



The Actuarial Profession

making financial sense of the future

Turbo Charging your Actuarial Function

Brian Purves, PwC

Bob Gibson, Standard Life

2006 Life Convention

SECC, Glasgow

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PRICEWATERHOUSECOOPERS 

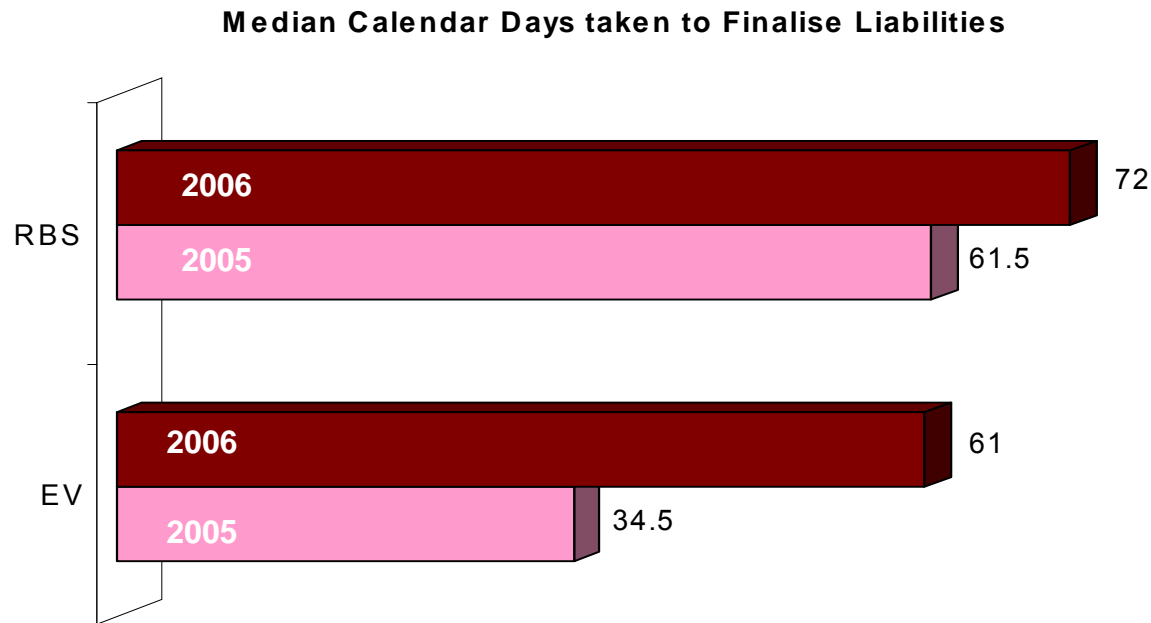
Agenda

- Why should you do something?
- What's stopping you?
- How could you make a difference?

Why should you do something?

Time Pressures

- 40% of companies are planning to reduce their external P&L reporting timetables for the 2006 year end, while nearly 60% plan to cut time out of their EV/EEV timetables.
- FRS26 and EEV have increased reporting requirements
- Reporting timescales have increased as a result

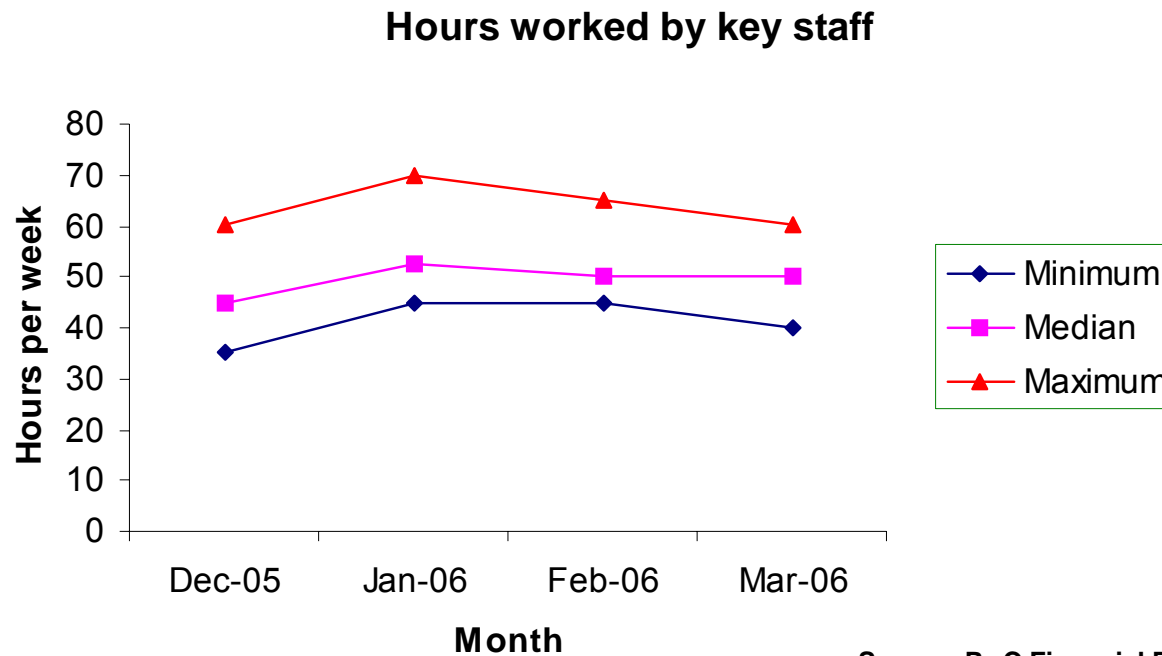


Source: PwC Financial Reporting Process Survey

Why should you do something?

Staff Pressures

- ➔ Increasing pressures from Group on speed and accuracy of reporting, EV etc.
- ➔ However, resources are already stretched.
- ➔ People are undertaking factory tasks and not-motivated or challenged



Source: PwC Financial Reporting Process Survey

Why should you do something?

Cost & Margin Pressures

- Closed fund runoffs
- Market structure (NPSS, Stakeholder)
- Offshoring / Outsourcing
- Distribution costs
- Rising competition (annuities)

Agenda

- Why should you do something?
- *What's stopping you?*
- How could you make a difference?

What's stopping you?

