

By Sarah J. Sanford and Michael L. Kaster

A Moving Image

Reflecting the Future of the Actuarial Profession

ACTUARIAL JOKES ASIDE, it should come as no surprise to anyone (actuaries least of all) that their image may be something of a double-edged sword. For more than a century, actuaries have been perceived as the bedrock of the insurance business, purveyors of hard reality, voices of reason and caution whenever the marketing side strayed too far toward irrational exuberance.

So it's not surprising, at a time when actuaries want to branch out into new, more adventurous fields, that their traditional image might be something of a handicap.

"The image of the profession is something we all care greatly about," says Barbara Lautzenheiser, president of the American Academy of Actuaries. "We have many strengths as a profession that can help the public in many different arenas. The question is, do the public and employers realize this?"

"There are common misperceptions out there about our profession," echoes Mike Lombardi, president of the Canadian Institute of Actuaries. "Both Canadian and American employers seem to share these misperceptions—and not everyone is aware of that."

"Is there a problem? You bet," agrees Neil Parmenter, president of the Society of Actuaries. "The image problem is the proverbial 'elephant in the living room' that everyone—by tacit agreement—seems to either ignore or avoid speaking to directly. But it's an issue that needs to be addressed *now*."

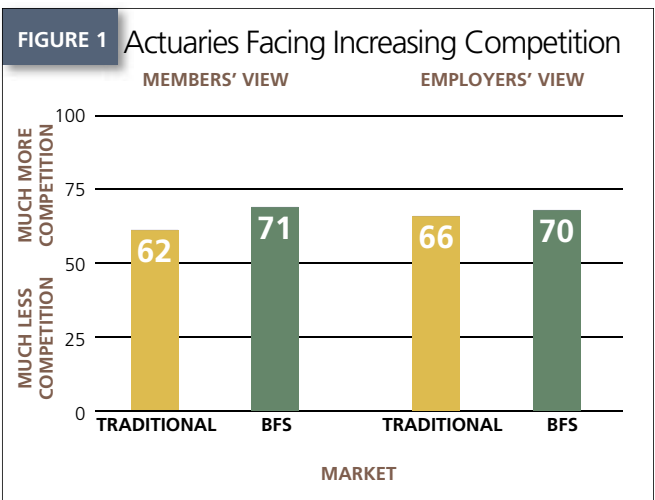
The Extroverted Actuary

Q. How can you tell an extroverted actuary?

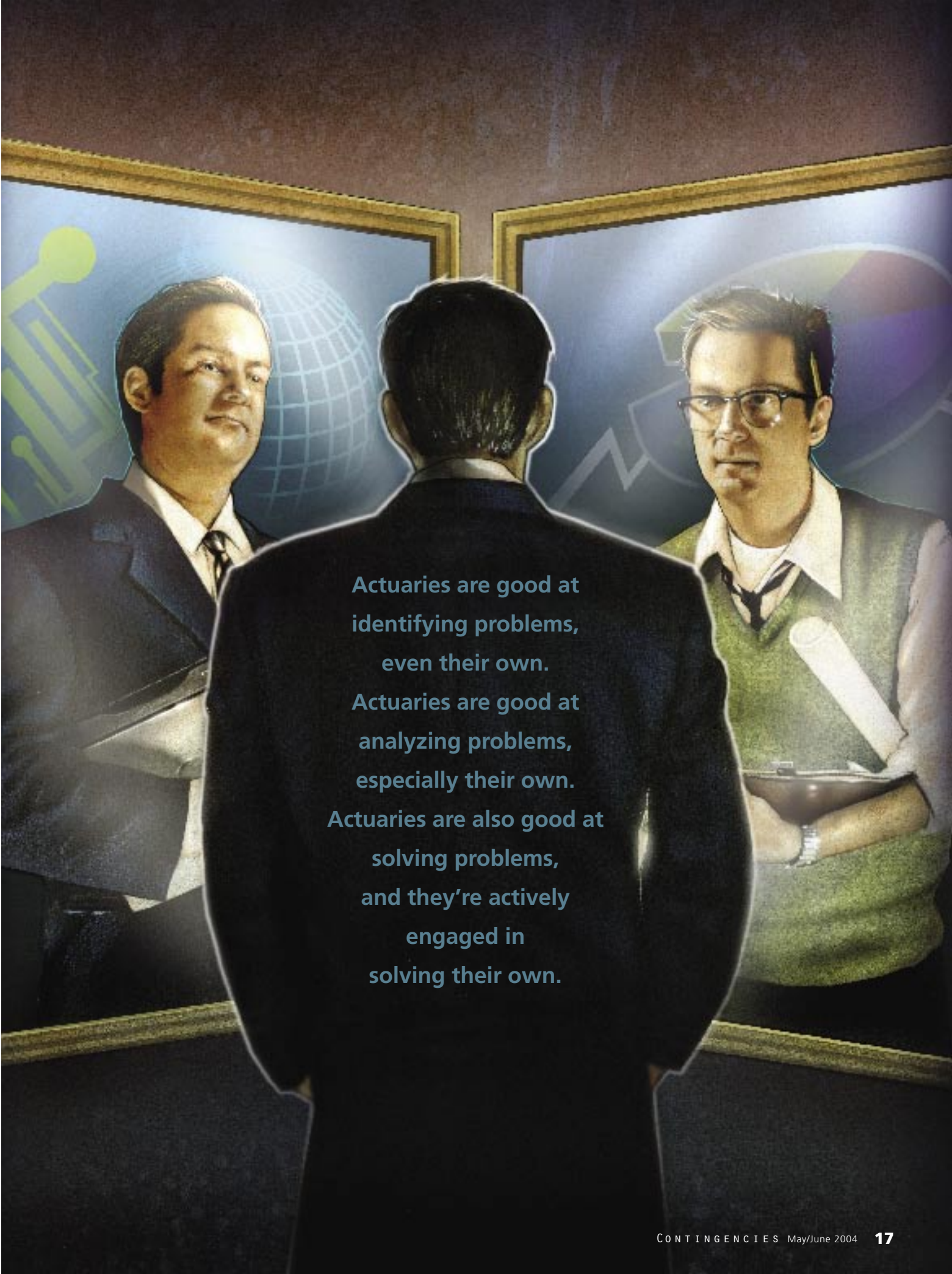
A. He looks at your shoes when he's talking to you.

Historically, actuaries are a relatively small community (approximately 25,000 in North America) engaged in work that many outsiders regard as arcane and tedious but essential to the profitable operation of the insurance business. Secure in their position, they've always been able to laugh off negative stereotypes. So what if nobody else understands what actuaries do? They understand it perfectly.

