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Spring 2007

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Seeking Your Summit Goal

A Seat at the Table

Less-Traditional
Careers for Actuaries

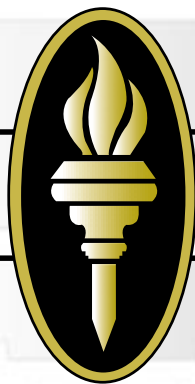
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Actuarial Job Seeker

Spring 2007

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Modeling a Career as an Actuary

“What Do You Want to Be When You Grow Up?”

This age-old question is posed to children at the youngest of ages. The odds of “actuary” being uttered by a grade-schooler are remote, even if the child enjoys arithmetic. But this question shouldn’t just be asked of youth. It’s one we all should ask ourselves on a regular basis. Whether as part of a New Year’s resolution or an annual job performance evaluation, ask: “Where do I see myself in the future, how will I measure success, and what will I need to get there?”

So, where do you see yourself in the future? Applying mathematical skills in an educational setting? Providing broad analytical support in any business environment? Exploring the actuarial trek?

For me, the decision to pursue an actuarial career was based on consideration of the challenges, satisfaction, and financial rewards this line of work would bring.

I’ve enjoyed mountain climbing for years and find this hobby surprisingly analogous to career choices. For example, some individuals are satisfied with the view from the top of a knoll in a local park, while others aren’t satisfied until they’ve summited the highest peaks. It doesn’t matter whether you scale the small hill or an 8,000-meter peak: It’s your view,

and only you can decide which scene satisfies you. Regardless of the perspective you choose, you must first assess your skills to determine whether achieving it is possible or what additional skills you first will need to acquire.

My Summit

There is certainly an assortment of actuarial careers, most of which I explored over the years. Pricing and reserving positions, while they afforded an initial challenge, soon became too repetitive for my taste.

My personality led me to focus more on my career than exams, which predisposed me to certain actuarial positions. After several exploratory routes, I found my summit goal. My summit is a position with a leading reinsurance broker where

I use my actuarial expertise to help many different companies manage catastrophic loss potential.

Setting your mind upon any goal requires some exploration. Give yourself time to explore and decide what you want your summit to be. For me, my summit was evaluating low-frequency events that have high severity of loss — for example, Hurricane Katrina. I use catastrophe simulation modeling to help companies estimate their potential for loss from such events, and evaluate the cost-benefit trade-offs of alternative reinsurance programs that can be used to reduce an insurer’s losses after a devastating event.

My current position is exciting because it provides great variety in risk analysis. In addition to natural peril ca-



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Skills in simulation modeling and data mining will allow the knowledge gained from the actuarial curriculum to be brought to bear on the analysis at hand.

tastrophe simulations, my team digs deep into professional liability exposure, large workers' compensation losses, and complex liability lines of insurance. The work is challenging and always changing, and I'm able to use my interpersonal skills and analytical skills to maximum benefit.

Even though I genuinely enjoy my job, my summit could change. Future circumstances could arise that may motivate me to seek a new summit—perhaps a higher peak where there's more chance of risk or a less demanding climb in a more comfortable environment.

How to Prepare for Your Journey

It's difficult to determine what you need to have ready for your journey. For mountaineers, you carry the bare essentials and take the risk that you have adequate equipment and supplies for the summit. It isn't very different for a career. You could decide not to begin working until all exams, MBA programs, and CFA certifications are completed. After all that effort, you certainly have a more than adequate supply of tools in your backpack. But you may have given up too much time before you even get started on the trail. So what do you need?

The actuarial services in demand today are different from those in the past.

Far more complex questions require actuarial input. Specifically, data to support actuarial services is far more readily available than in the past, and this expedited access to data is matched by the speed of decision-making. Technology has permitted actuaries to inject more powerful analytics into the process in order to more quickly mine the data and provide advice and counsel to management. Entrants into today's actuarial careers can benefit from being proficient in simulation modeling and software application development. Skills in simulation modeling and data mining will allow the knowledge gained from the actuarial curriculum to be brought to bear on the analysis at hand.

