Understanding Your Claims-Made Professional Liability Insurance Policy

by Paul Dorroh and Mary E. Whisenand

Editor’s Note: Professional liability coverage is a significant business issue for small consulting firms, but an area where most of us have fairly little expertise. To educate readers and myself, I’ve begun reaching out to brokers and carriers who provide this coverage to actuaries, and I hope to find other experts to contribute information to the newsletter. This article is part one of two discussing common limits on the incidence occurrence dates covered by policies, and I hope it will be part of a series on the broader topic. If you have ideas for questions you’d like to see addressed, and/or other sources of information, please feel free to contact me.

Introduction

Until the 1970s, almost all liability insurance policies, including professional malpractice policies, were written on “occurrence” policy forms. Under such a policy form, the event, which creates the insured’s liability, is also the event which triggers the insurer’s contractual obligation to indemnify the insured. That event was variously defined, depending on the type of liability insurance involved, and in the case of professionals was typically defined as any act, error or omission in the rendering of, or failure to render, “professional services” as defined in the policy. In others words, the professional’s mistake was the covered event, and the policy imposed no time limit for reporting claims which might arise; once the “occurrence” happened, the insurer became perpetually obligated to indemnify the insured.

In the 1970s, insurers writing professional liability insurance experienced a dramatic upswing in late-reported claims, along with an increase in the average cost of claims that reflected the high inflation of the times, as well as other growth in costs reflecting numerous broad social trends.

The industry was faced with a basic inability to accurately set the price for the occurrence policy form, because most of the claims arising out of any given year’s professional services would not be reported, and thus, could not be evaluated, until well after the insurer had accepted a fixed price for an open-ended promise to indemnify. Many insurers ceased writing this kind of insurance, and others decided to charge prices they deemed high enough to protect against the uncertainties of their future obligations. For many professionals, such prices were simply unaffordable.

The Modern Claims-Made Policy

As a result of these developments, virtually all insurers writing professional liability insurance switched from the occurrence policy form to the claims-made form. While this form had existed for many years, its use was generally limited to coverage for specific events or projects where any claims would become known immediately. Under a claims-made policy, the event that triggers the insurer’s duty is the reporting of a claim within the policy period arising from an
Editor’s Column

Are Small Consulting Firms the New Big?

by Ruth Ann Woodley

As I was pondering this column, I started thinking about all the advantages of working in a small consulting firm. I love the chance to work directly with customers, the increased (sometimes scary) control over the success or failure of my company, the fact that I get to work on everything from designing strategies to prospecting for business to detailed technical work. And then there are the many quality-of-life advantages, like the fact that my hours are much more flexible, I can largely choose what ideas and projects I will work on, every day is “casual Friday” and I don’t have to sit through hours of mind-numbing meetings every week!

I was enjoying the train of thought, but had pretty much decided there wasn’t enough here for a column, when something I was doing that enhanced my perspective on the point. I recently got to download a preview of an upcoming book by Seth Godin called Small Is the New Big. Godin is a marketer who has written several best-selling books, and this one is a compilation of miscellany from his blog and other work. The title refers to only one included column, but as you can guess it’s one that has a lot of resonance to me—and probably to our members. As Godin reminded me, there are many reasons smaller consulting firms also provide better services to our customers.

I often pride myself on a service level that’s not possible at a larger company. I can respond very quickly to requests because I’m not distracted by any internal meetings or conflicts. I am able to build good personal relationships with my customers and understand their needs closely. Since I’m usually doing the work myself rather than delegating, I can use my understanding of the situation to work faster and smarter—essentially the customer is always getting the “principal’s” expertise in all work done.

As I started exploring this book and Seth Godin’s Web site, I also discovered his e-book The Bootstrapper’s Bible. This book really is completely focused on small business owners, and has some valuable words of advice for developing a business plan and strategy. There is a lot of material geared toward people with no financial knowledge or toward very different types of business, but it is easy to skim through and pull out the nuggets that apply to your situation.

I must make full disclosure here. I discovered Godin through an online community that previews new books and products with users in exchange for feedback, and encourages us to tell others about the things we like. But, I rarely feel inspired to talk about the products; these books are an exception. I thought worth sharing. Feel free to contact me if you find these interesting, and I’ll be happy to forward on the books and excerpts I’ve downloaded so far.
Chairperson’s Column

Exciting Changes for Our Section
by Dan Cassidy

Thanks to all of our members (and many non-members) who participated in our recent survey. After reviewing the results, our section council took the following actions:

New Name—Entrepreneurial Actuaries Section
Our council voted to change the name of our section to “Entrepreneurial Actuaries Section.” We feel this change better reflects our activities and mission. We also feel this better positions us within the entire group of sections as the one truly business-oriented section. Our goal is to serve the business needs of actuaries, consultants and entrepreneurs. We will look to continue to provide useful information on sales, marketing, networking, business development, and other business-oriented topics for those actuaries with bottom line responsibilities—regardless of the size of the firm in which you practice.

Future Focus
Our survey solicited feedback on what benefits and services people would like to receive through our section membership. Based on this feedback, we have developed a three year plan to dramatically increase the value our members receive like business webcast series, resource directory, discussion forum, and other features. Stay tuned for more information on our plan.

Next Steps
As a section, our biggest strength is our diversity. Our members come from a variety of practice areas, backgrounds and firms. Some practice at one-actuary firms, others at a small office of a national consulting firm. In general, our members have profit/loss responsibility whether it’s a P&L of $5 million or $500,000. Regardless of the size of the firm, each of our members is trying to maximize their business efforts. They are seeking answers to questions like how best to network? How do I effectively manage the technology of a small office? Where do I go for help? What has worked for others—and more importantly—what hasn’t worked?

Our name in the past was more reflective of where our section was at the time it was organized. The change to Entrepreneurial Actuaries Section really sets us apart from other sections and focuses our energies on where we can really add value to the entire SOA.

Moving forward, I see us using the same basic four tools to help our members:
• This newsletter,
• Program sessions at SOA meetings,
• Webcasts, and
• Local networking meetings.

However, I look forward to other possibilities and methods to help our members become or continue being entrepreneurs. Regardless of our methods, our section’s greatest value comes from being part of a group of like-minded actuaries. Some members have discussed how we can privately support other actuaries looking to start businesses, in the mode of angel investors. Overall, we have a tremendous group of people willing to help each other become better business people. The task for the next section council will be how to best harness this wonderful energy—all while people run their own businesses.

Argus Consulting provides retirement plan consulting services for qualified and non-qualified plans of clients in the United States, United Kingdom and Canada.

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occurrence within the same policy period. Since the insurer’s liability is not open-ended, costs can be predicted more accurately and high charges for uncertainty can be reduced.

From the insured’s point of view, the claims-made form presents some problems, since it is precisely the open-ended aspect of professional liability that causes most professionals to carry insurance. While the cost of a claims-made policy would be less, thus enabling the professional to carry some type of protection, the coverage would also be less, since the annual payment bought protection for only one year, not for eternity.

Further, the claims-made form was not well suited to protecting an ongoing business or professional practice in which coverage would be renewed from year to year and protection would be required to continue indefinitely. In response to these problems the insurance industry (including, by this time, a number of captive insurers formed by the professionals themselves) made a number of adaptations to the basic claims-made policy form, in order to make it more responsive to the needs of the particular profession. For professionals today, while each company’s policy form is unique in some respects, it is also true that there are basic features and issues that are common to all such policies. What follows is a brief discussion of some key topics to assist in understanding the modern claims-made form for professional liability insurance in general.

Prior Acts and Tail Coverage
When the insurance industry began converting from the occurrence to the claims-made form in the late 1970s, few professionals had to confront the issue of coverage for prior acts, errors or omissions, since their old occurrence policies provided eternal protection (at least up to their often inadequate limits of liability). When the professional purchased his first claims-made policy, that policy contained a specific date on which coverage began (commonly known as the “retroactive date”), and provided no coverage for claims arising out of occurrences that took place prior to the retroactive date. However, with each succeeding renewal of the policy, its coverage expanded to include claims arising out of occurrences during the prior periods covered under the same policy. In other words, the retroactive date remained the same, rather than moving forward with each renewal to encompass only one year’s activity, as would be the traditional claims-made approach.

While this adaptation dealt reasonably well with the open-ended aspect of professional liability, it did not solve the problems which arise when insureds switch from one claims-made insurer to another. In this situation the issue is which company would be responsible for which claims, in cases where the occurrence took place under the earlier policy but the claim was reported under the latter policy.

The industry’s initial response was to offer, for a considerable extra charge, an endorsement providing so-called “tail” coverage (adopting industry jargon describing the lag between occurrence and report of claim as the “long tail” of professional liability business). This endorsement provides an additional period of time (either limited or unlimited) in which the insured can report claims which arise from occurrences while insured with the first company. Of course, for as long as the insured continues to renew with the same company there is no need for this endorsement, for with each succeeding renewal the policy expands in terms of the number of years of practice exposure it is covering. But, when the insured switches insurers, or retires or changes the practice setting, it may become necessary to secure this endorsement.
Depending on the number of years of additional reporting time that the particular insurer is willing to offer, the combination of claims-made policy with tail coverage endorsement becomes more like the old occurrence form. If the insurer offers an unlimited period of additional reporting time, then the combination is functionally the equivalent of an occurrence policy for the years covered.

