The changing role of actuaries in life insurance

David Jewell and Alex Thomson
Do you remember?

“The FTSE/JSE Africa Index Series replaced the JSE Actuaries indices on 24 June 2002...”
Audience participation

• 3 Audience participation questions
My take on defining the role of the Statutory Actuary

- Not just compliance and assurance...
- To deliver on this role the actuarial function owns “The Model”, which positions the function to play a key business and strategic role
- BUT makes it easy to stay in the technical comfort zone of “The Model”
- Also, this positioning takes the actuarial function into competition with capital management, risk, finance, customer delivery...

Are we equipped for the competition that we face for this broader role?
What is the actuarial value proposition?

- Time value of money
- Financial mathematics
- Long-dated cash flows
- Uncertainty
- Statistics
- Contingent events
- Professionalism
- Public interest
- Minimum standards
- Building mutual trust

Life insurance products are long term promises on contingent events.

These skills are not unique.
In general, life actuaries are slipping into lower level work...

Where are we as actuaries heading?

- **Elegant solutions to complex problems**
  - Commutation functions
  - Makeham’s formula
  - Net premium reserves
- **Judgments** regarding simplifications

A long time ago...

- Detailed cashflow models by **brute force**
- Little judgment required just follow the recipe

Now...
Changes in Liberty’s core actuarial function over time?

In 2006, 71% of the team's work was actuarial, with 29% being non-actuarial. Today, the balance has shifted to 52% actuarial and 48% non-actuarial.

Actuarial skills now down to half of the team. Balance is IT, data management, developers, operations...

Increasingly work previously done by actuaries is being done by people with other core skills.
Things we do as actuaries

“It’s in the report!”

“The model produced…”

“The worst parts of my job are data and documentation.”

“The report is the deliverable”

“Capitalising equity risk premiums”

“I need an office to do my work!”

• Actuarial teams siloed in the business - conflict with marketing, IT, finance
• Consultancies not knowing their client
• Lost in the detail of models; striving for technical perfection
• Disconnected from the real business and the human side
• Rather be right about something where there is certainty than caught up in the ambiguity of the real world
• Struggle with non-linear thinking
• Trapped in theory; lack of action

Data change analysis line
Understanding how we’re wired
Understanding how we’re wired

**LEFT**

- Receives experience indirectly
- Sees parts
- Abstract, disconnected
- Schematises; generalises things into categories; mechanistic
- Linear thinking, serial processing
- Black-white, certainty, needs coherence
- Attention: laser-focused, static
- Self-referencing / loves what it already knows / “ivory tower” of rational ideas

**RIGHT**

- Direct experience of reality
- Sees things whole
- Sees things embedded in the real world
- Sees uniqueness of a situation; recognises faces, body language
- Non-linear thinking, “a-ha moments”
- Ambiguity / uncertainty / contextual
- Attention: global, dynamic, fluid
- External referencing / connected to others: empathy

Taking in context (right), making sense of it in abstract left and then reintegrating it
Traps of left brain dominance

• Sees **Details Only**; can’t see the whole picture

• **Literal** – can’t “read between the lines” for meaning

• **Lacks empathy & social skills** - Impulsive, selfish

• Needs **logical coherence & certainty**;
  
  • **Certain** of its own conclusions;

  • **Denies** if it is wrong;

  • **Fabricates** stories to rationalise any discrepancies

“*The Black Swan*” by Nassim Taleb

“*Thinking, Fast and Slow*” by Daniel Kahneman
Conceptual model for development of actuaries

Tools
Data
Actuarial knowledge workers

Business understanding
Management Information and analytics

Business insight
Problem solving
Self awareness and insight
Negotiation and Building partnerships

Action that creates value

• Experiential learning is critical
• Must get actuaries out of the actuarial corner
• Secondments and rotations
• Balanced build of technical actuarial skills
• Supplement other technical skills e.g. project and process management

Augments Actuarial Society’s increased emphasis on normative skills
Looking to the future

Create
Evaluation
Syntheses
Analysis
Application
Understanding
Knowledge recall

A long time ago...
Now...
...In future

What are YOU going to do to remain relevant?

Conceptual complexity

Technology
Regulation
Simpler products
Competition

2014 Convention knowing more 22-23 October, Cape Town
Audience participation

• Left brain dominance
Where do you see yourself in the future?

DISCUSSION