

**BUILDING, STRUCTURING, AND MANAGING  
AN ACTUARIAL STAFF**

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## BUILDING, STRUCTURING AND MANAGING AN ACTUARIAL STAFF

BY GREGORY N. ALFF

### BIOGRAPHY:

Mr. Alff is Senior Vice President and Senior Actuary of the Advanced Risk Management Services Division of Willis Corroon Corporation. He has managed the casualty actuarial consulting unit of Willis Corroon for five years. Prior to joining Willis Corroon, Mr. Alff was Special Projects Actuary of Wausau Insurance Companies following ten years as an actuarial unit manager for that company. Mr. Alff has been a Fellow of the Casualty Actuarial Society since 1983 and is a Member of the American Academy of Actuaries and of the International Actuarial Association. Mr. Alff has contributed papers to the CAS exam syllabus for Part 6 and Part 10.

### ABSTRACT:

This paper is based on the experience of being a unit manager in a large insurance company actuarial department, and subsequently building and managing a strong casualty actuarial staff within a brokerage firm. Through observation, trial and sometimes error, the author has defined Five Steps to guide building, structuring and managing an actuarial staff.

1. Defining the Role of the Actuaries
2. Objective Evaluation of the Staff
3. The Addition of Role Players
4. A Spirit of Teamwork
5. Maintaining Flexibility

Following these five steps and continuing to refine them will lead to a strong actuarial department. If good personnel decisions are made, and teamwork and professionalism are established as cornerstones anchoring a dynamic structure, the actuarial department will be successful.

Twenty two years of professional life, first being managed and observing management, and then managing actuaries at all levels, has helped formulate definite thoughts about managing actuaries. Through observation, trial and sometimes error, Five Steps have been identified to guide building, structuring and managing an actuarial staff:

1. Defining the Role of the Actuaries
2. Objective Evaluation of the Staff
3. The Addition of Role Players
4. A Spirit of Teamwork
5. Maintaining Flexibility

Following these five steps, and continuing to refine them, will create a strong actuarial department.

#### DEFINING THE ROLE OF THE ACTUARIES

What is the role of the actuaries in the organization? As a First Step to build and effectively manage an actuarial department, this question must be asked, and at least partially answered. Partially answered, because the short term answer is likely to be restricted, and any long term answer may be only partially definable.

The short term role of the actuaries is restricted by the number of actuaries on the staff, their knowledge and ability, and the company management knowledge and trust of actuaries and their abilities. For instance, assume a moderate sized multi-state multi-line insurer is hiring its first credentialed actuary and one actuarial student. It is not logical to assume that these two individuals will be able to do a quality job of promulgating and filing independent rates for several lines of insurance in several states, and at the same time define and implement a quality reserve analysis system in their first year of employment. If you are the first credentialed actuary and have a strong

reserving background, but little rate making experience, you should pursue the reserving part of the short term goal first. Use the expertise you have to make your mark in the new role and show the company management what you can do. Earn management's respect and the respect of the student analysts in the new unit.

In short, begin by prioritizing management requests and assessing your personal professional strengths. Look for the best match and build from a strong foundation.

While earning the respect of management, corporate peers and staff members, communications links and important personal relationships are formed and synergy develops. This establishes the base necessary to increase responsibility and broaden activities as the staff grows.

#### OBJECTIVE EVALUATION OF THE STAFF

The Second Step of building an actuarial unit, and increasing its effectiveness, involves objective evaluation of the current staff, including yourself as manager. Each individual has strengths and some areas where he or she has room to grow. For each actuary and each actuarial position there are four major attributes that are important.

- (a) Professional credentials, technical expertise and industry knowledge
- (b) Quality of verbal and written communication
- (c) Personality and inter-personal relations skills
- (d) Management experience and ability

Professional credentials are the easiest attribute to measure with the CAS exams providing an objective measure which all actuaries know and respect, and which is readily accepted in most corners of the industry. Technical expertise and industry knowledge depend mainly on the work experience of the individual. If an actuary has spent 10 years in personal lines ratemaking and reserving, it would be inappropriate to assume that individual would be skilled the first year in analyzing changes in loss

development patterns for \$20 million of workers compensation losses generated by a \$250,000 SIR program. He or she would need to build the expertise and gain the feel of the longer more volatile commercial lines development patterns, and where and how to make adjustments in analysis. While the basic concepts of loss development analysis are transferable, the feel for what is a normal development pattern, the need to analyze large claims separately and the awareness of the different loss development patterns for different claims adjusters in the industry, is knowledge which must be gained in a new role in commercial lines. The work experience and knowledge of each individual on the staff are important elements in building a strong department.

