



The Actuarial Profession
making financial sense of the future

Momentum Conference 2012
Simon Grout

Turning to the dark(er) side What do management consultants do?

2-4 December 2012

A typical general management consultancy

Industries



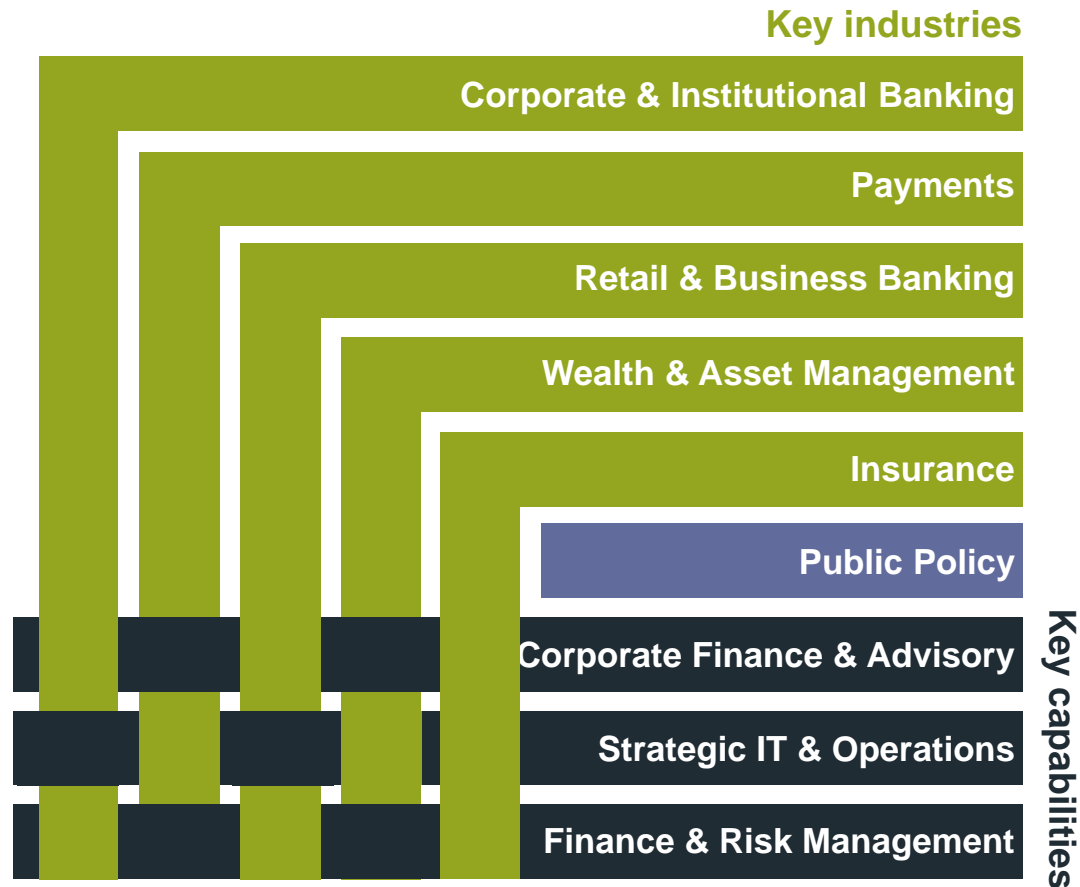
The image shows a screenshot of a Bloomberg terminal window titled 'S&P 500 Sectors'. The window displays a table with the following columns: Ticker, Last, Change, % CHG, YTD %, and P/E Ratio. The data is organized by S&P 500 sectors. The sectors listed are Materials, Technology, Cons. Discr, Cons. Staples, Industrials, Utilities, Health Care, Telecommunication, Energy, and Financial. Each sector's data is presented in a row with corresponding values for the last price, change, percentage change, year-to-date percentage, and P/E ratio.

Ticker	Last	Change	% CHG	YTD %	P/E Ratio
S&P 500 SECTORS					
Materials	176.68	+1.85	+1.06	+26.67	24.84
Technology	313.63	+1.28	+0.41	+34.39	19.06
Cons. Discr	201.63	+1.90	+0.95	+17.98	15.88
Cons. Staples	250.77	+1.53	+0.61	+0.89	14.14
Industrials	211.69	-0.15	-0.07	+1.57	12.31
Utilities	146.17	+0.96	+0.66	-1.91	11.88
Health Care	326.57	+3.96	+1.23	+4.61	11.84
Telecommunication	103.30	+0.58	+0.56	-8.21	11.60
Energy	385.82	+7.20	+1.90	-1.63	10.11
Financial	186.85	-0.10	-0.05	+10.49	N.A.

