



**The Actuarial Profession**

making financial sense of the future

Life conference and exhibition 2010  
Andrew James and Tony Fathers

# Outsourcing and the Aviva experience

7-9 November 2010


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# Agenda

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- What does outsourcing really mean?
- Why outsource? And what are the disadvantages?
- Outsourcing market in the UK and recent trends
- Looking forward – outsourcing under Solvency II
- The AVIVA experience
  - What did AVIVA tell the market?
  - Setting it up
  - Who are you getting into bed with?
  - Transition vs transformation
  - It's good to be challenged; however I am the customer
  - Looking back
- Questions

# What does outsourcing really mean?

	increasing levels of outsourcing 				
Back office functions	✓	✓	✓	✓	✓
New business processing	✗	✓	✓	✓	✓
On-going business processing	✗	✗	✓	✓	✓
Reinsurance / securitisation	✗	✗	✗	✓	✓
Sale of business	✗	✗	✗	✗	✓

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# Why outsource?

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- Increase efficiency and remove fixed costs
  - rationalise product features, increase automation
  - shrinking funds need variable costs
- Improve customer services and persistency
  - increase speed, clarity and range of services
  - higher embedded value
- Reduce risk
  - improved product governance
  - stronger operational and regulatory controls

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# Why outsource?

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- Free up management time and focus on value-add activities
- Increase rigour and commercial pressure for success
- Enter and exit markets
- Increase capabilities and speed to market
- Improve management flexibility

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# What are the disadvantages?

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- Loss of control
- Loss of knowledge
- Disruption and cost
- Risk of customer and staff dissatisfaction
- Outsourcer risk

# Outsourcers in the UK

	Owner	Number of policies	Main Clients
Capita	Capita Group	c 26m	CFS, Phoenix, Prudential, Countrywide, Abbey Life
Diligenta	Tata	c 5m	Phoenix, Sun Life Financial
Admin Re	Swiss Re	c 3m	Aviva
HCL	HCL Tech	c 3m	Equitable, AXA, Barclays
UISL	Unisys	c 1m	Abbey Life

# Recent deals

	Number of policies	Outsourcer
Aviva	3.0m	Admin Re
AXA	3.2m	Capita
CIS	4.5m	Capita
Equitable	0.5m	HCL
Phoenix	1.7m	UISL to Diligenta
Prudential	7.0m	Capita
ZFS	All	Capita



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# Outsourcing under Solvency II

