rate subsidy.

This rate subsidy is considered a benefit that should be included in OPEB valuations (both for SFAS 106 and GASB 43/45).

The OPEB obligation normally includes the cost of the implicit rate subsidy for the years in which the retiree is paying the active employee insurance costs for continued coverage. When the retiree is eligible for Medicare, the actual cost of coverage is much closer to the premium cost. Therefore, there is no OPEB liability assumed for Medicare-eligible retirees paying 100 percent of the premium.

Please note that an OPEB obligation for the employer results from the implicit rate subsidy whether the retiree pays the full premium or the employer pays part or the entire premium for the retiree.

By reviewing basic principles we can establish the need for the implicit subsidy contribution in our accounting for the plan. First, before a benefit plan is ever established, the value of the plan obligations, plan assets and Accrued Benefit Cost are $0. Similarly, after a benefit plan is completely terminated (all obligations have been fulfilled and all assets have been distributed) the valued plan's obligations, assets and Accrued Benefit Cost are also $0. This is inherent to the accounting principles for balancing the financial disclosure of the plan's obligations, assets and costs. However, if during the course of the plan's operation, accounting recognition occurred only for the obligations and accruing costs of the implicit rate subsidy and not the offsetting value of the realized implicit subsidy contributions, then an Accrued Benefit Cost becomes established which is never extinguished in the accounting statement, even after the plan is terminated. Therefore, such an accounting approach would be out of balance because an Accrued Benefit Cost will still exist even after the plan is terminated thus violating a basic principle. In order to maintain proper balance in financial disclosure, the plan's implicit subsidy contribution should be recognized.

The method for reconciling the Accrued Benefit Cost should include an adjustment for the employer's portion of the implicit subsidy contribution. This implicit subsidy contribution for the general subsidy described above is the expected claim costs (including age-adjustment) for actual pre-65 retirees and dependents in excess of group premiums paid. Premiums and benefits paid directly by the employer are already credited as employer contributions in the reconciliation of the Accrued Benefit Cost. Likewise, a contribution credit for the Accrued Benefit Cost reconciliation should be established for the actual implicit subsidy contribution occurring during the fiscal year.

The implicit subsidy contribution should reflect only the subsidy for the actual pre-65 retirees and dependents. It would not be correct to reflect the expected claim payments during the year as these include amounts for actives expected to retire during the year who may not actually retire. The obligation for actives expected to retire, who didn't actually retire, will be accounted for in unrecognized net actuarial gains/losses (usually a gain).

The reconciliation of the Projected Benefit Obligation (PBO) for the year should also treat the implicit subsidy contribution in the same manner as it treats actual benefit payments because this reflects the actual fulfillment of a plan obligation. By making this adjustment to the reconciliation of the PBO, the resulting Unrecognized Actuarial Gain/Loss will reflect the correct amount to balance the PBO to the Accrued Benefit Cost.

For good measure, the reconciliation of plan assets for the year may reflect both the implicit subsidy contribution as a credit to assets and an equal and offsetting "benefit payment" as a charge resulting in no net change to the actual plan assets. By reflecting these adjustments in the reconciliation of plan assets, the overall impact in the financial disclosure is balanced. See Exhibit 1 for a general illustration that reflects the adjustments described for the implicit subsidy contribution and PBO implicit subsidy fulfillment. The information provided represents a hypothetical employer statement.

By establishing the additional credit for the implicit subsidy contribution in the Accrued Benefit Cost, the reporting is consistent and the accounting balance is preserved.

The implicit subsidy contribution should reflect only the subsidy for the actual pre-65 retirees and dependents.

Two Contrasting Examples:

It is easiest to identify the implicit rate subsidy when the employer pays 100 percent of premium for active employees because it is clear that the employer alone bears 100 percent of the subsidy. However, many plans require employees to pay a portion of the active premium. When the active employees pay a portion of the health premium, they are essentially paying a portion of the subsidy. In the case where the employer pays 60 percent of the active employee premium, the proper implicit rate subsidy should reflect only 60 percent of the total subsidy.

