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Actuaries MUST be Good Communicators

2004-03-01 21:44:00 <Hayden Burrus>



I agree with your belief that it is our responsibility as actuaries to develop the appropriate people skills and communication skills to deliver our ideas to management in a straightforward manner.

I also agree with your thought process: Management can not passively sit around and expect for us actuaries to hit them over the head with the information they need to know in a 1st grade level format. Understanding actuarial analyses often requires intellectual effort. Executives who rose to their stature because of the "Peter Principle" and don't or can't make this required intellectual effort will never understand or benefit from the insights we have to offer.

I disagree with the implication that these "Peter Principle Executives" are in the majority and are the primary cause of our profession's frequent failure to deliver on our responsibility to communicate.

Executives regularly require their subordinates from all departments to present analyses and recommendations. Most of these communications are successful (i.e. executive requests info; manager provides info; executive correctly understands, digests, and synthesizes manager info with other info; executive creates action plan.) To the extent that executive - actuary communication breakdowns are more common than communication breakdowns between executives and other professionals, it is most certainly the actuary's fault.

This isn't "actuarial guilt"; it is a description of "a failure to communicate" (apologies to Cool Hand Luke) by the actuary. The executive has proven his ability to communicate through successful communication with others in management.

Sure, the bar may be higher for us. We have to present very technical, quantitative analyses to non-quantitative people. That doesn't eliminate our responsibilities or excuse our failures. The most accurate, thorough, well-documented reserve review ever created has absolutely no value to its client company if company executives are unable to receive, understand, and act on the information provided.

I had hoped I could get through this post with out using the crutch of an analogy, but I failed in that goal:

Leo Szilard invented the atomic bomb. He actually patented it in the 1930's. Szilard's research on the subject was accurate, thorough, and well documented. He attempted to provide this idea it to the British Military, but his offer was initially rejected. He failed to communicate the value of this idea, and it therefore was valueless to England.

A few years later, he and another scientist, Albert Einstein, wrote a letter to FDR explaining the concept and possibility of nuclear weapons. FDR immediately ordered formation of an advisory committee to study this concept and possibility in greater detail. Actions based on technical analyses and conclusions presented in Einstein's letter proved to be of great value to

the US war effort due to Einstein's successful communication of those ideas to FDR.

I'd like to see each member of our profession seek to become the "Einstein" of their company rather than settle for being the "Szilard". We MUST take responsibility for the successful communication of our ideas to management rather than take the easy way out and blame others for our failure to communicate.

--Hayden Burrus

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Subject: RE: Actuaries as Isolated Priesthood?

From:

Date: Thu, 19 Jun 2003 10:34:18 -0400

Respectfully to Mr. Borge, I submit the problem is not that risk analytics have become too complex, but that management lags in its ability to understand the decision implications of the analytics with a modicum of explanation. The answer to "why can't you make this simple" is frequently "because it's not simple, and if I have to send you back to college to understand, why are you in management? However, I'll try my best." Though it is incumbent on our profession to develop the "people skills" necessary to avoid the perception of aloofness, and the "explanation skills" necessary to translate analytics into a straightforward "menu" of options for our management, it is not fair to ask us to make up for the innumeracy of most businesspeople and correct the result of career advancement processes which systematically place those people in key decision-making positions (e.g. the "peter principle"). I'm sorry if this sounds arrogant but it is intended to be a factual assessment of the issue.

I once listened to an investment banker disparage actuarial valuations of insurance companies for ninety minutes at a CAS seminar. His thesis seemed to be that earnings multiples were all that really mattered because they were simple. Never mind if they were wrong and led to decisions which in retrospect were extremely suboptimal (actuary-speak for "stupid") for his clients. Bankers, among others, tend to be surprised when insurer insolvencies occur after they were highly "valued" by such models.

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