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## Challenges

- Data validation
- Operational risk

## Opportunities

- More active management actions

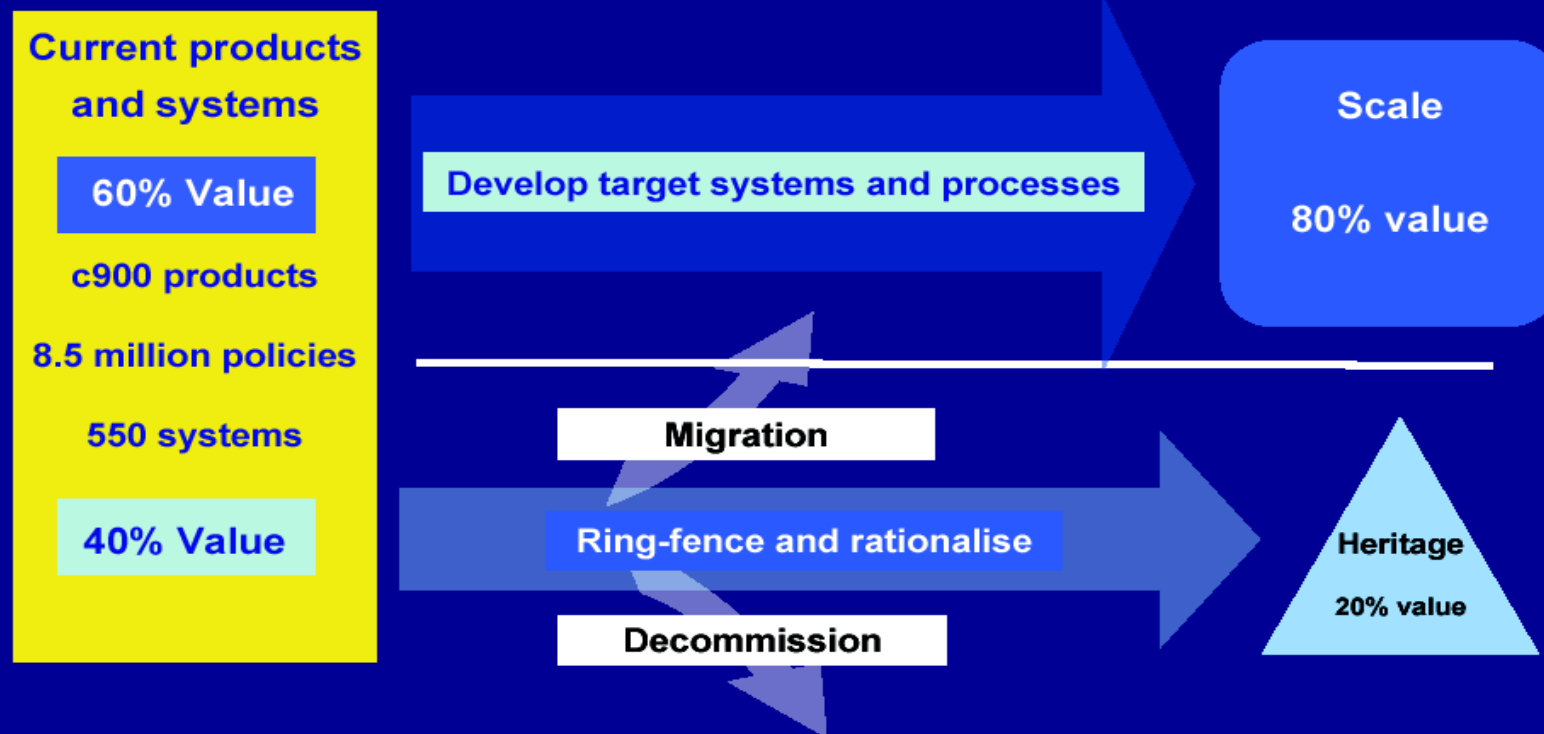
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# The AVIVA experience

# What did AVIVA tell the market

## Simplifying the legacy



A pragmatic approach to become a scale, low cost operator

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# Setting it up

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- The contract will be the foundation of the transition as well as running the business once migrated – how detailed is due diligence?
- Line up the whole organisation behind the change i.e. DAG and review your operating model
- Need control of the key people who know i.e. TUPE of 1,000 staff
- Documentation, documentation, documentation. No one knows their own products!!!
- What do you do with Finance?

# Who are you getting into bed with?

- Take the time to know who you are “marrying” for 20 years. Supplier or strategic partner.
- Establish operational links with the key people upfront and maintain them.
- Continue to test the governance model i.e. OAG vs SMG
- What are the things that are important to them, maximise these i.e. Alpha model

# Transition vs transformation

- You will find things that are broken;  
*Fix at migration or park for later rectification?*
- Be clear about scope
- Are you moving the business as is or adding in new “services”
- Are you rationalising or maintaining the status quo?
  - Service – how many processes across sites or teams are inconsistent?
  - Methods – how many legacy platforms have different calculations for the same outcome? (non contractual...mainly)
  - How many data feeds produce slightly different output?

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# Transition vs transformation (examples)