Diagnosis in the early 21st Century

■ What we see

- Failure to meet deadlines
- Surprises and volatility of result
- Convolutted process
- Large operational finance departments
- “In the trenches” mentality
- Cost of Finance is high
- Poor analytics and MI

■ What is the cause

- Under investment in people and technology over the years
- Multiple reporting bases with separate data flows
- Processes and structure have evolved rather than been designed
- Propensity to drive change is low
- Back office inadequacies impact Finance (dirty data)
- Poor communication between different parts of the business

What's stopping you?

Cultural and Organisational Issues

- ✘ Actuarial viewed as a scorekeeper
- ✘ Lack of commitment from others in the business to timely and accurate information
- ✘ A professional desire to get it 100% right before moving on
- ✘ Resources not motivated or adequate for type and volume of work
- ✘ Increasing pressures from Group on speed and accuracy of reporting, EV etc.
- ✘ People undertaking factory tasks and not-motivated or challenged
- ✘ Don't see a career in repetitive non-value add tasks
- ✘ Viewed purely as a back office function

What's stopping you?

Process and System Issues

- ✘ Failure to plan;
- ✘ Information collection, provisions calculation, reconciliations etc. delaying the close;
- ✘ Often little formal process
- ✘ Workload management has to balance year end, operational and special projects;
- ✘ No value add in the reporting process – rather collation of data
- ✘ Review and QA is cursory
- ✘ Reporting systems may be old and designed for another purpose
- ✘ Extensive use of non core systems to produce mission critical information;
- ✘ Manual re-keying of data impacts of speed and accuracy

Agenda

- Why should you do something?
- What's stopping you?
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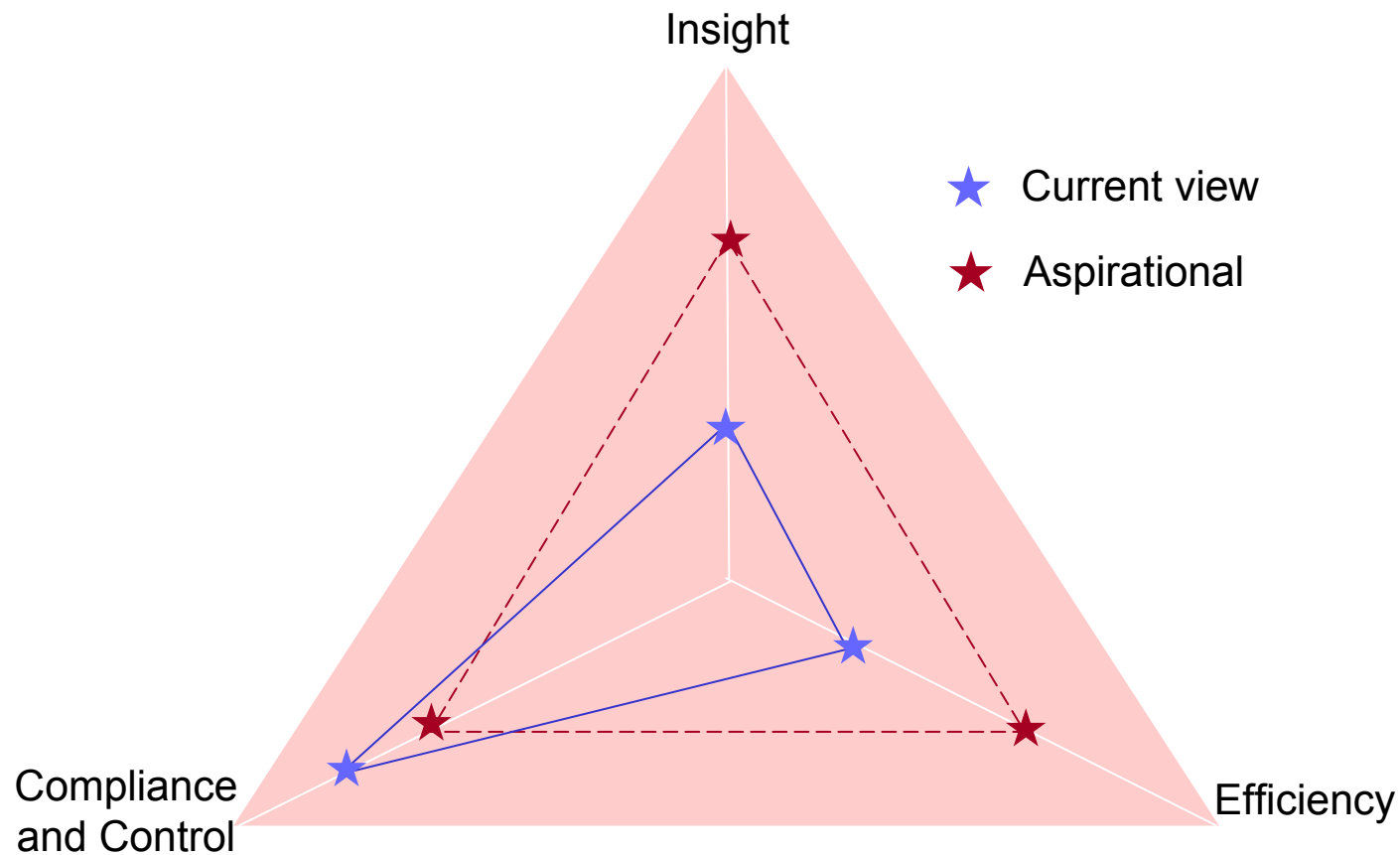
How could you make a difference?

- Redefine role
- Redefine structure
- Redefine process
 - FastClose
- Top 10 tips

How could you make a difference?

ROLE

Critical drivers in transforming the actuarial function



How could you make a difference?