Over time the industry also developed another approach, under which the new company would accept liability for claims based on occurrences under the old policy. This feature has become known as “prior acts coverage.” Under this approach, the new insurer writes a policy, which either includes the retroactive date established under the earlier policy, or provides coverage for claims arising out of prior acts without any specific time limitation in the past. The latter coverage is commonly referred to as “full prior acts” coverage. For professionals today, the prior acts coverage approach is far more common than the tail coverage approach as a means of allocating responsibility for claims between the new and the old insurer. This approach leaves the old insurer responsible only for claims which were actually reported while the old policy was in effect; the new insurer assumes responsibility for all unknown claims arising out of occurrences within the prior acts period, as well as all claims arising from occurrences in the current policy period. This approach has two benefits. First, it eliminates some disputes about which insurer is responsible for a claim. Second, it encourages the early reporting of claims, thus eliminating other possible disputes and, at least in the opinion of many experts, at the same time reduces the cost of claims and enables the insurer to price its product more equitably.

It is important to know, when switching claims-made insurers, exactly what is the scope of prior acts coverage being afforded, if any. First, it should be understood that the insurer is not legally obliged to offer any prior acts coverage when an insured first takes out a policy. Most companies will not offer any prior acts coverage in the following situations:

- The insured has not continuously carried professional liability insurance in the recent past;
- The insured has purchased a tail coverage endorsement from its prior carrier;
- The insured is leaving a firm to establish a new practice.

In addition, many companies will offer only limited prior acts coverage (i.e. with a stated retroactive date sometime in the past) in the following circumstances:

- The insured purchased or otherwise obtained tail coverage at some time in the recent past;
- The insured had a gap in coverage at sometime in the recent past;
- The insured’s current professional liability policy contains a retroactive date;
- The insured’s past practice exhibited risk characteristics deemed unacceptable by the insurer, but the current and prospective practice is deemed insurable.

Pricing Aspects of the Claims-Made Policy

When the insured obtains claims-made coverage for the very first time, the premium will be much lower than would be the cost of an occurrence policy providing the same coverage, since the former is providing coverage for only one year and only as to claims arising and reported in that same year—a much smaller obligation than is assumed under the occurrence policy. However, when the policy is renewed for a second year, the claims-made insurer’s liability has grown to include claims reported arising out of occurrences in two years of practice. It is obvious in a common-sense way that the insurer should charge more in the second year than in the first, all other

(continued on page 6)
things being equal, since the scope of its liability has expanded.

In determining how to price the first year of coverage and succeeding renewals, the claims-made insurers’ actuaries closely monitor statistical data reflecting the lag time between occurrences which create liability and the reporting of claims arising out of those occurrences. In addition, they study the impact of various economic factors on the value of claims during this lag time. From this data they derive conclusions about the number of years likely to elapse before all of the claims arising out of any one “occurrence year” are reported and settled and the ultimate cost of defending and settling those claims. Depending on the profession, territory, and numerous other considerations, they then use these conclusions to establish rating factors to determine the cost of a claims-made policy as it renews each year. These rating factors are commonly referred to as “step rates” because they evolve in a stair-step pattern.

To use a simplified example, assume that with respect to the “occurrence year” 2000, the statistical analysis suggests that claims arising out of occurrences in that year will be reported in the following pattern:

<table>
<thead>
<tr>
<th>Year Reported</th>
<th>Percent Reported</th>
<th>Cumulative Percent Reported</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>2001</td>
<td>25%</td>
<td>55%</td>
</tr>
<tr>
<td>2002</td>
<td>15%</td>
<td>70%</td>
</tr>
<tr>
<td>2003</td>
<td>10%</td>
<td>80%</td>
</tr>
<tr>
<td>2004</td>
<td>10%</td>
<td>90%</td>
</tr>
<tr>
<td>2005</td>
<td>5%</td>
<td>95%</td>
</tr>
<tr>
<td>2006</td>
<td>5%</td>
<td>100%</td>
</tr>
</tbody>
</table>

This table would then provide a basis for calculating the premium for each year’s renewal policy. The 2000 policy would, of course, be priced to reflect the 30 percent of claims expected to be reported in that year. The 2001 policy would reflect not only the 30 percent of expected claims attributable to the 2001 occurrence year, but also the additional 25 percent expected to be reported in 2001 for the 2000 occurrence year. The process would continue for each renewal until that for the 2007 occurrence year. At that point, under these assumptions, there are no more residual claims relating to 2000 occurrences, so no charge is made for them. At this point, for premium rating purposes, the policy is considered “mature” with respect to the 2000 occurrence year and premiums will be calculated for future renewals on the basis of a rolling seven-year period of exposure. For coverage purposes, of course, claims arising out of 2000 are still covered.

For many professionals, these aspects of pricing are more theoretical than practical issues. This is because many professionals have maintained claims-made coverage for many years, and when they switch insurers they are granted full prior acts coverage, meaning...
their premium rate is already mature. However, for some insureds, the early years of claims-made coverage will include significant built-in cost increases due to these step factors. Among those commonly affected are the following:

- Insureds who had no prior coverage;
- Insureds who became covered with a retroactive date that reflects less than the full number of years covered by step rates;
- Insureds who have obtained tail coverage with a prior carrier.

Claims-made insurance has sometimes been described as “pay as you go” coverage, since it is premised on paying premium in relation to the claims expected to be reported in a limited period of time, rather than all claims whenever reported in the future. The step-rate feature is consistent with this description.

It is important to remember that at any given point in the process of renewing a claims-made policy, the insured has a mix of mature and immature years being covered. When, eventually, the claims-made policy is no longer renewed, but terminates, the insured will still have a need to either obtain prior acts coverage from a new carrier, if continuing in practice, or to obtain tail coverage from the existing carrier. In general, the cost of tail coverage will be related roughly to the expected cost of future claims arising out of unreported occurrences in the immature years of the policy. Some companies promise to offer tail coverage upon termination (with certain exceptions) at a premium that is guaranteed in the policy as a percentage of the premium for the last year of coverage. Other companies promise to offer tail coverage but do not specify the price. There are also differences in the number of additional years of reporting time that may be purchased.

**Limits of Liability**

As experience with the modern claims-made policy has grown, one of the little noticed benefits of the claims-made form has emerged.

While the old occurrence form did provide perpetual protection, it did so only for the limits of liability purchased for the year of the occurrence. That protection may be more theoretical than practical if the amount of coverage has been eroded by inflation and social trends as reflected in the costs of defense and the ultimate value of judgments and settlements. The fact that a consultant carried $50,000 of occurrence coverage in 1970 may be of little comfort if the claim is reported and must be defended in 2007.

Under the modern claims-made policy, the limits of liability in effect at the time the claim is reported apply, even if the occurrence took place earlier and the limits were then lower. In the above example, if the consultant had carried $50,000 of claims-made coverage in 1970, and gradually increased his limits over the years in pace with changes in the environment, then his 1970 occurrence would probably be covered by adequate limits.
Taking the SOA Exams: An Experience from a Small Consulting Firm Abroad

by Rodrigo Silva

This article describes my experience taking the Society of Actuaries (SOA) exams from a small consulting firm outside the United States. Not only did I approach the exams from the perspective of a non-American, I’m not even in an English speaking country. Given the fact that this situation is very different from that of most people looking to enter the actuarial field, one could think that the experience is also quite different. But surprisingly (at least from my point of view) that is not quite so.

Some years ago I began to work in a small consulting firm and started to take the SOA exams in order to get not only local but also international actuarial accreditation. It’s nearly unbelievable that almost all the process for these exams can be done remotely. Since I was with a small consulting firm where the manager completed his actuarial training some years ago under a very different process, and there was no one else in the firm to answer my questions, I had to spend a lot of time figuring out what to do. The amount of material is daunting. At first glance one would like to do several things, and worse, all at the same time, but I concluded that I did want to follow a career not only in the actuarial field but in a small consulting firm.

First Lesson: Follow the Instructions

With this path in mind (actually in action), the next decision was clear: I had to take exams. The first thing that I tried to do was to devise a “shortcut.” It couldn’t be so hard, right? After all, I was already working in a respected firm, had been introduced to some clients and was able to work (process, analyze, etc.) with the data provided to us. I was not (not yet, I thought to myself) the company’s actuary, but I was beginning to be on the front end and as things evolved, the first stop for the clients.

So, in order to get an international accreditation, some shortcut should be available. My first surprise was that there was not one international credential but many, and from many associations and countries. What should I do? Exactly what I did next: browse the Internet to see what others were doing, and try to find strategies. I couldn’t be alone on this boat, but as I already knew, a mate paddling with me would be expected to be several kilometers away. So, I learned that there are different associations, each one for people expecting to work in different fields, and I chose the SOA path because I work in the retirement field. Even in this association, there is not one unique credential.

Of course, each credential has different requirements, as I learned after reading different materials. Before beginning the process, I learned my first lesson: read, read and read until the picture is crystal clear. This was something good to learn, but as I reviewed the pages of the SOA’s catalog I learned that there was not something similar to a shortcut; not even a detour.

Second Lesson: Organize Yourself

After reading the instructions and learning the process, the next step was to begin to study and to hopefully cover the syllabus on time. I dusted off my calculus and probability books and made plenty of academic exercises.
Third Lesson: I Want to Hear Ray Charles

I began to make a long-term plan. I “poured my heart into it” (yes, I’m reading the book by Starbucks CEO Howard Schultz), and crossed my fingers and abused the patience of my boss and loved ones. I continued to pass exams. I also planned a good reward after passing each hard earned one.

