

THE BUSINESS OF ACTUARIAL CONSULTING

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Actuaries may be regarded as highly trained business mathematicians. One of the most satisfying and rewarding ways for an actuary to apply the knowledge gained at university and through subsequent studies to real-life problems is to become a consultant actuary.

In essence, consulting is problem solving. But it requires more than original, analytical thinking and an innovative approach. It also demands clear and effective communication.

Consulting is a process whereby:

- a client's needs are determined;
- they are thoroughly researched, so that a range of alternative solutions can be offered;
- the best solution is recommended;
- help is given to implement the chosen solution.
- the success of the solution is monitored and reviewed.

Like consulting generally, actuarial consulting is fundamentally a "people business" It is firmly based on mathematics, but it is certainly not a "backroom" career.

Actuaries deal with some of the most successful people in the corporate world, people who value advice which is concise as well as complete. The best consulting actuaries are those that not only solve the problem but also demonstrate to the client in the clearest terms why they have recommended a particular solution. Even the best solution may be rejected if it is not understood by the client.

Case Study

Recent years have seen increasing pressure on Australians to provide for their own retirement. Superannuation – the provision of cash benefits to employees or their dependents when employment ends due to resignation, retirement, death or disablement – has consequently become one of the most important areas of actuarial work.

The following case study is based on an actual client superannuation project – only some of the basic details have been altered to preserve confidentiality. It is a good example of the work a consulting actuary might expect to do, and how the principles of consulting are applied.

The Company

The client is a large Australian industrial company with significant operations in every state and in many other parts of the world, notably in the UK and USA. It employs around 15,000 employees in Australia and its products are household names.

The company has grown very rapidly, partly by internal expansion but more by merger and acquisition. Following many significant takeovers it is now the market leader.

The Problem – often referred to by consultants as “The Challenge”.

The company’s rapid expansion programme brought together many companies, each of which had its own superannuation scheme prior to being taken over. This resulted in a range of superannuation benefits that differed vastly even between employees who might be working next to one another.

These differences could not continue if the company was to maintain good employee relations. The company sought consulting advice to:

- design the most suitable scheme for the group as a whole;
- cope with all current employees who already had superannuation benefits;
- put in place a means of running the newly designed scheme in the future.

Sub-sets of the Challenge

The overall challenge can often be broken down into quite small sub-sets. Some of the major ones in this case were:

Type of scheme

Consultants talked to the company's senior managers to hear their views on the type of scheme that would best suit the needs of both the company and its employees. Discussions took place on issues such as the size of benefits, method of delivery, competitive position, employees' wishes and union involvement.

Current schemes

Finding out exactly what was already in place involved a great deal of investigation. It required visits to the various locations around Australia to gain a proper understanding of the true position. It also uncovered more schemes already in place than originally thought, and a variety of "local practices" to be dealt with.

Cost

Before determining how much the new scheme would cost the company, the consulting actuary needed to gather details of all the existing assets. The value of these assets and the level of benefits to be provided together enabled the actuary to calculate the company contribution required.

Since this cost has a direct impact on the profits of the business, and thus on the

shareholders' return on their investment, this is an area where the role of the actuary is recognised as vitally important to senior management.

Administration

Consultants then helped the company select an organisation that could efficiently and effectively handle the day-to-day administration of the scheme. Good fund administration is crucial to maintaining the goodwill of employee members. The administrator must ensure that benefit payments are made quickly and correctly. Bad service to members can destroy all the good work done earlier in setting up the scheme.

Investment

Consulting actuaries have a major role to play in fund investment because they understood the structure of a fund's liabilities i.e. what it must pay out in benefits over time. The consultants advised the new fund on how much investment risk it should accept given those liabilities, and what level of investment return the fund could expect.

The consultants then helped the fund review the way its existing investments were being managed. Superannuation schemes are, in simple terms, large scale savings accounts. Savings are made by both the employees and the company, the combined savings are invested, and the benefits paid from the accumulated accounts. The successful investment of the total amount contributed can therefore strongly affect the size of the benefit when it is paid.

Australian superannuation schemes have around \$60 billion in investments and so form a large part of Australia's economy. Banks and insurance companies are the main providers of investment products, but with about fifty to choose from it's not easy to pick

the best or most suitable.

Insurance

The consultants were also asked to ensure that adequate and cost effective insurance was purchased. Death and disability benefits provided by a superannuation scheme are insured by a life insurance company, the costs of which vary from insurance company to insurance company.

The actuary determined how much insurance the fund needed, reviewed several quotations, compared their terms and conditions, and then helped the client select the most appropriate policy for the fund.

Conclusion

Actuarial consulting to superannuation clients involves a broad range of consulting advice. Each task is important, but integrating them into a coherent package is the real challenge.

Superannuation consulting is however only one kind of actuarial work. An actuary has a wide range of futures to choose from, some more technical than others. A consulting actuary certainly needs a strong mathematical background and capabilities, but must also develop the ability to apply these in a practical manner.