

# **Actuaries and the Art of Communication**

Deloitte Consulting LLP

**Deloitte.**

## Why Should Actuaries Want to Be Effective Communicators?

---

Actuaries own in a unique position within any organization as the owners of a distinctive set of resources and capabilities:

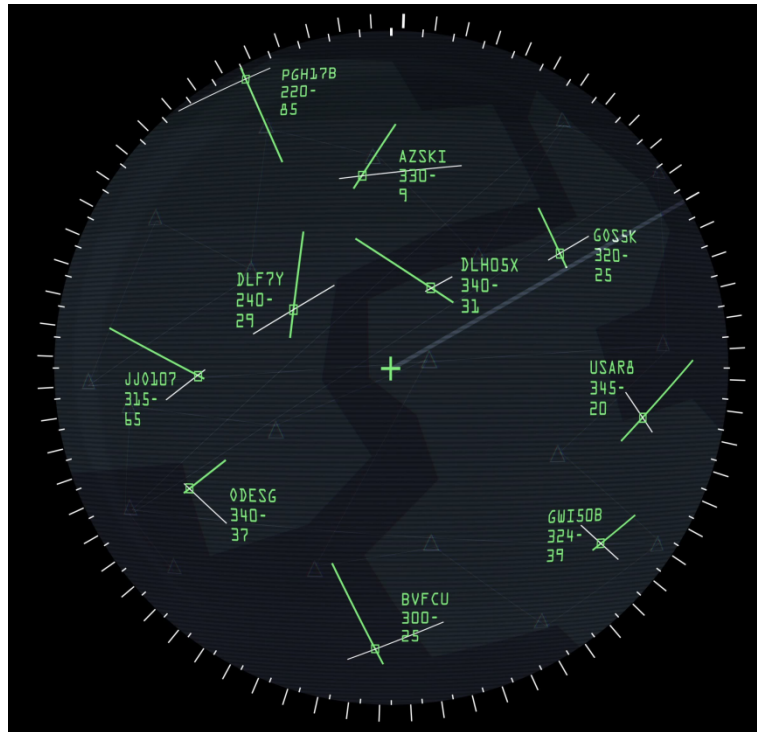
- Access to a wealth of data that can help identify the drivers of profitability
- Analytical toolkits, including technical skillsets and financial acumen
- Deep insight and knowledge into the world of insurance

Given this position and these resources / capabilities, actuaries should not strive to only be good communicators, but are obligated to be stewards of communication—Actuaries have insights into the underpinnings of the business that **only actuaries can provide**. Examples include:

- Broad understanding of a insurance company's customer base
  - Demographic trends
  - Shifting policyholder behavior
  - Financial impacts of a changing population
- Impact of the macroeconomic world on the actuarial liabilities and intangible assets that impact profitability, including reserves, capital (regulatory, economic, and rating agency)
- Creative solutions to complex insurance problems, in a broad range of fields from statistics and finance to sales and marketing
- A prospective view of the future that is often different from most other departments in a company

***Actuaries possess an impressive combination of skills, resources, and opportunities within their companies, that can easily overlooked without effective communication skills.***

## The Importance of Effective Communication – Air Traffic Control



$$\begin{aligned}
 \int_a^b f(x) dx &= \lim_{n \rightarrow \infty} \underline{A}(f, n) = \lim_{n \rightarrow \infty} \frac{b-a}{n} \sum_{k=1}^n (f_k) = \lim_{n \rightarrow \infty} \frac{b-a}{n} \sum_{k=1}^n x_k \\
 &= \lim_{n \rightarrow \infty} \frac{2-1}{n} \sum_{k=1}^n \left(1 + \frac{k}{n}\right) = \lim_{n \rightarrow \infty} \frac{1}{n} \left( \sum_{k=1}^n 1 + \frac{1}{n} \sum_{k=1}^n k \right) = \lim_{n \rightarrow \infty} \frac{1}{n} \left( n + \frac{1}{n} \left[ \frac{1}{2} n(n+1) \right] \right) \\
 &= \lim_{n \rightarrow \infty} \frac{1}{n} \left( n + \left[ \frac{1}{2} (n+1) \right] \right) = \lim_{n \rightarrow \infty} \frac{1}{n} \left( \frac{2n+n+1}{2} \right) = \lim_{n \rightarrow \infty} \frac{3n+1}{2n} = \frac{3}{2} + \lim_{n \rightarrow \infty} \frac{1}{2n}
 \end{aligned}$$

