SOCIETY OF ACTUARIES Management & Personal Development Section

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the stepping stone

What Would You Do? Is the Emperor Wearing Clothes?

By John West Hadley

Here is our sixth entry in the *"What Would You Do?"* series.[1] Write to me at *SteppingStone@JHACareers.com* to tell me what you would do. In the November issue, I'll compile the responses received (preserving your anonymity, of course), along with what actually happened in the real-life situation.

Help me craft future case studies. Write to me about your own challenging, surprising or nightmarish situations involving business, leadership, management, or any of the topic areas covered by *The Stepping Stone*, and what lessons you learned from them. I'll collaborate with you on turning it into a simple case study, being careful to ensure no one is identifiable. And share your own thoughts (pro and con) on the series as a whole at *SteppingStone@JHACareers.com*.

IS THE EMPEROR WEARING CLOTHES?

Anselm is in charge of the actuarial group supporting all non-employee-benefit product lines for his company. Their business model is to evaluate potential deals brought to them by outside brokers, and invest in the ones that seem to have substantial profit and business revenue potential. This led them two years ago to his newest product line, involving modest face amount business. Everyone was excited both that the broker's projections showed a great fit to the sorts of goals they typically seek, and it looked like a product that provided a substantial benefit to the customers.

Anselm has been growing uneasy about the line's progress. The way to success as explained by the broker seems to keep morphing, and he hasn't cracked the code on how to tap into their growth targets without sacrificing what seems like a good profit margin. There isn't a lot of pressure from above so far, but he worries about the long-term prospects, and has asked an external consultant to help him do some deeper analysis into the line.

The results lead him to an entirely different understanding of the dynamics, and convince him that (1) it will take much longer than expected before the product line will achieve the combination of revenue and profits that would make the

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To join the section, SOA members and non-members can locate a membership form on the Management and Personal Development Section Web page at www.soa.org/mpdsection.

Thinking about Coaching

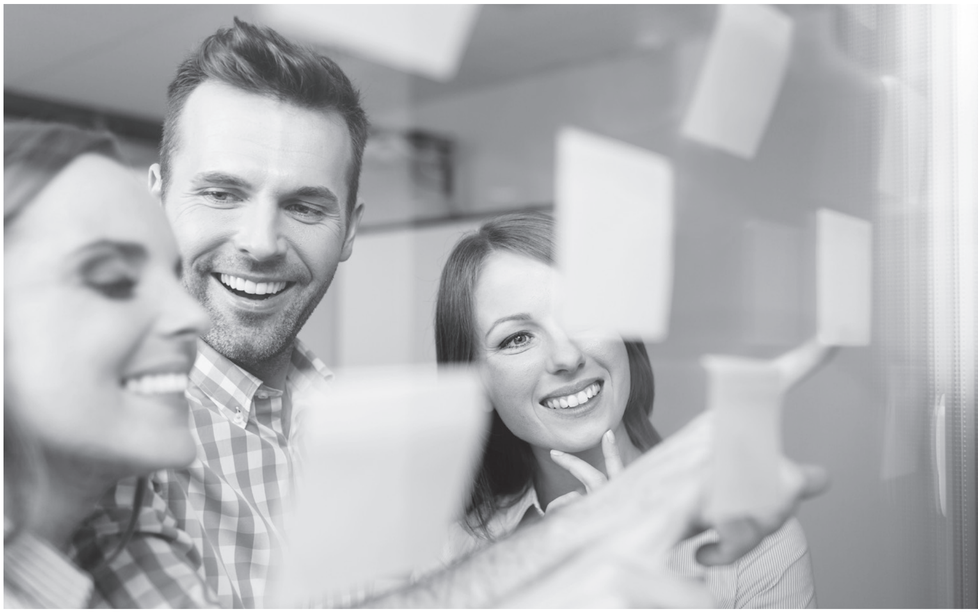
By Jennifer Fleck

As I'm writing this, spring is just now really starting here in Maine. There is new growth everywhere I look outside. It makes me wonder if there is also new growth happening inside my office. Am I growing my skills? Is my team continuing to grow their skills, both as individuals and as a team? This growth won't just happen because it is warmer outside, though. While we each are the owners of our individual careers, it takes a coach to foster that growth and make the team come together.

To begin my quest to become a better coach, I went to getAbstract, a free service for Management and Personal Development (MPD) Section members.[1] When I typed "coaching" in the search box, I was given 491 book summaries to choose from. There is no shortage of people looking to teach us to coach. To focus the results a bit, I went to the "Knowledge Packs" that getAbstract offers and downloaded the Coaching Knowledge Pack. There I found a broad overview of four different coaching books.

The most useful of the four books to me was *The Extraordinary Coach: How the Best Leaders Help Others Grow*, by John H. Zenger and Kathleen Stinnett. This book first lays out the significant benefits of coaching, which include things like signaling to your employees that their company and their supervisors value them, making people more enthusiastic about work, increased productivity, stronger culture, healthier individuals by boosting self-esteem and morale, more resilience, heightened creativity, increased risk-taking, and a mindset of an owner versus a hired hand.

After a lead-up like that, you might ask why everyone isn't coaching. This book takes you though some excuses for not coaching, and then through some ways that managers coach badly. The authors suggest sessions that many managers regard as coaching prove to be nothing more than project-review meetings. Coaches shouldn't try to solve problems immediately, and they shouldn't offer advice.



So what makes a good coach? Zenger and Stinnett outline the following duties that a superior coach performs:

- Build a strong relationship.
- Communicate effectively—ask open-ended questions to help your employees gain perspective and personal awareness.
- Facilitate action and results—guide staff to solve their own problems and encourage them to innovate.
- Provide ongoing support.

They use the FUEL Coaching Framework. This is a four-stage system to structure your coaching. During each stage, the employee should be doing the majority of the talking.

1. Frame the Conversation—Identify issues; get goals for the conversation; secure agreement on the process; ensure the employee selects the topics.
2. Understand the Current State—Establish the employee's point of view; discuss consequences

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They made the distinction that mentors tend to tell, while coaches ask.

of not changing the current state; discuss the coach's view, but delicately.

3. Explore the Desired State—Discuss options and potential roadblocks. The employee needs to develop their own solution. Never settle for the first solution they come up with. The coach should ask questions, but not give directions.
4. Lay Out a Success Plan—Develop a plan; set a timeline; set milestones.