Actuaries themselves admit they haven't always been good at explaining what they do to outsiders—even employers and potential employers. As more and more have gone into the benefits consulting business and become entrepreneurs, they've had to develop new skills, becoming communicators as well as actuaries.



ROB JOHNSON



Actuaries are good at identifying problems, even their own.

Actuaries are good at analyzing problems, especially their own.

Actuaries are also good at solving problems, and they're actively engaged in solving their own.

FIGURE 2 Employers' Rating of Actuaries' Skills

HIGHEST Performance Rating	<ul style="list-style-type: none"> ▶ Ethical ▶ Quantitative (modeling) ▶ Solving complex problems ▶ Financial assessment and reporting
LOWEST Performance Rating	<ul style="list-style-type: none"> ▶ Bold, takes informed risks ▶ Business communication skills ▶ Proactive ▶ Can focus on big picture ▶ Business acumen

FIGURE 3 Employers' Rating of Actuaries' Skills

Skills that Need MOST Improvement	<ul style="list-style-type: none"> ▶ Business communication skills ▶ Focusing on the big picture ▶ Business acumen ▶ Being proactive
Skills that Need LEAST Improvement	<ul style="list-style-type: none"> ▶ Ethical ▶ Quantitative (modeling) ▶ Financial assessment and reporting ▶ Solving complex problems

FIGURE 4 Employers' Rating of Competing Professionals

HIGHEST Performance Rating	<ul style="list-style-type: none"> ▶ ethical ▶ Team player ▶ Reliably gets right solution ▶ Proactive
LOWEST Performance Rating	<ul style="list-style-type: none"> ▶ Risk management ▶ Industry knowledge ▶ Bold, takes informed risks ▶ Adviser

Enter Risk Management

Within the insurance industry—the traditional actuarial stronghold—market forces are changing the way business gets done. Companies are using more diverse distribution channels than ever before to achieve customer focus and intimacy. Cost-cutting is also on the rise, as companies strive for reduced operating expenses in hopes of maximizing shareholder value. And who knows what impact the decline of defined benefit pension plans and changes in the ever-volatile health insurance business will have?