The two examples below illustrate the difference in financial disclosure for an employer who pays 100 percent of the subsidy compared to an employer who pays a fraction of the active premium (60 percent is used in the example) and permits the remaining premium (40 percent) to be paid by active employees and retirees. In both examples the total premiums are $12,000 and the total expected claims (after age adjustment at 4.0

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Exhibit 1
Annual Summary of SFAS 106 Financial Accounting Information

Fiscal Year Ending: 12/31/200X	Plan's Funded Status			Items Not Fully Recognized In Sponsor's Financial Statement			Amounts per Sponsor's Books	
	Projected Benefit Obligation	Plan Assets at Fair Value	Funded Status: Over/(Under) Funded	Unrecognized Net(Gain) or Loss	Unrecognized Prior Service Cost	Unrecognized Net Transition Obligation	Accrued Postretirement Benefit Cost	Net Periodic Postretirement Benefit Cost
Balance at end of prior year	$ (1,100,000)	$ 100,000	$(1,000,000)	$ (0)	$ 0	$ 0	$ 1,000,000	
Changes in funded status:								
Service cost	(50,000)		(50,000)					$ 50,000
Interest Cost	(66,000)		(66,000)					66,000
Actual return on plan assets		7,000	7,000					(7,000)
Contributions to plan		100,000	100,000				100,000	
Employer implicit subsidy contribution		13,920	13,920				13,920	
Benefits paid	30,000	(30,000)	0					
Implicit rate subsidy fulfilled	13,920	(13,920)	0					
Plan amendments					(0)			
Liability gains and (losses)								
Experience gains and (losses)	(0)		(0)	(0)				
Assumption changes	(0)		(0)	(0)				
Sponsor's net amortization and deferral:								
Gain or loss:								
Asset gain or loss deferred				(0)				0
Amortization of unrecognized net gain/loss				(0)				0
Amortization of unrecognized prior service cost					(0)			0
Amortization of unrecognized transition obligation						(0)		0
Net periodic postretirement benefit cost							(109,000)	$ 109,000
Balance at end of current year	$ (1,172,080)	$ 177,000	$ (995,080)	$ 0	$ 0	$ 0	$ 995,080	

David Ward, ASA, EA, MAAA, MSPA, is a consulting actuary at Summit Benefit and Actuarial Services, Inc. in Eugene, Ore. He can be reached at david@summitbenefit.com.

percent per year) are $25,920. In the case of the employer paying 60 percent of the contribution, the resulting implicit subsidy contribution is just 60 percent of the total as the retirees (and active employees) are funding 40 percent of the implicit rate subsidy.

The examples illustrate the implicit subsidy contributions for an employer with two retirees ages 57 and 62. The average age of the covered employees is 40. The active employee monthly premium is $500.

1. Employer pays 100 percent of premium for active employees
   a. For a retiree age 57, the claim cost is 1.04^17 = 195 percent of the age 40 premium.
   b. For a retiree age 62, the claim cost is 1.04^22 = 237 percent of the age 40 premium.
   c. Claim costs expected for 2 retirees = 12 x 500 x (1.95 + 2.37) = $25,920
   d. Premiums paid by employer for 2 retirees = 12 x 500 x 2 = $12,000
   e. Implicit subsidy contribution for 2 retirees = $25,920 - $12,000 = $13,920

2. Employer pays 60 percent of premium for active employees (and retirees also covered under the active group health plan)
   a. Premiums paid by employer for 2 retirees = $12,000 x 60 percent = $7,200
   b. Premiums paid by 2 retirees = $12,000 x 40 percent = $4,800
   c. Implicit subsidy contribution for 2 retirees = ($25,920 x 60 percent) - $7,200 = $8,352

Six Keys to Improving Your Proposal Close Ratio

by David C. Miller

Tired of spending countless hours responding to requests for proposals (RFPs) without seeing a commensurate return on your investment? It's not unusual for consultants to have close ratios well below 10 percent on their proposals! But this doesn't have to be your experience.

Here are six keys to dramatically raising your close ratio:

1. Be selective about which proposals you respond to
RFPs are sent out to vendors for many reasons other than to find the best suitor. Many times companies know who they want to work with, but they need to get at least three quotes. Or they may need another quote to use as leverage to negotiate their first choice down.

You want to qualify your prospect before you spend time responding to an RFP. One thing you can do is follow this simple rule:

Never respond to a proposal unless you can speak with your prospect first. If the prospect doesn't permit this, then experience shows that your time is better spent focusing on the next prospect.