The exams are a reflection of the American way of business. The terminology is precise and acute and I try to reflect this in my communications. I also learned to balance how concepts are understood locally as well as in the United States and how the local wording differs from international terminology. This has helped me to communicate with some clients who have to report both locally and to their headquarters elsewhere (some of them in the United States).

Our culture is different from that in the United States, but my day-to-day work is essentially the same as that of every actuary: to answer questions, to analyze, to immerse in deep models and at the end of the day to be able to communicate what I found to audiences who may not have analytical backgrounds. Those audiences do however ask very good questions, and as the questions get better and better I have to keep reading and studying to make my analysis not only better, but clearer and easy to understand.

Given the fact that I work in a small consulting firm, I’m also happy that I can put a personal touch in everything that I do, as when Ray Charles dared to stop doing music written by others and began to discover his own sound (please, keep proportions in mind!). This personal touch incorporates local practices as well as those impressed upon me by the SOA’s exams and therefore, I can offer a good combination of two worlds.

As a final word, let me quote Cervantes’ “Don Quijote de la Mancha” on how excellence has its own merit: “La mujer virtuosa no solo debe serlo si no parecerlo.” Allow me translate: “a virtuous woman not only has to be it, but to seem it.”

Asesorías Actuariales Ltda. offers consulting services regarding retirement plans and risk assessment for Columbian, as well as international companies.

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The Killer Engagement Bio
by John West Hadley

Editor’s Note: Because of its relevance to small consulting firms, this article is being reprinted from the April 2006 issue of The Stepping Stone, the newsletter of the SOA’s Management and Personal Development Section.

What is an “engagement bio?” This is a personal services version of a résumé; what a consultant might refer to as a consulting engagement bio. It should be the compelling picture of what that consultant brings to the table that helps sell him or her as the right person for the assignment. I specifically said “should be,” because more often than not, it isn’t. Just as many people have a difficult time creating a résumé that is an outstanding sales brochure for their candidacy, consultants (and consulting firms) generally have the same trouble with their engagement bios.

Think of your engagement bio like you would a compelling résumé. It should have the same key elements:
• contact info,
• a biographical summary of your work history, education and other professional activities that point to relevant experience and skills, and
• compelling bullet points that describe accomplishments.

The difference is in the emphasis. The biographical portion is going to be very much summarized, perhaps even reduced to a couple of paragraphs, while the descriptions of past engagements will often be longer than typical résumé bullet points, more along the lines of three- to five-sentence paragraphs for each.

Let’s put ourselves in the shoes of the prospective client who is reviewing whatever materials you have sent in hopes of securing a meeting, or left behind after the initial meeting. There are three critical questions your engagement bio must answer to be truly effective:

1. Does it have a strong, professional appearance?

2. Does it pass the 10-second test?

3. Does it answer my primary question “Will this consultant deliver?”

Let’s look at each of these in turn.

Does it Have a Strong, Professional Appearance?

Your engagement bio should have a look that says you are a professional who cares about making a strong presentation. This is one of the first work products you are showing me. It shows me how you choose to represent yourself and your work, and I’m going to reach an initial conclusion about the likely quality of the work product you will ultimately produce for me based on what I see. I know that your engagement bio wasn’t (or shouldn’t have been) just thrown together on the fly—it’s something you (or your firm) has invested significant time and thought into producing. If it doesn’t look highly professional, what can I expect from your efforts once you have the assignment?

Here are some basic rules for creating that strong, professional image:

• Make it the right length. Typically limit it to one page, unless you have critical qualifications and engagements that absolutely require it to be longer.

• All sections, indentations and bullet points should be perfectly aligned, nicely spaced, with good, even margins. Use plenty of white space to make it easy to read.

• Use a professional, easy-to-read font like Arial, Times New Roman, Garamond, or Verdana, and never use a font size smaller than 10 point anywhere on it—that would look like fine print. (Increasing the basic text to 11 or 12 point—but not larger—is a good idea.)

• Have ZERO tolerance for grammar and spelling mistakes, including varied tenses. This is a work product from which
a client will draw conclusions about the quality of your work! What does it imply about your normal work product if you have errors in something you gave that level of attention to?

- Use strong words: generated, created, etc., avoiding passive tenses. Then try to start your sentences with them. And don’t just use the same words over and over again.

**Does It Pass The 10-Second Test?**

Unless you grab a client’s attention in the first five to 10 seconds of reviewing the bio, he or she probably won’t do more than glance at the document. In that case, it’s just wasted paper and a lost opportunity to enhance your presentation.

What’s the key to passing the 10-second test? It’s to give a quick (and engaging) picture of the “package” you have to offer. Make it really easy to figure out the essence of what a client would be “buying” if he or she hired you, instead of making them dig through the rest of the materials to figure it out.

I find the best way to pass this test is through an opening executive summary of your “package.” Particularly effective is a marketing headline followed by bullet points covering the broader summary of what you bring to the table.

**Does It Prove You Will Deliver?**

This is about showing the client how you’ve delivered in the past—communicating those past engagements in a way that creates visualization of the results you can produce for the client.

Coming up with powerful engagement bullets essentially involves first writing case studies of past engagements that clearly express:

- the essence of the assignment, especially what made it a particular challenge,
- actions you took to address it, and
- the results you achieved for your client.

Then you need to boil that story down to just a few sentences. The bullets need to be very focused and clearly communicate a result. They are particularly powerful when those results are expressed with metrics.

To get the client really interested and wanting to know more, think of the bullets as teasers. Don’t try to give the client all the details, save that for when you meet with him or her—when he or she asks you to tell them more. And shy away from bullets strictly about what “the firm” did. The client is buying you and your expertise, not the firm. The firm will support you, and a client understands that, but first he or she needs to be convinced that you will deliver.

By the way, people often make the mistake of trying to tailor their résumés to every opening to which they are applying. This is another place where your approach to an engagement bio is different. You do want to tailor your engagement bio to different opportunities.

Come up with a laundry list of engagement bullets you can draw upon for different potential assignments and prospects. Then customize that section of the bio to fit the perceived hot buttons of the particular prospect. However, be careful when customizing the summary or bio section; in fact, generally avoid doing that. There is a great advantage to including the complete (short, summary) description of what you bring to the table, even if you only include engagement bullets that address the client’s current, specific needs.

The needs of the client will evolve, and he or she may have other needs you have yet to uncover. If you don’t include the more complete summary, the client may never realize you have those additional skills, so that even after he or she has hired you for a particular project, the client may go ahead and approach someone else for additional work of which he or she doesn’t realize you are capable. Plus, if you do a great job for the client, he or she will become a testimonial to your work. You want the client to say to some other prospect, “Jim did a great job for me, and as I recall he has expertise in the issues you are looking at. You should talk to him.”

To subscribe to John’s free Career Tips newsletter, visit his Web site at www.jhacareers.com.

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You walk into your office and flip a switch and the lights immediately illuminate. Were it not so, it would be a rare day indeed, and one quickly ruined. Barring some catastrophic act of God, you expect a utility like power to simply be there, at your fingertips, at all times, whenever you want it.

Your information technology (IT) network (computers, phones, fax, Blackberries, printers, etc.) has now reached “utility” status as well. Just as the utility of power is required to run your lights, your IT network infrastructure is required to run your e-mail, Internet access, printing needs and a host of other mission-critical applications that you just cannot function properly without, both in your office and outside. Today’s users expect that when they open their laptop—anywhere—it will connect them to their network and be fully functional without having to think about it.

Many students entering the workforce today have grown up assuming that high-speed bandwidth will always be available in their homes, schools and even on their cell phones. So IT is no longer a secondary consideration for any of us ... it’s a must!

For actuaries, the situation is even more critical. Your clients demand information to be sent to them not only quickly but safely and securely. There can be no hint of that very private information getting lost out there on the Internet, available for some competitor to feast upon. E-mail, while convenient, can be a very untrustworthy way to do this, so an extranet—a secure network between partners—is always the best bet, insuring utility-level security in communications. If you’re not operating this way now, it’s high time you begin.

Richard Pastore, editor of CIO magazine, recently wrote of the changing technology mindset by citing “convergence” as the new CIO buzzword. This replaces, he explained, the age-old mantra of “alignment,” since IT can no longer be treated as a separate entity just trying to fit in. Instead your communications systems must be viewed as an integral cog of every aspect and every strategic goal of your business.

So what is the significance of this new “utility” mindset to your actuarial consulting practice? How should it change your life?

For one thing, it means hiring an IT expert to work with you, if only on a very part-time basis, who exhibits this utility frame of mind. If you had a nephew or a cousin plug in all your computers or advise you on what to buy, you may be treating this area too lightly. Simply employing someone familiar with the tech world to help you is no longer enough.

To what extent does your “IT manager” understand all the many implications of seeing your IT communications network as a system that absolutely must never go down? Can he help you insure that your network will always be there? Does he in effect speak the “language” of your network-as-utility?

Also, because the information you transmit is so private, does your IT person understand the best ways to keep it secure? With your other utilities, vandals are not looking to short-circuit your fuse panel or lock your water pipes just for kicks. Not so with technology. So in addition to the expertise required to design, implement and maintain your network, comes the ongoing need to secure it as well.
So what does it really take to make your network a true always-on, always-fully functional, always-fast and always-safe “utility” network? It first takes a solid commitment. You need to invest and do so with wisdom and confidence, meaning that your technology must exist as a means to an end. You must stop yourself from taking the easy way out, or the cheapest way, and start spending exactly what is required to achieve your strategic business objectives, not a dollar more, but not a dollar less either.