Another book in the Knowledge Pack was *Coach Anyone About Anything, Volume 2: How to Empower Leaders and High-Performing Teams*, by Germaine Porché and Jed Niederer. This book summary didn't have as much information that I could apply to my own circumstances, but it did emphasize a key theme that coaches are there to ask questions and bring the client to their own conclusion. They made the distinction that mentors tend to tell, while coaches ask. This book, along with the other two that I discuss below, seems to be more directed at professional coaches instead of managers looking to coach their own employees and teams.

Coaching for Performance: Growing Human Potential and Purpose, by John Whitmore, also emphasized the importance of the coach asking questions to guide the client to solve their own problems. He discussed the GROW formula, which

sounded very similar to the FUEL framework above.

1. Goal setting.
2. Reality checking—Be objective about what you want to accomplish; how much of it is in your control?
3. Options—create lists of options and examine the pros and cons of each one.
4. What is to be done? When? And by whom?

Finally, *Coaching the Team at Work*, by David Clutterbuck, addressed the topic of coaching teams instead of individuals. The perspective here was from a coach who was brought in to help a specific team with their goals. In this situation the coach isn't the manager. The team is defined as a small number of people who share goals and depend on one another to reach them. Again, the focus is on asking questions. The coach also helps each person examine his or her relationship with the other team members, with the job, and with specific tasks. The coach's role is to guide the team to produce solid decisions that have members' backing and commitment. The coach needs to communicate with management to ensure that the correct goals are being addressed.

While each book had different tips that I could glean from the summaries, Zenger and Stinnett's book clearly was most fitting to my situation. Having the getAbstract summaries and Knowledge Pack saved me quite a bit of time. I didn't need to read each book to determine if it had what I was looking for. As I go deeper on this topic, I may pick up the actual books to read some more of their details and get some more sample questions to ask my team.

When you find yourself thinking about some new topic that you want to learn about, put your section subscription to getAbstract to work. You can either search for a book directly, or download a few of the Knowledge Packs. Doing a quick scan of the list I see such varied topics as Leadership Strategies, Restructuring, Consumer Behavior, Tax Havens, Six Sigma, Jerks at Work, Terrorism, the

Oil Industry, and Physics. Print out a few before your next plane ride, and arrive smarter than when you left!

To get to your getAbstract page, go to *www.soa.org*. On the left-hand side of the page, under "My Account," choose "Access My SharePoint" and click "Go." After you log into your SOA account you will see your SharePoint page. On the right-hand side, click "Sections—Member Area—Management and Personal Development." You will be brought to the MPD SharePoint site, which has all the details and links to get into your free getAbstract account.

ENDNOTE

[1] See the end of this article for more details on how to take advantage of this service.

Print out a few before your next plane ride, and arrive smarter than when you left!

company happy, and (2) the true winners in the product line are not the ultimate consumers, but the intermediaries.

Although Anselm wasn't the one who brought the deal to his company in the first place, he was a strong supporter from the start. He has some concern about the "kill the messenger" syndrome, as well as where the new growth in his product lines and operation will come from if the line is dropped.

What would you do?

John Hadley is a career counselor who works with job seekers frustrated with their search, and professionals struggling to increase their visibility and influence. He can be reached at *John@JHACareers.com* or 908.725.2437. Find his free *Career Tips* newsletter and other resources at *www.JHACareers.com*, and watch for his upcoming book, *Cruising Through Executive Interviews … To Land That 6 Figure Job You Deserve.*

ENDNOTE

[1] Past issues in the series have considered whether to demote or fire a difficult employee, interview challenges from both sides of the desk, and evaluating job offers. To catch up on the entire series, check out back issues of *The Stepping Stone* on the Management and Personal Development (M&PD) website at *www.soa.org/mpd.*

What Would You Do?
Responses to "What's the Real Offer?"

By John West Hadley

In the May issue of *The Stepping Stone*, I posed the question *"What would you do?"* to the job offer situation below. Here are your responses, and the real-life conclusion of the situation. Send your own ideas for situations to pose in upcoming issues to *SteppingStone@JHACareers.com*.

WHAT'S THE REAL OFFER?

Sam had been an FSA for three years, working in a variety of areas in a large insurer. However, he felt he had been stagnating a bit in his more recent role, and was ready to make a change. A friend who was an actuarial consultant introduced him to Frank, a senior actuary at an accounting firm, telling him that they were looking for someone like him, and he thought it would be a good fit. Sam agreed that the job sounded like an interesting challenge that would provide him a growth opportunity, and after a series of interviews, he was offered the job.

Sam thought carefully about the offer. Sam felt that his current salary was well below his market value, but the base salary would only be a notch above his current pay, and the bonus Frank told him to expect was about 10 percent. This certainly didn't seem to make it worth a move to a role that would require extensive overtime during an extended audit season each year, so Sam decided to turn down the offer when he called Frank back on Monday.

On Friday afternoon, Sam received a call from Robert, Frank's boss and one of the firm's principals. Robert hadn't been able to reach Frank (who was traveling), and he wanted to check in on where things stood, since he was very interested in having Sam join the team. Sam shared his concerns with Robert.

Robert explained that Frank was being very conservative, and had quoted him the average bonus a new accountant would receive. However, Robert recognized that actuaries were in a class by themselves, and he was the one who signed off on all actuarial bonuses. He assured Sam that he should expect a bonus at least double that.

With the higher bonus, the compensation was in line with what Sam had been seeking.

What would you do?

Editor's Note: Most respondents indicated that Sam needs more information before accepting this offer, and one felt that he should simply walk away:

<u>Actuary #1</u>

First, bonuses are not typically guaranteed, so I would hesitate to put much weight on the promise of a higher bonus.

Second, and more importantly, if the guy in charge doesn't appreciate actuaries, I'm not sure I would want to work there. It's too easy to find yourself being undervalued long term. Plus the guy who offered a higher bonus could leave the company tomorrow, leaving me working for someone who doesn't value me.

I'd walk.

The respondents most inclined to accept the offer were these:

<u>Actuary #2</u>

If you've got a strong enough base salary and you actually believe you're going to get the better bonus, take the job. If the bonus doesn't perform in the first year, start shopping for a new job immediately. I would only do that personally if I had full confidence in the company. If I didn't, I wouldn't be taking the job no matter what the bonus.

<u>Actuary #3</u>

Sam has been stagnating. He wants to make a change. This seems like a good fit, and an interesting challenge, and a growth opportunity. He'll be paid a little more, not a lot more. But what does he lose by taking the job?

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… if the guy in charge doesn't appreciate actuaries, I'm not sure I would want to work there.

"I recently took a new job with much longer hours for about the same pay because I was getting stale, and the new job offered many benefits. Best decision I've made in years."