Determining the role for Actuarial is a primary driver in shaping the function

ROLE

Business skills

•Commentator

- Business recognises value of decision support available within Finance and Actuarial and requests support as required
- Actuarial as 'commentator' explaining the business story in numbers

•Business partner

- Actuarial activity takes knowledge to business
- Acts as business advisor and integrator
- Providing insight and advice on competitive issues/strategy

Actuarial skills

•Score keeper

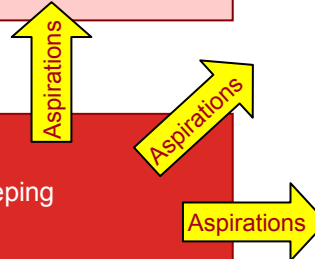
- Role focused on bookkeeping
- Inward looking culture
- Slow to change
- Efforts focused on transaction processing and month end figures

•Diligent caretaker

- Role focused on governance
- Works with business to ensure compliance and effective controls
- Efficient processes benchmarked and managed for continuous improvement

Reactive

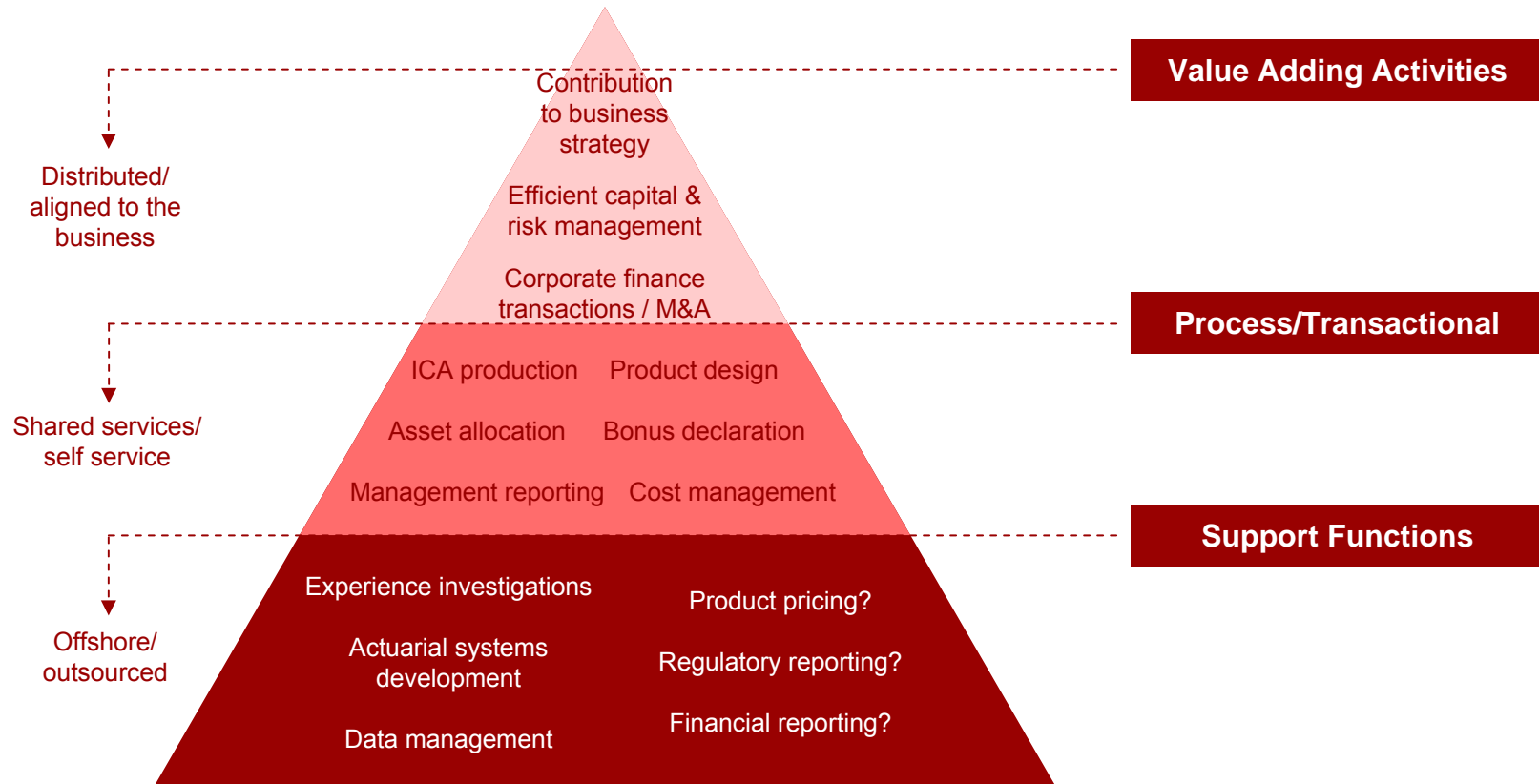
Proactive



How could you make a difference?

We are seeing clear standards emerging in actuarial operating models

ROLE



How could you make a difference?

STRUCTURE

Understand the process for the existing structure

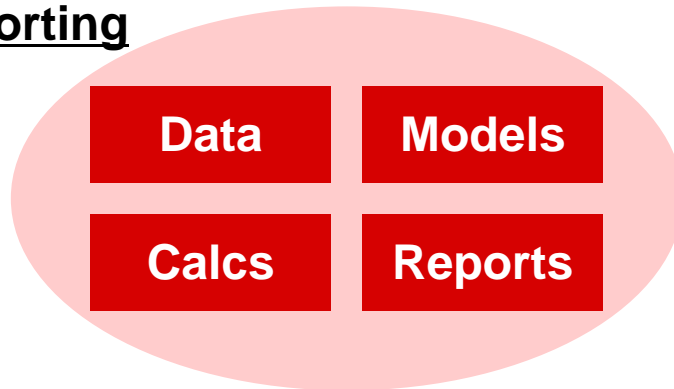
- Process mapping
- Controls
 - Data
 - Calculations
 - Outputs
 - Statutory reporting
 - ICA
 - ALM recommendations
 - EEV
 - Bonus recommendations

How could you make a difference?