To manage effectively, utilize the base of knowledge and experience each staff member brings to the table. It makes a person feel good to be called upon for his/her expertise based on the efforts made and knowledge gained over the years. The trick is to not let any individual "wallow" in one area of expertise but rather continue to grow and expand his/her knowledge base by including a mixture of projects that stretch the boundaries of the base knowledge or expand into new areas. This also creates important opportunities for dialogue through peer assistance and review. Inside the actuarial staff, everyone is a professional peer, regardless of rank or title. We all benefit from the insights of the bright fellow professionals with whom we work.

Quality of verbal and written communications is the second major attribute which requires consideration. Technical expertise and mathematical ability has limited use if the results of good efforts are not effectively communicated. A great technical work, if poorly communicated, may never receive a proper hearing, or the attention it deserves.

There are two levels of communications. Internal communication with workers and company management is the initial critical level of communication. In this level of communication there often exists a climate conducive to professional growth. These situations involve work finished by the actuary or student/analyst being presented to management inside the company. The management

receiving the report usually has significant knowledge of the subject, has seen other actuarial reports and knows the actuaries from other discussions. This makes the communications environment relatively comfortable. Therefore, internal communications should be used to hone skills. Both verbal and written presentations can be reviewed to help the student or new actuary grow. As manager or senior actuary, a good way to continue your own growth in this area is to routinely request peer review or management review of written work and verbal presentations. If you don't ask, you probably won't get much feedback. When you do ask, most peers or management will freely offer helpful suggestions so you can continue to grow and improve your next presentation. (Note: this has the added benefit of setting an example for the staff around you).

The other level of communication is with the public. This is extremely important and more of an issue in a consulting environment where contact with the external client is much more common and critical. External communication is usually more difficult than internal communication because the client, or some portion of the client's staff, has less knowledge of the subject being explained. The client may not be familiar with actuarial methods. The client doesn't work regularly with the actuaries and, therefore, there are no well established comfortable personal relationships and level of trust. There is usually a tighter time constraint for the communications, requiring verbal discussions stay focused. All of which means a greater level of skill is required for communications outside the actuary's own corporate culture.

*The communications skills of each staff member should be carefully evaluated, so that each individual's skills are used, and appropriate opportunities are provided for improvement and growth. A logical progression of internal presentation in conjunction with a more experienced presenter, solo internal presentations, participation with an experienced presenter in external presentations, and finally solo external presentations, works well.*

The third attribute for consideration is individual personality and interpersonal relations skills. Actuaries are generally individuals with strong personality traits. Working in the profession and achieving success in actuarial exams requires strong personal discipline. But these general traits allow room for a wide range of other personality attributes. There are some individuals who may be strong internally and technically centered, but not very good communicators. At some point the career growth of such an individual will be slowed significantly if there has not been real growth in communication skills. Because communication skills are critical to interpersonal relations, weakness or reticence in communications may indicate other activities such as peer review and the individual's relationship with the supervisor will require more than average attention. Specific and continued attention to growth in communication skills will be required for such an individual to reach his/her maximum potential and make the greatest possible contribution.

Some actuarial analysts may be concerned with accuracy beyond a normal level. Care must be taken in structuring reporting relationships around a person with such traits. Perhaps the best approach is to link to this person others who appreciate the need for quality in detail. With good communication, the manager can help this person grow by identifying ways that appropriate quality can still be achieved with limitations on the time and effort in detailed analysis involved.

Toward the other end of the spectrum are individuals who have less commitment to detail and are likely to slip occasionally into cutting corners to achieve an end product in less time. These individuals require additional supervisory attention to check work in more detail in the peer review process, to avoid oversights in the completed work.

A highly desirable trait of each employee is pride in the work product and communication thereof. Where such pride is an element of each individual's personality, it becomes easy to establish department pride as a cornerstone on which to build.



