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

2-4 December 2012
A typical general management consultancy

Industries

<table>
<thead>
<tr>
<th>Industry</th>
<th>S&amp;P 500 SECTORS</th>
</tr>
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<tbody>
<tr>
<td>Materials</td>
<td>176.68</td>
</tr>
<tr>
<td>Technology</td>
<td>313.63</td>
</tr>
<tr>
<td>Cons. Discr</td>
<td>201.63</td>
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<tr>
<td>Cons. Staples</td>
<td>250.77</td>
</tr>
<tr>
<td>Industrials</td>
<td>211.69</td>
</tr>
<tr>
<td>Utilities</td>
<td>146.17</td>
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<tr>
<td>Health Care</td>
<td>326.57</td>
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<tr>
<td>Telecommunication</td>
<td>103.30</td>
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<tr>
<td>Energy</td>
<td>386.82</td>
</tr>
<tr>
<td>Financial</td>
<td>186.85</td>
</tr>
</tbody>
</table>

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

Key industries
- Corporate & Institutional Banking
- Payments
- Retail & Business Banking
- Wealth & Asset Management
- Insurance
- Public Policy
- Corporate Finance & Advisory
- Strategic IT & Operations
- Finance & Risk Management

1. Disclaimer: This is my firm

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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…

- Finance and risk competence?
  - Yes
    - Actuarial consulting firms and consulting arms of accounting firms
  - No
    - Management consultancy firms with weak/non-existent FS practices

- Strategy and operations competence?
  - No
    - Management consultancy firms with FS practices
  - Yes
    - Management consultancies with technical and strategy FS teams
...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

Actuarial Consulting
- Multiple clients, long-term relationships
- Regular tasks
- Relatively (predictable schedule)
- (Relatively) sensible hours
- Local travel
- Mostly technical role

Mgmt. Consulting
- Focused engagements typically 4-8 week length projects
- Variety of work
- Ever-changing schedule
- Long (long) hours
- European / global staffing
- Technical and strategic role

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)**

<table>
<thead>
<tr>
<th></th>
<th>Starting Solvency Ratio1</th>
<th>Shocked Solvency Ratios&lt;sup&gt;1&lt;/sup&gt;</th>
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<tbody>
<tr>
<td></td>
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<td>Chaotic Greek default</td>
<td>Italian yields at 7.5%</td>
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<tr>
<td><strong>Peer 1</strong></td>
<td>Solvency 1</td>
<td>185%</td>
<td>150%</td>
</tr>
<tr>
<td></td>
<td>Economic Capital</td>
<td>160%</td>
<td>160%</td>
</tr>
<tr>
<td><strong>Peer 2</strong></td>
<td>Solvency 1</td>
<td>130%</td>
<td>110%</td>
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<tr>
<td></td>
<td>Economic Capital</td>
<td>150%</td>
<td>125%</td>
</tr>
<tr>
<td><strong>Peer 3</strong></td>
<td>Solvency 1</td>
<td>125%</td>
<td>115%</td>
</tr>
<tr>
<td></td>
<td>Economic Capital</td>
<td>180%</td>
<td>170%</td>
</tr>
<tr>
<td><strong>Client</strong></td>
<td>Solvency 1</td>
<td>250%</td>
<td>220%</td>
</tr>
<tr>
<td></td>
<td>Economic Capital</td>
<td>160%</td>
<td>170%</td>
</tr>
</tbody>
</table>

- 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)

- 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
- Clients 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**

- 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

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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

- New regulation
- Capital markets turmoil
- Value chain re-engineering and economic model
- Strategic soul searching
- Market reshuffle
- Structural customer change

Insurance
Questions or comments?