If you're beginning an actuarial journey, it's wise to first become knowledgeable about the risks you'll be asked to evaluate, whether they relate to reserving, underwriting, operations, or other types of risks. A full understanding of the components of the risk is vital in determining what data you need to gather in order to analyze the risk. Obviously, historical precedence can be a major contributor to the process, but a student should always question and explore alternative approaches.

Researching other fields of risk can

also benefit the methodology applied to the analysis under consideration. Just as in mountaineering, if you know the crux of the route ahead is a frozen waterfall, then you can be prepared with the proper tools to handle that risk.

Mapping Your Route

Whether you're a college student, a recent graduate, or a professional seeking an actuarial career later in life, my suggestion is to consider what view you want and what skills you have (or need to acquire) to get there. Meet with actuaries in different positions to understand what resources are in their backpacks and what their journey has been. Then, find your route and arm yourself with the right tools to have a successful journey.

Think Two Steps Ahead

When on a difficult rock face or ice route, you must think multiple steps ahead. If you satisfy yourself with the next few steps just because they're easy, you may be faced with an insurmountable task later on and have to backtrack to recover.

Do the same with your career: Think two jobs ahead. What will the opportunities be after you've mastered the skills of your next job? While it's difficult to forecast beyond a few years, you can reasonably measure what the job opportunities will be just one job ahead. Explore that next job, and see if it's a path that interests you.

When you reach your own summit, enjoy the view. But more important, enjoy the journey. Look deeply into yourself, challenge yourself, and discover the heights you can reach when you grow up. ▲

John Tedeschi is managing director of Guy Carpenter's Instrat® unit in New York City.

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A Seat at the Table

Less-Traditional Careers for Actuaries

A quick Google search reveals that actuaries still rank high in the “Best Jobs in America” surveys. These days, however, it’s no longer a given that the actuary will have a seat at the decision-making table. Gone are the days when actuaries were guaranteed a corner office by virtue of their professional credentials.

Nowadays, there are many talented

reason cited was the increasing effort needed from the actuaries just to satisfy the day-to-day compliance requirements, servicing of the business, and other routine functions.

The problem is, the profession is too often focused on compliance and not always on tackling the core business issues facing companies today. Instead of value-

ance-oriented tasks. Unfortunately, with the underlying actuarial processes and infrastructure under stress, even in these areas the ball is sometimes dropped, which doesn’t earn the confidence and respect of the C-suite. If we’re not careful, actuaries might be increasingly seen as the problem instead of the solution.

The CFO of an insurance company (with growth and profitability challenges) recently complained that instead of focusing on solving the tough competitive issues the company faced, many of its actuaries — including some of the smartest and most highly paid talent in the building — spent their day moving and cleansing data. FSAs with years of experience were doing many of the same things they did as actuarial students. Some artists love to work with oil on canvas. Actuaries love their data, untamed and wild.

How We Got Here

With all the changes in the insurance industry over the past decade, it’s not surprising that actuaries find themselves in this position. The consolidation trend has reshaped the competitive landscape because of the need for critical mass and economies of scale. Two decades ago, there were many insurance companies with job opportunities for life actuaries in Chicago and other major cities. At that time, insurance companies offered job security and a comfortable, 9-to-5 workday. Now, many of the companies are gone, the workday of those remaining is much longer, and there may be more job security at the consulting organizations.

Many actuarial shops at insurance companies are now barely keeping their heads above water. Whether through mergers and acquisitions or organic growth, the size and complexity of com-



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individuals in organizations who would be more than happy to take their seat. These include accountants, bankers, risk managers, chartered financial analysts (CFAs), and the list goes on.

A lead actuary for a large business unit of a company on the East Coast expressed his worry that his actuarial organization was gradually losing relevance in the company. Key financial and strategic decisions were increasingly being made with less actuarial input. A major

adding risk management, we spend inordinate time demonstrating statutory reserve adequacy for regulatory compliance purposes. Instead of analyzing and explaining earnings, we’re translating data, calculating, and checking the numbers. Instead of providing timely decision support, we spend months updating models.