2. Fully explore your prospect's problems and results
If you're able to set up a meeting with the prospect, you want to spend the time fully exploring the *problems they want solved* and the *results they want to achieve*. These are the two primary reasons consultants are hired.

This means also uncovering the **symptoms and consequences** the prospect is experiencing as a result of those problems, as well as the **benefits and rewards** that are theirs when they achieve the desired result.

Knowing these things allows you to write a targeted proposal instead of trying to guess what the prospect might want or need from you.

3. Assess the resource constraints
Before you spend time writing a proposal, you need to understand three things:

- **What's the budget for this project?** Make sure that you are both in the same range or don't waste the time writing the proposal.
- **What's the time frame?** Helps you understand the urgency.
- **How does the prospect want to divide the labor?** Are you doing it and delivering it? Or are you and the prospect working together?

4. Understand the decision-making process
It's essential to know the answers to the following questions regarding the decision-making process:

- What are the steps in the process?
- Who is involved in each step?
- What are the criteria?
- How will the prospect decide among competitors?

If you leave any of these questions unanswered, you may very well be missing out on opportunities to increase your odds.

5. Do a "what-if" proposal
Set up a meeting where you confirm with the prospect their problems and results and give an oral proposal where you can "test out" your solution. There are many benefits to doing this. The primary one is to get "real time" feedback that you can use to tailor your final, formal proposal.

6. Formalize the agreement
If you follow all of the steps above, there's a good chance you may be in the driver's seat and be able to formalize your conversations in the form of a two- or three-page engagement letter rather than a 100-page proposal.

Even if this doesn't happen, you will still be in the position to write a killer proposal that hits the nail on the head, and you will significantly increase your "wins."

David C. Miller, FSA, MSCC, is a professional business coach who works with actuaries, consultants and sales professionals who are struggling to attract enough clients. He conducts seminars and one-on-one coaching in business development, influence, leadership and career enhancement.

He can be reached at dave@translifecoach.com *or 215.968.2483. For tips, tools and strategies about how to grow your business, go to* www.BusinessGrowthNow.com.

Enterprise Risk Management (ERM)

A New Reality for Business

by Dan Cassidy

Editor's Note: This column is one of a series and is reprinted from the May 2005 issue of Aspen Publishers' Employee Benefit Plan Review. *We hope to present further articles from this series in future issues of* The Independent Consultant.

"The cost of health care in the U.S. is making American businesses extremely uncompetitive versus our global counterparts." So stated Rick Wagoner, CEO of General Motors in a speech to the Economic Club of Chicago on February 10, 2005. When the CEO of the largest manufacturer in the United States (and arguably the world) says that health care costs are making his firm uncompetitive, we have entered a new reality in the management of benefit plans. Now benefits, whether medical or retirement, can no longer be considered merely a detail within the income statement's "selling, general and administrative expenses" line item.

If medical costs add $1,500 to the cost of each car GM sells, as Mr. Wagoner also said, benefits managers must look beyond the simple cost of benefits to the overall impact they are having (wreaking?) on the entire enterprise. In fact, a whole new field of finance has developed to help managers meet this challenge. It's called enterprise risk management (ERM).

Background

Definition

ERM is the process of planning, organizing, leading and controlling the activities of an organization in order to minimize the effects of risk on an organization's capital and earnings. Enterprise risk management also expands the process to embrace not just risks associated with accidental losses but also financial, strategic, operational and other risks.

Traditionally, ERM techniques were used by financial services firms such as banks, insurance companies, etc., who have needed to "match" their liabilities (insurance policies) with their underlying assets (reserves). ERM has developed further to include managing all areas of risk, both on- and off-balance sheet, and is now used by firms in all industries. ERM goes beyond normal accounting rules for writing down the assets and liabilities of a firm, working further to place a value both on the true market value of an item as well as on the risk associated with that item. The old business adage, "You can't manage what you don't measure" could be considered a central tenet of ERM. By providing more worthwhile information about risk, managers (and for that matter—shareholders) can make more informed decisions.