Capabilities

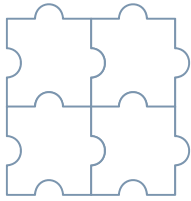
Marketing and sales
Corporate development
Operations
Corporate finance
People and organisation
Digital economy
Post-merger integration
Globalisation
Risk management
Growth
Strategy
Information technology
Sustainability
Innovation
Transformation
Turnaround

A more specialised management consultancy focusing on financial service consultancy¹



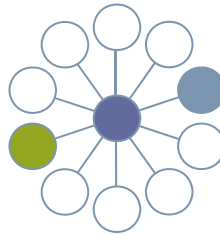
1. Disclaimer: This is my firm

What do management consultancies look for in people?



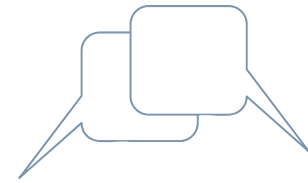
Problem solving skills

- Problem structuring
- Creative thinking
- Business intuition
- Find leverage – get to the heart of the problem
- Explore implications



Analytical and research skills

- Quantitative analysis
- Ask insightful qualitative questions
- Work with limited facts



Personal skills

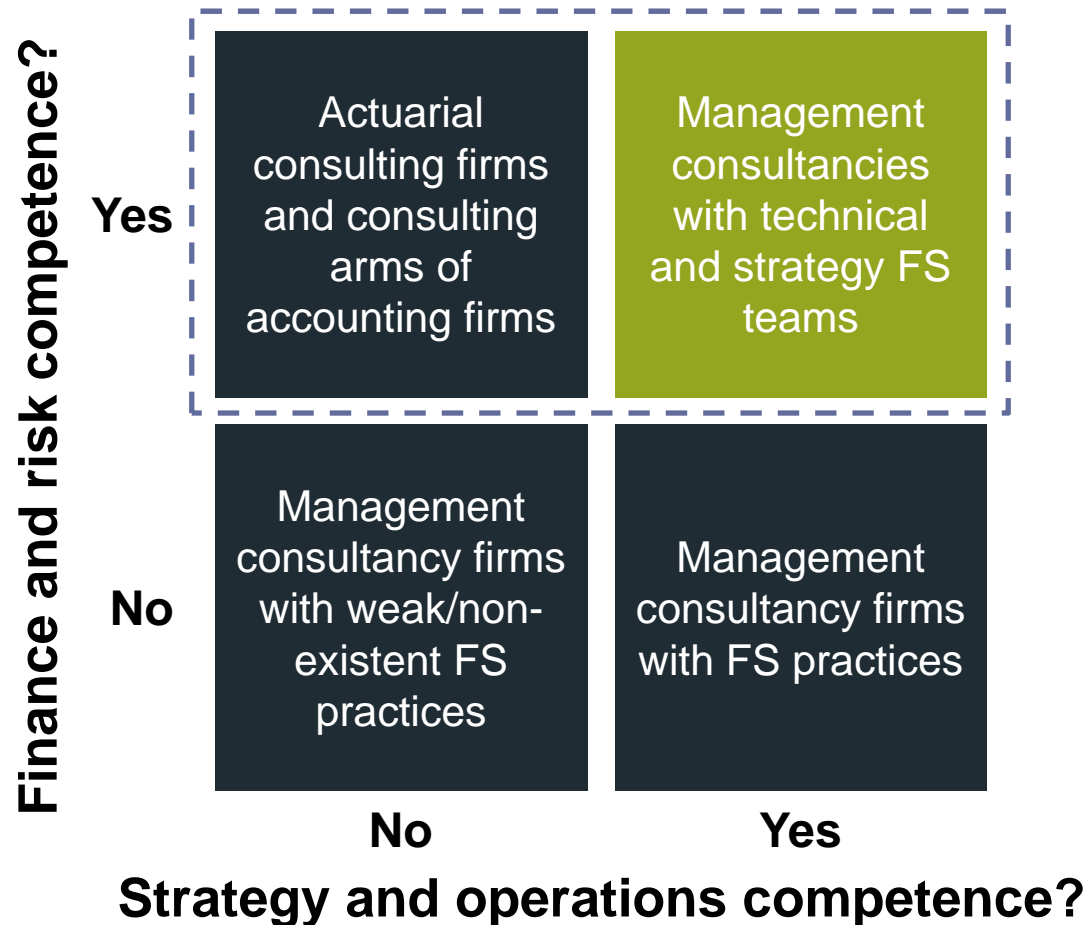
- Clear, concise and articulate
- Fit with our culture
- Poise and maturity
- Leadership and initiative
- Self-management