It seems we’re allowing ourselves gradually to succumb to the gravitational pull of routine processing and compli-

panies have grown tremendously while the size of actuarial organizations has not. Actuaries are constantly being asked to do more with less:

- More complex and frequent financial reporting;
- Faster close cycles, zero tolerance for error;
- More innovative products, more options and guarantees;
- More risk management, hedging, and stochastic modeling;
- More forecasts and projections, more decision support.

You get the picture.

Unfortunately, all too often our actuarial technology and processes have fallen into disrepair. They have become outdated and ill-equipped to meet the current and emerging needs of the business. While other parts of organizations have aggressively embraced technology to cut costs and improve service, actuarial use of technology has been gradual and incremental. In many ways, the solutions the industry uses today haven't changed since the early 1990s.

SOX 404 Case Study

One can argue about the cost-benefit trade-offs of the internal controls required by Sarbanes-Oxley Sec. 404 (SOX 404), but one thing SOX 404 has done is expose, for all the world to see, some of the shortcomings of actuarial valuation processes and controls used for GAAP financial reporting. (Unfortunately, these are probably among the better controlled processes in the actuarial domain, so the industry and profession have a long way to go.)

Generally speaking, actuaries don't like documentation and don't like controls. We especially don't like to document that we actually performed a control. We also don't like other people looking over our shoulders and sticking their noses into our actuarial business.

We do like flexibility; the more the better. And we love our data. We love to touch it and let it slide through our fingers, change it where necessary, and take

it with us throughout the day as we do our work. Most of all, we love our spreadsheets.

The problem is, the actuarial world is clashing head-on with SOX 404, and SOX 404 is winning. Many public companies have come to realize that their actuarial valuation processes involve extensive data manipulations and use of spreadsheets (often numbering in the hundreds) in end-user computing environments that lack proper system controls. These companies have been forced to significantly improve their documentation, layer on numerous additional controls, and add staff to meet SOX 404 requirements. It's only a matter of time until companies reach a breaking point and decide that the processes themselves need to be transformed.

Transformational Change

Fortunately, there is a light at the end of the tunnel. Some leading organizations have begun to achieve the vision that many companies have — a future where the primary valuation, financial modeling, and risk-measurement processes are integrated, automated, flexible, and controlled. Gradual, incremental change won't get the job done. Getting there requires transformational change.

There are people, process, and technology dimensions to this transformation, key elements of which include:

- Properly designing the actuarial technology environments to serve multiple related business needs;
- Redesigning and automating processes and embedding the right controls;
- Developing appropriate data governance and data management strategies and techniques;
- Leveraging best-in-class actuarial technology and other software tools;
- Rethinking system development and maintenance protocols;
- Creating high-performance computing capabilities;
- Establishing the proper strategic alignment with the technology organization.

Increasingly, companies have some of these elements present, but most companies still have major gaps, and only a relative few have mastered the game. Unfortunately, our critical actuarial processes are only as good as the weakest link. Getting to the goal state isn't easy, and it won't happen overnight, but it's increasingly clear that this is the direction the industry and the profession need to take.

Make the Case

Actuarial transformation is needed to improve many of the mission-critical actuarial processes at insurance companies, including financial reporting, planning and forecasting, and risk and capital management. Not doing so only prolongs the misallocation of actuarial talent, exposes companies to unnecessary risk, and prevents companies from gathering the right tools and talent at their disposal to tackle today's financial and competitive challenges.

Today, the industry is uniquely positioned to address the complex needs of baby boomers as they move into active retirement. The actuarial profession is making great strides in positioning itself for continued success; the emergence of risk management as a practice area is an excellent example. Demand is increasing for actuaries, especially those with strong communication skills, financial expertise, and good business sense. Actuarial leaders of the future will be technology savvy and better leverage the power of technology to put actuarial talent to its highest and best use. Companies and individuals that excel (no pun intended) in this area will outperform their peers.