Example

An example may help to understand how ERM techniques could be applied to a defined benefit (DB) retirement plan. Briefly, defined benefit plans are retirement plans in which the employer promises a fixed level of benefits to participants when they retire. These benefits are paid out of a trust fund that the employer sets up and funds. Typically, the employer is 100 percent

	Current Accounting (FASB) Viewpoint	Enterprise Risk Management Viewpoint
Income Statement	Includes annual expense measured with various smoothing techniques to allow for predictability	Includes annual expense using no smoothing techniques, i.e., actual return on assets NOT expected return
Balance Sheet	Includes only a single measure that balances out past expense values with past contribution amounts	• Includes the net market value of (assets—liabilities) in the company's balance sheet. If less assets than liabilities, the value of the firm would be reduced • Includes an adjustment to reflect the possible mismatch of assets and liabilities. If heavily invested in equities, the company would be required to record a reserve to cover possible losses

responsible for any contributions into a DB plan trust and current accounting rules require only expensing these plans in the income statement. However, the actual surplus or deficit of the trust fund is "off-balance sheet"—simply contained in a footnote disclosure that has little, if any, impact on the actual net worth of the company.

ERM, on the other hand, would view a pension plan as a *de facto* insurance company. In GM's case, for example, its current market capitalization is $19 billion while its retirement plans in the United States alone total assets of $80+ billion as of the end of 2003. So in the case of GM, the question becomes, when you buy GM stock, are you buying a car company that happens to have a retirement plan, or are you buying an insurance company that just happens to make cars?

The above illustration compares how ERM would differ from the current accounting standards in how pension plans should be reflected on the books of the company.

Risk—What Is It?

Central to our examination in these columns of ERM's views on benefit plans will be a running discussion of risk. Traditionally, ERM focused solely on financial risk, i.e., mismatching of assets and liability. But moving beyond this limited definition to a more comprehensive definition suggests risk to include the possibility of facing ANY loss, whether directly measured, such as the traditional mismatching of assets and liability, or an indirect loss like rising health care costs, which in turn impact overall pay and compensation levels. Since human assets are off balance sheet, the true risk faced by organizations is not simply what the accounts add up to. One must also look further down the road toward the longer term implications of changes.

What questions should you ask as you examine your own plans? Try these:

- What are the risks your employees and employers face?

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- Who is bearing those risks?
- Who is getting rewarded and who is getting punished?
- What impact is government regulation having on these risk questions?
- What is the long-term impact of any shifting of risk likely to produce? Are there any unintended consequences that should be considered?

Principles of Risk Management

When working through these questions, it's important to remember two principles of risk:

1. Whoever bears the risk should be compensated for this risk.

Since the passage of FAS 106, requiring the expensing of retiree medical programs during an employee's work life, many employers have shut down their retiree medical programs. When these plans were shut down, the risk faced by employees for their medical care during their retirement was shifted from employers to employees. In most cases, employers simply shut these plans down with no changes to any other compensation; that is, employers did not give out any pay raises to compensate for this benefit reduction. However, employees will eventually demand higher pay to compensate for facing this risk but such higher future pay is currently not accounted for when employers make this change. It's another off-balance-sheet item.

2. Pooling and spreading risk reduces its costs.

Continuing with the retiree medical example, employers provided a service to employees by allowing them to pool the risk of medical care during retirement. This principle states that the overall cost of risks can be reduced if we pool the risks and spread them among a large group. This is one of the primary reasons that insurance companies can offer competitive insurance policies, e.g., homeowner's insurance. By pooling and spreading risks over an entire population, the lack of a great many very risky events—a house burning down for example—allows insurance companies to charge homeowners a very affordable price.

So by "unpooling" retiree medical insurance, employers miss an opportunity to support a cost-reducing pooling mechanism. This pushes the risks onto the employee, who should (and increasingly will) demand higher pay, forcing employees to find an alternative solution (an AARP plan, perhaps) at retirement.

Dan Cassidy, FSA, MAAA, EA, FCA, is chair of the Smaller Consulting Firm. He is also president of Argus Consulting, Ltd. in Concord, Mass. which provides retirement plan consulting services for qualified and non-qualified benefit plans of clients in the United States, United Kingdom and Canada. He can be reached at *danc@arguscl.com.*

Seven Secrets of Successful Business Leaders Who Speak Well

by Suzanne Bates

Editor's Note: This article is adapted from the book, Speak Like a CEO: Secrets for Commanding Attention and Getting Results.