Fit with the actuarial skill set

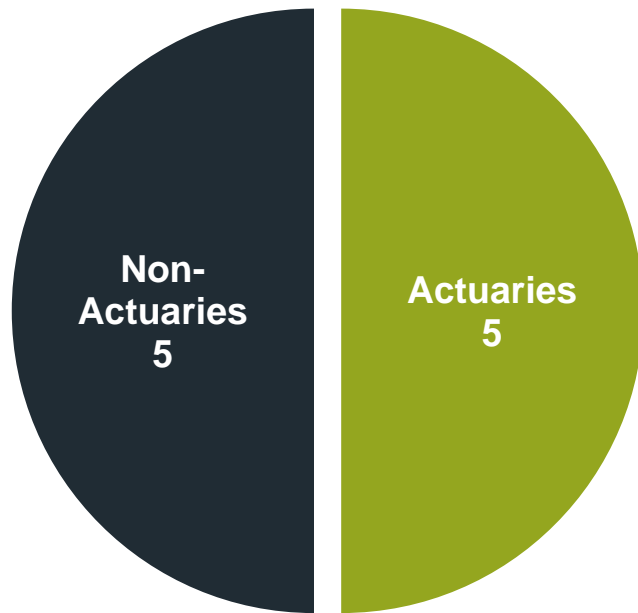


So where is an actuary's “sweet spot” in consulting...



...and some evidence of this in practice¹

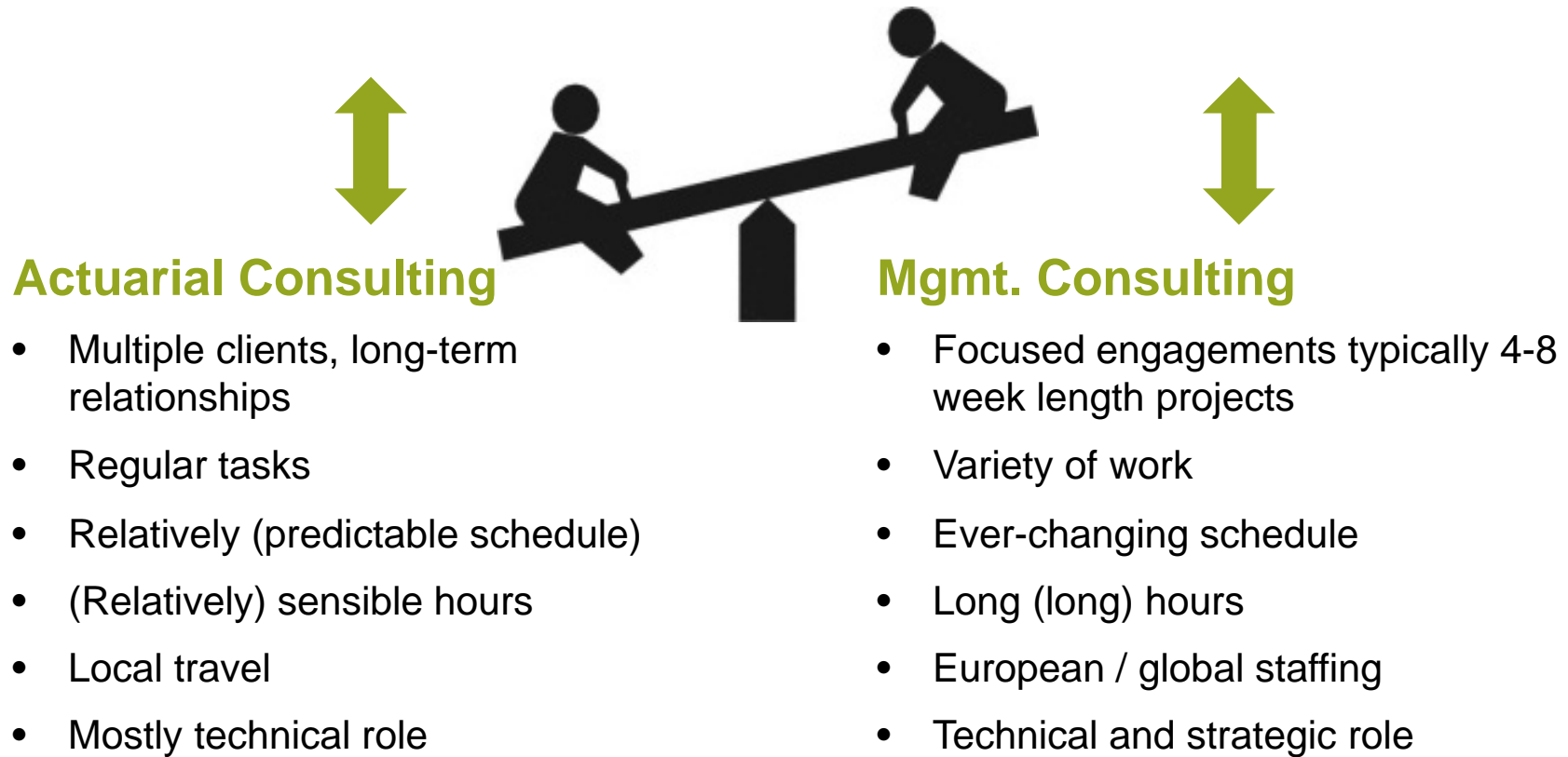
Partners in the Insurance practice in my London office