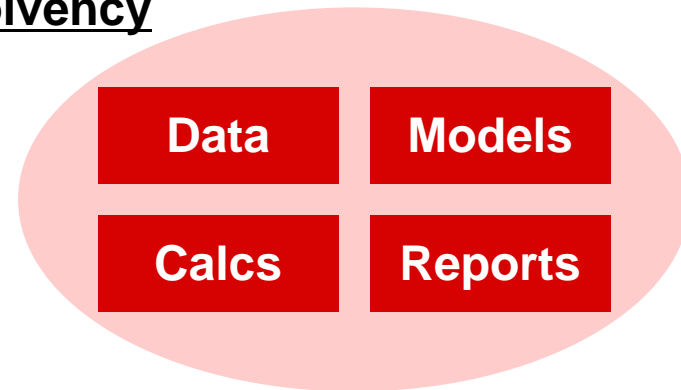
STRUCTURE

Existing structure

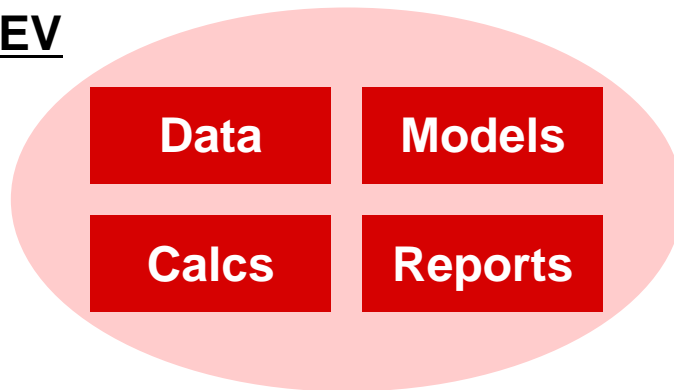
FSA
Reporting



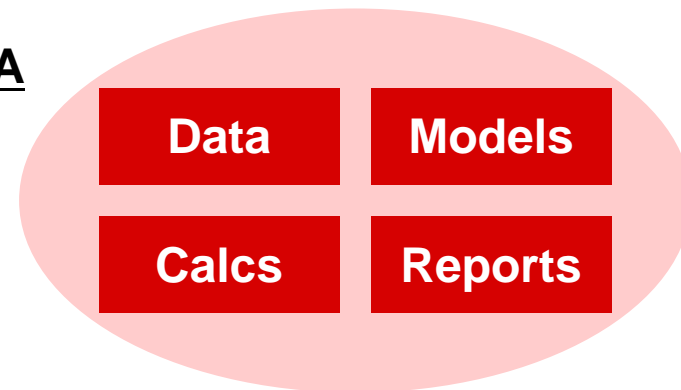
Long Term
Solvency



EEV



ICA



How could you make a difference?

STRUCTURE

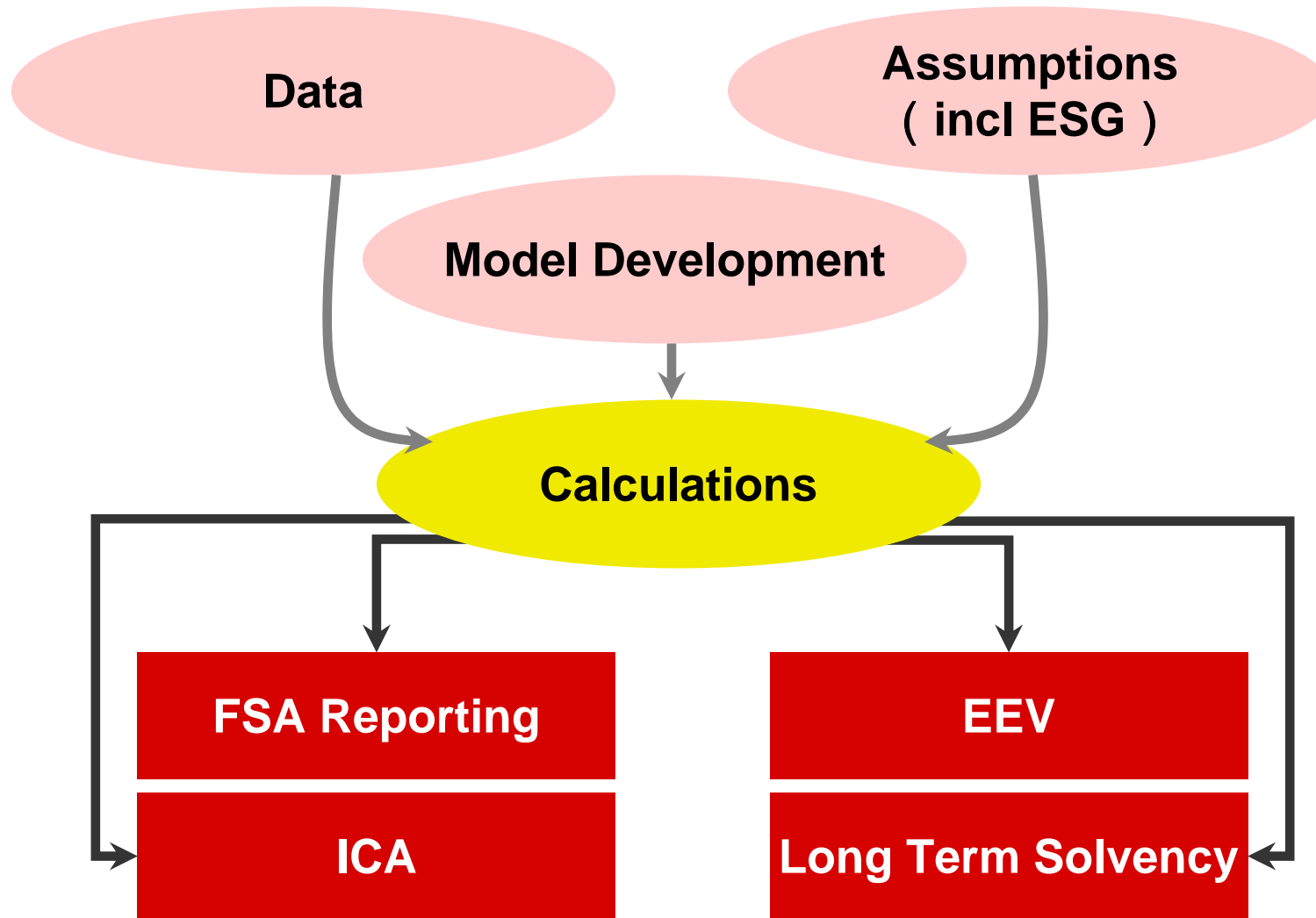
Existing structure - issues

- ✘ Model duplication
- ✘ Poor controls
- ✘ Duplication of work
- ✘ Inconsistencies in work
- ✘ Highly qualified / experienced staff required in all areas

How could you make a difference?

STRUCTURE

More efficient structure



How could you make a difference?