When it comes to public speaking, consultants and actuaries must technically speak well, but they must also have substance. They must look and sound like true leaders—especially if they're on the front lines, whether reporting on a project's results or explaining new trends in the insurance arena. To do this well, they can learn from business leaders such as CEOs, executives and other types of leaders who had to learn it themselves.

What exactly must you do? Your first focus must be not only what you say, but also *how* you say it. Your content must be clear and compelling, not just technically competent. Without that you're just another speaker but not a leader.

Secret #1: Talk about big ideas

Every speech, presentation or communication needs one big idea. A big idea is all most people can remember. A big idea has a life of its own. And it doesn't require a big *speech*. It's big because of its *power*, not its *length*. Abraham Lincoln's Gettysburg Address is 271 words, and it's one of the best speeches ever given.

Secret #2: Speak in the moment

No one likes a canned speech. Canned speeches turn people off. You must talk to people about what is happening in the moment. Your message must be about them and about what's happening to them RIGHT NOW in order to win over an audience that may not even be sure it even wants to listen to you. To achieve this, act natural and put away the script.

Secret #3: Keep it simple

One big problem with many speeches is they try to do too much. Instead, to be remembered, make your message simple and straightforward.

Roger Marino, founder of the high-tech giant EMC, says he learned early on how important communication is in business—especially when it comes to keeping things simple. Marino considered the brilliant professors when he was in school to be the ones who could actually *communicate* the ideas in ways people could understand. "Communication is everything," he says. "You really have to hammer a message home."

Keeping it simple is how he has learned to keep people interested and absorbed in the subject at hand. "I just explain the steps," he explains. "An [actuary] has to do the same thing: take people from A to B to C."

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Secret #4: Be a straight-shooter

A survey my firm once conducted on communication found that the number one quality people want in a leader is honesty and integrity. Thus, your message must ring *true*. Audiences want a leader to be more than a good speaker; they want a leader to tell them the truth, no matter what. In today's business environment, with so much distrust and scandal about, consultants of any stripe must be viewed as trustworthy to a fault!

At times your position as a financial consultant may put you at a distinct disadvantage with many audiences.

Secret #5: Be an optimist

As a financial consultant, leading your clients through good times and bad, you must balance reality with *optimism*. The true leader must perceive and talk about what's *possible*.

When Bill Ford, Jr. ousted CEO Jacques Nasser at Ford Motor Company in 2001, the company was losing billions of dollars. But at the quarterly news conference for June 2003, Ford responded to each question with unbridled optimism. "We are back on firm footing," he said. "I feel good about where we are today and where we are headed." Within 20 months, Ford had turned optimism into reality by turning the company completely around.

Secret #6: Focus on the future

In difficult times, we look to leaders for hope. New York Mayor Rudy Giuliani was in midtown Manhattan when the first plane hit the World Trade Center on Sept. 11, 2001. On that morning, his political career was on thin ice; his wife, who was furious after publicity about a mistress, had kicked him out of the house.

But that day, Giuliani knew what he had to do. At the scene of the disaster, he literally risked his life, trapped in the rubble at Ground Zero for 15 minutes. But through it all, he focused on hope. "New Yorkers are just the most wonderful people in the world," said Giuliani, "with the best police department, fire department and the best emergency workers [anywhere]."

His message was potent. New Yorkers, and the world, made it through that frightful day, thanks in no small part to Rudy Giuliani's message.

Secret #7: Be real

At times your position as a financial consultant may put you at a distinct disadvantage with many audiences. Again, because of past scandals and because their own money is involved, they may start out feeling skeptical about what you have to say. This is obviously a lousy way to start a speech, meeting, or even a conversation. Yet your job is to find a way to make a connection. So to connect… be real!

Dan Wolf, CEO of Cape Air, has a reputation for doing this, drawing on his background and eclectic interests to connect. In town meetings with employees he can relate to all individuals—pilots, mechanics, business folks. "I use self-effacing humor," he explains. "And my organizational skills are not great, so that's great material for humor, too." Good leaders find ways to humanize themselves and still maintain their authority.