- Actuaries could apply their skills in any industry and capability
- However there is a natural fit within for financial services
- Insurance is an even more natural “habitat”

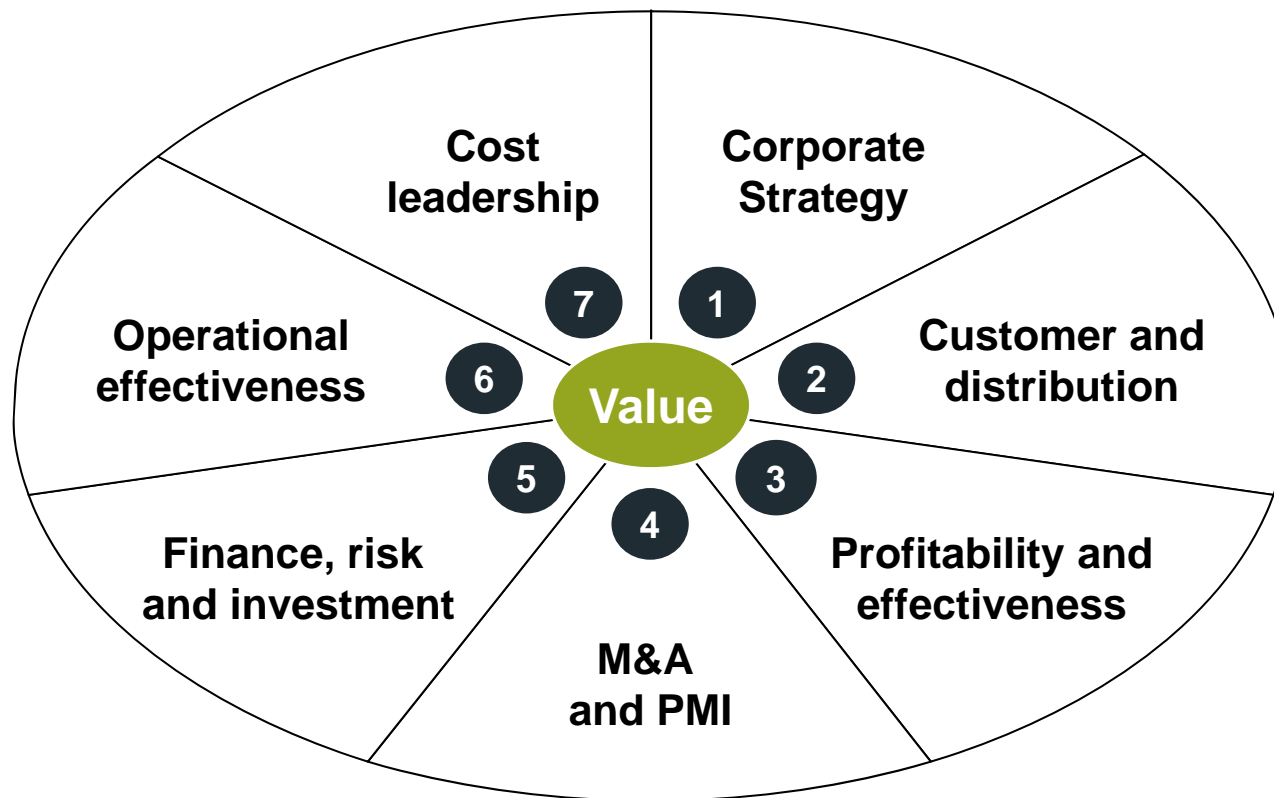
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However, the way we work is different

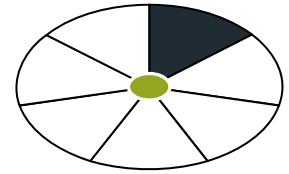


Lifestyles are different so there is a significant trade-off

What do we actually do within an Insurance domain of a management consulting firm?