## Table of Contents

---

• Importance of Effective Communication	pg. 5
• Q&A: Current Actuarial Responsibilities	pg. 6
• ASOP 41 – Actuarial Communication	pg. 7
• Characteristics of Effective Technical Communication	pg. 8
• What Makes Effective Communication Happen?	pg. 9
• Explaining the News vs Telling the News	pg. 10
• Information Framework - Four Types of Financial Reporting Information	pg. 11
• Reporting External Financial Results	
• Explaining Financial Results	
• Analyzing Business Performance & Supporting Decision Making	
• Predicting and Modeling Results	
• Three Levels of Internal Communication	pg. 12
• Conclusion: Gaining a Seat at the Table	pg. 14

# Importance of Effective Communication – Four Faces of the Actuary

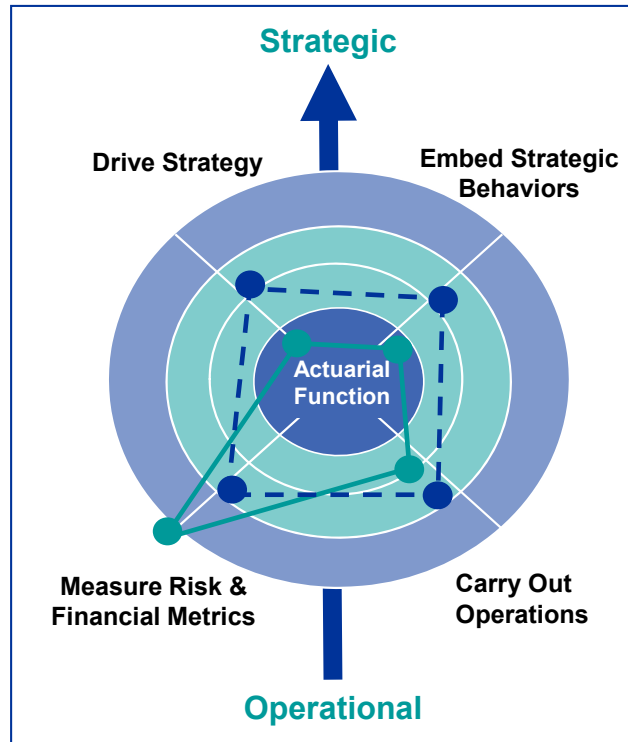
Actuaries must serve four essential roles as a key member of the Finance function within their organizations:

**Catalyst** - Execute strategic and financial objectives while at the same time creating a risk intelligent culture

- Help drive business decisions
- Support other functions using actuarial skills, knowledge, and experience

**Steward** - Accurately report on financial position and operations to internal and external stakeholders

- “Traditional” actuarial work
- Sets the foundation to Excel in other roles
- Provides baseline information



**Strategist** - Provide financial leadership in risk, pricing, product development, M&A, financing, capital market and longer term strategies

- Uses actuarial information to provide unique insight
- Communicates at the highest levels of the organization

**Operator** - Balance capabilities, talent, costs and service levels to fulfill core responsibilities efficiently

- Manage priorities
- Work to create and communicate actuarial information more efficiently

***Each of these roles has different audiences and requires a different level of detail and style of communication. Without effective, nuanced communication, actuaries cannot properly perform all of their required roles.***

## Q&A: Current Actuarial Responsibilities

---

What sorts of reports and analysis do you currently provide to:

- Chief Actuaries?
- Business Line Leaders?
- C-Suite Executives?

What sort of Actuary in the Four Faces model does that make you, and what would need to change to move you into more areas?

Moving from standard analytics to providing effectively communicated Actuarial insight:



## ASOP 41 – Actuarial Communication

---

All actuarial communication (effective or not) is governed by ASOP 41. By understanding the objectives and guidance of ASOP 41, actuaries can become better communicators. Selected examples from the ASOP that should be emphasized in order to strengthen ones communications skills are as follows:

- **3.1 Requirements for Actuarial Communications**

- Form and Content – “Form and content... are appropriate to the particular circumstances, taking into account the intended users”
- Clarity – “Communication is clear and uses language appropriate to the particular circumstances”
- Timing – “Within a reasonable time frame, unless other arrangements have been made.... The needs of the users should be considered”

- **3.7 Responsibility to Other Users**

- “An actuarial document may be used in a way that may influence persons who are not intended users.”
- “The actuary should recognize the risks of misquotation, misinterpretation, or other misuse of such a document and should take reasonable steps to ensure that the actuarial document is clear and presented fairly.”

