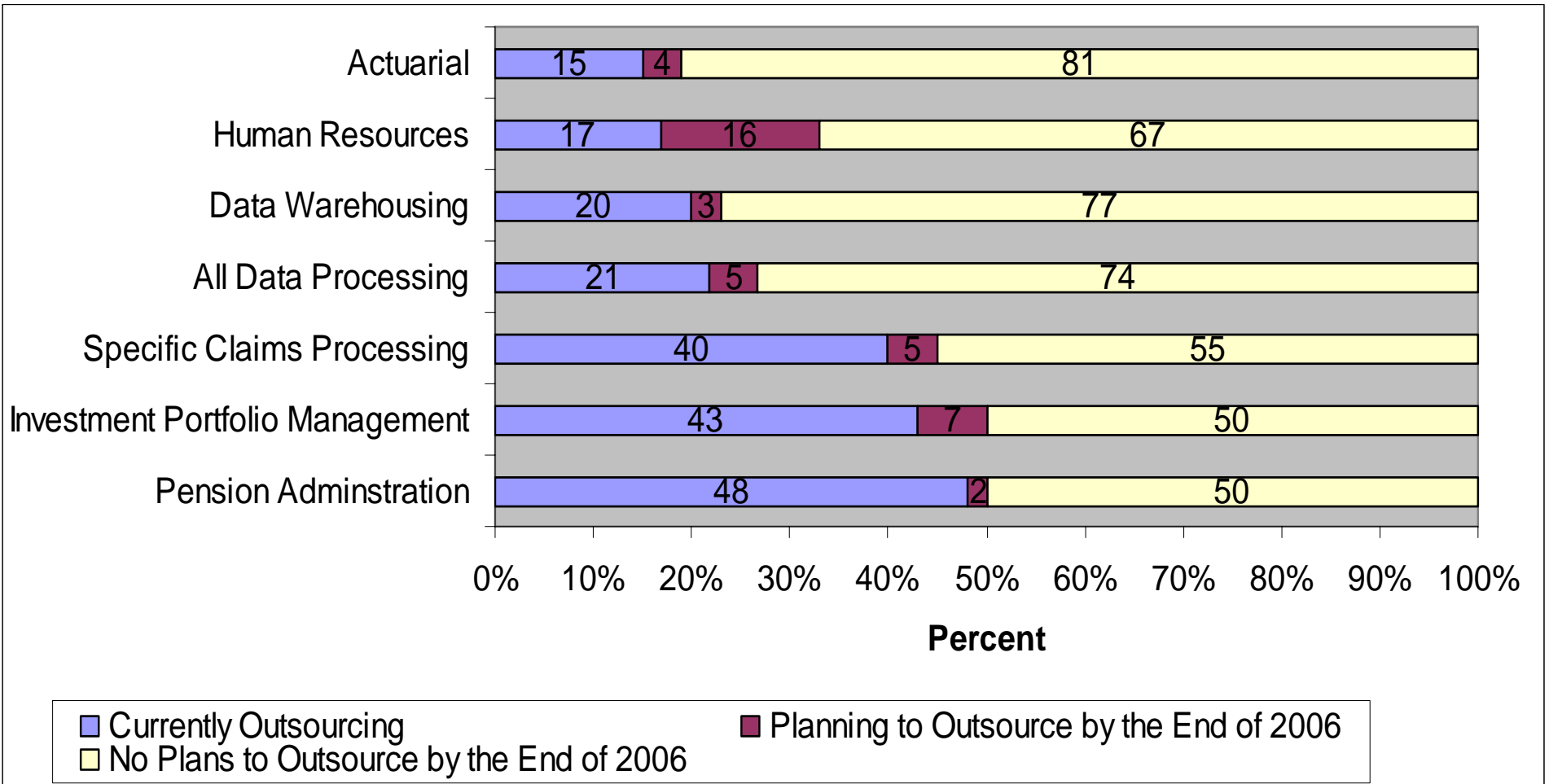


# Outsourcing, Offshoring, and Importing Actuarial Talent

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# Outsourcing/Offshoring Among P&C Carriers



# Outsourcing and Offshoring

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**Is there a  
difference?**



# Outsourcing

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→ The transfer of specific processes or workstreams from one organization to a third party.

→ The work product of that third party is then relied upon to further the business objectives of the outsourcing company



# Offshoring

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→ The transfer of specific processes or workstreams **to a captive operation** in another country

→ Retention of responsibility for the methodologies used in producing the work product (the “how”) and the management of the human resources





# Motivation for Pursuing (Offshoring Perspective)

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- Cost and labor arbitrage
- Additional sources of talent
  - Larger talent pool
  - Access to unique skill sets
  - Exposure to different thought patterns
- Potential opportunity to inject a larger P/C focus at in-country educational institutions
- Transition current resources to new skill sets
  - May result in higher value workstreams domestically
  - Communication is key - Expect some degree of skepticism or resistance
- Readily available infrastructure
  - Does your organization have an offshore captive for IT or other business process offshoring?
  - If not, expect longer timeline to coming online

How can you determine if  
**offshoring** may be  
appropriate?