Opportunities for strategic expansion in light of the Eurozone crisis



Client

- Major Global composite insurer
- Considered robust by the market, with narrower CDS spreads than peers

Problem

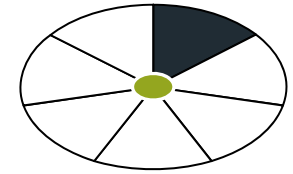
- Key objective was to identify whether there are opportunities for strategic expansion of the client's business in light of the current Eurozone and broader economic crisis



Our approach

- Establishing a credible view on potential crisis opportunities entailed 3 main steps over 5 weeks:
 - Developing global scenarios and evaluating their impact on the insurance sector
 - Creating scenarios of how events under the prioritised Eurozone crisis scenario may unfold
 - Building a company-specific picture of the impact with a primary focus on solvency levels

Opportunities for strategic expansion in light of the Eurozone crisis (II)



- Project impact -

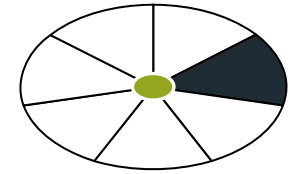
Example output (disguised)

		Starting Solvency Ratio ¹	Shocked Solvency Ratios ¹		
			Chaotic Greek default	Italian yields at 7.5%	Italy on the brink of default
Peer 1	Solvency 1	160%	150%	140%	125%
	Economic capital ²	180%	160%	150%	140%
Peer 2	Solvency 1	130%	110%	90%	70%
	Economic Capital	150%	125%	100%	75%
Peer 3	Solvency 1	125%	115%	100%	80%
	Economic Capital	185%	170%	155%	140%
Client	Solvency 1	250%	220%	190%	160%
	Economic Capital	180%	170%	160%	150%

■ ≤ 100%
 ■ 101%-149%
 ■ ≥ 150%

- Understanding of the relative positioning of Client versus key peers and how this may evolve in a crisis scenario
- Identification of which insurers may present attractive acquisition opportunities and which are more likely to be competitors for these targets

Online distribution strategy and business model



Client

- Medium-sized German P&C insurer with strong presence in motor insurance
- Relying on tried agents as main distribution channel

Problem

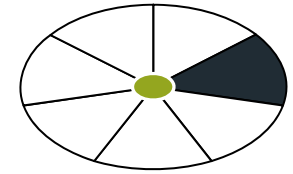
- 10 weeks to develop a business model strategy for a direct online distribution channel
- Strategy had to consider the very specific client position in terms of region, strategic positioning, and balance sheet requirements



Our approach

- Assessed the overall strategic objectives and context for the online distribution channel
- Developed options for strategic positioning of the online distribution channel along five dimensions:
 - Marketing,
 - Customers,
 - Products,
 - Distribution
 - And processes/IT
- Detailed the preferred option – set out business case until 2020
- Developed a roadmap for implementation

Online distribution strategy and business model (II)



Project impact

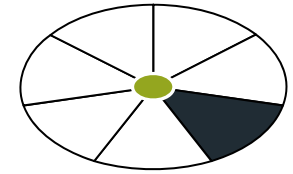
Framework for strategic options

		Service	Low-Cost
Nationwide	Regional	Regional online service model	Regional online low-cost model
	Nationwide	Nationwide online service model	Nationwide online low-cost model

Focus
 Add-on
 Out-of-scope

- Agreed strategic objectives of online channel
- Agreed service-driven online business model with high adaptation to the specific client situation
- Raised awareness for urgency of action; strong management commitment for implementation
- Delivered a financial business case for growing online share of new business from 5% to 25% until 2020
- Handed over a project plan ready for implementation

Rapid performance diagnostic for a Middle East insurer



Client

- International mid-sized insurer in middle east markets
- Strong position in all of its markets with a strong entrepreneurial culture

Problem

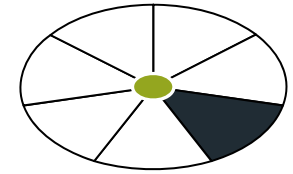
- Client has been through a historical growth period and wanted to ensure that the business plan will deliver against its aggressive 5-year business plan targets



