



SOCIETY OF
ACTUARIES®

2019 **ANNUAL
MEETING**
& EXHIBIT

October 27-30
Toronto, Canada

Session 114: Integrated FP&A Projections and “What-if” Analysis

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FP&A Modernization – A journey

October 25th, 2019



Disruptions across insurance require a proactive finance that is a true “business” partner

Failure to modernize finance will likely result in finance and the overall enterprise falling behind traditional competitors and new entrants, missing out on new opportunities and profitability enhancements, higher operating costs, and other groups becoming the strategic advisor to the business.

“The new hypothesis involves the CFO and finance leaders:

- *playing a much more dynamic and facilitative role;*
- *moving from static and rigid processes and controls to adaptive, agile and resilient models which;*
- *require orchestration rather than execution and control ...*

In the future, finance will have sharper analytical capabilities in the use of Big Data query analysis, social media monitoring, and real time dashboard creation

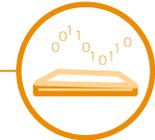
Business partnering – new of finance professional is needed with the right business skills and credibility to implement change.

Dedicated roles of business partners focused on real commercial insight not operational duties



Investing in finance people with diverse approaches and ideas to bring fresh insight

Being excellent at seeing the future using real time data analysis and visualization tools to bring management information to life



Performance and rewards measured largely on business outcomes

Source: PwC finance benchmark data

Finance creating value as a business partner

Finance and actuarial organizations can look forward and use disruption to find opportunities to use predictive models and scenario analysis to gain greater confidence around future decisions.

Finance must evolve from.....

Over 90% of organizations are working to enforce or execute their corporate level data strategy across finance



- Minimal involvement
 - Problem finding
 - Post-hoc critique
-
- Confrontational
 - Technical compliance with external rules
-
- Data collection
 - Organizational hierarchy driven
 - Technology constrained
-
- Manually intensive & cumbersome
 - Policy view
 - Redundant



Decision support....

Requires role transformation



Business control

Requires new processes



Reporting

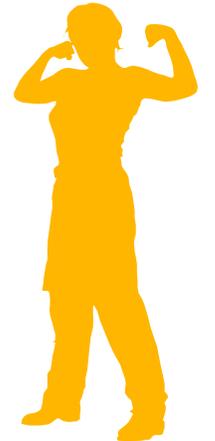
Requires new process & thinking



Data & transaction processing
Requires better and faster integration

.....To

- Risk and scenario based analysis
 - Strategic/market issues
 - Problem solving
-
- Embedded
 - Accountability
 - Cost/benefit sensitive
-
- Relevant to business
 - Information rich
 - Integrated
-
- Automated & streamlined
 - Customer view
 - Predictive

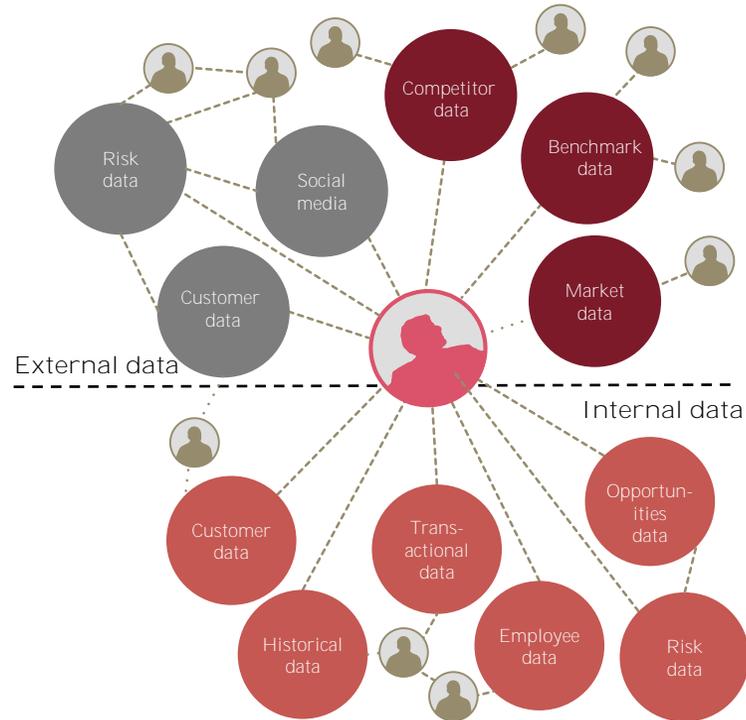


Leading organizations have 40% more FTEs in business insight roles than median performers

Integrating data analysis across finance & actuarial

Along with a unique opportunity to drive innovation with the business, finance and actuarial must also maintain their steward roles across a set of new expectations and value propositions.