The only red flag is that it sounds like Robert is BS'ing, and presumably he will have to work for Robert. I would want to research Robert's character before accepting the job offer, but the money didn't seem like it should be the tipping point.

Actuary #4

While on the phone with Robert, I would share my reasons for rejecting the offer. From there, I would tell Robert that I would accept the offer once the updated salary and target bonus were put in writing. I would want this in writing to avoid any confusion in the future. I would also ask for details on how my bonus will vary based on overtime and job performance. I would call Frank as soon as possible to share the conversation with Robert and ask that Robert do the same.

Some respondents were concerned about the work/life balance aspect of the decision, to which one person made this interesting observation:

"I recently took a new job with much longer hours for about the same pay because I was getting stale, and the new job offered many benefits. Best decision I've made in years."

And of course, I have to recognize this truly actuarial observation:

"For those of you wanting to negotiate a higher salary instead of the higher bonus, I agree somewhat. There are so many unknowns involved with a move when you are relatively satisfied in your career, I would price in some risk premium for that uncertainty."

Most respondents felt that before moving forward, more discussion on the bonus and perhaps working relationships was in order, and many pointed out that Sam should get the revised bonus in writing. Here are some of the more substantive responses:

Actuary #5

I'd ask myself if the growth I will get from the experience will make the long hours and the small increase in compensation worth it. The bonus makes no difference since that's something that may not be achieved, so I can't count the bonus in my decision-making process. I consider growth a function of opportunities, available resources, and intentionality on my part. I would follow up with Frank and Robert on specifics of opportunities available, coaching/mentoring resources, and the culture of the company in terms of developing talent.

A busy season and a bonus don't guarantee my growth and development. Grass is never greener on the other side unless I make a conscious decision to learn and grow wherever I am. The feeling of stagnation usually comes from focusing only on the tasks at hand or the positions available instead of focusing on how I can develop my skills, use my strengths, and add value to others.

This is a long way to say, that job isn't worth the move unless I get comfortable with Robert and Frank placing my personal development before the job.

Actuary #6

If the original offer from Frank was in writing, and certainly if it wasn't, Sam shouldn't respond to the revised offer from Robert until he has the offer in writing.

While the offer from Robert is in line with Sam's original expectations, even with a written offer, he needs to ensure that he has a complete picture of the bonus potential:

- What are the drivers of the bonus decision?
- What goals and metrics would he need to meet to receive the improved bonus?
- How much do bonuses vary each year, and what determines that variation?

At a more basic level, Sam believed his pay was low, and the revised offer seems to address that. However, it sounds like it's a move from fixed pay to a combination of fixed and variable, or an increase in the percentage of the compensation that is variable. Sam needs to review his financial situation and any external factors to ensure he's ready and able to take on more variability in his annual compensation.

Sam needs additional information and more thought before he accepts the revised offer.

Actuary #7

First of all I would make sure that Frank was in the loop either by asking Robert if he would be discussing this with Frank or by copying Frank on a thank you to Robert. However, when there is conflicting information I would not accept any position or make any moves until I received an offer in writing that clearly laid out the terms of compensation. Finally a salary that is a notch above a salary "well below market" may still be below market, and if the bonus/salary balance is heavily weighted toward bonus in order to make the total compensation at the market level, then Sam must be very clear about how bonuses are achieved. If the balance is too much bonus and too little salary, and the bonus is determined by events out of Sam's control or if there is a large potential bonus but not a good track record of bonuses at or near the promised level, then this new compensation package may not be as attractive as it looks.

Actuary #8

A job change has to feel like a move forward to something better. Sam needs to make sure he has the full story on the fit and relationships within the firm as well as compensation to ensure his own success.

It seems odd that Frank and Robert would provide such different information. My first impulse is a big red flag—Frank and Robert aren't communicating well, Robert wants to get a qualified person in the door, and it's unclear what the offer means. Sam needs to ask more questions to get the right answers that he needs to make a good decision:

- What are the quantitative criteria for a bonus?
- Are bonuses purely based on personal results, or some other corporate measures?
- Why would actuaries get that much more, and is that a corporate policy, or based purely on Robert's inclinations?
- What bonuses have been paid historically to actuaries like Sam, and what generally was reflected in those bonus decisions?
- Finally, has Sam explored getting a raise or promotion in his current organization, or has he exhausted his options?

Actuary #9

Sam needs to reconcile what he is hearing from Frank and Robert. This can likely be done by understanding and asking questions specific to:

1. Components of the percentage
2. Basis of the percentage
3. Historical payouts
4. Future potential.

Job salary offers are typically comprised of a set dollar amount base salary level, a target bonus level (typically a percentage of the annual base salary) and sometimes a Long Term Incentive (LTI) component that may require vesting or a commitment to the company for a period longer than one year. The target bonus and LTI payouts can fluctuate based on performance of the company or individual.

Components—Perhaps Robert and Frank are basing the percentage on different components? What exactly is included in the percentage number? Are there compensation perks (LTI, employee recognition awards, department-specific bonuses, additional days off, etc.) that Frank is including in the higher number, and Robert is not?

Basis—Is Sam's performance (and payout) compared across other actuaries in the company (regardless of the department)? Or, is he assessed based on the specific department he works in along with employees in non-actuarial fields? It may be more challenging to be viewed as a high performer when compared across only the actuarial population. However, if compared across the general employee population, actuaries are in a "class by themselves" according to Robert, and therefore do they typically receive higher payouts?

History—Sam should ask about his specific target bonus level. He should also ask about the fluctuation in that percentage over the past few years, and how that has related to company performance or market conditions. Are different areas of the company known to be either overachievers or underperformers just due to the nature of their department?

Potential—How will the percentages be revisited in the future and potentially increased? Just as base

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However, when there is conflicting information I would not accept any position or make any moves until I received an offer in writing that clearly laid out the terms of compensation.

Sam should be thinking about the full compensation package—health, dental, vision benefits, vacation days, subsidized parking, etc.

salary is re-evaluated each year, are the employee’s individual bonus targets also revisited?

Other—Sam should be thinking about the full compensation package—health, dental, vision benefits, vacation days, subsidized parking, etc. For example, if the new employer offers him three weeks’ vacation (versus two at his current firm), there is value in that.

I would not make a decision on the offer until I had a better understanding of the above factors. The comparison must be done on an “apples to apples” basis.

WHAT REALLY HAPPENED?