- **4.1.3 Disclosures in Actuarial Reports**

- The intended users of the actuarial report
- The scope and intended purpose of the assignment
- And cautions about risk and uncertainty
- Limitations or constraints on the use or applicability of the actuarial findings

## Characteristics of Effective Communication

---

Effective communication consists of many attributes, all of which must work in tandem to create the desired message:

- **Timely**
  - Information that is perfect at the expense of being timely is often useless
  - Communication must be timely enough that the audience can digest, react, and act on the information
- **Complete**
  - Different messages exist for different audiences
  - What is “complete” for a Chief Financial Officer will be less detailed than what is complete for a Chief Actuary
- **Actionable**
  - Must consider the intended audience
  - Is the level of detail and communication style appropriate so that the audience understood the key points or objectives of the communication?
- **Consistent (One Version of the Truth)**
  - Despite differences in the **way** information is presented, only one consistent message should exist
  - If the Chief Actuary and CEO talked after two meetings on the same subject, would they both understand and agree on the key themes, message or takeaways?
- **Transparent**
  - A clear message should exist outlining how the conclusions presented were drawn
  - “If you don’t know why you are right, you are wrong.”

## What Makes Effective Communication Happen?

Effective communication is something that is developed and honed over time. Each presentation, memo, e-mail, and conversation is an opportunity to leave an impression. Ways to help ensure effective communication include:

- **Having Analytics That Tell a Story**

- Which of the graphics to the right makes it easier for the audience to follow and ask the right questions?
- Which one is easier to present to multiple audience levels quickly?

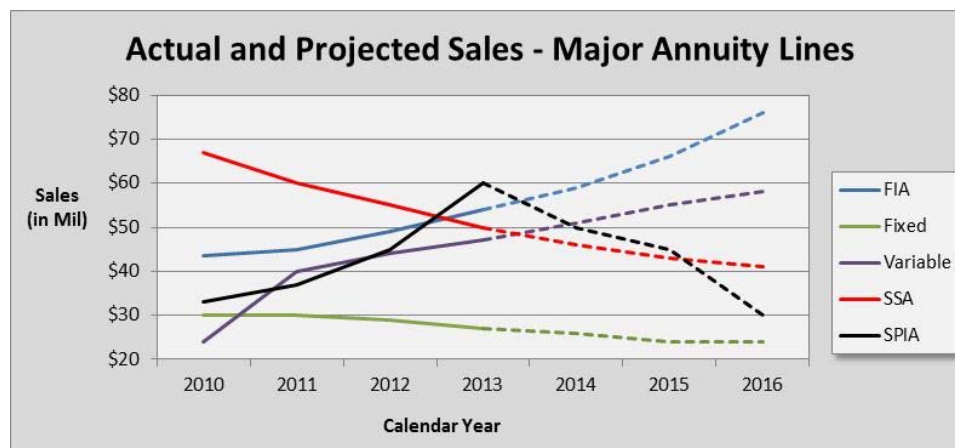
- **Ensure Information is Complete and Logical**

- Information should be presented in the correct order, often with the answer *at the beginning*
- Anticipate what questions your audience might ask, and be ready to communicate the answer in the presentation

- **Develop Repeatable Communication**

- Work to standardize reports and metrics, so the audience is familiar with how information is presented each time
- Benefits
  - Helps automate and govern the communication
  - Increases the timeliness of data

	Sales				Projected		
	2010	2011	2012	2013	2014	2015	2016
Fixed Indexed Annuities	43	45	49	54	59	66	76
Fixed Annuities	30	30	29	27	26	24	24
Variable Annuities	24	40	44	47	51	55	58
Structured Settlements	67	60	55	50	46	43	41
Single Premium IA	33	37	45	60	50	45	30



## Explaining the News vs. Telling the News

---

Even after the data has been analyzed and communication prepared, the actuary must ensure the message is communicated effectively.