Being keenly aware of individuals personalities is important to defining reporting relationships. As the manager, don't forget to be honest in evaluating your own skills and personality in defining reporting relationships. (A professionally prepared personality profile may be helpful to gain a clearer perspective of yourself. The Human Resources department may be helpful in arranging for such a profile.)

The fourth attribute to be considered in a growing actuarial staff is management experience and ability. Again there are levels of management that define a logical progression of skill development. Until an individual demonstrates clearly that he/she can manage his/her own time and assigned projects, it is unrealistic to assume he/she can effectively manage another employee. The first level is an individual's management of his/her time and assigned projects.

Once an individual has learned to utilize time and manage a significant workload effectively, he/she may be considered for supervisory duties. Communications skills, interpersonal skills, and desire to supervise are also very important. Not every actuary has the skills or desire to supervise or manage. If key attributes to becoming an effective manager are missing, two options present themselves. Either develop the attributes required, or define a career path that allows the individual to continue growing without personnel management responsibility.

The senior actuary must realize that to continue in a technical role himself or herself, the number of actuarial students he or she can "effectively" supervise for work, peer review, and professional growth is limited. Our experience is that three students is a functional number while any more becomes a burden, and begins precluding the senior actuary from continuing a significant hands-on technical role.

Developing supervisors with managerial skills is important to continuing growth of an actuarial staff. An approach found to be effective is to begin by having the new supervisor perform peer review of individual projects and assist a student in his/her projects, without personnel management responsibility. Then gradually add personnel management responsibility. Only after the new manager

shows ability to manage one student, in addition to his/her own work, should expanding management responsibilities to more than one individual be considered. The best way to train a new manager is to model the behavior you desire, but acknowledge each person's need to develop his/her own management style.

## THE ADDITION OF ROLE PLAYERS

Step Three in building a staff involves the addition of role players. As an actuarial department grows and matures, it takes on a character based on the attributes of the individual professionals on the staff. By regularly reviewing the strengths and weaknesses of the staff as regards the 4 attributes just discussed, certain needs may become apparent.

Some examples of areas that might need to be strengthened are:

- Technical skill in statistical analysis
- Verbal communication
- Supervision for entry level staff (a special skill)
- Technical skill in evaluation and implementation of computer software

If, with a staff of 4 or more, one or more defined area clearly needs attention, it is time to begin searching for a role player. Each of the four attributes discussed earlier is important and a balance is desirable in each person. However, every person is different and an even balance of attributes is rare.

Suppose a manager is supervising 3 individuals. One who has strong technical and analytical experience, with communication skills that need further development. A second person who has great communication skills, but limited experience, and a third person with great computer skills and communications but limited experience. This implies the manager's technical experience and communications skills are key in day to day activities. If the staff is to continue growing, the manager needs help in supervising. It is time to search for a role player. One who has experience,

communication skills, and management ability to step in and share supervisory responsibilities. This is likely to be a supervisor in a small unit within another company. An individual who is ready to move up to a larger role, but is blocked in her/his present position. Unless the manager has a wide range of personal contacts, professional recruiters may be critical to quick identification of appropriate candidates. (Note: Given the publicity that the profession has received, recruiters are really not necessary for lower level positions. A simple newspaper ad can bring great results.)

By finding this key supervisor role player, the manager can continue leading the department into new areas and increasing the staff. Without this key role player, the manager may become bogged down in supervision, and be unable to make progress expanding the role of actuarial unit to use its expertise to greatest advantage.

The role player might address the need in anyone of the 4 critical areas addressed above. Whatever special area is strengthened, it allows the staff to expand and continue to progress.

#### A SPIRIT OF TEAMWORK

Step Four is building a spirit of teamwork. Successful team building begins with respect and open communication. Every person choosing an actuarial career and making exam progress is an exceptionally bright individual. When each individual is respected for her/his ideas and abilities, regardless of position or credentials, teamwork grows easily. Encouraging less experienced individuals to ask questions helps them grow and helps more experienced staff members stay sharp.

Approaching the peer review process as an exchange of thoughts on the decision points of an analysis, builds dialogues and teamwork between staff mentors. To assure quality technical work, peer review becomes an important aspect of department management. Peer review is not a luxury, it is a professional requirement. Again there are stages or levels an employee may progress through. With

new entry level people the peer review may at first need to be quite detailed and comprehensive. Numbers, equations, logic and decisions in every analysis must at first be all carefully reviewed. As the individual doing the work progresses in knowledge and professionalism, less attention needs to be paid to the detail of the analysis and peer review can concentrate mainly on logic and decision points.