Sam decided that with the higher bonus, the move might make financial sense, but felt he needed more certainty about it. He called Frank to tell him what had transpired, and asked if Frank could send him a letter confirming that the first year bonus would be expected to be at the level Robert had mentioned. Sam told Frank that he recognized it was a bonus and therefore not guaranteed, and understood that Frank might want to include in the letter whatever caveats he needed, such as “assuming high-quality performance.”

Later that day, Frank called Sam to tell him that he didn’t understand why Robert had gotten involved, that the lower bonus stood, and that if Sam were so concerned about compensation, he probably wasn’t the sort of candidate they were looking for.

A few months later, Sam landed his dream job, helping a company build up an actuarial department from scratch. The base salary alone was equivalent to the higher level Robert had offered as base plus bonus, and he was eligible for a substantial bonus on top of that.

Managing with Metrics

By Raymond E. DiDonna

A popular definition of a leader is someone who produces superior results through the work of others. Two of the greatest challenges a leader faces are knowing how to build a high-performance team to achieve superior results and then instituting the mechanisms necessary to actually create that team. Now, there are several key areas that a manager must focus on, such as creating a team vision, providing consistent coaching and mentoring, and rewarding outstanding performance. In this article, however, I want to focus on *Managing with Metrics* as a key driver of creating a high-performance team. And this concept applies equally to the team as a whole, as well as its individual members.

Before you can *Manage with Metrics*, your team must be aligned with the organization as a whole. From the top of the organization comes a *vision*—what the company aspires to be. A vision is usually a lofty statement that should give employees a broad idea of what everyone should be striving to attain. Something like: "Our vision is to be the market-share leader in our defined niche by providing the highest-quality products and unmatched customer service."

While that may sound good, a vision is of no use unless there are clear *strategies* in place to support it. How do strategies support the vision? They do so by focusing on the improvements necessary to close the gap between the current state and the aspirational state. So, strategies for the vision above might look like this:

- Improve IT infrastructure to support customer service automation.
- Increase technical product development staff.
- Develop and introduce a market-unique product offering.
- Conduct research to gain market intelligence on top competitors.

Once strategies are in place, it's time to focus on *tactics*, which are the detailed action plans necessary to execute the higher-level strategies. This is usually about the time that managers and teams get involved. It's typically the teams within the organization or business unit that are responsible for carrying out the tactics.

So, what's critical for a manager here is to make sure his or her team understands not only the company's vision, but the strategies in place to support that vision, and the tactics the team needs to employ to successfully execute those strategies. You must make this connection or the rest does not matter; the team needs to understand how what they do every day impacts the company and supports its vision. So make sure this connection is perfectly clear:

Vision → Strategies → Tactics

Once the alignment is clear, as a manager you need to develop a way to measure your team and the individuals on your team. You may, for example, be the head of the product development unit. So, you need to focus on two of the strategies listed above:

- Increase technical product development staff.
- Develop and introduce a market-unique product offering.

What are the tactics (or team goals) you need to employ to execute on these strategies? Maybe one is to hire two additional experienced actuaries. Another may be to design and develop a new annuity product that consists of unique features not seen elsewhere in the market. Undoubtedly, there would be other goals for the team as well. And, within the team, each individual would have partial responsibility for achieving its goals. At this point it's critical to make sure the entire team knows the goals of the team—and, individually, each team member knows what he or she is responsible for. Team goal transparency is an important part of *Managing with Metrics*. So the overall alignment

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You must make this connection or the rest does not matter; the team needs to understand how what they do every day impacts the company and supports its vision.

Stock your team with people who can't wait to talk about goals and how to not only achieve them, but to exceed them.

from the company's vision to individual goals looks like this:

Vision → Strategies → Tactics (Team Goals) → Individual Goals

Now, with all of that in place, you must make sure the team goals and the individual goals are explicitly measurable. There must be targets for achievement—and the bar should be set at a level that is challenging but achievable if you want a high-performance team producing superior results. If your team is responsible for designing and developing a new annuity product with unique features, then make sure you can measure success explicitly. For example, you can measure:

- Design time
- Development time
- Number of unique features
- Expected profitability.

And, with all these goals, your team members should understand not only what the targets are (i.e., how success is defined), but also what superior performance looks like. For example, the target design time might be 60 days, but superior performance is 45 to 55 days, and outstanding performance is under 45 days. This clarity serves two purposes: First, there will be transparency across the team so that individual and team accountability will rise. Second, providing feedback becomes much more straightforward. It makes performance conversations, whether they be positive ones or critical ones, easier to have because both you and your team member understand right away whether goals have been achieved or not. So, the conversation can quickly move to where it needs to go: You have a superior performer who deserves recognition in one form or another; you have a good performer who should be encouraged to attain higher levels; or you have a low performer who needs to continue to understand what is expected of them in their role.

Finally, don't fall into the trap of having your team members convince you that what they do *can't* be measured. Very few things (and there are some) can't be measured. Even if the measurements are somewhat subjective, as long as there is clarity between you and your team members regarding the targets for success, and the results are measured consistently, I would much rather have a few subjectively measured goals, than have goals that are not measured at all. In my experience, the individuals who are trying to convince you that they can't be measured are usually the ones who consistently fall short of goals and who make the most excuses for why they couldn't reach their goals. Stock your team with people who can't wait to talk about goals and how to not only achieve them, but to exceed them.

In summary, an important aspect of creating a high-performance team is the concept of *Managing with Metrics.* To do that properly, you must clearly show the alignment between the company's vision/strategies and the team's goals, as well as those of individual team members. Goals must be explicitly measurable, and the group must also know what superior performance looks like. From there, constructive mentoring discussions can occur so your chances of achieving your goals and building a high-performance team are significantly greater.

Friends Don't Let Friends Ignore Actuarial Standards of Practice

By Patricia E. Matson

There are two main things I'd like to improve regarding Actuarial Standards of Practice (ASOPs) and perhaps you can help. For those of you who, like me, are often too busy to spend time reading the details of an article, the following two paragraphs are my executive summary version.

The first is awareness of the ASOPs. They apply to all of us with a credential practicing in the United States, whether we sign reports or not, whether we are American Academy of Actuaries (Academy) members or not, whether we get paid for our actuarial services or not. I worry that practitioners are not aware of that, not reading the Code of Professional Conduct, or not reviewing the standards that apply to their work (it is important to read the scope, and not just the title, to determine whether a standard applies). This is really important, since a material failure to comply can result in disciplinary action, legal action, and potentially even loss of credentials. So please do it, and tell your friends! Friends don't let friends work without considering standards!