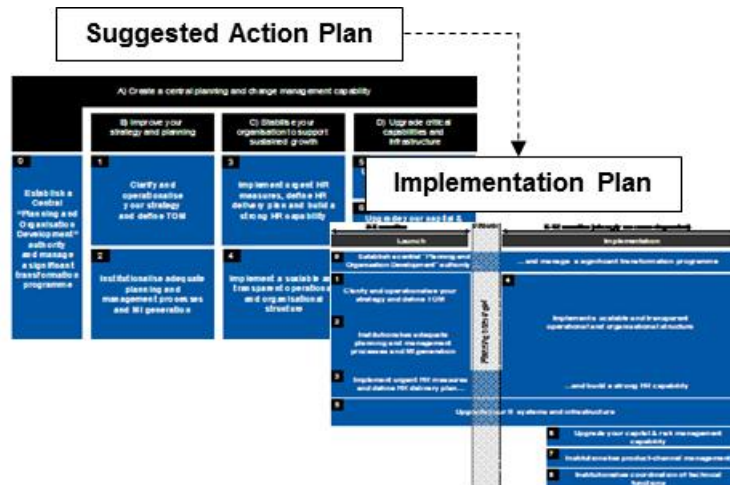
Our approach

- Market review and detailed competitor analysis including relative positioning of clients performance per product area
- Detailed analysis of the client's financial performance including strategic review and utilisation of reinsurance
- Conducting set of interviews with top-management to assess capabilities, strengths and weaknesses across the entire value chain

Rapid performance diagnostic for a Middle East insurer (II)

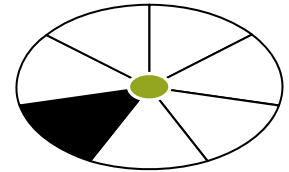


Project impact



- Delivered a full business diagnostic across the entire value chain analysing operational stability and long-term competitiveness
- Developed new suggested business architecture with implications on the organisational set-up of the business
- Provided additionally detailed KPI value trees, Management performance dashboards and required HR capabilities and organizational models
- Synthesized major issue areas and developed detailed suggested actions
- Designed detailed implementation plan highlighting critical success factors

Setting up a Group ALM function



Client

- Large European composite insurer
- Group ALM function newly created, within Group Capital function

Problem

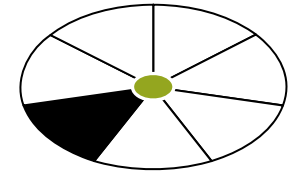
- Client's ALM risk not centrally managed by 1st line of defence
- Lack of reliable and timely information on exposures and risks
- Lack of Board awareness of importance of ALM issues
- Large sovereign and credit exposures in times of turmoil



Our approach

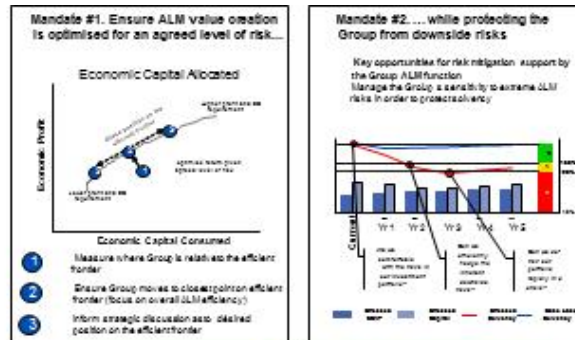
- Escalate importance and benefits of a Group ALM function
- Define ALM strategy and ALM best practices
- Define Target Operating Model and Delegated Authorities for ALM transactions and key processes
- Set up function by recruiting and training staff and filling in key roles
- Support client during crisis
 - Delivery of time critical analysis and reporting for regulators and investors
 - Support to de-risking transactions

Setting up a Group ALM function (II)

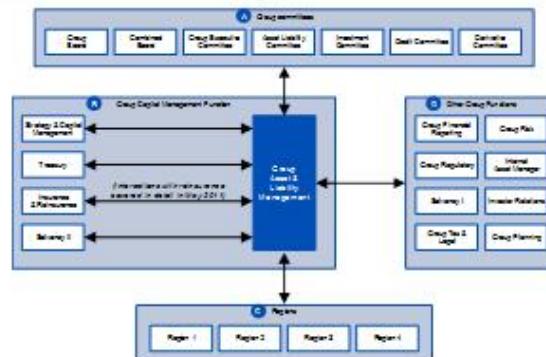


Project impact

ALM Strategy

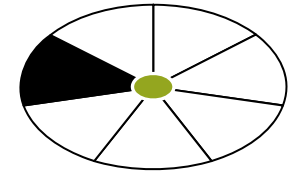


ALM Target Operating Model



- Partner acting as Group ALM director by interim
- High CFO / CCO and ALCO visibility
- Deep-dive ALM analysis
- Group ALM function operational: key roles filled in, Operating Model and key processes in place...
- Early successes: support to de-risking transactions: equity/credit hedging, support to managing PIIGS crisis

Group centre redesign and large scale transformation in a short time



Client

- Top 20 European life insurer
- Legacy of a large and unstructured Group centre

Problem

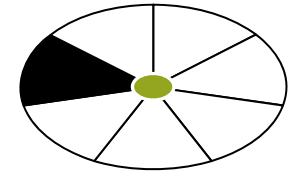
- Task to restructure organization for higher efficiency and agility
- Needed to redefine varied internal understandings and definitions of Group centre's purpose and value-add