At the same time, the barriers between the various components of the modern financial services industry are crumbling under the effects of the Financial Services Reform Act of 2001.

Rather than separate silos of narrowly defined interests, enterprise-wide risk management is the new world order. Companies have created a new executive position, corporate chief risk officer, as someone who can evaluate and supervise all the risks a modern company faces.

Actuaries see themselves, their analytical skills and rigorous thought processes, as a perfect fit for this brave new world. The question is, do their potential employers? Suddenly, actuaries find themselves competing with MBAs, accountants, economists, financial engineers, certified financial analysts (CFAs), and numerous others for these important new positions.

What do actuaries bring to the table that these others don't? Do employers have an accurate understanding of the actuary's position in the new financial landscape? Or are their perceptions based on misunderstanding and stereotypes?

What Actuaries Are Up Against

To attempt to answer these questions, the Society of Actuaries (SOA) recently conducted two rounds of research that evaluated perceptions of employers and potential employers of actuaries, as well as the same perceptions among actuaries themselves.

In addition to the recent surveys, the SOA reviewed 17 years of research conducted by actuarial organizations. This extensive effort (sponsored by the SOA's Strategic Planning Committee) was performed to see if employers harbor negative preconceptions about the actuarial profession and if the market's view of actuaries is in alignment with how actuaries view themselves. Were the two in agreement, or was there a substantial disconnect? The answers were somewhat surprising.

In the 2003 SOA surveys, respondents were asked if the profession faced more or less competition from related professions than in the past. There was agreement from both actuaries and employers of actuaries that there is more competition than ever today.

While MBAs, certified financial analysts (CFAs), and other risk management professionals are encroaching, to some degree, on traditional markets, actuaries are competing with these same professionals as they seek to enter nontraditional areas, such as the broader financial services market.

This situation will continue to evolve as actuaries advance in new markets. And advance they have. From 1990 to 2002, the number of SOA members working for banks and investment advisers has grown at an annual rate of 15 percent. These pioneering actuaries, working to establish beachheads in new markets, need to be armed with as many weapons as possible to ensure their success and, by extension, the profession's. If actuaries' role in traditional areas is shrinking, it's even more important for the profession to support these pioneers in new territory.

Meeting Market Needs

Remaining relevant in today's marketplace—in either traditional actuarial positions or new markets—requires that employers view actuaries as possessing the right skill sets for the positions

they're trying to fill.

In the 2003 member survey, respondents were asked to rate actuaries on 18 specific skills and characteristics (ranging from quantitative analysis and complex problem solving to business communication skills and overall business acumen). For each attribute, they were asked to separately rate actuaries' performance and the need for improvement. At the same time, the market survey asked employers to rate the performance of actuaries versus "others typically employed"—competitors—on the same set of attributes.

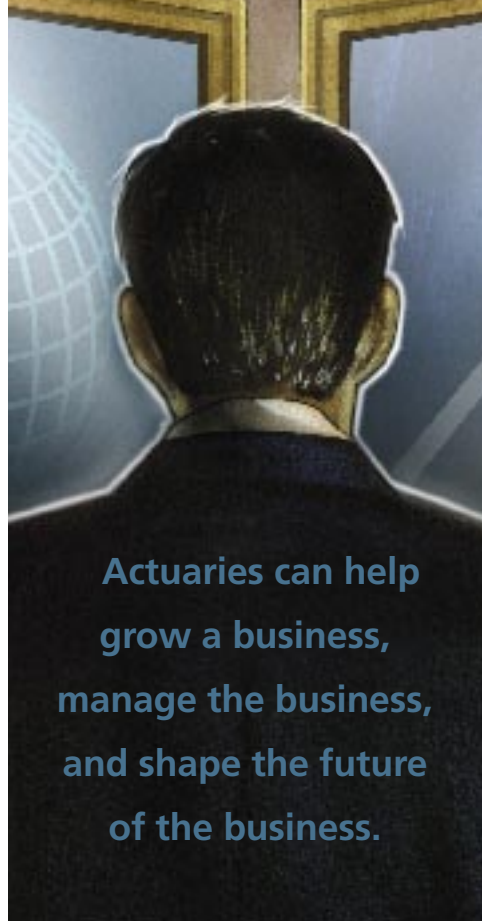
Actuaries rated core actuarial skills such as "quantitative modeling" and "solving complex problems" high in performance and the need to improve these skills as relatively low. Employers rated actuaries' performance the highest in "being ethical," "quantitative modeling," "solving complex problems," and "financial assessment and reporting." The good news is that both sides seem to be in relative agreement on the strengths of the profession—an opportunity for actuaries.

