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Operating a Small Consultancy

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I left a large consultancy in 1984 and after requests for help from former clients started my own in 1988. I did not then know that we were at the beginning of a period of exceedingly complex legislation for if I had I would have stayed on the Golf Course!

Since then my firm has progressed from one operating out of my residence with just me and a Secretary to one with three Actuaries, an experienced Management Consultant as Chief Executive, and a team of pension professionals behind us. It has been a searing experience. Recently I have effectively passed over ownership to the younger generation but continue for a while to ensure a successful transition from the older generation.

Two points stand out as the major differences between a large firm and a small firm:-

- in a large firm you are but a small cog doing just a small part of the work while if you are on your own you do it all
- the financial systems which you knew in the large firm are totally unsuitable for you.

Organisation of my Firm

Today, in the UK, the complexity of the legislation is such that no longer can a single actuary practice in both pension funds and life offices (apart form all the new opportunities opening up) but within these fields there are specialities. To cope with this I have divided the administration of the firm from the actuarial work thus leaving the actuaries free to do what only they can do and to have trained administrators to attend to the normal running of the firm and the promotion of the firm. In saying this the actuaries have a big role in presenting the firm to prospective clients but the preliminary work in seeking those prospects is left to others. To implement this division I employed a Management Consultant as Chief Executive who in a very short space of time changed the whole face of the firm. In particular he made three points:-

- I had more work than I could cope with and needed a third Actuary to support me in the pension work
- The business was available to support a third Actuary
- To carry the firm through the period of initial expense before the fees from the new business arrived a business plan was needed

This led to the recruitment of the third actuary and a team of professional pension administrators, who attend to the daily needs of clients, and who call on the actuaries for their assistance as needed. Within in this team are included those experienced in accounting and payroll whose work is in those areas.

Firm's Accounting and Financial Control

The accounting and payroll for the firm is kept separate from that for the clients and includes all such work needed for business plans. I am a firm believer in charting where the firm is going to go and to monitor the inevitable deviations from such plans. Monthly financial statements must be presented and deviations from the position in the business plan accounted for. In this department the normal accounting practices should be followed. In particular only one person should write cheques and that person should not be a signatory on the account.

There is a Management Committee which is a subset of the Board, to whom financial statements are given, and who are responsible for the daily management of the firm. This consists of the Chief Executive, Chief Actuary (not me) and the General Manager. I normally attend but see my role diminishing quite soon.

Time recording is vital. I had difficulty with this as I have no wish to be seen as Big Brother overlooking how members of staff spent their time but inevitably came to the conclusion that time must be recorded. This is so even for clients on a prearranged fee for even if there is no provision for adjustment at the end of the year, and I think there should be, you want to know how you are doing. There is also the sad fact that none of us have perfect judgement, we do make mistakes, and we must be in a position to identify them and to take action This is a point of particular importance in the UK where we only have a year to dismiss an employee who is unsatisfactory with out incurring legal difficulties. What we can do is to put staff on to short term contract a practice which I see as becoming more and more common.

Ownership

I hold that the permanent staff should have a share in the business and in particular that an actuarial firm should be controlled by actuaries (and it is the case in my firm) although in order to obtain the benefit of the skills of other disciplines others may have a major part in the firm. We have a policy that when shares become available they should always be offered so that at least 51 per cent of the equity is in the hands of actuaries. Having just passed over a large stake in the ownership of my firm to the next generation I now have a greatly reduced participation. Ultimately I will cease to have any participation at all. I see as vital that those running the firm should directly benefit from their efforts. This highlights a possible difference between a large and a small firm in that it is easier to have a personal approach in the small firm where all are directly involved in the profitability of the firm.

I hold that Staff must have their efforts appreciated and have benefit from the progress of the firm. This can be from a profit sharing scheme as well as benefit from the progress of the shares.

Backup and Research

A large firm will have a research department which will give a depth which a small firm cannot achieve. To some extent this is not critical as the small firm will normally have small client who are not so demanding. Never the less it takes some effort to keep up to date and this is where the Association of Consulting Actuaries in the UK and the joint efforts of the Institute and Faculty are of great value.

One way of controlling the firm is to ensure that the post is opened by a very limited number of Senior staff. They can then draw attention to matters which might not have come your way in the normal circumstances.

My Biggest Mistake

My biggest mistake was not to recognise that not only is our profession elite but also that the totality of our business is elite. This caused me to recruit those not suitable for the work and indeed cost me a lot of money. Having recognised our unique position the firm has rapidly progressed.

Conclusion

Having written this paper I am left wondering if there is a great deal of difference between

operating a small firm when compared with a large firm. I suppose that in some respects there is not but in others particularly in the control of people there must be. One difference lies in the fact that some are "Corporate People" and others are not "Corporate People" .