Fortunately, there are low-cost tools affordable to a business of your size, just as there are larger, more complex tools for larger, more complex organizations. One small firm we know found a “shareware” (translation: free, but you have to know what you’re doing) tool that allows it to monitor every device in its network, and to give an early warning signal should any trouble be brewing. Looking for such tools now, or for an outsourced provider of such tools, rather than waiting for a calamity to fall is symptomatic of a healthy “utility networking” mindset.

Investing with confidence means that once you have your technology road map drawn up, you find the right people who can design the integration of that technology into your existing network and can swiftly and effectively complete the implementation, then provide both proactive as well as reactive support. Even the smallest network today is a complex one, touched by many hands and eyes, so a critical step is the transition from implementation to ongoing support. Your “project manager” must clearly define this transition including all necessary steps to make it as smooth as possible. This should include a strong dose of end user training.

In terms of ongoing support, this used to be “you have a problem, you call for help,” a notion that is largely reactive. This approach does not qualify as “utility” thinking. Every hour, every minute of your time, every number data-bit of your life’s work, is valuable and represents real money to you or to your clients. Reactive support must now be seen as a thing of the past. If your network is to truly become the utility that it needs to be, try imagining all your customers waiting around for you to restore your data files from backup in the middle of the day. Do a quick napkin calculation of the cost of all that. It’s not a pretty picture! A utility network has built in redundant servers that immediately, transparently take over in the event of failure.

If you have been assuming that you can afford for your IT functions and network to be anything but “always-on” like a utility, think again. Some of your competitors are already there, especially the larger ones. Waiting even one day longer to join them leaves you and your practice in grave danger of being left farther behind.

Charles L. Nault is recognized as an expert in “network utility thinking.” Charles provides training and consulting to companies in addition to working closely with Cisco Systems on network design, implementations and support.

Charles L. Nault is chief executive officer at Atrion Networking Corporation. He can be reached at 401-736-6400 ext. 111 or cnault@atrion.net.
Back in the early days of building our business, we earnestly followed every effective selling technique taught by the sales gurus at the time. A few of their requisite rules included: Always return a prospect’s inquiry as quickly as possible; always attempt to get a meeting with a prospect right away (lest it go stale); use proven techniques during a sales meeting to “close” the sale; and, when making a formal proposal, be sure to be thorough and comprehensive, especially in the section that contains your fees.

But, our results were often frustrating. In fact, whenever these techniques actually worked, the new client often exhibited an ongoing skepticism about whether or not he/she did the right thing by signing on. Even after we delivered what we had promised, the client didn’t always appreciate it or believe that it was worth the investment.

What’s more, we found the traditional sales techniques cultivated few long-term relationships. Many clients too often seemed to resent that they had been “sold,” and thus a SECOND sale, to develop an ongoing client relationship, was either tough to obtain or out of the question.

Then there were times when a sale was reversed the next day. Call it “buyer’s remorse.”

Before long, we realized that many of our early sales failures were being caused by these traditional sales techniques and the reason was simple; we were following tips that were designed to sell commodity products, not consultative, strategic business services.

Assume for a moment that you are in the market for a new refrigerator or a new car. You may not like the sales reps you meet during the process but most likely you are willing to endure manipulative selling techniques if you know that the product is truly what you want. We do this because, at the end of the excruciating experience, we know we won’t be taking the sales rep home with us; we’ll be taking home the new fridge or car, and we’ll never need to see that sales rep again.

In purchasing consulting services, however, a prospect is buying a relationship as well as the service or expertise needed to solve a problem. In our experience, we have learned that if we fail to engender trust in our first few connections, a prospect often feels that “this is not a person I want to work with.” If we manipulate that person into signing on with us, by using some carefully constructed closing techniques as taught by the gurus, the feeling of partnership and its concomitant commitment rarely materializes.

Our success rate improved when we began listening more closely to our prospects, customizing our explanation of benefits to fit their needs and showing genuine concern for them and their challenges—not just landing the business. We developed a consultative selling approach that allowed our prospects to get to know us as genuine, ethical and trustworthy consultants. As a result, they began to evaluate us AND our services in a more effective way.

But we weren’t convinced that these more consultative sales techniques were enough. Would they always lead to long-term relationships with our clients and continuing business? Would our clients begin to see us more as their business partners rather than a vendor? Would we become such a trusted business advisor that our clients would never ever consider running off to someone else for
help? Would we be viewed as consultants who always delivered what their clients paid for—and MORE?

We finally concluded that we needed to go beyond these consultative selling techniques to have a better success rate for turning clients into long-term relationships. Therefore, we created a totally unique, counterintuitive, selling system—one that isn’t really selling at all. And it’s working.

Today, using nontraditional marketing and sales, we successfully cultivate affinity relationships and then build on them to form long-term business partnerships. With our system, potential clients seek us out. We no longer are in a position where we “sell, sell, sell.” We don’t measure “closing rates” with prospects or the numbers of clients we have captured over the years; instead, we measure the quality and longevity of our client list.

And our success has skyrocketed. Our clients now stay with us not month after month, but year after year. Most of our prospects are highly qualified, thus the pickings are always fat, not slim. And most importantly, no more boom-then-bust: at any one time we have a dozen or so good prospects in our pipeline, sometimes so many it’s hard for us to keep up!

To attain such success, your own “maverick selling” approach will require that you always keep your eye on the ball that you WANT to hit, and no longer worry about every ball (or prospect) that gets thrown your way, at whatever angle. Once you get the process rolling, you’ll be able to, and indeed, be required to pick and choose.

What, then, are the “techniques” of this approach? How does the Maverick Sales methodology create a stable, ongoing family of great clients?

Here are the top main, counterintuitive points that we now follow as part of our Maverick Sales methodology:

1) **Get them to call you.** Too often we think we have to go out and find prospects, by cold-calling or sending out snail-mailings or advertising. Alan Weiss CMC, author of *Million Dollar Consulting*, instead insists it’s always far better to get prospects to call us rather than us trying to call (and sell) them. Some of the ways to do this include publishing articles and/or books, speaking to targeted groups, sending out a monthly e-letter and networking in places where your target market communes. What these activities do is to position one as a “thought leader.” By doing this, you’ll attract far more qualified prospects than if you went out searching for prospects. This first point is 90 percent of the Maverick Sales methodology. Get your prospects to call you!

2) **Respond SLOWLY to prospects.** Sometimes when business consultants respond immediately to a prospect’s phone call, they feel self-conscious about their ability to do so. They might even say to the prospect, “I don’t want you to think that by my rapid response I don’t have anything else going on!” In our experience, our prospects do not resent that our initial response is one or two days later; rather they actually seem to appreciate it! They willingly accept that we might be too busy to get back to them right away. When we do set up our initial call, our prospects often express to us (between the lines), how lucky they feel to have been able to reach us at all!

3) **RATE your prospects so you know their potential for hiring you.** Before breathlessly rushing off to set up a sales meeting or send an inquiring prospect a proposal, we step back and gauge how qualified a new prospect is for us. We use a point system that we created as a device to provide some early perspective. Through years of experience speaking to potential clients, we are now able to judge very accurately when prospects have the potential to turn into clients. Here are just a few examples of our point system.

(continued on page 16)
When a prospect is referred by a satisfied client, we give the prospect +3 points and when the prospect is the decision-maker (not just one of many), we give the prospect +3 points. And, if the prospect is a new and struggling company, we give him/her -1 point because we know from experience that emerging consulting practices are not in a position to hire us.

Creating a similar rating system is easy to do for any consulting business. Think through your own history of which prospects have tended to become your clients and which have not. Then establish a rating system of your own.

4) **Make it HARD for prospects to hire you.** Don’t make it impossible, but just not terribly easy! For example, stretch the process out. Don’t do a proposal right away. Instead, ask for materials you can look at. Say you want to survey their Web site. And then send them an article you have written (and hopefully published) about their specific problem. Try to meet with them a second or even third time. It’s not that you’re trying to waste their time; you’re just trying to be thorough about what they need from you and what you can give them.

It’s true that during every point of connection, the prospect may bail out. But we have learned that it’s far better to have this happen early on than to have it happen after we’ve “sold” them and popped a champagne bottle. If a prospect does NOT bail out, but keeps at it, then we know we’re looking at a motivated, committed prospect who is probably sold on us and highly values the relationship we are offering.

5) **Do NOT try to close your prospect, in person or ever.** Of course, this isn’t literally true. At some point you may have to say, “Well, should we do business together” or “I’d love to work with you” or something similar, but usually what happens is far different. Your prospect is asking you, “What’s the next step?” or “How can we work together?” When he/she pops the question, it’s just a matter of details.

6) **Leave fees OUT of your proposal (at first).** At the point that you have qualified your prospect and want to do a proposal, you may have already discussed fees. But, if you haven’t, any proposal at this stage can benefit from *leaving these numbers out.* By sending off a preliminary proposal, covering everything EXCEPT fees, you can further the relationship-building effort and confirm the conceptual agreement of what your prospect wants from you. We generally say something such as: “I’ve left the numbers out for now so I can be sure that I’m proposing to you exactly what we discussed.” Prospects typically respond, “Yes, this looks right, send me the numbers!” By now, you’ve got them very interested in your services although they may be nervously hoping they can afford them. Not a bad position for you to be in!

Will our Maverick Sales techniques work for any consultant the way they have successfully worked for us? We cannot say for sure, of course, as most consultants conduct their practices in very personalized ways.