# Opportunity Assessment Tool

<b>Example 1</b> Ease of Knowledge Transfer	<b>Example 2</b> Degree of Process Dynamism	<b>Example 3</b> Need for Additional Flexibility
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# Example 1: Ease of Knowledge Transfer

**Less Suited for Offshoring**      **Increasing Propensity to Offshore**      **More Suited for Offshoring**



<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Complex – requires training, shadowing and licensing	Challenging – requires training and several months of work shadowing	Difficult – requires some training to understand company specific procedures	Moderate – some process-specific training required	Simple – process is mostly generic

# Example 1: Ease of Knowledge Transfer

## Example: Rate Level Indications

- Extensive training required in actuarial methodologies:
  - \* Trend selections
  - \* Loss development
  - \* Identification and resolution of data anomalies
- Definition of actuarial work product
- An organization with strong training capabilities could potentially overcome these obstacles

# Opportunity Assessment Tool

<b>Example 1</b> Ease of Knowledge Transfer	<b>Example 2</b> Degree of Process Dynamism	<b>Example 3</b> Need for Additional Flexibility
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# Example 1: Degree of Process Dynamism

**Less Suited for Offshoring**      **Increasing Propensity to Offshore**      **More Suited for Offshoring**



1	2	3	4	5
External change often required (from customers or regulators)		Internal Change occasionally required (marketing or product driven)		Potential for required change is minimal

## Example 2: Degree of Process Dynamism

### Examples

- ❑ States or lines of business that typically involve a lower level of regulatory intervention may be acceptable candidates
- ❑ Developing, filing, and negotiating a Homeowners filing in the state of Florida may not be a good candidate!

# Opportunity Assessment Tool

## Example 1

Ease of  
Knowledge  
Transfer

## Example 2

Degree of Process  
Dynamism

## Example 3

Need for Additional  
Flexibility

# Example 3: Need for Additional Flexibility

Less Suited for  
Offshoring

Increasing Propensity to Offshore

More  
Suited for  
Offshoring

1	2	3	4	5
Unpredictable changes in demand requiring fully flexible / variable staffing model		Highly cyclical process with ramp-ups and ramp-downs requiring expected staffing changes		Predictable and steady transaction volumes supporting fixed staffing model


## Example 3: Need for Additional Flexibility

### Example

Expected or planned rating plan analyses on a state or CW basis may be acceptable workstreams



# Opportunity Assessment Tool

	 Increasing Propensity to Offshore				
	1	2	3	4	5
	<i>Less Suited for Offshoring</i>				<i>More Suited for Offshoring</i>
Knowledge Intensiveness	Domain expertise required to make decision/response	Policies and guidelines frame decision/response (interpretation required)	Decision/Response based on strictly defined rules (no interpretation required)	Data entry or standard, automated response with low-level data validation necessary	Pure data entry; standard, automated response
Ease of Knowledge Transfer	Complex – requires training, shadowing and licensing	Challenging – requires training and several months of work shadowing	Difficult – requires some training to understand company specific procedures	Moderate – some process-specific training required	Simple – process is mostly generic
Nature of Customer Interaction	External customer – high value and/or strategically important	External customer – not high-value	Internal customer/business partner supporting an external stakeholder (e.g., agent support)	Internal customer/business partner for internal use (e.g., HR transactions)	N/A – little customer interaction
Level of Customer Interaction	Requiring frequent ongoing customer interaction (daily/constantly)	Requiring less frequent ongoing customer interaction (weekly/monthly)	Regular exception-based	Episodic exception-based	None
Customer Proximity	Remote interaction impossible – requires face-to-face		With process changes, remote interaction possible for most transactions through phone, fax and email		Remote interaction possible for most transactions today through phone, fax and email
Severity of Process Breakdown	Major direct customer loss/financial impact	Moderate direct customer loss/financial impact	Minor customer loss/financial impact	Minor customer/ financial loss possible – but addressable	No customer loss/fin. impact possible (non-core function)
Ease of Data Transfer	100% paper-based; will require imaging or mailing documents	Mix of paper-based and electronic, but data arrives from many different sources	Mix of paper-based and electronic but data arrives from fewer sources	Over 80% data imaged / digitized from one source, yet in different formats	All critical data imaged and digitized from one source with standardized format
Process Complexity (handoffs, level of exceptions, degree of automation / manual processes)	Complex process – simplification impossible	Complex process – simplification possible	Complex process – some simplification implemented	Fully simplified process existing in current state	Inherently simple process
Degree of Process Stability	Process, inputs and outputs not well defined – ad hoc data requirements		Process, inputs, and outputs well defined – some variation in data sources		Process, inputs and outputs all well defined – consistent data sources
Fragmentation Intensity	Process in more than 5 locations >10-20 staff per location		Process in multiple locations but 80% of work in 2-3 locations		Process consolidated in a single location
Degree of Process Dynamism	External change (from customers or regulators) often required		Internal change (marketing or product driven) occasionally required		Seldom history or potential for required change
Level of Performance Management	No formal process documentation or measures	Process documentation in place (responsibilities and job descriptions) – costs measured and tracked	Process flows, roles, work practices, and procedures in place – efficiency metrics in place but few quality metrics	Process completely documented – Targets set vs. benchmarks	Process completely documented – formal performance SLAs in place
Labor vs. Capital Requirement / Decision-Making Decentralization	Capital-intensive process with highly centralized decision rights that must remain inside company	Capital-intensive process with decision authority granted at levels closest to the customer	Mix between capital and labor intensive	Labor-intensive process with highly centralized decision rights that must remain inside company	Labor-intensive process with decision authority granted at levels closest to the customer
Need for Additional Flexibility	Unpredictable changes in demand requiring fully flexible / variable staffing model		Highly cyclical process with ramp-ups and ramp-downs requiring expected staffing changes		Predictable and steady transaction volumes supporting fixed staffing model
Degree of Interconnection (more time needed to develop linkage processes)	High degree of interaction with other functions, processes and systems		Some interaction with onshore activities, but easily addressable with upfront planning		Self-contained, discrete process



# Risks

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- Cost advantages may erode over time
  - Wage inflation in developing nations
  - Phase out of government subsidies
- First-mover benefits can be dampened by “herd mentality”
- Availability of staff to effectively manage a remote operation
- Level of current employee buy-in



**Questions?**