"While the profession has many strengths, there is still a need for improvement," says Parmenter. "There's great potential for actuaries, according to the research. Our strength in quantitative modeling and solving complex problems is clear, and this is a skill the market needs, especially in an ever-changing and evolving environment. We need to leverage this strength and show new-market employers that the actuarial skill set applies to their business issues. Actuaries can help grow a business, manage the business, and shape the future of the business."

Both actuaries *and* employers agree that the profession needs to improve in the same four skills: business communication, ability to focus on the big picture, business acumen, and being proactive. Business communication was identified by both groups as the top issue needing improvement.

Further qualitative research, as well as substantial anecdotal evidence, validates this data. Countless times during discussions with top executives it has been pointed out that actuaries—as a whole—are less and less involved in the senior decision-making process. When asked why this is the case, business leaders overwhelmingly point to the same reason—a perception that actuaries aren't skillful in communicating the knowledge they have. Actuaries will become marginalized if they cannot convey the key business implications of their analyses to senior management.

"Businesses today need individuals who can process a rapidly evolving environment and provide thought leadership to help advance business opportunities," says Mary Frances Miller, president of the Casualty Actuarial Society. "When compared



to competing professionals, the market is saying that they think actuaries should be thought leaders to their business issues. The market doesn't look to the MBAs, CFAs, accountants, or any other profession to provide this thought leadership. Actuaries are perfectly positioned to be the thought leaders in the area of managing risk."

But reviewing the profession itself isn't sufficient; we must also understand with whom we're competing. Within the data analysis, employers scored competing professionals highest on intellectual agility, being proactive, reliably getting the right solution, being a team player, and being ethical. The competition scored lowest on risk management, industry knowledge, being bold,

taking informed risks, and being an adviser. Being an adviser, i.e., providing thought leadership, was again shown as the actuaries', not the competing professionals', forte.

With regard to business communication, competitors were rated substantially higher. Thus it appears that the competition is strongest where the actuarial profession is weakest.

Employers in the broader financial services market rate actuarial performance in a very similar manner as traditional employers. However, they rate actuaries with an even lower score than traditional employers in business communication, business acumen, focusing on the big picture, and innovative thinking—a factor that would seem to predict even greater challenges to actuaries looking to advance in this booming area.

"The days of actuaries' being content to talk just to each other, using impenetrable jargon, are over," says Lautzenheiser. "We need to rethink and change the entire actuarial culture. We are not our audiences. Others are! We need to find ways to share our knowledge, expertise, and thought leadership with the world."

Credential Value

Consistently, members of actuarial organizations report how important the "value of the credential" is to them. How valuable are actuarial credentials to employers? In the survey, employers were asked to identify the three primary credentials they look for when hiring professionals to help their organization manage risk *in all forms*.