Whatever methods are used, the goal of any selling process is to earn and sustain a loyal and partnership-minded client base that will keep coming back for more, eagerly appreciate what we do and promote us to their own business friends so that they, too, come looking to us for help. Our approach accomplishes this for us and provides us with a profitable and steadily growing business as well as one that is enjoyable and personally rewarding.

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Ken Lizotte, CMC, and Patricia Coate are principals of emerson consulting group in Concord, Mass. To learn more, call 978-371-0442 or visit www.thoughtleading.com.
The lines between phones, computers and the Internet just blurred again with the increasing popularity of Voice over Internet Protocol (VoIP). Is it worth incorporating into your office communications plan, or is it just the latest Internet fad?

VoIP lets you talk over the Internet as though you were making a phone call. In the most basic setup, it’s a computer-to-computer connection where you and your friend are sitting in front of the screen with a headset/boom mic on your heads chatting away while you cut and paste on your Excel spreadsheets. Instead of your voice going over the phone lines, it goes over your high speed Internet connection.

Companies such as Vonage and AT&T take things a bit further by using a standard phone plugged into a box which is connected to your high-speed Internet connection. This adaptation has made VoIP a popular choice for home users because it is relatively easy to install. Since the Internet and IP is here for the long haul, it’s likely that VoIP in some fashion will hang around as well.

The driving factor for VoIP is cost. Most VoIP services offer free long distance and nice features such as call logging and multiple phone numbers in different area codes that the wire-based phone companies don’t have. Calls anywhere in the states are usually free, and international calls are either free or cost only a few cents per minute. VoIP packages are priced competitively or below those of standard telephone company offerings. Since you’re already paying for high-speed Internet for your computer e-mail, adding VoIP means you don’t have to also pay another $40 or so to the phone company for phone service. So why doesn’t everyone hop on this bandwagon?

The primary drawback to VoIP is the very thing that makes it work—the Internet. If you don’t have a reliable high-speed Internet connection, VoIP is not for you. If the Internet connection is down, so is your phone, and in emergencies that’s bad news.

The other factor to consider is the voice quality of Internet-based phone calls. Though it is much better than the warbling cell phone sound that used to characterize VoIP in its early days, some say it is still not quite as good as standard phone line calls. VoIP and cell phones use similar kinds of compression schemes to transfer voice as digital data, so it makes sense they might sound alike. But the higher bandwidth that high-speed Internet affords makes the quality of VoIP slightly better than what your cell phone can deliver, and most people either can’t tell the difference or don’t care.

Some balk at the free long distance advantage of VoIP since their cell phone already has free long distance. What they’re forgetting is that while the long distance is free on your cell phone, the airtime is not, unless you plan to do all of your talking on nights and weekends. With VoIP you can talk all you want anytime you want.

VoIP is probably not quite ready for prime time in larger offices, but it will be soon and might be okay for a small office. But, it is definitely worth checking out for home office use. (Note that E911 service may not be available through your VoIP vendor yet, so if calling the police and having your location and name pop up on their dispatch screen is important to you, hold off on putting all your home eggs in the VoIP basket for a bit.)

If you want to test out VoIP just for fun, sign up for a Skype account (www.Skype.com) and install their free software on your laptop. Get a decent headset with boom mic such as the Logitech® Internet Chat Headset ($20 street price) and start chatting away. Until December 2006, you can talk on Skype for free in the USA, and even call a regular phone from your computer.

Daniel K. Kehoe is president of Bigfoot Labs in Connecticut.
Many people who think about career and life management focus on the importance of personal networks. Networks have been important to me and I believe that they can be used for several different purposes:

- making it easier to meet mutual goals,
- creating interest in your life,
- building a support system for good times and bad,
- helping you develop career options, and
- creating a safety net.

My philosophy is that it is useful to network both inside and outside of your profession and your current company, and in both formal and informal settings.

I have some basic “rules” of networking. The first is to understand that this is a reciprocal arrangement. You must give as well as receive, and you need to give without knowing when or how you might receive. The second rule is to stay in touch with the people in your network. Help them to know who you are and why you are relevant to their work and lives. Do this in a way that is not obtrusive, although that might not be easy. Some of the organizations to which I belong have newsletters, and publishing in these is one way to maintain a presence in the minds of your contacts.

Mentoring is also an important part of career development. Networking opens the way to finding appropriate mentors, and enables others to locate you as a mentor. At my Mercer retirement party, it was very gratifying when one of my colleagues asked how many people I had mentored and many hands went up. I regularly hear from former colleagues and contacts asking for advice.

Networking inside your company can be very valuable. If you work for a large firm, it offers you access to people who can be a sounding board and can help you gain perspective. Often, it can be difficult for junior employees to figure out what is going on across a large organization and where they can best get involved. For example, I have occasionally had coworkers who were concerned about career progress, and how to make their next step forward. I have been fortunate to be able to help them identify people outside their direct chain of command to whom they can go for advice and ideas. This step in turn helps them to identify a good opportunity within the firm, or possibly to determine that there is not a good next step for them within the company. (I have generally advised people to seek out opportunities where they are first, before thinking about outside ones.) Try to focus your networking around substance rather than simply relationships; relationships are important but substance is what you have to contribute. Offer to help others, such as sharing information in appropriate ways. Networking can also help you gain “sponsors” when you are seeking a new position in the firm or an opportunity to work on a particular project.

Professional organizations also offer many formal opportunities for networking. Here again the relationship must be reciprocal. Joining is not enough; you need to participate and contribute substance. Choose an
activity that enables you to work on a project of interest and relevance to your current business situation, and to meet interesting people. For example, if you are starting a small business and need to focus on getting customers, think through which of your networks are mostly likely to fit that need. Networking is not a marketing strategy by itself, but it can help you build client relationships. You will also need to check on the obligations and meeting schedule before joining. Some committees meet in person four times a year at different locations whereas others meet only by phone for an hour at a time. If you want to travel to new locations and have the time, the traveling committees are great. But if your time and money are limited, choose something with fewer or no in-person meetings.

Within actuarial organizations, there are many opportunities for volunteer work with the Society of Actuaries, the American Academy of Actuaries, the Conference of Consulting Actuaries, and the Actuarial Foundation. Over the years, I have been involved in many professional committees, more than most people would ever want to join. I have chosen activities that enable me to work on issues I feel are important and to contribute to the knowledge base about those issues. I also look for projects that allow for multidisciplinary approaches, as a way to broaden my perspective by hearing new ideas and meeting a variety of people. My most important current activity is serving as chair of the Society of Actuaries Committee on Post-Retirement Needs and Risks, since I am concerned about the evolution of a sound retirement system and security for women. I have also participated in the National Academy of Social Insurance and the Pension Research Council, which offered me contact with many leading academic researchers and provided insight into how valuable multidisciplinary approaches are.

Another major set of networks for me have been women’s groups outside the actuarial profession, specifically the national organization Women’s Institute for a Secure Retirement (WISER), The Chicago Network and The Chicago Finance Exchange. I chose these groups for the chance to meet senior level women outside of my own field. As indicated above, it is important to participate and join a committee if you are to become truly engaged with a new networking group. Over the years, I have done this in these groups and have shared information of interest through their periodic newsletters.

I have also been involved in informal networking related to personal interests and hope to do more of this in the future. I am a bridge player, and networking has connected me to other bridge players in the past. And over the next few years I hope to pursue networking in another area of interest, art.

Many years ago membership in a women’s group provided a big payoff for me personally. I was with Mercer at the time of an acquisition in the early 1980s. I was a member of a women’s human resources group at the time and had met some people through the group. The Mercer acquisition came with three larger clients in the Chicago area, but the key people on these three clients left and joined another firm right away. I was assigned to one of the clients, but Mercer management was concerned about the departure of the client contacts. One of my friends from my networking group was at the acquired company in an important, but not the most senior, benefits position. We met, and she filled me in on the company and the key players, and helped me get established. She introduced me so that I was treated as a friend rather than a stranger. That helped us cement the new relationship and the company was a great client for several more years.

As you may expect, it is a major challenge to stay in touch with so many contacts and complicated to do effectively. I will share a couple of ideas that have worked for me. One is that my husband and I work hard to do a great Christmas letter each year that keeps our friends and colleagues updated on our (continued on page 20)
activities. Many people we know comment on the letter and how much they like it. Another habit I use is that when I travel, particularly to a place like Washington where I have many contacts, I leave some extra time beyond my meeting and try to see people with whom I want to stay in touch. A fun way of networking has been to organize dinner groups in Washington. I contact some friends and see if they want to have dinner, and we have on several occasions gotten four to six people together. Usually most of them do not know at least one of the others, and good connections are made and renewed.

Another tactic not only helps build your own contacts, but also shows off your networking skills. Often at an event—business or social—there are tables of eight or 10 people for lunch. Sometimes people talk to their next door neighbors but not to the whole group. If no one has made introductions, take the initiative to go around the table and have everyone introduce themselves. It is also helpful to have them answer a question that will start interesting conversation. Some examples include: How did you happen to become an actuary? How did you happen to join this organization or attend this convention? What’s your favorite travel destination? The question should not be personal or intrusive, or require a lengthy answer, but it can get a conversation started. Not only does this help you meet a larger number of people, others who form connections will remember you as the one who facilitated that conversation.

I have another suggestion to use at large meetings, and particularly during networking events like cocktail hours. Get a copy of the attendee list if possible, and target the people you want to meet. Chances are you know some of them but not all, and this can be a good chance to introduce yourself to someone you want to meet. Better still, if you have a friend there who knows the person you want to meet, ask them for an introduction. When you meet someone you want to stay in touch with, exchange cards and send a follow-up e-mail. For example: “Dear _______, I enjoyed meeting you. I thought you might be interested in ______________.” Send something of value that you will be identified with.

