

Leadership in the pension sector *'The role of the traditional actuary'*

Rajish Sagoenie, October 2017



This opinion article by Rajish Sagoenie (Milliman Pensions) discusses the complexity of the pension sector that is rapidly changing and has to deal with low confidence. What can modern leadership contribute, how can we provide better guidance to the pension sector and what is the role of the traditional actuary in this aspect?

INTRODUCTION

The pension sector is rapidly changing and confidence has declined sharply. Many wide-ranging discussions are taking place, and it turns out that economists, econometrists, various academics and other professions are by far more visible than actuaries. Why is this the case and how can we, as actuaries, crawl out of our traditional expert role?

THE PENSION SECTOR

The pension sector is currently experiencing rapid change and confidence in this sector has declined. There are various causes for this declining confidence:

- Pension expectations were higher than what was realized by the sector:
 - People expected a fixed-value pension, sees indexation falling behind and sometimes even reductions in their pension;
 - The AOW (General Old Age Pension Act) entitlement age and the standard pension age are increasing steadily.
- The public perception that pension funds are not well-invested, while investment advisors earn a lot of money and profits are too high:
 - Various schemes like "Black Swans" contribute to this impression;
 - Positive returns are obtained, while the funding ratio still does not rise sufficiently.

The public sees that the pension sector is not coming up with appropriate solutions for the various challenges, and understands little or nothing about the different discussions being carried out about the pension system and the trade-offs being made. This is not a surprise. The pension sector (all parties who are engaged with the allocations, management and payouts of pensions) is complicated and has many forums with multiple objectives, roles, different interests, dilemmas, and a great deal of uncertainty. Hence, the government's objective in a particular discussion can be different from those of

employers and employees (social partners). In all cases, objectives can only be achieved within the limits of the financial capacity of all who contribute to the financing of the pension obligations.

I believe that confidence can only be restored with an unambiguous vision, applied in a transparent manner and with trustworthy conduct. This requires a clear and consistent message. In a rapidly and continuously changing world, there is great demand for personal leadership from those who are knowledgeable about this very complex material.

DIFFERENT LEADERSHIP STYLES

Before getting into personal leadership, I first want to take a moment to talk about the definition of leadership. Leadership stands for the manner in which an individual influences a group of individuals to achieve a particular objective (source: Wikipedia).

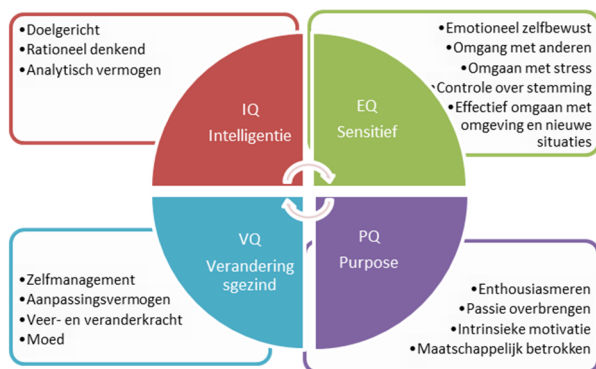
With this in mind, I am differentiating between two fundamental styles:

- **Managerial leadership**, with as key words: a position of authority, assertive character, focused on delegation, coordination and management of processes;
- **Personal leadership**, with as key words: taking into account different interests, clear objectives, providing guidance to stakeholders, making dilemmas transparent, inspiring tone, capacity to show vulnerability.

Of course, depending on the situation, more of one style is needed than the other. "Situational leadership" is applicable in such situations. As part of this contribution, we will not discuss this last type of leadership.

PERSONAL LEADERSHIP AND THE TRADITIONAL ACTUARY

In my opinion, the pension sector needs more leadership and, in particular, more personal leadership. I will discuss what I believe to be personal leadership below. When we talk about personal leadership, we often think of a combination of the characteristics of Intelligence Quotient (IQ) and Emotional Quotient (EQ). In the current literature, another dimension is added: openness to change (VQ). Personally, I am convinced that we need to add yet another dimension: Purpose Quotient (PQ). This creates a quadrant which gives a more complete meaning to personal leadership. The figure below provides a (not exhaustive) overview of the characteristics of personal leadership.