The second is the extent to which practicing actuaries provide input on standards of practice. I just took a quick look at the last three ASOP exposures for which the comment period has ended. In total, for all three, we received a total of 31 comment letters. The letters were very helpful, and have or will improve the ultimate product. But with somewhere around 22,000 credentialed actuaries to whom standards apply[1] that is a pretty low response rate. We need more comments to do a better job. I know everyone is busy, but if you can find time to read just one or two new exposures each year and email the Actuarial Standards Board (ASB) with your comments it will benefit you and the entire actuarial profession. Reading and commenting on ASOPs also provide you with professionalism continuing education.

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There will soon be a mobile device version of the ASB website that will allow easy access to ASOPs from your smartphone or tablet.

On Jan. 1, 2014, I became the chair of the ASB. 2014 is my fifth year on the ASB, so I have experience with the standard-setting process, and I very much welcomed the opportunity to take on this leadership role. I had discussed in a fair amount of detail the requirements of the job with the prior chair, Bob Meilander. So when Jan. 1 rolled around, I felt ready to take on this new responsibility.

Somewhere around Jan. 7, having returned from a relaxing holiday break and getting back into the swing of things at my job,[2] I received an interesting email from a regulator describing a situation in which an actuary had done something that the regulator believed was a violation of standards. He was interested in my thoughts on this.

The ASB does not interpret standards (if an actuary needs help interpreting standards, he or she can contact the Actuarial Board for Counseling and Discipline (ABCD) with a request for guidance). However, I am always happy to get input of any kind on the standards. I want to encourage as much awareness and feedback as possible. It was a challenging question and I spent a fair amount of time trying to provide a thoughtful response (again, this was my personal view, not an ASB view), including a suggestion to reach out to the ABCD for "official" feedback. I also began to wonder if I would be getting lots of requests like this as the chair.

It turned out that the first request was actually a pretty easy one compared to what was next to come. Shortly after that first call, the Society of Actuaries (SOA) issued the report of the Blue Ribbon Panel on Public Pension Plan Funding. This report includes several recommendations, including a series of recommendations related to increased disclosure requirements in ASOPs. The day of its release, I was asked to provide a statement to the press in response to the recommendations. I was well aware of the recommendations, and had seen during my prior four years on the ASB the significant efforts made by our Pension Committee to improve requirements and disclosures in our pension standards. Every pension standard had been revised during that time to raise minimum standards and increase disclosures. I was also aware of the significant work on pension issues performed by the Academy. However I am not a pension actuary, and I had not had many (OK, none!) requests to give statements to the press. So it was a bit stressful!

But again, I was happy to see attention given to our ASOPs. Due to the recent issues in the pension arena, I have had many conversations with various actuaries (pension and non-pension) about standards of practice and whether the bar is high enough, or too high. But to the point I made in the introduction, when I ask the individuals who call or email me whether they have submitted formal comments in response to our recently exposed revisions to pension standards, the answer is often no. In addition, based on the conversations, I can at times tell that they have not read the more recent standards. This is what worries me.

I understand, with the volume of information that we all receive today, that it is very hard to review and comment on evolving requirements for the profession. And to the extent the requirements don't apply to a specific actuary, time constraints may not allow for such review. But the existence of a Code of Professional Conduct and ASOPs is part of what makes us a profession, and creates public trust and respect of our profession. So it is critical that we read and understand the ASOPs that apply to our work. And to the extent actuaries can go a bit beyond that, and provide input on ASOPs as they are being drafted, I am sure it will result in a better work product.

I also recognize that the ASB needs to make it easier, in this age of information overload, for individual actuaries to know what standards apply to them, when they are being updated, and how to access them easily. This has been a focus of the ASB recently, and there is a marketing and communications team working on this. You have probably already seen an increase in the number of webcasts on ASOPs, and hopefully also an increase in email traffic related to new standards. There will soon be a mobile device version of the ASB website that will allow easy access to ASOPs from your smartphone or tablet. There are more articles, like this one, to help raise awareness across the profession. And if you have other ideas that might help improve awareness of standards, and comments on new standards, I would love to hear them! Comments on standards can be sent to *asb@actuary.org*.

Perhaps some of the increased communication and marketing are making a difference. I was happy to see 46 comments on the exposure draft on Modeling. This standard has been of great interest to the entire profession as well as the regulatory community, since it will apply to nearly every aspect of actuarial work.

The most recently issued exposure, Medicaid Managed Care Capitation Rate Development and Certification, despite applying to a much narrower group of actuaries, received 26 comments. And in many cases the comments were from organizations, representing more than one person's view on the standard. I am grateful to all the individuals who took the time to comment on these new standards. I hope that the trend continues, and that we have greater awareness and interest in our standards as time goes on.

ENDNOTES

[1] Not every standard applies to every one of those 22,000.

[2] I was working in enterprise risk management (ERM) at MassMutual at that time.

This standard has been of great interest to the entire profession as well as the regulatory community, since it will apply to nearly every aspect of actuarial work.

Book Review: *Conversational Intelligence: How Great Leaders Build Trust and Get Extraordinary Results* by Judith E. Glaser[1]

Review by Kelly Hennigan

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"I know that you believe you understand what you think I said, but I'm not sure you realize that what you heard is not what I meant."—Pentagon Spokesman Robert McCloskey during a press briefing about the Vietnam War.

The above quotation is one of the many reflective and relevant passages scattered throughout *Conversational Intelligence: How Great Leaders Build Trust and Get Extraordinary Results* by Judith E. Glaser. The book is a relatively quick read, at approximately 200 pages. The chapters are concise and specific, for those who choose to focus in on certain subtopics. The book is sprinkled with real-life examples and actionable takeaways on improving your professional and personal conversation style.

The author is an accomplished professional with many accolades in the field of communication. Judith E. Glaser is the CEO of Benchmark Communications, Inc. and the chairman of the Creating WE Institute. Over the course of her career she has been a consultant, a coach, an adjunct professor at Wharton, and a guest speaker at universities such as Harvard, Kellogg and NYU. She has appeared on a variety of news programs and has been quoted throughout many popular business publications. In 2012, Glaser was named one of the "Top 20 Thought Leaders of Leadership and Culture" by the Leadership Excellence organization.

Level I conversation is at the core of conducting business transactions and daily life.

Despite this healthy list of accomplishments, the one experience I found most intriguing about Glaser was that her career may not have traveled down the path described above had she not gone to summer camp. At the age of 11, she traveled from the United States to an international camp in Mexico that was populated with youths from around the world—all of whom spoke different languages. It was during this experience that Glaser learned to "… connect with others through broader dimensions than words alone." Subsequent to that summer, she continued to journey to other countries and was exposed to many different languages and cultures at a young age. This piqued her interest in conversation, which ultimately led her to where she is today.