It is easy to wonder if networking is valuable, but I have experienced the benefits in my career and think it is. Many people have gotten jobs using their networks. It was a contact that I made through professional work in the New York Actuaries Club that gave me an entrée to start my interviewing process with Mercer, where I worked for 28 years. In return, I have been able to help some of my contacts get their jobs. I am often asked by the Society of Actuaries for speaker suggestions from outside of the profession, and usually I can make at least one suggestion. My relationships with many of these people have been helpful in getting them to come and speak. For example, at the recent SOA/CCA meeting in Dallas, I was able to recruit four outside speakers from my contacts. I have also worked to put together Project Oversight Groups and teams for Actuarial Foundation Consumer Education projects using contacts from my network. And as I build my new consulting practice, my networks are also very helpful as a source of both introductions and advice.

So if you are already in a small consulting business, keep building and nurturing your networks. If you have networking tips or experiences that you think are helpful, please share them with other readers through me or through the editor of this newsletter. And even if you are not a small consultant, but think you might want to start a practice some time in the future or just want to expand your future career options, now is the time to plant the seeds and build the networks. Remember that even if you expect to be with your current employer forever, you never know when change will be part of our life. When I was young, the Pennsylvania Railroad was a very important business in America. And of the giants in the mainframe computer business in the 1960s, nearly all are out of the computer business today. Networking skills are always valuable; whether they help you grow in your current career, manage unexpected changes to your job situation, or develop personal interests.
Most SCF members would agree that networking with peers can be very important to the success of your business. Yet many of us find it difficult to justify the time and expense of attending many of the far away professional meetings available to us. So the Smaller Consulting Firm Section has developed a series of convenient and inexpensive regional networking meetings for members.

On May 9, we held our second annual regional meeting in Chicago, cosponsored by the Chicago Actuarial Association (CAA). Thanks to Tom Edwalds, president-elect of the CAA for working with us to set up this event.

Over 20 people attended a presentation given by Johnny “The Transition Man” Campbell, entitled The Four People You Meet When Making an Effective Presentation. Johnny Campbell is a Distinguished Toastmaster (DTM) speaker, author, and business consultant. Johnny started his presentation by donning a superhero cape to emphasize the desire to “present with power, passion, and clarity.” Some of the highlights of his presentation were:

- Understanding why it is important to be a good communicator and what you will gain by enhancing your skills;
- Overcoming the four “self-sabotaging beliefs” that prevent us from being good presenters (self-esteem, self-confidence, fear and criticism); and
- Understanding the four styles of communication and which one to use in different situations.

Finally, the attendees received pointers on presenting with power, passion and clarity.

After the presentation, we had the opportunity to network over beverages and hors d’oeuvres.

Local meetings can be a good excuse to get together with fellow and future members of the SCF for an evening of networking. Do you have a local actuarial club that would like to co-sponsor a regional meeting or other ideas for regional events? Contact anyone on the SCF Section council to start the ball rolling.

Johnny Campbell can be reached at Johnny@transitionman.com, or visit his Web site at www.transitionman.com.

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Seeking Papers for 2008 Living to 100 Symposium

The Society of Actuaries Committee on Living to 100 Research Symposia is organizing its third international symposium examining advanced age survival and related issues. A Call for Papers, “Living to 100: Survival at Advanced Ages”, has been issued seeking papers on the following topics:

1. Evaluation of existing advanced age mortality data sources.
2. Techniques for the modeling, projecting and analysis of advanced age mortality data.
3. Implications of an aging population for social, financial, health care and retirement systems and/or the impact on quality of life issues.

Abstracts must be submitted by Oct. 16, 2006. Authors of selected papers will be asked to present their papers at the symposium to be held January 2008 in Orlando, Fla. Further details can be found in the Call for Papers on the SOA Web site at:
http://www.soa.org/ccm/content/areas-of-practice/life-insurance/research/living-to-100-survival-to-advanced-ages--call-for-papers/
The Personal Actuary
A New Star in the Universe of Financial Advisors
by Paul Richmond

Editor’s Note: The following is an excerpt of an article that originally appeared in the August/September issue of The Actuary. Given the relevance of this topic to members of the Smaller Consulting Firm Section, I decided to rerun the article here in two installments. Part 1 discusses the role of the personal actuary and the public’s growing need for these types of services. Part 2, in our January issue, will use a detailed example to delve more deeply into what services a personal actuary can provide and how to go about providing them.

The American public is beginning to discover that it has a need for practical financial advice. Until recently, the average Joe thought financial planners were for millionaires, sports stars and Hollywood types. However, as members of the baby-boom generation approach retirement, they are discovering that they may not have planned as carefully as perhaps they should have, or their parents didn’t plan sufficiently and now need assistance with day-to-day affairs. A personal actuary, an all-encompassing provider of comprehensive financial advice to individuals, and an emerging discipline within the actuarial profession, may be just the answer needed to address the multitude of challenges looming ahead.

The graying of America, along with the continuous pruning of older workers by the corporate world, has resulted in many 50-somethings being forced into phased retirement. The high paying jobs they worked while in their 30s and 40s are no longer available to them. They have the skills, the ability, and even the stamina, but they no longer have the youth that is perceived by big business to be so vital to its success. Consequently, the middle generation is becoming employed in jobs that require less skill and, as a result, provide less pay. For the first time, members of this generation are underemployed and must confront a future that isn’t as rosy as they had anticipated. Additionally, they are beginning to seek professional help to identify their individual financial resources and needs and to create a realistic vision of what their lifestyles may be over their remaining years.

Unfortunately, no clear pathway exists for the general public to find the right advice, or advice that is appropriate to the need. The public at large erroneously believes that insurance salespersons, sellers of mutual funds, financial advisors, financial planners, stock brokers and investment advisors are all capable of giving financial advice. The public is generally unaware that financial occupations fall into two broad categories—those who can sell financial products (mutual funds, stocks, bonds and other securities, insurance and annuity products) and those who are permitted to give financial advice for a fee. The general public and sometimes even financial professionals themselves have difficulty distinguishing between those who may sell product and those who may give advice. Complicating the issue further is the fact that many who are properly credentialed to give advice also sell product. And many who sell product give advice without being properly credentialed. About the only ones who really understand who is allowed to sell product and who is truly permitted to give financial advice are the regulators, the NASD, and perhaps, and/or hopefully, those who market themselves using these terms.
The crux of the matter is the definition of “financial advice.” Does a person who sells a product for a commission give financial advice? How can he or she not give advice? How is such a salesperson distinguished from a person who sells advice for a fee? Well, the SEC, the NASD, and the state and federal regulators provide guidance and an examination/credentialing process, so hopefully, the financial professional knows what he or she can and cannot do. Unfortunately, the public is not as well informed.

Let me cite a personal example. I have worked in the financial arena as a pension actuary for many years and now am in the midst of redirecting my career toward assisting clients with financial and investment planning. I have passed exams that permit me to sell mutual funds, life insurance and annuity products. I can give information about the products and receive a commission upon completing a sale. But I cannot give any financial advice. I am required to inquire somewhat about my client’s financial health and stability, but not too much. I can sell mutual funds with a limited knowledge about their needs, but am precluded from doing an in-depth analysis unless I am willing to do the work and not charge for it. My clients perceive me as a “financial advisor,” but I really am not. The questions I must ask lead my customer to believe I am seeking the information so that I can advise them. As a result, I am perceived to have much more knowledge than what I actually have been tested for, and I am perceived as being qualified to give advice.

Seeking appropriate and competent financial advice is a challenge. In spite of the advertisements on TV and other media for the large mutual funds, insurers and other financial institutions, there are no branded advisors.

Branding associated with the fast-food industry is very clear. When I want a hamburger, I can go to McDonald’s, Wendy’s, Fuddruckers or Dave’s Lunch down the street. At McDonald’s, I know that the hamburger served to me will be mass produced and slapped together with ketchup, pickle, onion and mustard. I don’t even have to ask. At Wendy’s, I will get a better quality burger and more condiment choice. At Fuddruckers, I will get an even bigger burger and an even higher quality and quantity of toppings. What do these hamburger joints have in common? They all have a recognized national reputation that provides continuity of product no matter where you are. However, Dave’s Lunch does not have a national brand. I just know that I will get the best burger ever—big, greasy, tasty and prepared just the way I want it. I know this because I have eaten there many times before and it was good. And maybe even better yet, the only ones that know about Dave’s burgers are us locals.

Branding associated with financial services is not nearly as simple. The public in general doesn’t know the basics. Individuals may know they have a need, but they don’t know how to define the need, or to discover who can help them with the need without assistance. The major national names—The Principal Group, Nationwide, Ameriprise, Fidelity, Putnam, etc.—have a sophisticated menu of products and have posted their menus on their Web sites, but the general public doesn’t have a clue about how to apply these products toward solving their problem(s). They don’t know whether to buy a mutual fund, an annuity contract, or a CD. They don’t understand the mechanics of the financial instruments. They do not understand how these products are used as building blocks to achieve financial security. Nor do they know where to go to obtain answers to these questions.

The following example is a simple illustration of the challenges a person can face. Florence is 55 years old and has just received an inheritance of $200,000 from her mother who recently passed away. She goes to a bank for financial advice. She first
speaks to a teller who directs her to the branch manager. The manager listens as Florence describes in basic terms that she wants to use the money for retirement, but the bank officer is busy and doesn’t really have time to ask the questions that she needs to ask in order to fully understand Florence’s situation. And to be fair, she may not even have the training to ask the appropriate questions. However, the manager does have an incentive to steer customers to high-margin products, so she recommends that Florence purchase CDs. The manager is happy because she has made a sale.