Proposed structure

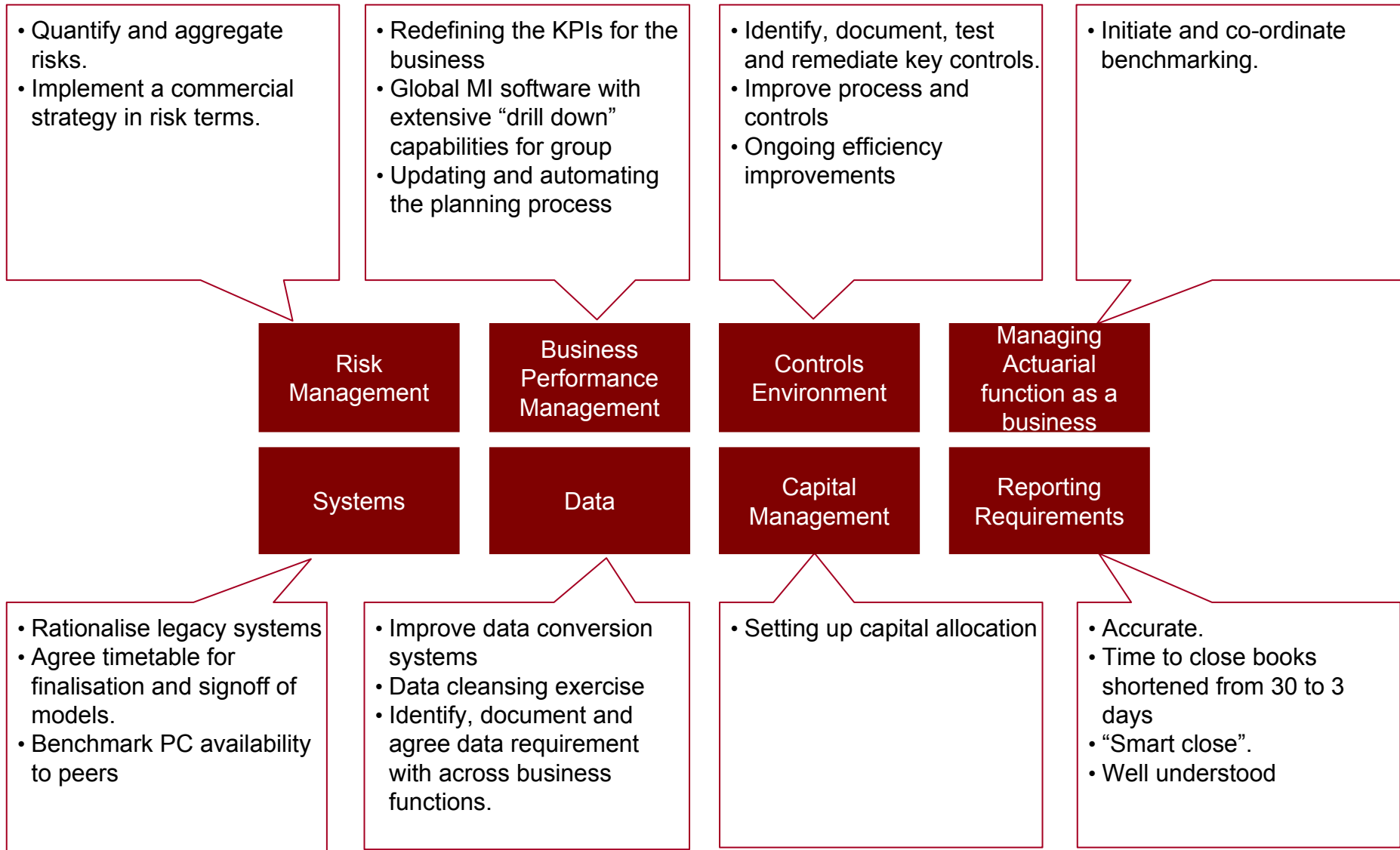
STRUCTURE

- ✓ Better controls
- ✓ Staff specialisation
- ✓ Less experienced (= less expensive) staff in some areas
- ✓ Requires rigorous work scheduling in
 - Data management
 - Assumptions
 - ESG
 - Model development

How could you make a difference?