As a famous non-actuary from Hibbing, Minn. once said, "The times, they are a-changing..." We'll all have to change with them if we want a seat at the table. ▲

Mike Hughes is a principal in Ernst & Young LLP's Insurance and Actuarial Advisory Services practice in Chicago.

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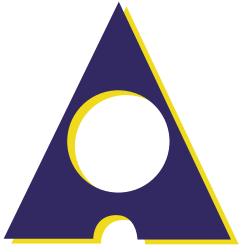
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Ask Pauline Reimer of Pryor Associates the key to her actuarial recruiting success, and she'll share a unique fact: Pauline is an Actuary herself!

Achievement of her Associateship in the Society of Actuaries (A.S.A.) and completion of several Fellowship examinations were important milestones in her life as an Actuary. But the decade of "real world," hands-on experience Pauline gained while employed by major insurance and consulting firms as an Actuary gave her the in-depth understanding of the business that sets her apart from the typical Actuarial Recruiter. In addition, her appointment to the Executive Board of ASNY (Actuarial Society of greater New York) as the Vice President of Public Relations further enhances her involvement in the actuarial community.

Career Re-focus

It was 20 years ago that Pauline reassessed her personal and professional goals and joined Pryor Associates, a professional recruitment corporation established in 1969.

"While employed as an Actuary, I encountered the common experience with many of my colleagues of being contacted by various recruiters who often lacked the knowledge of the Actuarial field and especially of the Examination process."

Pryor Associates specializes in contingency and retained executive search and placement within the insurance and employee benefit industries and their related environments. The Actuarial Placement Division, which she has directed since 1986, services life, health, property and casualty insurance; pension and other employee benefits; systems, accounting and finance-related industries, domestically and internationally.

Dynamic changes in the marketplace, including globalization and capital markets, have resulted in Pryor's increased emphasis on these and other emerging trends as they impact the actuarial profession.

View From the Top

Pryor Associates has been named one of the top 25 regional recruiting firms by Dun & Bradstreet. According to Pauline, the agency's growth stems from successfully identifying and attracting Actuarial talent and matching candidates to each client's unique needs—all while scrupulously maintaining confidentiality, discretion and professionalism in an environment guided by the principles of "prompt follow-up" and "prompt follow-through." Each step of every client assignment is personally handled by Pauline Reimer herself. No client is ever relegated to just an Assistant. Pauline's knowledge, personal dedication to each search assignment and her exceptional "over-the-top" service—enhanced by state-of-the-art technology and a professional, experienced support staff—have resulted in an **impressive personal placement record of a 99% retention rate as well as a 100% success ratio in retained searches.**

Understanding the Market

Maintaining such high success and retention rates requires Pauline's involvement in various levels of the industry. To remain on the cutting edge, Pauline participates in many and varied Actuarial seminars and conventions each year, increasing her familiarity with Actuarial talent and the evolving responsibilities of the Professional Actuary in the current and anticipated business environment. Furthermore, her dynamic speaking schedule at local universities is a crucial initial introduction to future actuaries where she has often been solely responsible for initiating the actuarial careers of many of these students.

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Among her notable accomplishments is serving as Chairperson for the annual ASNY Career Fair, the largest such gathering of future actuaries and hiring sponsors worldwide.

Pryor's state-of-the-art technology has enabled it to assemble and maintain an internal database of actuarial talent ranging from recent graduates through chief executives, complete with up-to-date information of educational and professional credentials, as well as geographical preferences. This has been an invaluable tool in matching ideally suited candidates with potential employment opportunities in the most efficient and timely manner.

It Takes One to Know One

"Developing long-term, mutually beneficial relationships is the key to my continued success in the Actuarial Recruiting business," Pauline said. First-hand experience, credentials, integrity, and dedication—synergies that result when "an actuary places actuaries."