Taking new sources of data...



...finding new ways of looking at the business

Growth/Investment decisions: Where to invest

- Identify new markets, channels, and partnerships
- Rationalize investment for *innovation/R&D*
- Validate *customer behaviors* and economic outcomes
- *Challenge and refine* business cases

Performance and profitability management

- Analyze *profitability* levers
- Assess *effectivity of business strategies*
- Analyze *customer acquisition* and distribution costs
- Deliver customer and segment *lifetime value analysis*
- Drive planning processes with *integrated analytics*

Managing risk

- *Consistent* performance measures
- *Integrated* stress testing capabilities
- *Collaboration* and stewardship with data governance and model risk management

...and answering questions like

- When is stock market volatility more likely to drive demand for annuities?
- When does a need for college savings compete with annuities?
- When is the loss of a job more likely to cause a policyholder to lapse?
- How do prolonged low interest rates impact withdrawals by retired policyholders?

42%

spend significant time gathering and verifying data vs. reporting, analyzing and forecasting, etc.

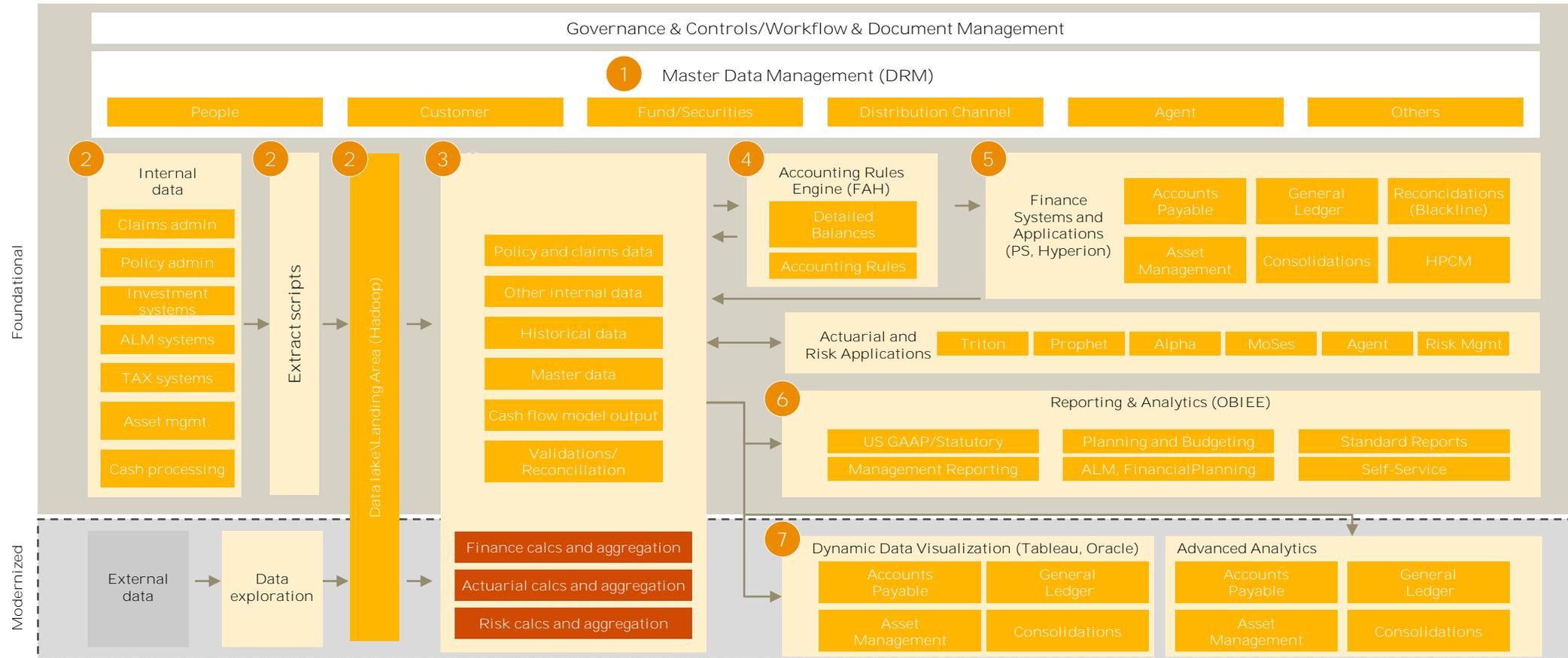


Finance needs to work with the business to best understand where in the value chain they can have the greatest impact