PROCESS

Examples of initiatives behind actuarial strategy programs

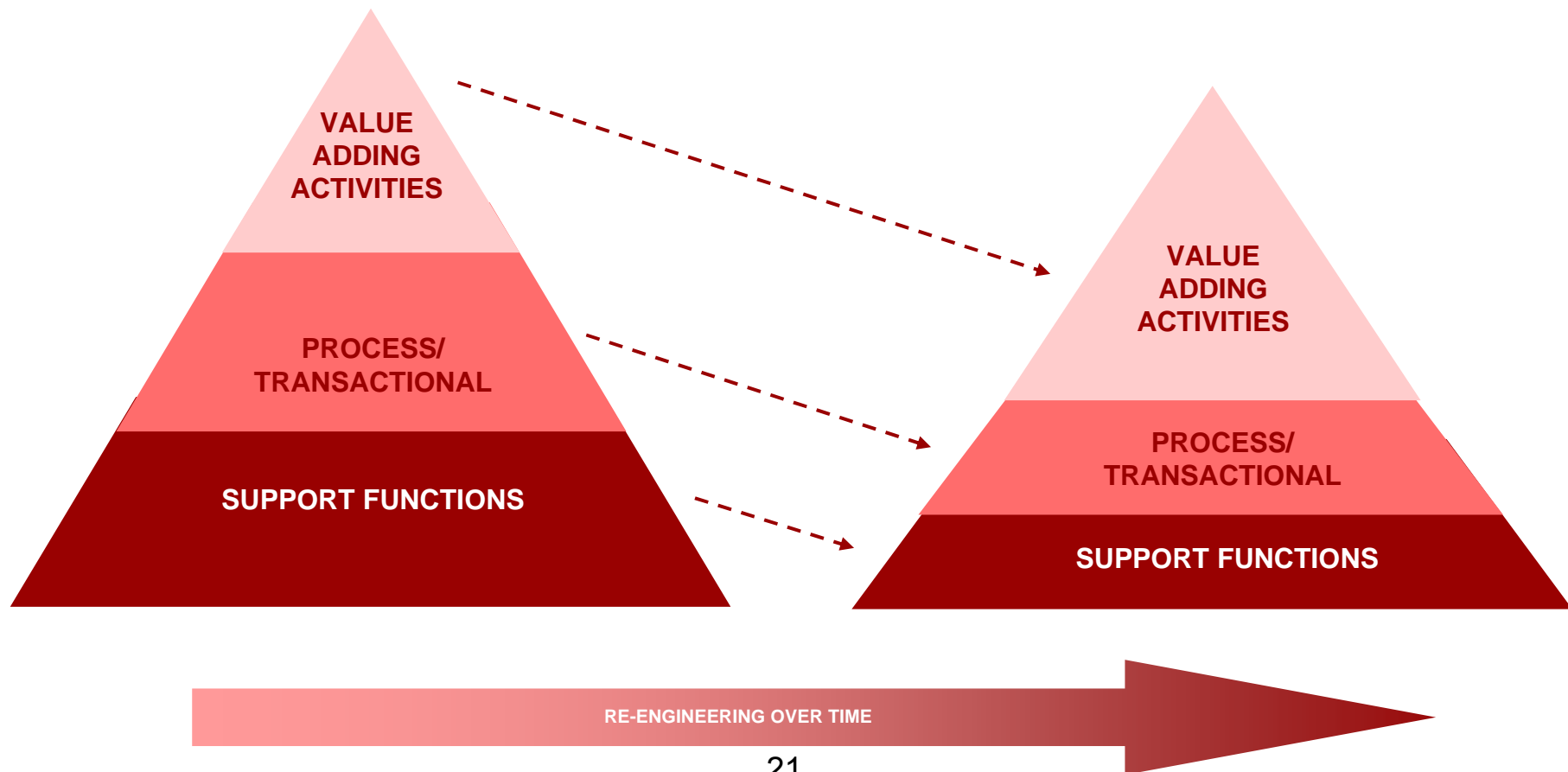


How could you make a difference?

Process re-engineering

PROCESS

- ✓ Re-designing processes can free up time to spend on value adding activities
- ✓ It may also lead to cost reductions

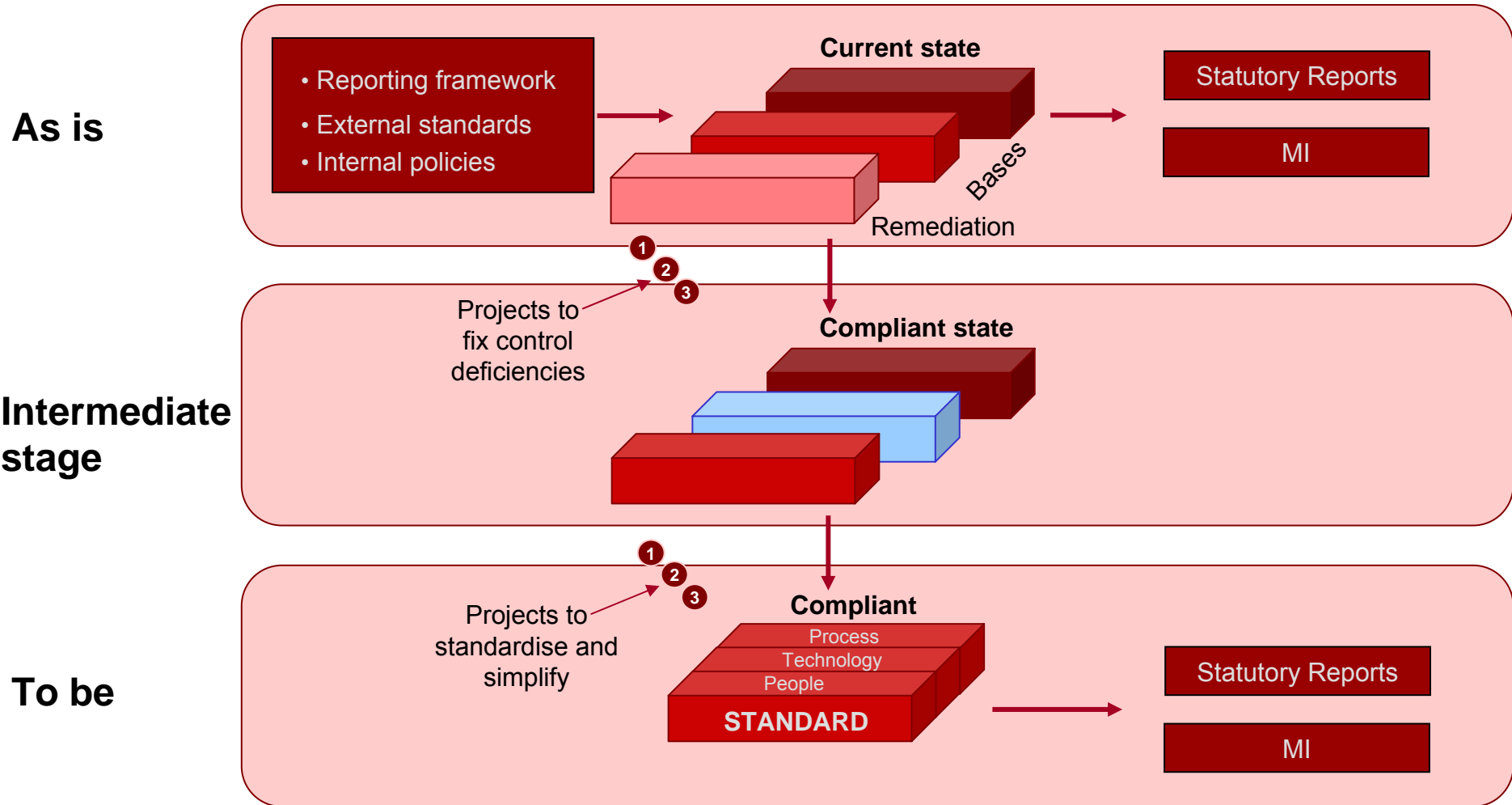


How could you make a difference?

PROCESS

Standardisation and simplification is key to addressing the efficiency and control agenda

"RECORD-TO-REPORT"



How could you make a difference?

Typical Process Improvements

PROCESS



- Too much time spent verifying asset data from investment managers



- Agree format, contact and checks that IM should perform and install as service agreement

- Resource shortages delays processes during critical path



- Ring fence actuarial resource to critical path only

- Responsibilities around sign-off processes vague or incomplete



- Introduce clear governance detailing who signs off results and processes

- Demographic basis process is not fixed / late changes are accepted



- Agree sign-off process, confirming the basis document before "Day 0"

- Lack of understanding of critical path



- Produce detailed timetable showing all processes, interactions and dependencies, identifying bottlenecks and critical points.

How could you make a difference?