Business leaders who succeed as speakers don't get to the top because of luck. Most leaders who speak well became great speakers because they *chose* to be. By heeding these seven secrets, any actuary or financial consultant can follow in their paths.

Suzanne Bates is president of Bates Communication, in Wellesley, Mass., a presentation skills consulting firm that helps consultants and other business leaders project an authentic voice and thus gain a competitive edge. An award-winning television news anchor and reporter, Suzanne can be reached by phone at 800.908.8239, or by visiting www.bates-communications.com.

Developing Your Next Chapter

The Role of Coaching

by Marcus Robertson

In the past 18 months, the Smaller Consulting Firm Section sponsored or co-sponsored regional meetings in Boston and Chicago to help fulfill its purpose, which is to encourage and facilitate the professional development of actuaries at smaller consulting firms.

On Nov. 28, the section teamed up with the Independent Actuaries Network (IAN), an Ontario-based group of independent actuaries and small-firm practitioners, to introduce "coaching," the IAN and the Section to actuaries in southern Ontario. Heavy rain and poor driving conditions led to a number of last-minute cancellations, but we still had 20 attendees, four of whom work for insurance companies or large consulting firms and were attracted to the meeting by the topic of discussion.

In many ways, the IAN's goals are similar to those of the Smaller Consulting Firm Section. The IAN facilitates professional development and networking for sole practitioners and actuaries at smaller consulting firms. The IAN was established in early 1992, meets nine times a year to discuss professional matters, and normally attracts about 25 members to its meetings. The meetings are held in the evening, which is very important for independent actuaries who have thriving businesses to run, and the format is always the same—refreshments and social time from 6:00 p.m. until 7:00 p.m., followed by a presentation and discussion from 7:00 p.m. until 9:00 p.m. (often later). Presentations and discussions are led by an IAN member or by an outside expert, if appropriate.

Gerry Fryer, FCIA, FSA, ATC, facilitated our Nov. 28 meeting. Gerry is not only a member of the IAN, he is both a qualified actuary and a professional coach. He worked for more than 30 years in the financial services industry, before "retiring" to his most recent career as a coach. With his experience as a mentor, coach and facilitator, Gerry applies both human and business perspectives to his work on behalf of others.

Following personal introductions, Gerry introduced the concept of coaching and led us through a discussion on how coaching can be used to benefit:

- people who believe they are "stuck," or at a crossroads and recognize that they need changes or new challenges; or
- people who seek "improvements" in their lives, whether it be business performance, the acquisition or refinement of skills and knowledge, or personal fulfillment.

In essence, a coach is a dedicated partner with whom an individual establishes a long-term relationship. The coach assists his client in clarifying goals, becoming aware of his strengths and values, and achieving personally relevant goals. Gerry paraphrased a quote from Michelangelo, "Inside every block of stone there is a beautiful statue … one need only remove the excess material to reveal the work of art beneath," to bring coaching into perspective.

Gerry closed the meeting with a sample coaching session, using an attendee (me) as his client, to demonstrate the tools he uses when he is coaching his clients. As Gerry demonstrated, he uses his listening and questioning skills to enable his clients to articulate their own goals … just what you might expect from a good coach. For more information about coaching and how it might apply to you, look for Gerry's article "Coaching for the Independent Actuary," in this issue of *The Independent Consultant*.

Marcus Robertson, FCIA, FSA, is a consulting actuary at Robertson, Eadie & Associates Ltd. and is on the Smaller Consulting Firm Section Council. He can be reached at (905) 338-7002 or at mrobertson@re-a.com.

E-mail Sabotage

Killing the Brand Softly

by Lewis Green

Stop and think before you delete! If you don't, you risk killing your brand and ultimately your business. In today's marketplace, ignoring the e-mail inbox could shorten your business lifespan by killing your brand image.

Think about it: Would you intentionally ignore your clients and send messages saying you don't care about them or their business? That is exactly what you do when you ignore e-mail or respond slowly or inaccurately.

Brand image is built from the inside out. Every communication that takes place between a company and a client, potential client, vendor, consultant and even competitor results in a positive or a negative brand impression. And when those impressions are added together, they make up brand image.

As consultants, our brand images are our lifeblood. They must reflect near perfection if we expect businesses to trust our expertise and to want our advice and recommendations. Furthermore, we need to ensure that our clients understand the dangers of messy e-mail communications, both inbound and outbound.

