# Building a Specialized Actuarial Consulting Practice

By

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Presented to the

Conference of Consulting Actuaries

2002

## Introduction:

In my case, I think it may be easier to look back and see how my actuarial practice was built than to plan how to build a specific actuarial practice. But that sort of view would make my being here today a moot concept. So, I asked myself what I could convey to you that would answer the questions that are listed in the program relative to this session.

Who, what, when do we build practice?

Why specialize?

I began my practice over sixteen years ago, and the best way I can explain how it started or how it was built is to say it was a combination of 75% fate and 25% planning.

The most important part of building an actuarial practice is analyzing your own background.

As many of you are aware, my firm is called Martin M. Simons, Public Actuarial Consultant. I am listed in the brochure for this meeting as "specializing in the regulatory area" but my clients are not limited to regulators.

I have been blessed with a lot of good luck, and the development of my practice is one area that I have benefited, to at least some extent, from that good luck. No, I am not going to try and convince you that you should allow "Lady Luck" to build your consulting practice, but my goal is to explain how my practice started and how it has grown. From that, I am hoping that you will come away with some ideas that you can use in your own practices.

Becoming a consultant, or, even more so, starting your own consulting business is not feasible until you have learned your craft to a point that someone is willing to pay for your thoughts and ideas. My practice began when I was the Chief Actuary with the South Carolina Insurance Department. I became a regulator after spending seventeen years in various insurance company positions that ranged from actuarial to marketing. After a very short time, I realized that my background had provided me with a great deal of knowledge that would help me as a regulator. I had been in marketing and had even managed a branch office, and was able to view a rate filing from all sides.

I honestly believe that a great deal of strength is derived when you actually spend some time "on the street"; to spend time where marketing, underwriting and claim payments are made directly. For most of us in the actuarial profession, it is rare to have had first hand knowledge of branch level insurance, but it has allowed me to sound more convincing as an expert witness than if I had not had those street experiences.

My regulatory career started during the “liability crisis” of the mid eighties. Insurance companies were filing for huge rate increases (sometimes as high as three-digit increases) while they were tightening claims and underwriting practices, reducing schedule credits and cutting commissions on the street. In 1986, after a year as a regulator, I wrote an article for Best’s Review, entitled “Looking Inside the Statistics”. The article dealt with the fact that strategies were going on at the branch management levels of insurance companies that were not fully considered in the rate filing process. When the Hawaii Insurance Commissioner read the article, he asked the South Carolina Commissioner if he could “borrow” me, and after spending two weeks in Hawaii, he asked me “when are you coming back?” And a consulting business was born.

At that time, the South Carolina Commissioner allowed me to take leave or leave without pay to do my consulting work, and for eleven years I was able to enjoy the best of both worlds. I had both a job and a business.

If I were to answer the question of how to build practice, I must admit that from that beginning, all of my business has come from word of mouth. In addition, I am frequently asked to provide consulting to clients that do not fit in with my specialty, and have recommended other actuaries who I believe will be able to do the job.

The single most important thing that you must do in order to build practice . . . you must build a reputation.  It doesn’t matter how many ads you take out in how many journals, or how many mailings you send to how many potential clients. As an independent consultant, you have only one thing to sell, and if it's not worth the price, you will not build practice, at least in the long term.

Which brings me to the next point of this session, and the main part of my presentation, that of specialization. Whether we specialize or not, I think that the basic function of the actuary is to project future expectations based on current information. As a consultant for regulators, legislators and the public, I find myself analyzing rate calculations and loss reserves just as if I was working for an insurance company. When I am speaking of specialization, I am speaking about the specialization of clients, not necessarily of work product.

I decided early on that I would specialize in my consulting business. My area of specialization (or clients) would be "anybody but an insurance company" but that really didn't look like a good way to market myself, and in fact, I have testified as an expert witness for State Farm in a case with which many of you are probably aware.

There are several reasons why I decided to specialize:

1) Congruity

As a regulator, and later as a regulatory consultant, I have spent quite a bit of time testifying. Many actuaries find themselves testifying in rate hearings as well as legal proceedings. To be a convincing witness, it's important that you are a consistent witness.

