

Actuarial Talent and Culture: A source of competitive advantage?

Brian Fomby, FSA, MAAA



One challenge that all business leaders face today is volatility.

The never-ending changes around us—everything from new and evolving technology, to international and domestic political turmoil, market changes, consumer preferences, and shifts in the employment market—have naturally led to strategic discussions in the boardroom.

Board directors and senior managers are asking, “If we shift our strategy, do we have the right talent to successfully follow through? What does it mean for our company and purpose?”

Successful companies recognize that the answers to these questions and the response to the highly frenetic external environment are all tightly interlinked. Couple this with the reality of the post-COVID-19 “[Great Resignation](#),” and it is no wonder that boards are increasingly taking more active interest in not just financial capital, but human capital as well.

As organizations work to stay abreast of a rapidly evolving external environment, it is critical to be honest about the durability and sustainability of a business strategy. In the past, companies could set a business strategy and focus ample time and resources to execute. Now things change too rapidly, making it very challenging to develop an enduring strategy. However, the payoff for formulating and successfully executing one is enormous.

Identifying Competitive Advantage

What forms the basis of any effective business strategy? Sustainable competitive advantage. Competitive advantage has little value if it’s easy to replicate, to disrupt, or to defeat. A sustainable competitive advantage, however, is one that can be protected and that can endure.

A rapidly evolving external environment creates frequent opportunities to disrupt markets, networks, technology, and more, poking holes in what would otherwise be very strong competitive advantages. These days, companies are finding more opportunities (and have more resources at their disposal) to replicate or disrupt many of the more traditional sources of competitive advantage. What was locked-in and protected in the past is now easier to understand and replicate by competitors and new entrants.

The good news is that there is one aspect of any organization that is nearly impossible to replicate, no matter how much time, resource, or money is invested. The organization’s inimitable feature is its culture. Closely intertwined with culture is talent and sense of purpose. Is your talent and culture a source of sustainable competitive advantage, and—similarly—do you have the right talent and culture to enable successful fulfillment of your business strategy?

Tapping into your unique culture

Actuarial teams are not immune to this sharper focus on talent and culture. When I worked for an insurance company, I remember the chief financial officer (CFO) telling the actuaries, “You are the brains of this organization. I need you to bring forward solutions to our most complex challenges. I need you to step up as strategic business partners to the other parts of the organization.”

What he was really telling us is that the actuaries are critical to successful execution of a business strategy and that we are a source of competitive advantage for the organization. CEOs, CFOs, and chief actuaries at insurance companies might ask themselves similar questions.

- Are your actuaries a source of competitive advantage?
- What is it about your actuarial talent and culture that creates sustainable competitive advantage?
- Are your actuaries contributing to the talent, culture and sense of purpose for the entire organization in a way that creates sustainable competitive advantage for the organization?
- Is your talent and culture interlinked with your business strategy?

If the answers to these questions are “no” or “it doesn’t need to be,” then it may make sense to closely manage the cost of your actuarial function. If you find your actuarial needs are being commoditized and are primarily an exercise in compliance, then it may be better to outsource your actuarial function. There are plenty of options for doing this, and with technology that enables economies of scale, actuarial outsourcing is a good fit for some organizations.

However, if the answers to the above questions are "yes" or "no, but it should be," then it's worth taking a deep dive into this topic. It helps to be very specific about what it is about your actuarial talent and culture that creates a sustainable competitive advantage. Secondary questions that might be worth discussing broadly among your peers or among your senior management team include:

- How does the actuarial function enable other business areas to do more?
- What are other business areas getting from the actuarial function?
- What would other business areas like to get from actuarial but are not? What is getting in the way?
- How is actuarial contributing to the broader business strategy for the company?
- What do my actuaries do that nobody else can do? What else could they do?
- What is it that makes our actuarial talent and culture unique? Why do my actuaries choose to stay here?

The answers could prove illuminating, affecting everything from organizational structure to coordinating mechanisms, roles and responsibilities, and technology. In the end, the goal is to better understand and better articulate how the actuarial function contributes to, or fits within, the organizational culture in a way that helps fulfill business strategy and creates competitive advantage.

If you're able to define these parameters and better understand your talent value, then you've created a competitive advantage that is going to be very difficult to replicate. Once you've accomplished this, you'll need to fit it together with the external environment and other internal teams and capabilities as part of a coherent business strategy.

Creating cohesion with leadership

Assessing your talent is only the first part. To be successful, company leadership must take the time to understand and validate both the talent and the prevailing culture.

There is typically a disconnect between what leadership and staff think the culture is. Leadership tends to be more positive, motivated, and optimistic about the culture of the team and the organization. Staff can sometimes adopt a more realistic view—they can feel all kinds of things that leadership may not be aware of or may choose to ignore. They may feel disempowered,

psychologically unsafe, or that they work in a culture of fear. They may feel accountability does not exist, that people don't share a sense of ownership, or that there is no strong sense of values.

CEOs and senior managers need to understand that culture starts with them. Leadership's behavior, attitudes, and style often get copied throughout the rest of the organization. To ensure greater cohesion of culture, the senior team should consider:

- The key cultural elements or themes that are most important, based on overall strategy
- What will make the biggest impact on culture
- Whether culture is changing in a positive direction

I recently wrote a [paper](#) about how to achieve the optimal Actuarial Target Operating Model (TOM). The paper discussed the role of technology in actuarial transformation but also highlighted its limitations.

For example, when insurance companies embark on an actuarial transformation, it often devolves into a system conversion or implementation. Technology alone does not address talent and culture. It is true that technology can enable innovation from actuaries, but technology in and of itself is unlikely to be a source of sustainable actuarial competitive advantage.

Instead, competitive advantage is rooted in actuarial talent and culture, which is very much a human endeavor. It is worth making the effort to get your culture right. The opportunity cost of getting your actuarial culture wrong or failing to develop and implement the right actuarial talent strategy, can result in mediocrity and decline.

The goal is to put as much time and energy into your talent and culture as you put into systems and technology in order to achieve successful transformation and sustainable competitive advantage

Conclusion

In a world where success is hard to predict and even harder to hold onto, investing in talent has proven time and again to deliver return on investment (ROI). When partnered with a true effort to build an authentic culture, one in which every team member can thrive, the results can yield incredible returns now and in the many volatile years to come.

CONTACT

Brian Fomby
brian.fomby@milliman.com