A recent survey of the retail industry tells the tale of what looks like an approaching trend in the business world. Current numbers from this survey indicate that most businesses are in a lot of trouble when it comes to their "customer e-service." Twenty-six percent of retailers surveyed failed to respond to e-mail inquiries from customers seeking to make a purchase.

In the same study, conducted by Benchmark Portal and sponsored by eGain Communications Corp., the cross-industry response rate of 41 percent shows that businesses in general have a pretty abysmal record. Forty-seven percent of retailers, for example, fail to respond to customer e-mails within 24 hours, against a cross-industry rate of only 61 percent.

Conducted in July 2005, this study also benchmarked the quality of company responses to client e-mail inquiries. Among companies that do respond to client or customer e-mails, 35 percent of retailers sent e-mails rated by Benchmark Portal as "good" at answering customers' questions while the cross-industry rate is a sad 17 percent. Twenty-eight percent of retailers sent e-mails rated "fair," compared to a cross-industry rate of 26 percent; and 9 percent of retailers sent "poor" e-mails, compared to the cross-industry rate of 14 percent.

Another study provides even worse news for e-centric clients and customers and ultimately for overall business success. This one, reported by Internet Retail, shows that 51 percent of small- to mid-size companies and 41 percent of large businesses do not respond to customer or client e-mail at all. And of those who do respond, 70 percent of small- to mid-size companies and 61 percent of large businesses do not respond within 24 hours.

These studies of the retail industry and larger companies may seem remote to small, specialized consulting firms. But brand image depends on every single communication with a company, and deleting or responding badly to e-mail communications creates a destructively negative impression to the person who

sent the e-mail. Because every external and internal communication creates an impression that impacts the brand, those communications also impact marketing and sales results, and consequently the bottom line.

eMarketer's Senior Analyst David Hallerman also recently surveyed the state of business e-mail marketing and reports that more than two trillion e-mail messages will be sent out this year and nearly 2.7 trillion by 2007. Businesses cannot afford to ignore those numbers, even if only a tiny percentage of these e-mails fall into the commercial category. Alienating even one client hurts brand image and eventually sales.

When businesses respond badly to e-mail, they risk such responses as anger, rejection, hurt, frustration and revenge, and may generate harmful word of mouth. When done right, word of mouth grows businesses, increases sales and expands margins. When done badly, the opposite occurs, and a brand begins to die a slow and painful death.

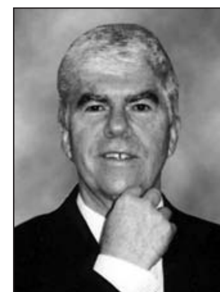
As consultants we must take an active role in solving communications problems that may batter either our brand or our clients' brands. Here are a few tips for turning e-mail into a business "growth tool" rather than a weapon for business suicide:

1. Respond accurately to all e-mails within 24 hours.
2. Embrace e-mail as a marketing tool.
3. Use SPAM filters, if necessary (but only if necessary), to block e-mails originating from Spammers, but do so *cautiously*. These can block e-mails from legitimate clients, which will hurt your business in the long run.
4. For best results and greatest returns on investment, employ some kind of consolidated client and prospect database that allows you to specifically identify client groups' needs, wants and desires.
5. Communicate customized outgoing messages that meet the needs, wants and desires of those client groups.

In conclusion, by embracing e-mail, a consulting firm can grow sales by melding ingredients gleaned from its client data points and managing them so as to:

- ✓ Collect the right data,
- ✓ Craft the right message,
- ✓ From the right sender,
- ✓ Through the right channel,
- ✓ At the right times.

First and foremost, customers and clients count. They measure your value and develop a perception around that value. By ignoring e-mail or practicing it poorly, opportunities for positive perceptions may be missed, dismissed or destroyed, shortening your business's lifespan. Treating e-mail like the winning tool it can be, however, holds the potential of extending your business's lifespan (and profits) indefinitely.



Lewis Green is the Founder & Managing Principal of L&G Business Solutions, a full-service business consultancy, focusing on marketing and sales. He is the author of four books and hundreds of articles in magazines and newspapers throughout North America. For more information, visit www.l-gsolutions.com.