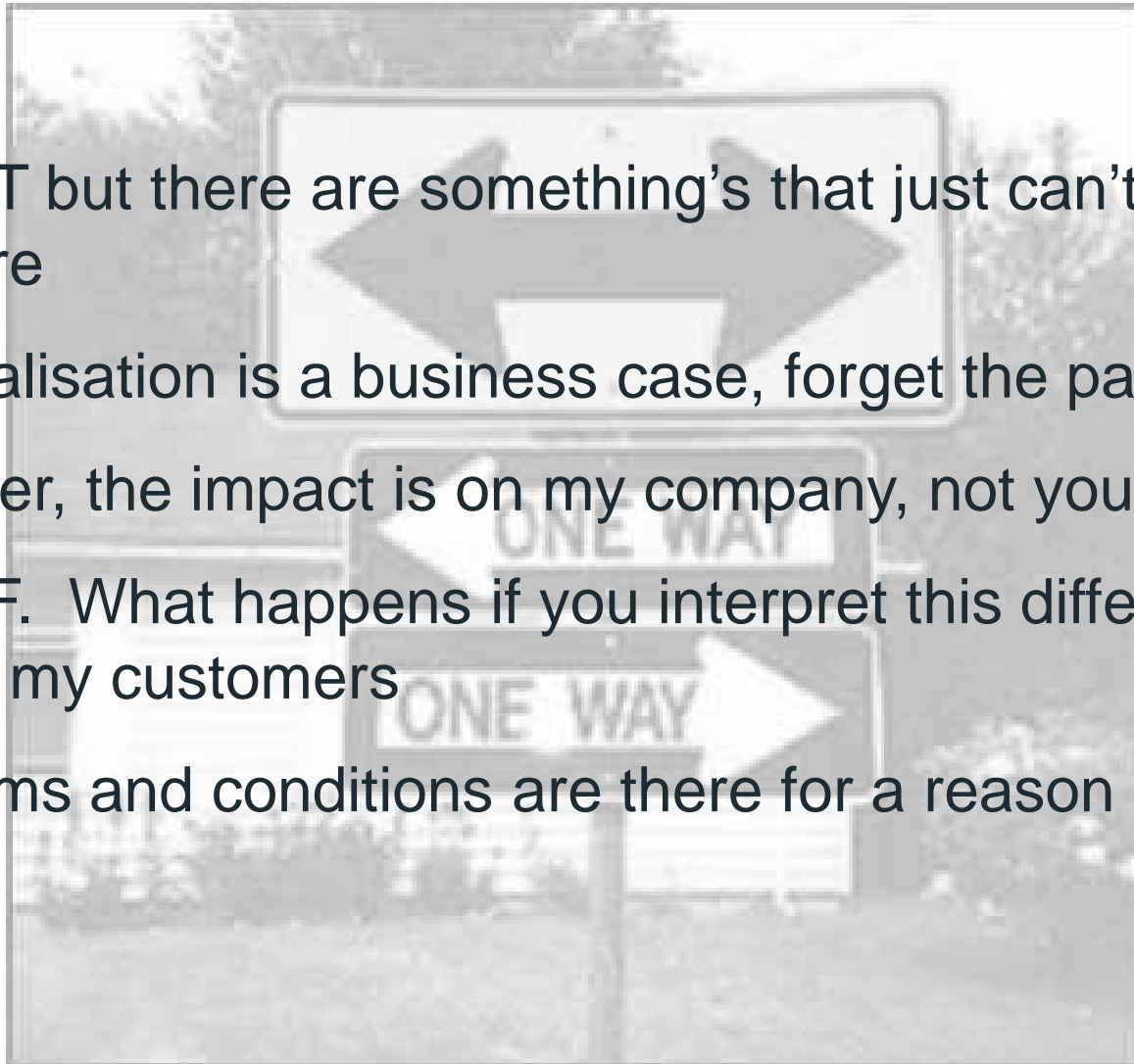
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- Loyalty bonus
- Contractual reviews
- Red plan

Examples explained in more detail in C4 "All I want for Christmas is .....accurate, complete and appropriate data". Speakers : Gethro Green and Gordon Jennings

# It's good to be challenged, but I am the customer

- Sorry IT but there are something's that just can't be built in software
- Rationalisation is a business case, forget the past
- However, the impact is on my company, not yours
  - TCF. What happens if you interpret this differently, they are my customers
  - Terms and conditions are there for a reason





# Looking back

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- Planning – be more realistic about timescales (Wagner, Rebrand)
- Get your proposition and principles “signed up to” upfront
- Set up your governance to fast track key design decisions
- Lock down your scope early and manage change with a stick
- We thought it would be hard but it’s been harder
- Managing service through transition has been a significant impact
- Establish the “relationships” early at every level so they can build “their” solution



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# Questions

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