Stakeholder agreement

- ➔ Important not to re-engineer processes in isolation. Securing both management and auditor buy-in before implementation is crucial.
- ➔ A comprehensive deliverables list can be used to ensure key stakeholders are in agreement upfront.

	A	C	D	E	F	G	H	I	K
1	Deliverables required								
2	Version 1.1								
3	Report	Area	Section	Objectives	Requirements	Information provided at YE2005	Comments on adequacy of information	Contacts	Target Date
4	Regulatory	Data	Data Trail	<p>Verify that data completeness checks have been carried out as per documented procedures and that all anomalies have been investigated and explained reasonably.</p> <p>Check that appropriate allowance has been made for policies identified as missing from the data.</p> <p>Review management's movement analysis and resulting explanation of significant movements for reasonableness.</p>	<p>PROCESS AND CONTROLS PACK (REGULATORY DATA)</p> <p>1a Process and control documentation and flowchart</p> <p>1b Evidence that process and controls are carried out</p> <p>DATA PACK (REGULATORY DATA)</p> <p>1c Reconciliations of policy counts/SA/premiums from download to final results and/or similar controls</p> <p>1d Analysis of movement for totals/by product class for policy count/SA/premiums (ie reconciles totals at beginning and end of year</p> <p>1e Details of other analytical reasonableness checks by management</p> <p>1f Summary of rejected policies and details of steps taken to account for them in the valuation</p> <p>1g Walkthrough meetings</p>			Contact A Contact B	WD6
5	Regulatory	Systems	Systems Access Controls and Integrity	<p>Review the controls in place to ensure that the systems are not inadvertently or deliberately altered leading to a misstatement of reserves.</p>	<p>PROCESS AND CONTROLS PACK - SYSTEMS</p> <p>2a Document detailing the change controls around the valuation system in particular restricted access, back up systems, the system changes procedure, version control procedures etc.</p> <p>2b Evidence that the process and controls are carried out</p>	<p>Information sourced from email correspondence with the valuation teams and walk-through meetings carried out by auditors</p>		Contact C Contact D	WD9
6	Regulatory	Systems	System Changes	<p>Understand the justification for system changes made since the previous valuation and assess the reasonableness of the impact of these changes on financial results.</p> <p>Review the process used to implement system changes.</p> <p>Assess the testing of the models performed and sign-off packs for reasonableness.</p>	<p>SYSTEMS PACK (CHANGES)</p> <p>3a List of planned/factual changes to system in year and evidence controls in place around them including appropriate sign off</p> <p>3b Demonstration that of the effect of each material system change and justify that the level of the change is reasonable.</p> <p>3c For significant changes, e.g. new products, the effect of the change should be verified using an independent system and a series of representative policies that cover all features of the business.</p>	<p>Information sourced mainly from email correspondence, walkthrough meetings and the following documents:</p> <ul style="list-style-type: none"> > Change control spreadsheets > Problem Log 		Contact Y Contact Z	WD11

How could you make a difference?

Year end fast closing

- Listed company expectations
- Full close or early close and roll forward ?

FAST CLOSE

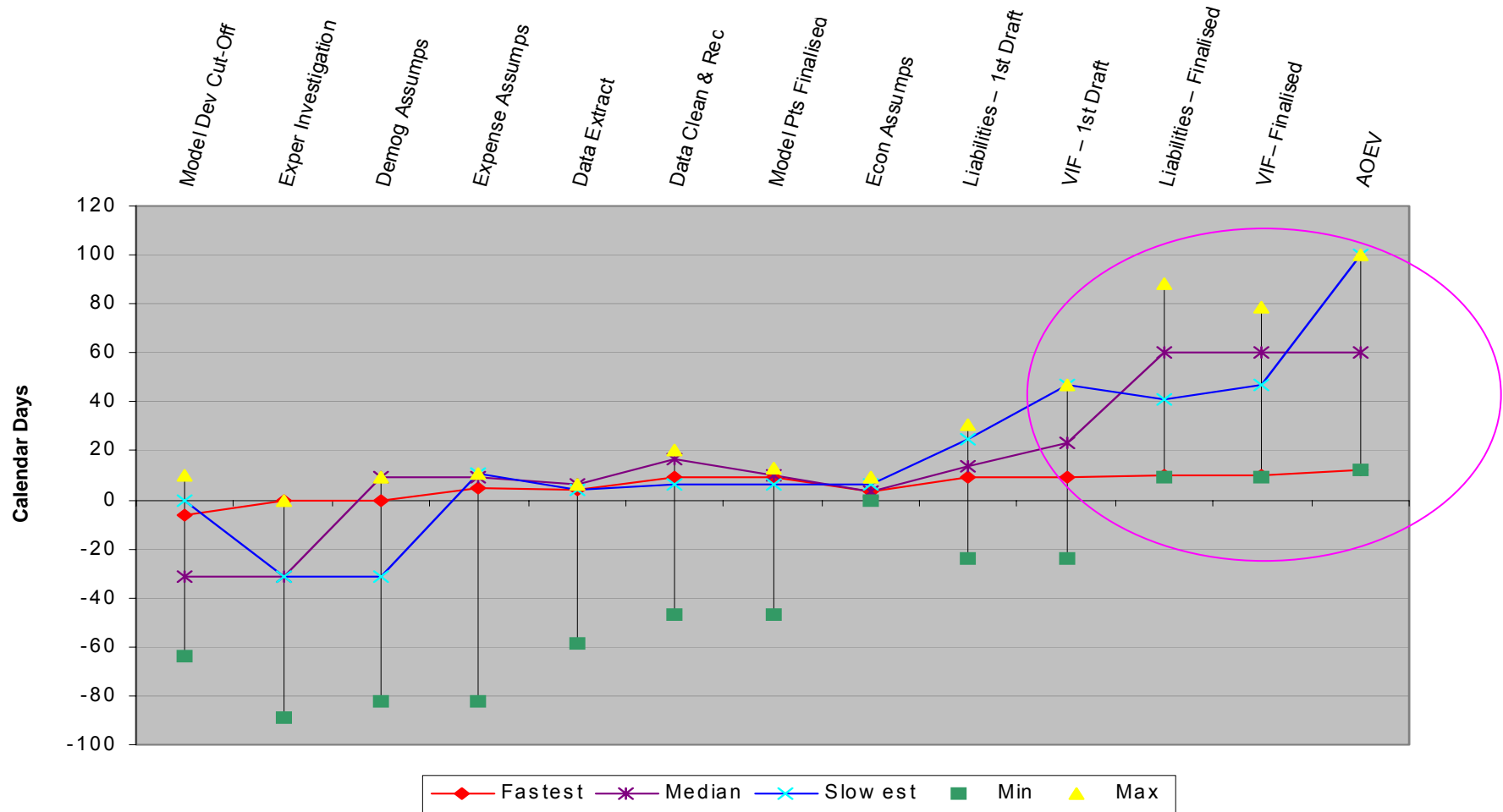
How could you make a difference?