Our approach

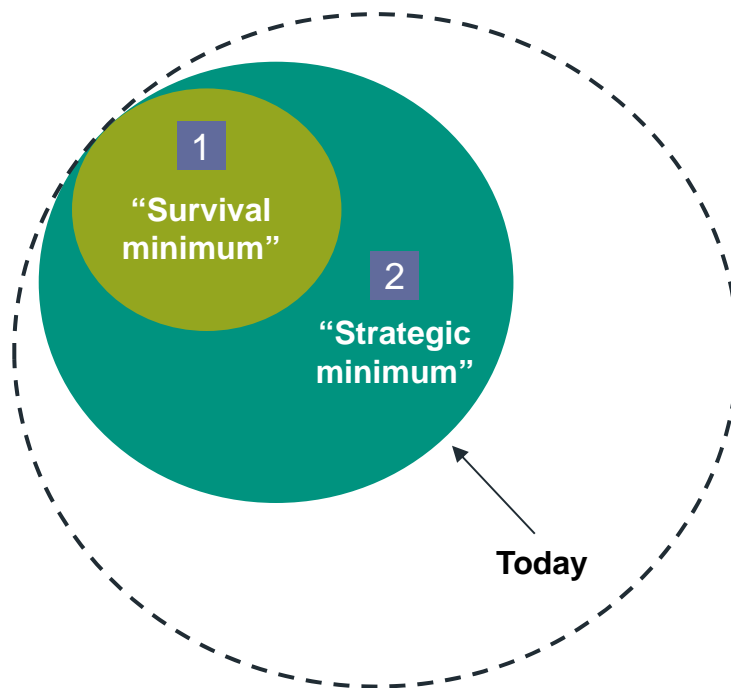
- Defined Group centre mission and guiding principles for redesign with executive committee
- Defined distinct roles and allocated all resources to defined roles (e.g. corp. centre, mandatory shared services etc.)
- Quantified survival and strategic minimum organisation capacities as target levels, building designs from a zero-base
- Committed for implementation, supported change management
- Deeper, more practical insight with an open but consequent process

Group centre redesign and large scale transformation in a short time II



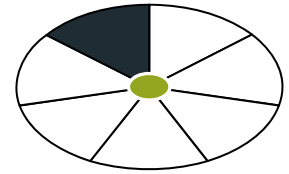
Project impact

Survival / strategic minima



- After 6 weeks, set direction with approved guiding principles, future target roles and quantified survival/strategic minima
- After 12 weeks set targets with approved reorganisation and cost-saving measures for reduction of 20-40%
- After 24 weeks, large scale change programme under way with significant reorganisations and reductions already completed

Origination of €200MM Group-wide cost saving program



Client

- Historical market leader gradually losing market share
- Falling market share due to Operational inefficiencies and lack of innovation

Problem

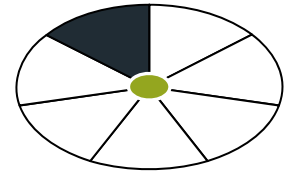
- Facilitate the strategic planning process and help identify cost savings opportunities
- Extend the strategic cost optimisation efforts of the Group centre to all Business Units



Our approach

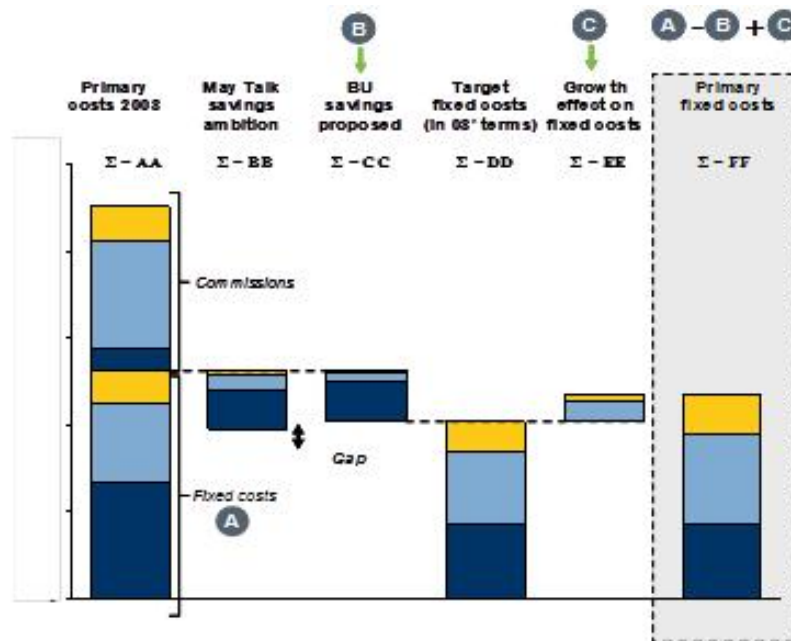
- Identified potential cost saving objectives and levers for all Business Units based on industry benchmarks
- Reviewed and challenged the BU proposals for the annual strategic talks
- Consolidated at Group-level and identified key themes for strategic cost optimisation