Similar to the book, this review will focus on the three main levels of conversation and how to ultimately strive toward the aspirational Level III.

LEVEL I

The book states that Level I is the most basic level of conversation. Much of our day-to-day conversation both in the workplace and at home is comprised of Level I communication. During this stage, people are sharing information by either asking or answering questions. Level I conversation is at the core of conducting business transactions and daily life. As actuaries, we are all masters of Level I conversations.

LEVEL II

Level II conversation occurs when people share their views and try to convince others of their opinion. These may be positional conversations during which the speaker attempts to guide others toward reaching the same viewpoint. According to the book, individuals typically get stuck in Level II conversations. As humans, we have a tendency to always want to be "right"—and the euphoria that comes along with being right can be addictive.

LEVEL III

Level III conversation occurs when people are willing to trust and accept diverse points of view.

Based on the book, this happens when individuals are "present" in their conversations and do not feel threatened. The author suggests that conversations should be co-creating, wherein the participants have the ability to "transform and shape reality." Reaching Level III conversation can be challenging, and Glaser identifies some pitfalls that stymy individuals from attaining Level III. She also suggests modifying behaviors to more easily reach Level III. After all, according to psychologist and author Daniel Goleman, "What counts in making a happy relationship is not so much how compatible you are, but how you deal with incompatibility."

MOVING FROM TRUST TO DISTRUST

Ultimately, a trusting environment leads to open conversations that are the basis for Level III. Via choice of words, body language and environment, conversationalists can strive to eliminate distrust and other associated communication fears.

Even when conversations are occurring at the very rudimentary Level I, they are reflective of emotions. The words selected in conversations (or emails) are rarely neutral. Depending on its delivery, a single sentence—even just a single word within a sentence—can lead the recipient of the message down a path of distrust. In the words of Maya Angelou, *"I've learned that people will forget what you said, people will forget what you did, but people will never forget how you made them feel."*

If a conversation is perceived as threatening, this can naturally inhibit our ability to think rationally. For example, many of us have likely been in meetings where we share an idea, and then the idea is discarded for any number of reasons—"we tried that before and it didn't work" or "that won't be beneficial to the organization as a whole," etc. People truly fear failure, rejection, exclusion, and being judged—both at work and at home. In these situations, we tend to get fixated on why our suggestion was dismissed and why our colleagues have turned against us—distrust and fear distort our perception of reality. Simply by recognizing that distrust and fear are resulting in our distorted perception of reality, we can more easily cope with experiences like those described above and shift our mindset to refocus on the agenda and redirect ourselves to move forward as active meeting participants.

A great deal of communication is nonverbal and subject to interpretation. When considering various communication factors, words are the least important aspect of communication (7 percent) compared to tone of voice (28 percent) and nonverbal behavior (55 percent). *"Most people assume that meaning is embedded in the words they speak. But according to forensic linguists, meaning is far more vaporous, teased into existence through vocalized puffs of air; hand gestures, body tilts, dancing eyebrows, and nuanced nostril flares."*

In addition to our choice of words and our body language, the environment plays a role in delivery and receipt of communication. Glaser suggests sitting next to people when co-collaborating. Sitting across the table from co-workers does not make for a trust-building brainstorming session. Even more importantly, meeting participants should avoid sitting in the position at the head of the table unless they are purposefully solidifying their presence as an authority figure.

ACHIEVING C-IQ AND LEVEL III CONVERSATIONS

In order to ultimately reach the Level III conversation pinnacle, individuals need to increase their Conversational Intelligence (C-IQ). Glaser suggests that avoiding the following blind spots will raise your C-IQ:

1. Don't assume that others share your point of view.
2. Don't let distrust or fear distort your perception of reality.
3. Don't let fear kill your empathy.
4. Don't assume that you remember what others say. Your interpretation of what people say is just that—your interpretation.
5. Meaning does not reside in the speaker; it resides in the listener.

Throughout all conversations, the human factor must be considered. Honesty and sincerity result in

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A great deal of communication is nonverbal and subject to interpretation.

By shifting feeling into words (a very difficult accomplishment in itself) and thus into conversation, Level III will become attainable.

quality conversations. Conversations that apply the "TRUST" model—"Transparency, Relationship, Understanding, Shared Success, and Testing Assumptions and Telling the Truth"—will be more likely to surpass Level II and achieve Level III status.

To work through unhealthy conversations, incorporate the "three R's"—reframe, refocus and redirect. This technique enables communicators to reframe statements that result in negative emotions and refocus and redirect conversations to a more positive outcome. For example, the comment "I do not like the amount of time you are spending on small projects" can be transformed to "I would prefer that you apply your skill set to the larger projects that have recently surfaced."

To continue the elevation to Level III, the following styles of conversation can be utilized: co-creating, humanizing, aspiring, navigating, generating, expressing and synchronizing. While the author goes into detail on each of these within the book, the action words alone are self-explanatory and indicative of how they might result in a more open and trusting conversation. Each requires being present and thoughtful in conversation, particularly when considering the desired outcome. By shifting feeling into words (a very difficult accomplishment in itself) and thus into conversation, Level III will become attainable.

In the words of the author herself, *"To get to the next level of greatness depends on the quality of the culture, which depends on the quality of the relationships, which depends on the quality of the conversations. Everything happens through conversations."*

Those interested in learning more can also visit *www.conversationalintelligence.com.*

ENDNOTE

[1] Bibliomotion, Inc., 2014, 230 pages.

A Few Things I Learned While Working in an Actuarial Department

By Andrew Marley

For a little over (((((SQRT((22.5*42/16)))/2)+(74.5*17))/20)-59.51713)[1] years, I had the opportunity to work in an actuarial department focused on the senior segment of our business. I was a business professional who did not have any actuarial credentials or exams to my credit. My journey took me on a very diverse ride, through ups and downs with my fellow business professionals and actuarial sisters and brothers. Together, we delivered on challenging deadlines and major projects, and endeavored to build a more positive culture.

I held several leadership posts within that actuarial area. My previous background was in IT, which gave me an initial connection to my first role as Servant Leader[2] for the following teams: Bid Model Development, Cost and Utilization, Reporting, and Tools/Audit Support.

Soon after building this group, we realized that we needed an effective way to get new actuarial analysts up to speed quickly, so we added a Training team. After a couple of years, the Training team moved off to another group, and soon after, I assumed leadership for our market support actuarial staff, our Assumptions team, and our merger/acquisition support.