In this area, there's a dramatic split between traditional employers and employers in broader financial services markets. In the traditional markets (insurance, reinsurance, and consulting), a large majority of employers consider an actuarial credential when hiring risk professionals. In the newer fields,

FIGURE 5 Employers Who Consider the FSA or ASA Credential When Hiring

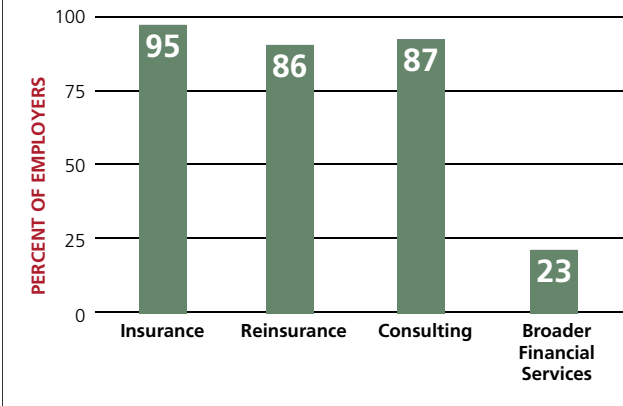
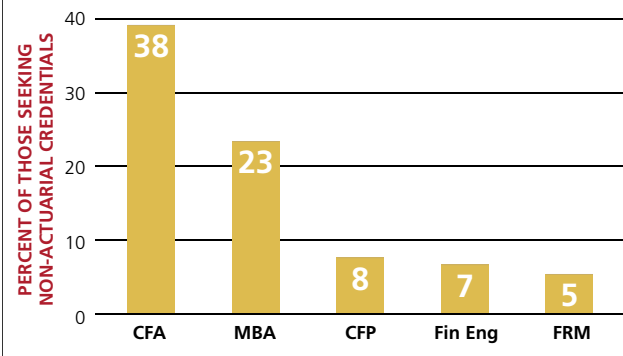


FIGURE 6 Credentials that Members Pursue Today



however, actuarial credentials are still not recognized.

In the broader financial services market (nontraditional markets), the majority of employers look for a CFA and MBA, though the financial risk manager (FRM) and advanced degrees in finance also rank above actuarial credentials.

Our research indicates that this is due, in part, to the images associated with the competing professionals. MBAs are often viewed as well-rounded professionals, capable of applying their skills and knowledge to a wide range of business problems, whereas actuaries are sometimes viewed as analytic and numeric and not able to “see the big picture.” Being aware of this perception, many actuaries are acquiring additional education following their attainment of the ASA or FSA designation.

In the 2003 member survey, nearly 20 percent of respondents indicate they’re currently seeking a non-actuarial credential or intend to do so within the next two years. Of those individuals, most are seeking either an MBA or the CFA designation. Survey responses from those pursuing an MBA indicate that the chief motivations for attaining this credential are improved business skills, expanded career options, and the sheer value of holding a more widely recognized credential. The motivation for pursuit of the CFA designation is quite similar.

Going Forward

The problem has been defined. What’s the solution? The survey results were recently reviewed with the Council of Presidents and Presidents Elect (COP/COPE) of the actuarial organizations in North America. Leaders of these actuarial organizations are in complete agreement that some action must be taken.

“We’re a strong profession,” says Lautzenheiser, “with many individuals who can help solve problems at many levels. This is true not only for employers but also for the public. We simply must do a better job of communicating to these constituents, so that they see the value we can provide.”

Crowder agrees: “In order to improve the image of the profession, we must consider an integrated plan, which addresses many of the elements identified in the recent research. There is no question that our image as a profession is in need of change. And there is no question that we can no longer rest on our quantitative strengths; the market expects more of actuaries. Improving skills to help businesses through thought leadership and business acumen is important. Once we have put in place initiatives to improve these skills, we will also need to start selling the profession and the unique set of integrated skills that actuaries bring to business situations. And perhaps most important, we need to all work together—as a profession—to accomplish these goals.”

While the research points out some sobering truths, and certainly indicates a call for action, the news is not gloomy. There are challenges ahead, but actuaries—if they choose to do so—can have strong input into how their image is promoted and advanced.

“The profession is still highly regarded,” says Parmenter. “But we can’t assume that this regard will continue. We’ve seen that in the blink of an eye, a profession can fall from grace. We, too, are vulnerable to this possibility. But if we keep our focus on continual improvement and advancement of our profession, we will remain vibrant and relevant.”

By addressing the “image issue,” the actuarial profession will be able to continue not only to maintain its relevance but also to expand successfully into new markets. This process will certainly not happen overnight but will be the work of a committed, ongoing effort. If successful, perhaps it will even mean the end of the traditional “actuarial jokes” so commonplace today and the arrival of a whole new image. ●

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