The tragedy of this story is that Florence went to the bank because she wanted financial advice on how to best deploy her inheritance to facilitate her retirement. She expected the branch manager would help her identify life goals and objectives and then direct her to investments that would help her achieve those goals. What she received was a salesperson who sold her CDs because it was an easy sale and because the manager had a monthly quota of CDs to sell. In a few minutes, Florence was back on the street wondering, at best, “What just happened?” or at worst, thinking, “I have just secured my future.”

Over the next 10 to 20 years, the need for qualified financial counselors and investment planners will expand rapidly. This trend creates significant opportunities for those inclined toward financial professions, but also significant risk for the general consumer of financial services. Considerable opportunities exist for ethical people, with a high degree of analytic ability, to perform these services, proving a valuable public service, while at the same time being rewarded handsomely. Unfortunately, the growth of this industry will attract even more charlatans and will require an even greater level of policing than currently exists.

In light of this, the financial services industry needs to embrace the actuarial profession. And it is time for the actuarial profession to raise its hand and demonstrate how it can help. Opportunities for actuaries have been diminishing over the past several years. The need for pension actuaries has diminished substantially over the past decade as corporate retirement plans have been converted from defined benefit to defined contribution. The average pension actuary is well over age 50. The number of pension actuaries under age 50 at the last enrolled actuaries meeting could have been counted without having to take off your shoes and socks. Similarly, the need for life actuaries has also declined. Insurance company mergers have made many actuarial positions redundant.

On the other hand, the financial services industry is experiencing substantial growth and will continue to do so in the foreseeable future. Because of the aging of America, we will see growth in the financial sector that will outpace the number of qualified financial professionals willing to serve with integrity. Who can fill the void? Personal actuaries, derived from the ranks of pension and life actuaries, who have already been substantially trained to address the emerging needs. All they need is a clearly defined pathway that will promote an effective transition from their former disciplines into the financial services arena. Support from the governing actuarial bodies, such as the Society of Actuaries, is also needed to help create the appropriate channels and remove barriers.

Actuaries should not expect the financial industry to welcome them onto their turf. Nevertheless, given the compelling need for advice, and the skills and integrity that actuaries offer and can provide, the time for change is now; the opportunity to transition into the financial service sector has never been better and perhaps never will be.

Richmond Retirement Services is a boutique consulting firm specializing in risk management for individuals. Paul Richmond started his firm in 2001 after an eighteen year career as a principal with William M. Mercer. For further information about Personal Actuaries, please contact Paul at (412) 833-4170 or the e-mail address below, or contact Jim Brooks, chairman of the Personal Actuary Task Force, at jimbrooks@bellsouth.net or (770) 579-1454.
Take Advantage of SCF Section’s Resource Center

Do you ever struggle to find answers to business questions that are not designed for large companies? Remember seeing a useful article in a past newsletter issue but can’t quite remember the details? Or just need help getting started in a new business and don’t know where to begin? Remember that the Smaller Consulting Firm section has an online Resource Center that can help.

The page has links to many past newsletter articles, grouped by subject so they’re easy to find and explore. Topics included are independent actuary profiles, legal, marketing and others. You can review the wealth of advice that’s been featured in The Independent Consultant (TIC), find experts to contact for more help, and maybe see new topics you have not considered.

The resource center link can be found on this section’s page of the SOA Web site. You can also review the past year’s issues of TIC if you just want to get caught up or review what types of materials are available. The site is updated every few months, so explore frequently. And as always, let us know if there’s something new you’d like to see covered.

Preferred Mortality Study Preliminary Results to be Revealed at Annual Meeting

The SOA is currently sponsoring the largest, most complex and multi-faceted mortality study ever undertaken by an actuarial organization. Our initial research, to be unveiled Oct. 15-18 at the SOA Annual Meeting, will reveal the results of experience studies that will support redefinition of reserve requirements for preferred life policies. The likely outcome of this project will be to better reflect preferred mortality in life insurance liabilities while still assuring adequate protection for policyholders and investors. Learn more about this study by going to www.soa.org and searching for “preferred mortality.”
What’s the difference between a stage actor reciting Shakespeare and an actuary giving a presentation? “Not much,” says veteran stage actor, Dave Ferrie. In a workshop entitled “Using Acting Skills to Improve Your Presentation” during the 2006 Spring Health Meeting, Ferrie enumerated the many similarities between the two.

He revealed how actors, as well as presenters, must tell a story that their audience cares about. By deconstructing the technique of acting, he showed that actors and presenters have the same obstacles to success. Those hurdles include finding the right persona within yourself, rehearsal and, of course, stage fright.

Breathing techniques were covered for both relaxation and for effective vocal production. Speech, including articulation, rhythm, pause and climax, as well as tone and tunefulness, proved to be vitally important. Ferrie showed how body placement and movement are essential for effective presentations. He covered rhythm, body awareness, balance and feel. He revealed little tricks on body position in relation to the audience and what to do with your hands.

While nobody was doing soliloquies after the workshop, most did receive assurance that improving one’s presentation skills matters greatly for one’s professional image. And, we found, it isn’t as hard to achieve as we thought.

Acting Tips from Dave Ferrie:

- Acting is deliberate self-expression; it is communication utilizing a range of behavior.
- Stage fright: Get over it through relaxation exercises, but just do it.
- Commit to the performance.
- Listen and learn from others. Pay attention to their nuances. Record yourself.
- Relax your voice, articulate your words and make sure you can be heard.
- Use rhythm, pause and climax within each sub-topic.
- Default to emphasizing verbs unless you specifically want to emphasize another word in the sentence.
- Use tone and tune to color your speech.
- Place your body with your audience in mind.
- Use your body to help communicate your topic and its importance through posture and movement.
- Observe others at seminars, on stage, in movies and at parties.
- Use a mirror or video camera.
- Start today.
# Grade Your Presentations

by Stuart Klugman

<table>
<thead>
<tr>
<th>Weight</th>
<th>Description</th>
<th>Scoring Key</th>
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| 4      | Slides and/or overheads | 1 – A copy of a paper, dense  
2 – Edited, but hard to read  
3 – Contains key information  
4 – Proper information plus good design  
5 – Wow! |
| 2      | Eye contact and body language | 1 – Faces screen or computer and never looks up  
2 – Makes an attempt; but uncomfortable, distracting mannerisms  
3 – Aware of audience, but not interacting  
4 – Looks around and tries to catch reactions, few distractions  
5 – Holds a conversation with audience |
| 1      | Introduction          | 1 – None – just starts talking  
2 – Doesn’t give a road map  
3 – Brief set-up  
4 – States problem and lays out agenda  
5 – Gives a reason to stay tuned |
| 2      | Body                 | 1 – Disorganized, no flow  
2 – Can follow with some effort  
3 – Leads logically through points  
4 – Smooth path  
5 – Interest builds throughout |
| 2      | Conclusion            | 1 – Ends abruptly  
2 – Planned an ending, but not effective  
3 – Wrapped up, but no final word  
4 – Let you know what’s next and where to get more info  
5 – You leave happy |
| 3      | Time Management       | 1 – Had no clue, probably not practiced  
2 – Had an idea, but got off track  
3 – Had to modify pace to reach end  
4 – Planned in advance  
5 – No evidence that time was an issue |
| 2      | Understanding Audience | 1 – Assumed audience knows it all  
2 – Lost most of audience in early going  
3 – Aware of non-experts, but not satisfying  
4 – Recognized the variety of backgrounds  
5 – Communicated to that variety |

Stuart Klugman, FSA, is the Principal Financial Group professor of actuarial science in the College of Business and Public Administration at Drake University in Des Moines, Iowa. He can be reached at Stuart.Klugman@drake.edu.
We liked your proposal, but decided to go with a larger firm.” Ouch. Choosing to keep your consulting operation small and flexible is a disadvantage when clients seek the security and diverse skills offered by larger competitors. Pursue these opportunities by creating a virtual consulting firm that will add the volume you need to attract and maintain the clients for whom size really does matter.

Find your teammates by hunting or farming.

When a project arises unexpectedly, hunting may be your only option. Use your existing network, asking the headhunter’s classic question: “Do you know anyone who does …” You may uncover people quickly, but have little time to get to know if their skills and operating style match your needs. Your choices are also limited to who is available at that time.

Farming increases your choices and the likelihood of making a good alliance. Always be on the lookout for potential teammates. When you meet likely people, follow up. Invite them for coffee or lunch. Set up another meeting if the first goes well, and perhaps a third. Be sure you are compatible before exploring if they would be willing to join your virtual team.

Look beyond financial or actuarial skills.

Are they comfortable using technology? Are they willing and able to communicate well and often? Communication is the most important factor in making a virtual team successful, so ask them to describe experiences that involved frequent and complex communication. If you sense resistance to working this way, move on.

Stay in touch with viable candidates so you can build a relationship or understanding and trust before you take on a project together. You also gain a thought-partner for prospecting and business development, as well as project delivery.

Define your consulting relationship.

Do you create a temporary joint entity, with its own name? Are your teammates your subcontractors? How will the marketing and sale of the project be compensated? What resources and services does each teammate contribute? How will you handle contingencies? Capture all these issues in a written contract, drafted by your attorney.

Invest in building your team.