If your testimony is for the insurance industry in one case and for the regulator or the consumer in the next, you will find it very difficult to maintain much consistency in your testimony. And I can guaranty that if you testify in more that a few hearings or cases, the opposing side will be aware of who you represented and of what you said. I can tell you now that the lawyers on the other side of the State Farm case spent more than a few minutes delving into why a ”regulatory” actuary was testifying for an insurance company. I believed that, in that after market parts case, State Farm was on the right side for the consumer, and fortunately, I was also able to respond that every major insurance consumer group in the country had filed amicus briefs in support of the State Farm position.

2) Reputation

It’s far easier to build a reputation as an industry actuary or as a consumer or regulatory actuary than it is to build one as an actuary. This is probably more true for those of us who are independent consultants, but I think it holds fairly true in all cases. Frequently, the first thing that a potential client will ask me is whether I do work for the insurance industry. Being able to tell them that I specialize in providing actuarial consulting for public agencies and consumers has gotten me a great deal of business that I would not have gotten without that specialization. In addition, I have gotten clients simply because people involved in public work are aware of my specialization. When a regulator or a state agency wants an actuarial consultant with no ties to the insurance industry, the list of potential candidates is not very large.

Now, please don’t think that simply because you decide to specialize that you won’t be able to find diversity in your work. I have continued working as the actuary for the State of Hawaii, and am entering my seventeenth year in that position. It has been very important to my clients in Hawaii that I do not have ties to the insurance industry.

My duties in Hawaii include analyzing rate filings, educating the Insurance division staff, assisting the Governor or the Legislature in drafting and in analyzing new or proposed legislation, and a myriad of other duties. I am in the midst of a market conduct exam and am even integrally involved in the new Hawaii rate regulatory statutes that apply to health insurance.

To add to that diversity, I am also a member of the Professional Team for the Florida Commission on Hurricane Loss Projection Methodology, which is a whole ‘nuther speech. The Professional Team includes a meteorologist, a structural engineer, a computer scientist and a statistician as well as an actuary. The reviewing of hurricane models exposes me to fairly in-depth meteorological and engineering criteria, and each member of the team participates in each discipline as part of our auditing procedures. We visit each of the hurricane modeling companies at least once each year, and our job is to determine whether the model meets a series of standards that are developed by the Professional Team and approved by the Commission.

As a “regulatory” actuary, I am frequently asked to provide expert testimony in rate hearings as well as civil court cases, and, to tell the truth, the diversity between those two processes is fairly substantial in itself. I am currently involved as an expert witness in a case involving a large Retro V workers’ compensation rating plan case, and have represented the business community as an expert witness for the Oklahoma Attorney General’s Office. Oklahoma has been a client of mine for only one year less than Hawaii.

An important part of building practice is having a solid basic framework of clients upon which to build. I am very fortunate in that most of my clients have been with me for several years, but it seems that there are always one or two new ones cropping up at various times. Some of them become regular clients while others are shorter term clients. Now, I'd like to talk a little bit about the other side of building a practice; or the other side of building a client base. When should you decline to provide consulting services to a prospective client. If you have decided to specialize, there will be instances where the answer to that question is obvious. As I described earlier, it is in those cases that I try to provide the prospective client with the name of someone whom I respect and who I believe will do a good job.

What about the other times?  Let me give you an example.

Several years ago, I was asked to analyze an NCCI workers' compensation rate filing. This was before workers' compensation was written on a loss cost basis. The prospective client was a consumer advocate in a state that we needn't mention. Following my initial analysis, I contacted the client and informed him of the indicated rate change that I had calculated. He informed me that he had spoken with the Governor, the Chamber of Commerce and his Board, and that they all believed my number was too high. The final outcome of that case was that I told him that I would return the material he had sent me, and that he owed me nothing. This illustration shows just how important it is to always remember what you are selling. If you simply testify that what your client wants is the right answer, then you will probably find yourself doing something other than consulting in a fairly short time.

Turning down prospective clients can be a very difficult and painful thing to do, especially when you are in the early stages of building a practice. Now, if you've been paying attention, you should be aware that when I turned down that client, I was still employed, so it was probably significantly less difficult for me at that time. But I can guaranty you that I would do the same thing today.

In closing, I would like to remind you that all of my business has come from word of mouth. So, if you see some poor hapless Insurance Commissioner who is in need of an actuary, my number is . . .

Thank you for your attention. At this point, I believe you will be better served if we left some time for questions and answers.