If an analysis is an update of a previous analysis, the peer review is somewhat simpler because it can be approached on the basis of checking for consistency. For an update, the concentration should be on reasons for changes in previous estimates and need to revise methods on logic to adjust for aspects not fully understood or that have changed from the previous analysis. Many times peer review for an update can be appropriately accomplished by a more experienced individual that is not necessarily a manager. This is workable if everyone has the teamwork philosophy that the goal is to put out the best possible professional product.

However, if the peer review is allowed to turn into a contest of fault finding, and expressing one-upmanship, more damage than good may be done to teamwork. Keeping all members of the team focused and the goal of timely professional analysis is important.

One approach that has made a positive difference in one actuarial department's peer review process is the standardization of the format of the consulting study. This consulting unit finds that the majority of its work utilizes one basic form. It was decided to create a realistic example report. This serves as a guide for the majority of reports to be produced by this actuarial department. With a standard format the reviewer knows that the outline will be the same in each report. An example of the text explanation to accompany exhibits provides new staff members a clear indication of what is expected and defines the elements that the reviewer will be looking for. The example study, in a single instrument, provides a key training tool and by defining expectations and desired format simplifies the peer review process.

If the entire staff is asked for input into designing "the example study" there is acceptance and pride in the quality established on the front end. This approach has proven to be a real team building opportunity.

It is especially important in the consulting environment to have good teamwork, because projects are less regularly scheduled than within an insurance company and often have shorter time frames. This means that because of scheduling conflicts, one staff member may need to fill in for another. Mutual respect and a common goal of providing quality analysis are building blocks for strong teamwork needed for timely responses.

#### MAINTAINING FLEXIBILITY

The Fifth and Final Step involves maintaining flexibility. Many articles have been written about expanding the role of the casualty actuary. Casualty actuaries have much to offer outside of, or in conjunction with, the traditional roles of reserve and rate analysis. As actuaries become more involved in many aspects of financial analysis and planning within insurance companies or for consulting clients, the roles of the individual actuary or actuarial department changes and expands (but as we are finding, seldom contracts). To keep pace with changing demands for services the structure of an actuarial department must remain flexible. The effort should always be to assign the best qualified individual or individuals to a specific project. As new types of demands for services arise, and an actuary on the team steps forward to address the demand, it provides an opportunity for a less experienced person to advance and continue his/her professional growth.

As such changes and growth take place, it is important to consider whether staff structure and reporting relationships need to be revised. Inside an insurance company, where the various tasks to be performed are relatively static and well defined, planned job rotation at regular intervals may be an acceptable approach. However, in the consulting environment the roles and tasks are much less

structured or well defined. Flexibility is key. While structure is important and reporting relationships cannot be routinely scrambled, well thought out change in structure at appropriate intervals is vital.

Change should not take place simply for change sake, but rather changes should be prompted by the confluence of elements such as:

- Expanded demands for new actuarial services
- Rapid growth of an individual staff member requiring the individual be provided with new challenges
- Addition of a new staff member
- Reporting relationships that are not working as well as expected and need to be revised.

Changes should be made at natural break points, such as when there is an addition of a new set of work assignments or the addition of a new staff member. This is effective because, while one of these primary reasons may finally trigger the change, it is an opportunity to at the same time adjust other aspects such as revising ineffective reporting relationships.

When a team member leaves, whether by promotion, job transfer, or for any other reason, it provides an opportunity. An opportunity to add a new team member, maybe a better role player. It is an opportunity to bring in fresh ideas and new vitality, and an opportunity to consider restructuring reporting relationships to become more effective.

In short, flexibility of structure implies continual management awareness. So that as needs grow in areas like those just mentioned, a decision is made to make a change when the reasons become strong enough, and before the existing structure begins to become dysfunctional.

## IN SUMMARY

It is tempting for the manager of an actuarial department to see her/his role as primarily a technical role. In a small one, two or three person unit, this may be true. But as an actuarial department grows and matures, the argument can be made that personnel management becomes the most important task. If good personnel decisions are made, and teamwork and professionalism are established as cornerstones anchoring a dynamic structure, the actuarial department will be successful.