Pryor Associates is a charter member of the INS (Insurance National Search, Inc.), a national search network serving the insurance industry. For more information about Pryor Associates and Pauline Reimer, including the agency's services and a partial list of past and present client assignments, please log on to Pryor's interactive website at www.ppryor.com.

Risk Management

A Role for Actuaries

Actuaries have always managed risk. But as the world of financial services changes, actuaries need to be creative about how and where they ply their trade.

Certainly much of what an actuary does feels like risk management. Product design, for example, focuses on ensuring that the risks embodied in the product are “reasonable.” Actuaries ask the hard questions. Can a product be adequately quantified and priced? Does the product incorporate adequate safeguards against antiselection? (Antiselection is broadly defined as individuals selecting “options” available to them in the product that enrich them at the expense of the financial institution offering the product.) Do the administrative procedures reinforce the safeguards built into the product design?

The theme that pervades actuarial risk management is one of judgment, of making informed trade-offs among product features, administrative procedures, and the price and marketability of the resultant product. While this approach has many strengths, it can lead to a lack of comprehensive and integrated understanding of the risks taken on by the company. Each expert, or body of experts, knows his or her piece of the picture. But experts sometimes have a hard time seeing the company as a whole. Usually, only a few people have intimate knowledge of the risk trade-offs embedded in any product.

The result is often an uneven approach to pricing risk and quantifying downside exposure across the organization. Risks managed through product design are often unquantified, with risk quantification

being limited to the pricing process. Risk retention or transfer decisions are based on overall guidelines and past practices rather than the unique attributes of each risk exposure.

Risk Management and Banking

While actuaries have informally been the primary risk managers in insurance enterprises, the banking industry has developed formal risk management functions. Risk management is generally split between credit and market risk within the bank. In addition, there’s often a risk management unit, independent of all the business units in the bank, that reports directly to the CEO and is responsible for risk management across the bank. As a core function within a bank, risk management is responsible for:

- Policy development and implementation;
- Approval of pricing models (for financial instruments traded by the bank);
- Development of appropriate risk measures;
- Allocation of risk-based capital to trading operations;
- Risk position and limit monitoring;
- Profit and loss (trading gain/loss) analysis and review;
- Recommendation of risk limits.

There are a couple of differences between risk management in a bank and in a traditional insurance enterprise. Banks have a formal organizational structure

that’s responsible for risk management; in insurance enterprises, it’s a part of the actuarial role.

Banks attempt to quantify material risks to net income and net worth. For all such risks, exposure is monitored frequently (daily) and summarized for the most senior executives in the bank. Insurers tend to be less rigorous in the systematic quantification of risk and to monitor exposure within the business unit that creates the risk exposure. Few insurers aggregate risks across the organization systematically in a format suitable for senior executives.

It’s important to note that a structured and quantified approach to risk management doesn’t necessarily produce superior risk management (where superior is defined by the incidence and size of extraordinary losses). One can easily name a number of banks that have suffered large losses because of modeling errors, rogue traders, and lending practices.

A structured and quantified approach, however, does generally enable an organization to allocate its risk capital efficiently, constantly improve upon its risk management practices, and be better positioned to “underwrite” and manage new types of risk by applying standard risk management and quantification techniques and processes.

The Standard Risk Management Process

Risk management is a process that must be embedded in the organization. The five elements of the risk management

process are identifying the risks the organization is exposed to; quantifying those risks; determining the organization's risk tolerance and how it will finance its risk exposures; establishing risk limits and monitoring for retained risks; ongoing review of risks and process.

Risk Identification

Simply identify the risks created by each product or business activity. The risks created by a SPDA product, for example, might be:

- Interest rate risk. Sensitivity of asset and liability values to changes in level and slope of the yield curve.
- Spread risk. Sensitivity of asset and liability prices to changes in levels of credit spreads.
- Credit risk. Sensitivity of asset values to varying levels of "credit events." Could be linked to interest rate, spread, and lapse risks.
- Lapse risk. Sensitivity of liability values to changing surrender patterns. Linked to interest rate and spread risks.
- Mortality risk. Sensitivity of liability values to higher mortality levels as a result of antiselection and differing age and gender distributions.
- Expense risk. Sensitivity of liability values to higher expense levels than priced for.