The Center for Creative Leadership’s studies show that those who don’t build their teams at the start need to go back and do so six months later. Virtual consulting networks provide special challenges. In addition to assuring that everyone understands and commits to a common purpose and recognizes interdependencies, you have the heightened effects of logistics, competing priorities, cultural differences and human nature.

Informal communication, an effective team’s most powerful tool, is harder to achieve. How will team members get their information? How can you create a “virtual coffee pot?” Virtual teams suffer more communication breakdowns than others. Conflicts go unidentified and so take longer to resolve, especially if relying on non-visual media like e-mail and phones.

Scheduling meetings can be complicated by infrastructure, time zones and communicating in nonnative languages. Other matters come into play such as who comes in early for a meeting or stays late? How do these decisions affect team identity, commitment and cohesiveness?

Virtual teams magnify the human factor. Distance reduces collaboration, so trust builds more slowly while the need for working interdependently may be high. Clarity about roles and responsibilities decays over time. Team members may struggle to balance the team and other commitments.
Best Practices Make the Difference

1. Pay special attention to the basics at the start.
Assess the goals and expectations of team members. Can’t bring team members together? The team leader should meet personally with all members to resolve stalemates and conflicts, create alignment on the mission, goals and individual roles and responsibilities, and make decisions such as who, when and how much. Write it all down. Review the stages of team development—forming, storming, norming and performing—so everyone will know what to expect.

2. Build trust and manage conflict.
Discuss how the team will build trust among members. Videoconference if you can. Devote 20 percent of each meeting to socializing. Use face-to-face meetings strategically. Cross-training members at other sites can produce influential goodwill ambassadors.

3. Discuss cultural differences.
Increase understanding and avoid stereotypes. Speak slowly and avoid jargon. Some cultures rely more heavily on nonverbal communication; others rely more on language. Choose your team’s technology accordingly. Tolerate side conversations; there may be a translation going on. Remember, culture shock is something we experience and inflict.

4. Co-create the team’s specific culture and find “third ways.”
Define how the team will work together, rather than defaulting to “the way we do it here is…” Reinforce that there is one team, not a Boston team and a Delhi team.

5. Ensure teams have and know how to use the best technology.
Can all members use and troubleshoot the technology (e-mail, video conferencing, etc.)? Use Internet chat and thread rooms to enable informal communication. Negotiate rules for using technology. For example, e-mail is a poor way to settle an argument, so switch to phone conversations when things get heated.

6. Redesign work processes for a virtual environment.
Make project plans and work processes visible everywhere (flow charts, process maps and nonverbal cues). Share information and power. Negotiate the timing of meetings and share the burden of accommodation.

7. Manage by milestones.
Emphasize deliverables, not activities. Encourage local decision-making and work methods. Agree that everyone will give early warning of difficulties, and hold the whole team accountable for solving them. Outlaw blaming and finger-pointing.

8. Practice leadership.
Due to less frequent and less informal contact, the leader has greater impact during interactions. Manage communication accordingly. Take responsibility for reinforcing the basic messages about the team whenever people join or leave.

9. Learn as you go.
Hold a postmortem after completing each milestone. Produce a “statement of learning” at the end of a project and/or before the team disbands.

10. Keep your sense of humor!

Virtual teams are more difficult to manage successfully than traditional, collocated teams. They require greater amounts of skilled attention to leadership, communication, project management and adaptability. If you make the investment, you will see significant rewards.

The Crowley Group is a global, virtual coaching and consulting firm that prepares leaders and their organizations for complex business and personal challenges, and partners with clients to navigate change.
What does it mean to be a section-driven organization? That was just one of the recurring issues discussed throughout the latest SOA Section Chair meeting last June in Chicago. I am not sure I can give a short definition of a section-driven organization, but perhaps some of the agenda items discussed at the meeting will give you a flavor of where sections are going in the SOA.

Section Reports
The first order of business was to approve section reports to be submitted to the SOA Board of Governors. These reports provide short summaries of what the sections have accomplished in the last year and what our goals and challenges are for the upcoming year.

SCF Section accomplishments included publications of this newsletter, our series of regional networking nights, sponsored sessions at SOA meetings, posting the results of our FAS assumption survey and web casts that the section has sponsored. Our goals and objectives for the upcoming year included a continuation of our regional networking nights and expanding our web cast offerings as the most convenient and efficient ways to provide ongoing educational services to our members. Most of you also received an e-mail blast in July regarding a possible name change to our section and the possibility of providing an expanded array of valuable premium membership services specifically tailored to the needs of entrepreneurs. We will have met in August to discuss the results of our survey. If the results look good and the Board of Governors approves, you will be hearing more on these new initiatives soon.

SOA Strategic Initiatives Reports
The SOA staff and the BOG have been working on many initiatives designed to better support sections and continue making progress toward becoming a section-driven organization. Some highlights include expanded communications with section leadership through monthly Web casts on various initiatives, expanded efforts to increase volunteerism from section memberships and various educational workshops for members and section leadership.

New Section Bylaws
The next order of business was to approve new bylaws for the sections, which were subsequently approved by the Board of Governors in June. If you would like to read all the section bylaws (and who wouldn’t), you can access them at the section page of the SOA Web site.
Small Group “Solutions Sessions”

We broke into small groups to work on things like improving communication and cooperation between sections, improving communications with the BOG, and making smooth leadership transitions on section initiatives as section councils turn over.

Principles on the Sections’ Use of the SOA Brand

As sections drive more initiatives, they become more prominent representatives of the SOA. So we heard a report from a subgroup that is working to define principles for the appropriate ways for sections to use the SOA brand when representing the SOA internally to members or externally to the public.

Principles on the Sections’ Use of Outside Vendors

This same subgroup is also working on principles for section use of outside vendors. How do we most effectively and flexibly meet the section needs for various services while retaining the “size efficiencies” that the SOA can provide? When does it make sense to use outside vendors versus internal SOA support? How should vendors be selected, and what is the process for contracting and gaining approval?

Proposals for Section Financial Guidelines

A discussion took place on preliminary ideas for how to maintain the financial integrity of section budgets.

Partnership Proposals

Section chairs networked on opportunities to work together on shared initiatives.

It is impossible to do justice in this short article to many of the initiatives being discussed, but you will be hearing much more in the coming months. For now, suffice it to say that it promises to be an exciting time to be involved in section activities. The move to a section-driven organization is an opportunity to become involved in grassroots efforts to lead future initiatives of the SOA. If you would like to get involved, contact a section council member to let us know. 📧
Ralph Williams was a middle-aged father who lived in the suburbs. His neighborhood and home were very nice and he had a fenced-in backyard. Ralph really enjoyed doing yard work and maintaining the property. He liked the exercise he got from using a push lawn-mower.

There was only one problem... there was a portion of Ralph’s back yard that resided beyond his fence (affectionately called “the outlands”). This didn’t present a problem except when it came time to mow the lawn.

The only way Ralph could get his lawn mower to the outlands was to drag it around the front of the house, cut through two neighbors’ yards and circle back behind his fence. Once he reached the outlands, it only took about 15 minutes to cut this portion of the lawn. However, getting the lawnmower there and back was a royal pain!

It required a lot of energy because the mower had to be pulled without the motor running (no self-propelling advantage) over hills and through bushes. Additionally, Ralph was slightly embarrassed cutting through his neighbors’ yards. The joy of yard work had become a chore that Ralph dreaded.

One day, Ralph had an ingenious idea. There was a teenage boy two doors down whose property actually backed up to the outlands. It would be easy for the teenager to take care of this—he had easy access to the outlands. And it would be a great relief for Ralph—he would actually enjoy yard work again.

So Ralph went over to his neighbor’s and saw the teenager outside. He said, “Tommy, how would you like to make some extra money?”

“Sure, that would be great!”

“Here’s what I need. I need you to mow the area of my lawn behind my fence once each week. I’ll pay you $5 each week. Sound good?”

Tommy thought about it and then said, “With all due respect, Mr. Williams, I can’t do it for $5, but I can do it for $15 a cut.”

Ralph was taken aback. “But, Tommy, this can’t take you more than 15 minutes. So I’m paying you $20/hour! Where else can you make $20/hour?”

Tommy paused thoughtfully and then asked the million dollar question: “Mr. Williams, what is it worth to you to have this problem taken care of each week?”

Tommy turned out to be a very savvy business man (putting aside any feelings you might have that he should have just helped his neighbor). He avoided the trap that most consultants and business owners fall into:
underpricing the value of their services. If your potential clients are focused on your hourly fees, you’re in trouble. They are trying to evaluate whether it’s worth it to hire you based on what it will cost them without considering what they will get in return. So they don’t have a context for your fees.

As a result they may see a fee such as $500/hour as expensive. Is it? The answer is: we don’t know.

First, how many hours will it take? The true cost is “hours times rate.” If my competitor has a rate of $250 per hour, but it takes them three times longer to achieve the result, the client will pay more using them.

More importantly, we need to help our clients see the value of what they’re getting so they can accurately determine if hiring us makes sense.

So back to the question, “Is $500/hour expensive?” Let’s say that this engagement will take 1,000 hours—so the client will pay $500,000. Sounds like a lot of money. And it is, if the client is only going to realize a small benefit.

What if, instead, the client realizes a $2 million increase to the bottom line each year as a result of your work? Sounds like a great deal to me. Context makes a big difference.

Tommy skillfully redirected Ralph’s focus away from “time and materials” and on to “the value of the result.” Tommy knew that taking care of the outlands was worth far more than $5 per cut to Ralph.