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Robert D. Shapiro
Editor responsible
for this issue

Editor

William C. Cutlip, FSA
wcutlip@compuserve.com

Associate Editors

Janet M. Carstens, FSA
carstej@towers.com
Sue A. Collins, FSA
collins@tillinghast.com
Robert J. McKay, FSA
Robert D. Shapiro, FSA
73231.102@compuserve.com
Marc Twinney, FSA

Assistant Editors

Selig Ehrlich, FSA
Craig S. Kalman, ASA
74262.2543@compuserve.com
Ken A. McCullum, FSA
102757.2132@compuserve.com

Puzzle Editors

Louise Thiessen, FSA
lthiess@accessweb.com
Dan Reichert

Society Staff Contacts

847/706-3500
Jacqueline Bitowt
Public Relations Specialist
jbitowt@soa.org
Cecilia Green, APR
Director of Public Relations
cgreen@soa.org
Linda M. Delgadillo, CAE
Director of Communications and Administration
ldelgadillo@soa.org

**The Actuary welcomes articles and letters.
Send correspondence to:**

The Actuary

Society of Actuaries

475 North Martingale Road, Suite 800
Schaumburg, IL 60173-2226

Web site: www.soa.org

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David M. Holland, FSA, President

Bradley M. Smith, FSA, Director of Publications

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EDITORIAL

The right questions

by Robert D. Shapiro

The financial services industries most of us serve are fundamentally changing. So it's critical that our profession change, also, to meet the new needs of those and other industries using our services.

Conventional wisdom has become an oxymoron. Consider a simple but important example from the life insurance industry.

Career agents are becoming scarcer and more sophisticated. As a result, their role has changed from "captive agents" to "customer relationship owners," often resulting in a "captive home office." Conventional wisdom has led many home offices to seek alternate distribution systems (e.g., brokers, banks), often with some increased sales but with continued distancing of the insurer from the ultimate customer. Most future life insurance company winners will be found among companies that reinvent their marketplace models around long-term institutional relationships with targeted customers. Although "customer-driven" is a phrase found in most life insurers' strategic plans, it is often reflected only in surface activities around a continued "search for agents."

At the core of the transformation among insurers is the consumer. His or her level of knowledge has increased. Consumers don't want "products"; they want information, education, and advice from experts they trust. A consumer's basic loyalty is no longer to the brand.

Issues transformed
The defining issues for our industry have ceased to be capital, sales, and expense cuts. Although ratings, growth, and efficiency are still important, those old defining issues have emerged into three broader ones. Information, customer relationships,

and effectiveness (i.e., clear value added) will separate the winners from the losers from now on. The right questions to ask in the new environment are:

1. *Who are we working for?* How must we prioritize our various stakeholders?
2. *What do we want to be when we grow up?* "What are we trying to build" versus "how can we improve what we did last year?"
3. *How can we tell if we are getting there?* Is this year to be measured against last year — or against the desired next step in achieving our targeted results?
4. *What is "superior performance"?* What types and levels of success show that we are leaders?
5. *Are we doing the right things?*
6. *Are we doing them right?*
7. *How must we change?*

Today's incentive driver
For insurance companies, these questions are pushing management to place customers — not agents, management, or even shareholders — at the front of the line. More and more financial organizations are establishing customer satisfaction as a key performance measure, driving incentive compensation from satisfaction results. The ensuing domino effect often requires a reinvention of strategies, processes, systems, organization structures, and even the company's culture itself.

Too many companies — and unfortunately, too many actuaries — are turning a conventional eye to the new environment. It's unconventional wisdom, innovative ideas, and courageous thinking that will win in the years ahead, both for the companies we serve and for the actuarial profession.

**Bob Shapiro's e-mail address is
73231.102@compuserve.com.**