- **Larger Perspective**

- Are you going too far “under the microscope” when presenting?
- How could the information impact other divisions and the company as a whole?

- **Materiality of Information**

- Will the information conveyed have a current or future substantial impact to the financial results of the business?
- What other elements of materiality could exist (reputational, operational, etc)?

- **Factual Results + Causality**

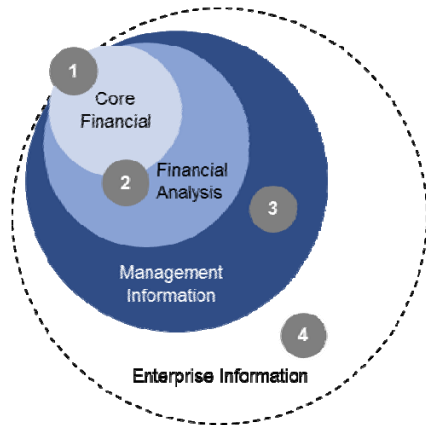
- If a statutory reserve increased 10% quarter-over-quarter, for example, what was the driver of the change? New business sales? An assumption change?
- Factual results alone not only do not tell the complete story, they can actually be confusing and cause your audience to misinterpret your message

- **Monitoring for Changes/Trends**

- Focus on how the results changed over time, and any trends that can be discovered going forward.
- This adds the most value, and allows the actuary to serve as an advisor