Origination of €200MM Group-wide cost saving program (II)



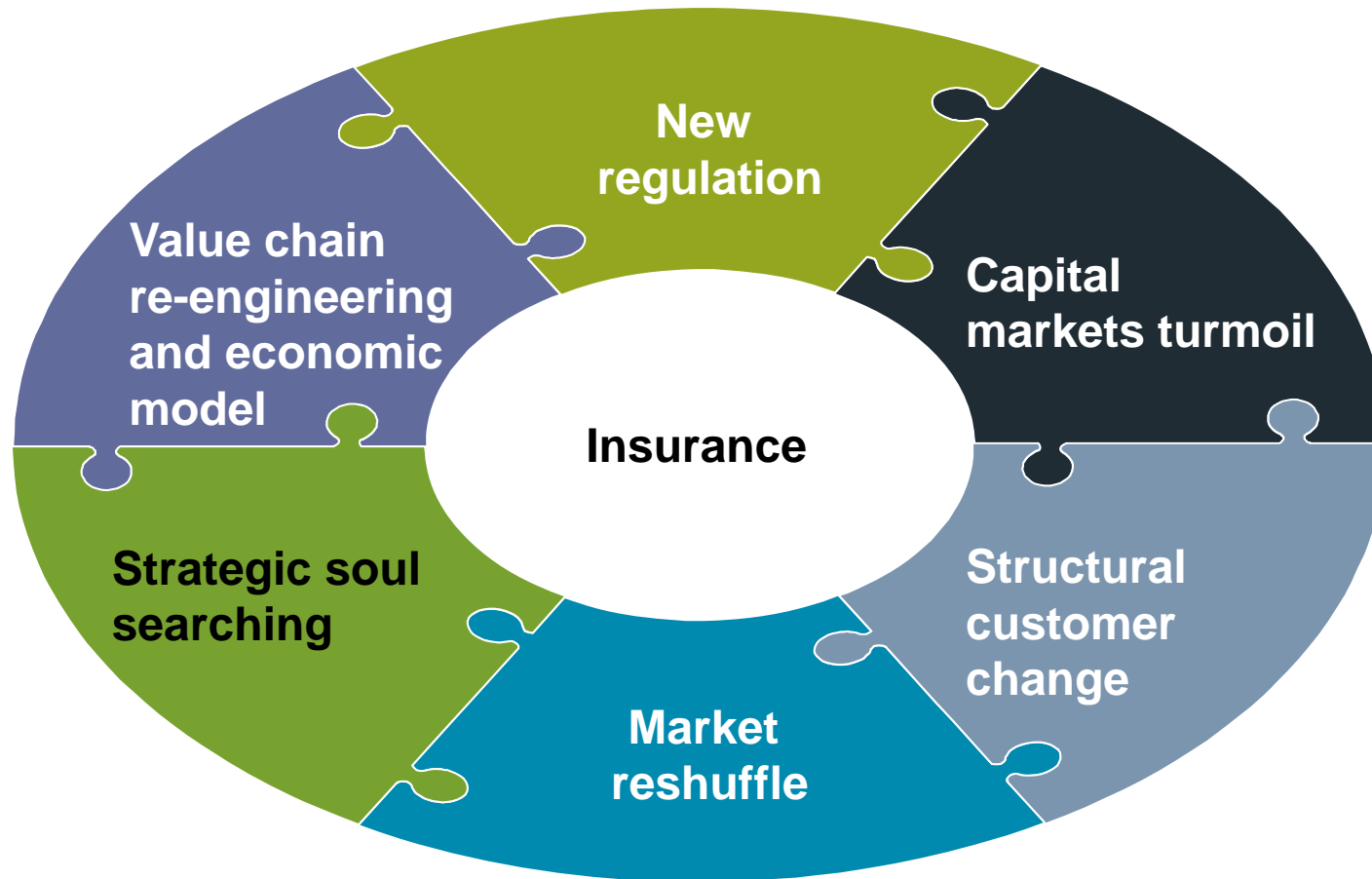
Project impact

Cost saving ambition



- Implemented in very short-time frames a structured, result focused strategic planning process
- Got senior management buy-in to launch a major cost optimization program
- Helped identify a cost saving potential of €200MM+

Looking forward – The market opportunity for Insurance going forward is bigger than ever



Questions or comments?