FAST CLOSE

Timeframes – EV reporting

- This year's Financial Reporting Process Survey included 5 of the 7 FTSE 100 life insurers

2005 Year-End EV Timescales



How could you make a difference?

FAST CLOSE

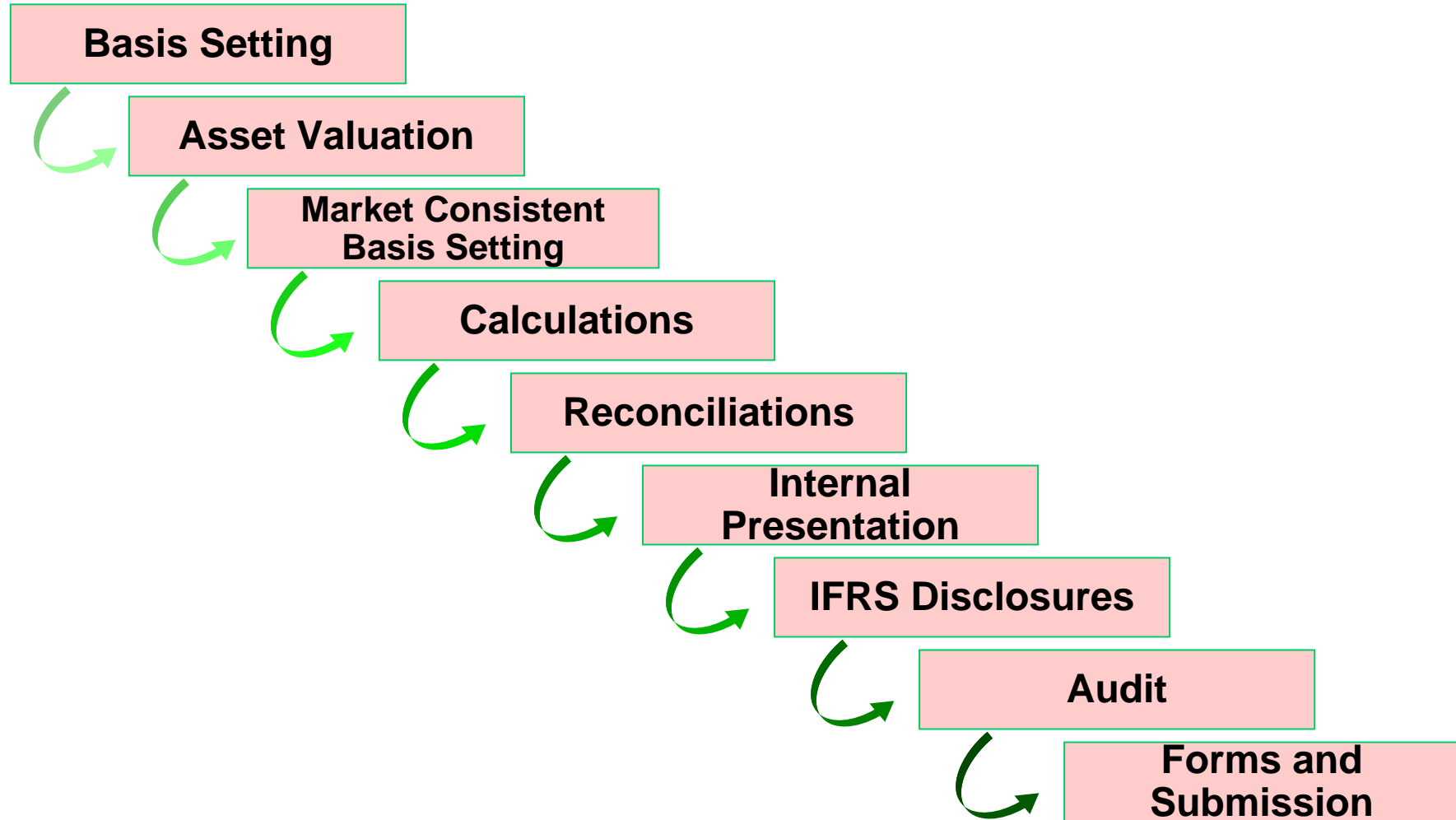
Full close for a year end

- Steps
 - Basis setting
 - Asset valuation
 - Market consistent basis setting
 - Calculations
 - Reconciliations
 - Internal presentation
 - IFRS disclosures
 - Audit
 - Forms and submission

How could you make a difference?

FAST CLOSE

Full close for a year end



How could you make a difference?

Full year end close

- Benchmarking
- Change management programme
- Implementing
- Cultural impact

FAST CLOSE

How could you make a difference?

FAST CLOSE

Top 10 tips

- 1. This cannot be just fitted around the day job by business as usual**
 - Time and resource
 - Skills and capability
- 2. How do you eat an elephant? One bite at a time**
 - Prioritise based on critical path
 - Quick wins establish momentum
- 3. Financial reporting starts before the finance function get involved**
 - End to end process
- 4. Manage the stakeholders**
 - Within the wider business, particularly executive demands
 - Third Party Administrators
 - Auditors
- 5. Remember CHOCOLATE** (mnemonic for participant ground rules) – committed, honest, open, constructive, ownership, learning, adventure, team, enthusiasm.

How could you make a difference?

FAST CLOSE

Top 10 tips

- 6. Do what you can before Working Day 0**
 - Year end balances not necessarily needed
 - Ring fence time and resource
- 7. Materially correct and on time is better than 100% accurate and late**
- 8. Communication and Challenge**
 - Accountants and Actuaries need to understand each other
 - Internal and external network
- 9. The more often you do it the easier it gets**
 - Turning annual reporting into a non-event
- 10. Get involved** - this is a chance to make a difference to your working life

Questions



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