# Information Priority: Framework for Communicating Financial Reporting Results

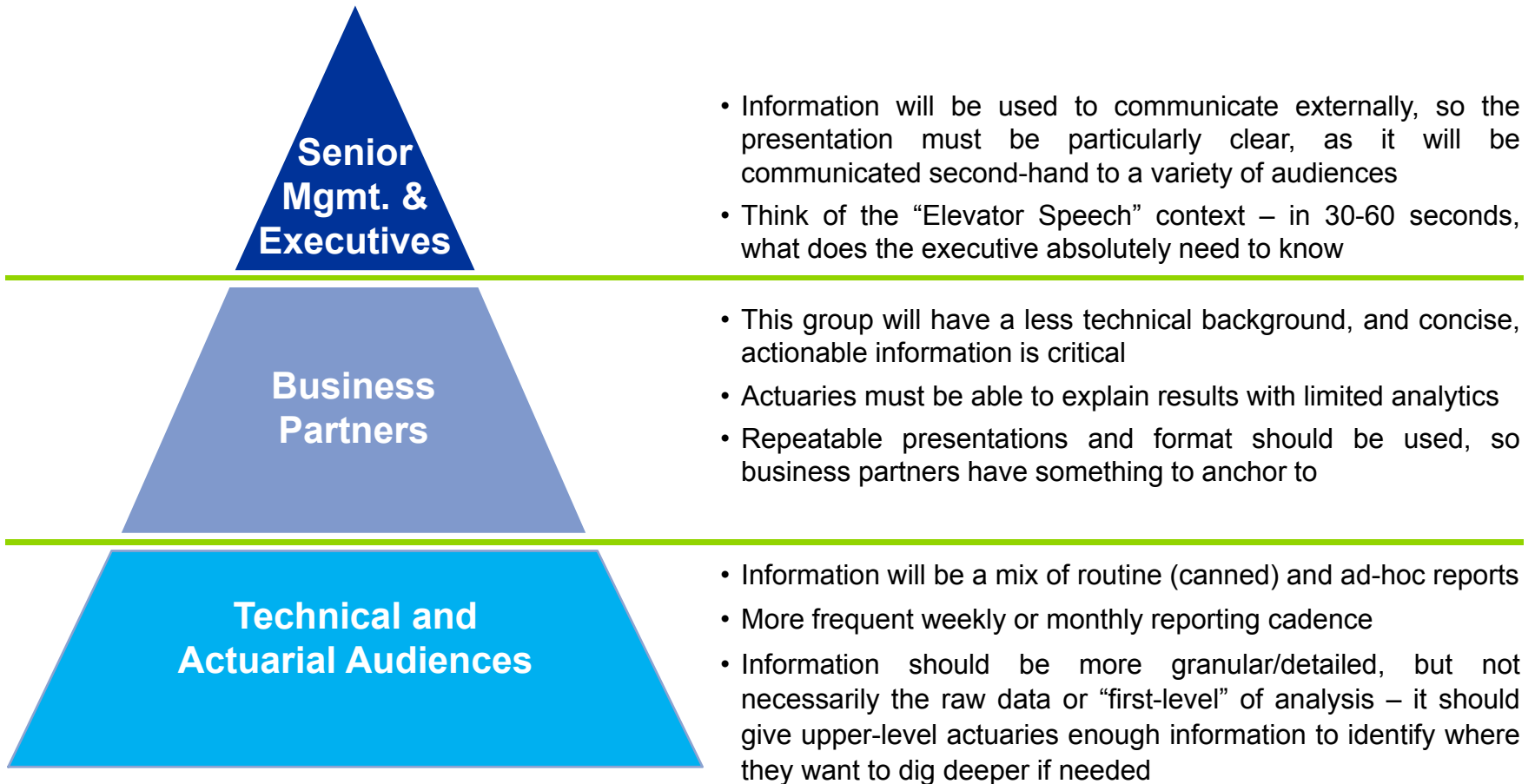


Priority	Sample Data
<p><b>1</b> Information required to report external financial results</p>	<ul style="list-style-type: none"> <li>▪ Premiums, Benefits and Commissions</li> <li>▪ Allocated investment income by channel and product segment</li> <li>▪ Allocated expenses by channel and product segment</li> <li>▪ Income statements by stat line of business and GAAP segment</li> <li>▪ Balance sheet components</li> </ul>
<p><b>2</b> Information required to explain financial results</p>	<ul style="list-style-type: none"> <li>▪ Gross margin analysis by channel and product segment</li> <li>▪ Spread compression analysis: earned/credited interest by crediting strategy, option cost, futures activity</li> <li>▪ DAC analysis: deferred acquisition expense, gross margins, k-factors, amortization, interest by DAC cohort</li> <li>▪ Change in reserve analysis: AV, reserve components</li> <li>▪ Market information: S&amp;P 500, volatility, key interest rates</li> </ul>
<p><b>3</b> Information required to analyze business performance and support decision making</p>	<ul style="list-style-type: none"> <li>▪ Pricing information, including initial statutory capital strain and expected profitability</li> <li>▪ Actual statutory strain, profitability, distributable earnings and change in required capital</li> <li>▪ Pricing expectations comparisons: premium persistency, expense information, and investment income</li> <li>▪ Selected elements by product series, issue year, crediting strategy and other dimensions</li> <li>▪ Variance analysis</li> </ul>
<p><b>4</b> Enterprise Information for predicting and modeling results</p>	<ul style="list-style-type: none"> <li>▪ Predictive modeling for underwriting</li> <li>▪ Predictive modeling for distribution partners</li> <li>▪ Customer profitability</li> </ul>

## Three Levels of Internal Communication

---

Actuaries must present various types of financial and actuarial data, often at different levels of the company. Below is a framework identifying tips on how to present to each of these groups.



## Conclusion: Gaining a Seat at the Table

---

Information is only as important as the message that is communicated, delivered, received and interpreted by the intended audience. While actuaries have come a long way in providing worthwhile analysis, the ability to enhance one's communication skills is not made possible unless actuaries have the opportunity to present and be a trusted business partner.

As actuaries, a focus should be made to develop moments where opportunities exist to:

- Provide insight that clearly articulates valuable information to stakeholders
- Demonstrate a true understanding of what drives profitability at the company
- Suggest innovative solutions to complex problems—problems that actuaries are more than equipped to support
- Execute on objectives in a timely, efficient manner and communicate the results of those objectives
- Continue to develop and improve actuarial talent in not only technical capabilities, but business acumen

If actuaries can do all of these things and effectively communicate their achievements and ideas, then it can help ensure actuaries get a seat at the decision-making table, and maintain it going forward.

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor.

Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

As used in this document, "Deloitte" means Deloitte Consulting LLP, a subsidiary of Deloitte LLP. Please see [www.deloitte.com/us/about](http://www.deloitte.com/us/about) for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

**Deloitte.**

Copyright © 2012 Deloitte Development LLC. All rights reserved.

**Member of  
Deloitte Touche Tohmatsu**