

**Biennial Convention 2009**

**Go for Gold**

**19–22 April 2009 • Sydney**



Institute of Actuaries of Australia



# **Equity Driven Productivity An Actuarial Business Model**

**Eric Ranson**



## Need for Change?

‘You know that its easy to make a million,  
You just steal it from a broken Brazilian’

Steve Harley



## Perspective

There is something wrong if you don't have;

- Socialist beliefs to age 20
- Capitalistic tendencies soon after





## Spin Doctors 3 – Professionals 0

- Is spin simply too attractive?
- Are professionals too well paid?
- Are professionals even trying to win?





## Going for Gold?

- Good with numbers
- Library full of techniques
- Advisors?
- Selling a brand?
- Risk management?





## The Pitch

- Lower fixed costs
- Lower funding costs
- Better culture
- Investor interest
- Improved productivity
- Reduced conflict of interest

Biennial Convention 2009

**Go for Gold**

19-22 April 2009 • Sydney



Institute of Actuaries of Australia



**Investor Friendly Company**



## Theory - Investor Friendly Company

- Share the SURPLUS between equity and human capital contributors
- A properly motivated workforce will be extremely productive
- Actuaries are extremely well placed to help drive these changes





## Practice

- Establish basic human capital remuneration
- Establish basic equity capital returns
- Review previous surplus determinations
- Review previous allocations
- Determine current period surplus
- Allocate current surplus equitably
- Determine reasonable distribution strategy
- Oversee management of reserves



## Small business

- Do not want cost to exceed benefits
- Start up opportunities



## Could business restructure?

- Net Cost of Change
- Distribution of Pain
- Benefits of Change



## Can we participate in change?

- Key ingredients are confidence and competence
- As usual, perspiration is as important as inspiration



## Competence

- Basic returns – judgement and HR expertise
- Surplus – economic value added approach makes sense. Analysis of surplus could add value.
- Allocation of surplus – time to reread our actuarial texts





## Confidence

- Must try to remove **conflicts of interest**
- Requires independent arbiters
- Transparent Financial Reporting
- Auditing
- Analysis of Surplus
- Needs a track record



## Summary

- Cost estimate
- Reduced cost of capital
- Corporate start-up and growth revolution
- Cycle smoothing
- Better regulation
- Reduce impact of confidence industries



## Responsibility

‘In writing this letter I too am taking upon myself a heavy responsibility to Russian history. But not to take upon oneself the task of seeking a way out, not to undertake anything at all, is an ever greater responsibility.’

Alexander Solzhenitsyn



## Next Steps

- Feedback
- Standards and guidance
- Promotion of Concept