When looking at the role of actuaries, it can be observed that until today this role has been fairly traditionally characterized by professional qualities: Expertise, Professionalism and Integrity. In general, actuaries score rather well in this area. When it comes to visibility, prominence and communication capacity, actuaries in the pension sector still score insufficient. This view is also confirmed by the results of a recent study done by the Royal Dutch Actuarial Association, the professional association of actuaries in The Netherlands. Actuaries often also operate in a complex pension playing field, where a strong foundation regarding personal leadership is necessary, and where in addition to IQ and EQ, openness to change (VQ) (with resilience and capacity to change) and PQ (intrinsic motivation and more passion) are required.

If the competency profile of a traditional actuary, as described earlier, is placed next to the profile of a personal leader, the following image emerges:

	Soort	Natuurlijke rol actuaris	Vraag markt
Doelgericht	IQ	✓	✓
Rationeel denkend	IQ	✓	✓
Analytisch vermogen	IQ	✓	✓
Emotioneel zelfbewust	EQ	?	✓
Omgang met anderen	EQ		✓
Omgevingssensitief	EQ		✓
Omgaan met stress	EQ		✓
Controle over stemming	EQ		✓
Zelfmanagement	VQ		✓
Aanpassingsvermogen	VQ		✓
Veerkracht	VQ		✓
Moed	VQ		✓
Intrinsieke motivatie	PQ		✓
Passie overbrengen	PQ	✓	
Maatschappelijk betrokken	PQ	✓	

Wat kunnen en wat moeten wij brengen als actuaris in deze tijd? Wat moet BETER?

Source: Presentation by Rajish Sagoenie (Milliman Pensions,) on Actuary Day, September 26, 2017

Based on the abovementioned comparison, there is a clear mismatch between the natural and traditional role of the actuary, and the demand from the pension market. How can actuaries deal better with greater uncertainty and the increasing pressure in the complex pension sector?

This is a question every actuary will have to ask him or herself. As Chairman of the Royal Actuarial Association, a few years ago I called up to focus more on reflection and, specifically, self-reflection. After eight years, the (pension) world has changed even more heavily. I strongly believe that just (self) reflection is no longer adequate. A lot more needs to be done!

IN CONCLUSION

For the pension sector as a whole, and for the actuarial profession in particular, I find that actuaries must share more knowledge and expertise with the society. But in particular, share the courage to operate outside of their own "silo." When necessary, connect with other professionals, who in their practices often have developed other talents. There is already a number of role models, but still insufficient in my opinion.

One thing that would help for young actuaries is (to begin) to become leaders themselves. Know what your purpose statement is, become knowledgeable about it, set your own clear objectives, and ensure that these objectives with active behavior are realized and as a result have impact on society in an engaging way. The components VQ and PQ also

play an important role in this. Intrinsic motivation, enthusiasm, in-depth discussions to know yourself better, and ability to change can help. I am convinced that individual actuaries will pick up the gauntlet. As actuaries, we must have the courage now more than ever to show personal leadership in many more situations. The pension sector deserves it and I am convinced that actuaries can handle this.

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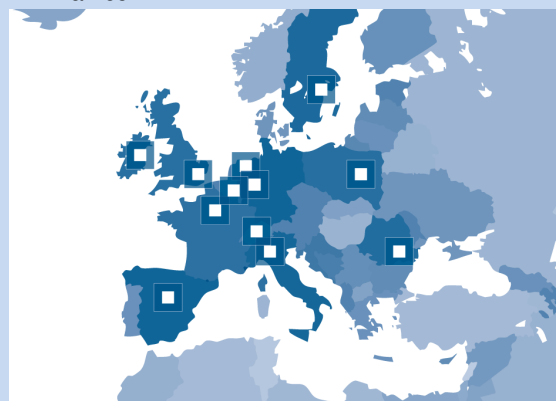
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