A few months later, I was afforded yet another opportunity for responsibility growth. The Training team rejoined us, and we added the Project Management Office. I started out as Servant Leader for a staff of 21; when I left the actuarial area, I was responsible for leading a group of 83.

As you can imagine there were many things that I learned along the way; but for now, I thought I would share five of my favorites.

Learning Item #1—There are far too few actuaries in the world.

With as many as 83 boxes on an organization chart, I was able to see first-hand the great need for quality actuaries. I do not remember ever being 100 percent staffed. We came close to closing the gap a couple of times, but always fell a little short. Given the complexity of industries utilizing actuarial/financial professionals, I do not expect the need for actuaries to ever decline. Quite the contrary … I expect the need to grow. Fortunately, there are several very good actuarial collegiate programs out there. Best of luck to every university bold enough to embark on educating our bright young minds on this discipline.

Learning Item #2—Culture is of the utmost importance.

Many of you are aware of the challenging workload required to effectively deliver actuarial analysis within our ever-changing, actuarial-based industries. No matter what salary you provide for exceptional skill and organizational contribution, you will not be able to retain your talent unless you also develop an effective culture.

Culture comes in many shapes, sizes and flavors, so one size definitely does not fit all. Effective leaders must continually recruit to, observe, and adjust the team's culture to ensure that the team can deliver its best results for the company. Also, when

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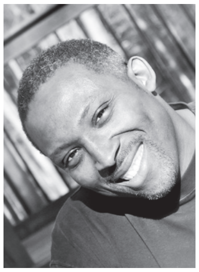

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On several occasions I watched folks with less than a year of experience complete critical deliverables.

necessary, a leader may need to "decouple" from a team member who no longer fits the team's culture.

Learning Item #3—Leadership can be taught and a leadership environment can be cultivated.

As I got the opportunity to interact with many actuaries and business professionals within an actuarial department, I consistently found that our innate leadership ability was lacking. It is funny to me: We make a point of developing expertise in many things, including technical skills, mastering of financial and actuarial principles, and even project management, yet somehow we do not often sense a need to focus on developing leadership skills.

Within our department, we chose to resist the notion that most people have natural leadership skills, and encouraged leadership learning/practice within all levels of our organization. My thought process became ***Liderazgo Cada Día*** (en español) … or ***Leadership Every Day*** (for our English-speaking audience). I tried to learn leadership principles and to interject those principles in all components of my daily life, while challenging our entire staff to do the same.

Learning Item #4—"Good is the enemy of great."[3]

Within analytical organizations, a healthy dose of analysis paralysis is to be expected. Most of my career has been associated with a mindset focused on throughput and delivery, and analysis paralysis is its antithesis. Our department learned to drive past the tendency of waiting until we had every ounce of data in hand and every tool was 100 percent complete. Instead, we focused on the delivery-based journeys ahead of us. This confirmed for me that you can still be very analytical and deliver quality analysis, without being stuck in the over-analysis mud.

Learning Item #5—Remember to think like a rookie.

On several occasions I watched folks with less than a year of experience complete critical deliverables. Each person brought different skills and perspectives to the table. However, the common denominator was that each of them was full of optimism and belief. Each wanted to show what she or he could deliver. Each possessed the focus to complete the task, the desire to impress, and the confidence to "swing for the fences" each time up at bat. In other words, they thought like a rookie.

Perhaps we could deliver more if we were to approach solving problems and completing projects with "rookie" behavior as a backdrop. If supported by their leadership, these so-called rookies consistently deliver results that are nothing less than amazing.

ENDNOTES

1 Note: The answer to the equation at the opening of the article is 4.

2 Robert K. Greenleaf, author of *The Servant as Leader.*

3 Jim Collins, author of *Good to Great.*

Do You Know What You Are Doing?

By Meg Weber

What we personally experience is a far greater teacher than what we read, watch, or hear. Fortunately or not, a *bad* experience is easier to recall; not so much, the "unforgettable sunset" you swore that you would always remember. Don't be too concerned. Risk is not the only opportunity for actuaries. These bad personal experiences can transform management, parenting, or teaching skills.

Those who have dozens of these memorable, aka "bad," experiences may be fortunate in a way. Maybe they can make a living writing about them! For this issue of *The Stepping Stone* I have just one.

My first summer job (I was 15) was in the local bank. I was too young for my "dream job" of being a teller. I was in the area where all the checks were prepared in the afternoon to go to the Federal Reserve. In the mornings, we processed what came back from the Fed from the prior day.

Day 1. After orientation in the morning, I started my regular work in the afternoon. A dozen of us encoded, sorted and filmed checks for their trip to the Fed. Knee deep in Sortkwik and rubber bands, we processed thousands and thousands of paper checks. The following morning, tens of thousands of checks came back from the Fed. The head bookkeeper told me to film them all.

What she did not tell me is why I was doing what I was doing, or what happened next to the checks. Because I started in the afternoon, I didn't know what I didn't know. I was happy. I figured the Fed had done whatever was important and all I was doing was making a record of what we got back. I filmed those checks in fistfuls from the top of the pile, the bottom, wherever was handy. I was halfway through when a co-worker saw what I was doing. I think she thought I was as responsible as Lucy and Ethel at the chocolate factory.[1] The checks needed to stay in order for the next process. Everyone was extremely upset and unhappy with my performance. It meant a lot of rework for everyone. Day 2 was nearly my last day.

As a manager, I have found it really pays off to make sure team members know their work fits into an overall process, how they contribute to the overall product, and what happens next. This also gives them the opportunity to ask questions before they start. They can ask questions as part of a dialogue and not have second thoughts about coming back to ask a "stupid" question.

When I am the one receiving the assignment or answering a question, I try to remember this as well. This is harder to do. The busier I get, the easier it is to become transactional. Email requests for numbers on this, who served on that, pile up. Turning them around quickly sounds easy. Resist the urge. Without the right information upfront on what happens with those answers, the answer may be quick but incomplete or wrong.

In summary:

- Ask and tell.
- Sometimes you think you know what you are doing (but don't).
- Everyone makes mistakes. Try to make new ones.

ENDNOTE

[1] A classic episode of "I Love Lucy" readily available on YouTube.

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Risk is not the only opportunity for actuaries. These bad personal experiences can transform management, parenting, or teaching skills.

The Zen Actuary Installment 3: "Don't Just Check the Box"

By Rich Lauria

Rich Lauria, FSA, CFA, MAAA, is senior vice president and chief corporate actuary at Assurant, Inc. in New York City. He oversees Assurant's Enterprise Risk Management and Corporate Actuarial functions, and enjoys the challenge of integrating Buddhist and Eastern philosophy into the hectic demands of modern Western life.