Decomposing risk exposures into common categories positions the organization to be able to aggregate risk exposures across businesses in the future.

Quantifying Risk Exposures

Until a risk exposure has been quantified in some way, it's difficult to communicate its nature or for an organization to decide whether it's comfortable with the amount of risk assumed. Quantification requires not just establishing the expected gain or loss associated with assuming the risk but also distributing potential outcomes. Risk measures typically focus on the extreme left-hand side of the distribution—the "downside tail."

The downside tail of the distribution can be used to determine the amount of capital that should be allocated to sup-

port the risk if it's retained. In banking, risk capital requirements are typically set at the 99th percentile of the distribution. Allocating capital based on risk enables the organization to require its risk-taking business units to generate an adequate return given the level of risk they're exposing the organization to.

Defining Risk Tolerances and Financing

For each risk exposure, the organization must decide if it wants to retain or transfer the risk. Ideally, the decision makers should have information about the exposure to the risk factor (stock market exposure, for example) from all sources, quantified as a percentage of total capital and/or net income or some similar measure. The organization may have offsetting (negatively correlated) exposures to the same risk factor from other business activities. This would tend to increase its appetite for additional exposure.

The organization also needs to know the expected return from retaining the risk and whether it provides an adequate return on risk capital. What risk transfer options are available? The most typical examples of risk transfer are reinsurance or the capital markets.

What is the cost of transferring the risk? Can a complete risk transfer be achieved, or does the organization have exposure to residual risks? (These would include basis risk, availability and pricing of risk transfer option in the future, and credit risk of the counterparty.)

What is the profitability of the product or business unit if the risk is transferred? Is the return on its risk capital (after adjusting for the risk transfer) adequate?

Risk Limits and Monitoring

Unless a perfect risk transfer vehicle is found, whether the organization retains or transfers the risk, risk limits and a monitoring process need to be established.

Risk limits establish the organization's maximum tolerance to a risk factor. They should be recommended by management and approved at the board level. Risk limits can be fixed or dynamic (a percentage of capital, for example).

Risk monitoring tracks the organization's current exposure to each risk factor relative to its limit. Risk transfer initiatives, such as hedging an exposure in the capital markets, offset the organization's overall exposure to the risk factor.

The appropriate frequency of risk monitoring depends on the volatility of the risk position being monitored. There should be a documented process for dealing with any limit violations.

Ongoing Review

Key assumptions and models used to quantify risk need to be regularly reviewed, as do the sources of risk exposure. Risk limits should be reviewed at least annually.

Actuaries as Risk Managers

Actuaries have always been managers of risk. In order to retain and expand their role as risk managers, actuaries should focus on transparency. Actuarial results and analyses are often cloaked in professional jargon. Good risk management requires that a broad range of professionals, the executive, and the board of directors understand the key exposures a firm faces and their potential impact on the economic value and income of the organization. One approach to achieving transparency is to focus on quantifying the exposure of the firm's capital base to each material risk it has assumed.

Actuaries also need to become educated about how the financial markets would decompose, model, price, and transfer the risks embedded in their balance sheets and products. The products and services insurers offer will increasingly embody financial market risks (equity-linked annuities, for example). Understanding how the financial markets price these risks and the vehicles available to transfer them (i.e., hedge) to capital market counterparties will be required of all insurance risk management professionals. ▲

Cindy L. Forbes is senior vice president and chief financial officer for Manulife Financial in Hong Kong. This article is reprinted from *Contingencies*, January/February 1999.

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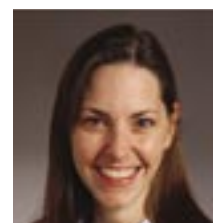
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