It is not enough to simply calculate statutory minimum reserves and post them to a ledger.

Author's Note: *This is the continuation of a series*[1] *adapted from the book Awake at Work by Michael Carroll, covering the application of Buddhist teachings to situations encountered in a modern corporate workplace setting. This series addresses challenges frequently encountered by practicing actuaries.*

The responsibilities of many practicing actuaries include compliance duties. Examples abound throughout the various practice areas:

- Many pension actuaries are heavily involved in work that complies with the Employee Retirement Security Income Act (ERISA) and various sections of the Internal Revenue Code.
- Financial reporting actuaries working at insurance companies are involved in setting reserves for U.S. GAAP and/or statutory purposes. This work must comply with Sarbanes-Oxley 404, Model Audit Rule, and Actuarial Opinion and Memorandum Regulations.
- Pricing and product development actuaries have their own rules to follow. Life actuaries producing policyholder illustrations must comply with Illustration Actuary regulations, while non-life actuaries filing rates must comply with various state regulations on rate filings.
- Even risk management actuaries at U.S. insurance companies will have regulatory compliance in the very near future with requirements regarding Form F and Own Risk and Solvency Assessment (ORSA) regulations.
- Actuaries working outside of the United States have their own compliance regimes to consider.

In addition to legal requirements, the actuarial profession itself has its own set of do's and don'ts through the Code of Conduct and Actuarial Standards of Practice (ASOPs). These standards help guide the practicing actuary through myriad professional and ethical situations. And in a post-Enron, post-Madoff, and post-housing bubble world, most organizations that actuaries serve have their own code of ethics that must be considered.

The purpose and intention of all of these rules and guidelines are admirable. They provide actuaries with guardrails and guideposts to practice their craft. They serve as a foundation for the quality, integrity and usefulness that the actuarial profession aspires to for all of its members to maintain in their work. A lack of such literature would likely produce less comparable work product across the profession, with members applying their own standards of practice to the task at hand.

However, it is important to note that such rules support rather than replace good actuarial practice. They enhance the actuary's natural ability and intention to produce valuable analysis that helps the client or employer make better decisions under uncertainty. These innately high standards and aspirations that an actuary brings to his or her vocation can be referred to as the "li" of the actuary. Per Michael Carroll in *Awake at Work*, the term "li" derives from ancient Chinese artists who carved jade into figures and decorative designs, working with the stone's tendency to crack along its natural contours. These lines were referred to as the "li" of the stone, and the sculptor's challenge was to bring out this natural beauty. Similarly, the various regulations, codes of conduct and professional guidance help bring out the natural goodness of actuarial practice, beyond just "checking the box."

All of these rules and regulations can produce a false sense of security. Simply following them in a mechanical fashion does not guarantee high-quality output. Such blind compliance only provides a legalistic defense of one's analysis. It is not enough to simply calculate statutory minimum reserves and post them to a ledger. The actuary needs to have a view on whether they are sufficient under various scenarios and using acceptable criteria of reserve adequacy. And if they prove to be redundant, the actuary should be able to tell management the level of excess and trends in that amount.

The ASOPs are not prescriptive by design. They provide the actuary with a litany of items to consider in choosing or designing an actuarial methodology, setting assumptions, and interpreting and presenting results to the audience. The actuary must do the hard work of making these decisions and understanding the consequences and trade-offs of each one. The actuary must assess the strengths and weaknesses inherent in the modeling, and the level of confidence in relying on the output. In short, the actuary must tap into his "li" of natural ability and intellectual curiosity, strengthened by extensive training and the educational demands of the professional curriculum, and further cultivated by an inner desire to generate one's best effort. The ASOPs nurture but do not guarantee such performance.

Following the rules is a necessary but not sufficient condition for professional success. No rulebook can ever anticipate every possible situation that an actuary will face in one's career, just as no model can successfully predict every possible scenario. As with other aspects of life, actuarial practice has its share of gray areas where there is not necessarily a right or wrong approach. In such cases the actuary will need to take a step back and evaluate several viable options to solving the problem at hand.

In dealing with such challenges, the actuary should use the regulations and standards of practice as a reference point for simpler cases of a comparable nature, and consider the goal of the exercise when making a final decision. For example, when setting statutory reserves for a new product with no prescribed standards, the actuary should look to existing standards for comparable products as a starting point, adjusted for product feature and data availability differences. Multiple methods and sensitivity testing should be performed before reaching a final conclusion. And experience should be monitored closely, especially if production accelerates.

Many of the newer regulations affecting actuarial practice are intentionally less prescriptive. Principle-based reserves (PBR) and ORSA lean heavily on actuarial judgment, cultivating rather than dictating actuarial "li." This puts increased emphasis on professionalism and encourages actuaries to put their best foot forward in serving their clients and the public at large. In addition, this trend toward more flexible regulation provides actuaries more leeway to find the natural contours in performing their analyses that fit the products and business models that their clients and organizations are executing. This results in many acceptable approaches, going beyond a one-size-fits-all mentality. It also gives actuaries the opportunity to develop an analytical framework that serves multiple purposes: satisfying regulatory requirements, informing critical risk and solvency insights, and providing trends in key profitability drivers to guide strategic decisions.

This brings more relevance to compliance efforts and fosters increased efficiency in the actuarial function. Senior management and boards of directors will view actuarial compliance efforts as more than simply avoiding fines and regulatory quagmires. Actuarial management becomes more integrated with all parts of the organization, removing silos and coordinating activity with other critical areas.

Actuaries play a vital role in the financial risk management of many organizations. Some of these companies are considered systemically important to the financial markets. The profession is historically well-respected and trusted, and its public profile is expanding by the day. We are seen as risk management leaders, and our services are increasingly being sought out. By being much more than minimally compliant, actuaries can further seize the day and offer cutting-edge services to their clients and organizations. Providing such value should ultimately result in a more stable and reliable financial system, and a more trusting public that is increasingly willing to place its hard-earned savings in the products and services we design. Moving beyond a "check the box" mentality and cultivating the "li" inherent in each of us offers us the opportunity to make this vision a reality.

ENDNOTE

[1] The first two installments in the "Zen Actuary" series, "Balancing the Two Efforts" and "Be Authentic," were published in the November 2013 and February 2014 issues of *The Stepping Stone*, available online at *www.soa.org/mpd.*

Following the rules is a necessary but not sufficient condition for professional success.

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