To properly define the vision, Finance must clearly articulate its role in the value chain. Furthermore, Finance **must collaborate with the business to refine Finance's role and determine how Business and Finance will work together**

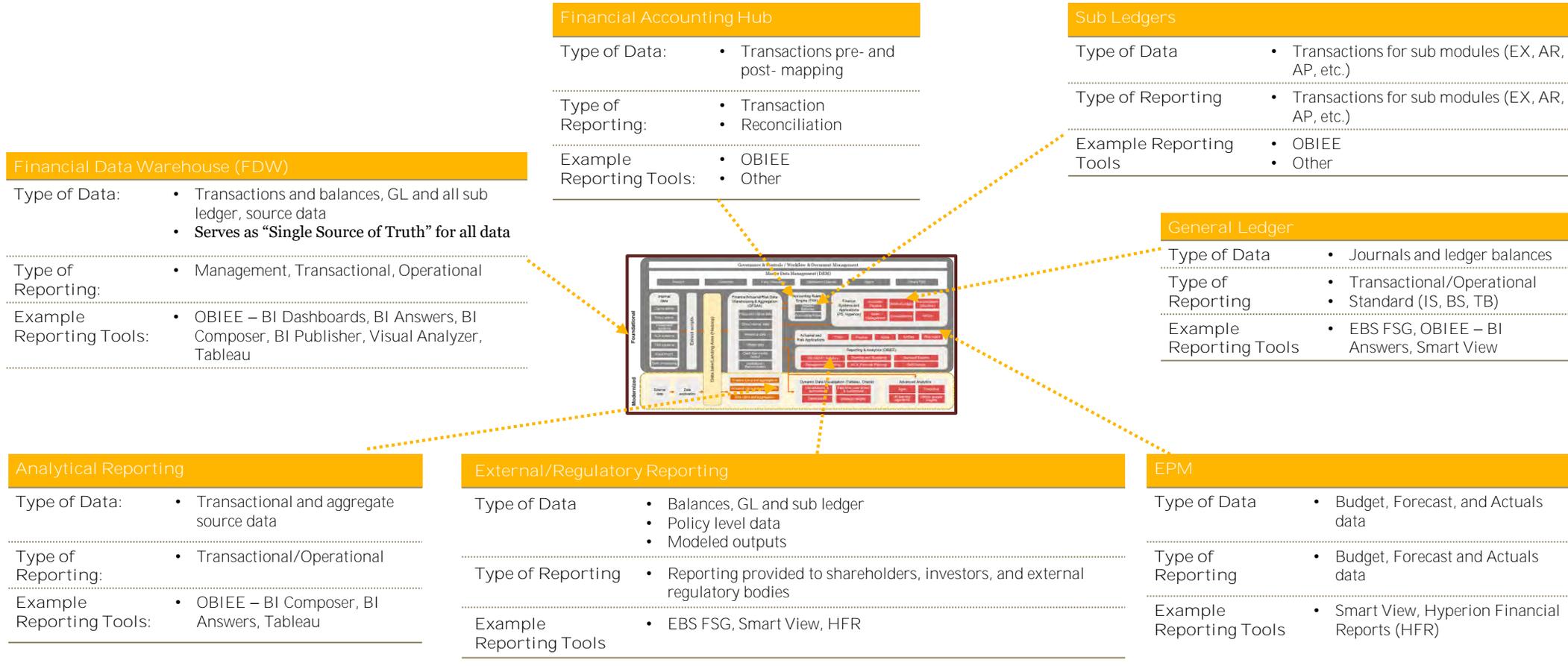


The traditional architecture model is now being supplemented with 'modernization' components



Delivering one firm

Modernized components supplement the reporting capability to address business needs



More powerful simulation modeling allows finance to gain deeper insights on what is driving the business

Traditional approach

Deterministic & Predictive modeling

Traditional approaches rely on statistical and AI algorithms to prescribe and predict actions based on historical data. Predictive modeling can be useful for forecasting aggregate outcomes, but it is not able to understand true drivers of the outcomes, such as how individuals make their decisions.

“Dashboard view”

- Starts with data
- Data warehouses and marts
- Requires translation
- **“Dashboard” (historical) view**
- **“Siloed” thinking**
- Driven by large multi-year projects
- Static reports and graphs
- Technology-led



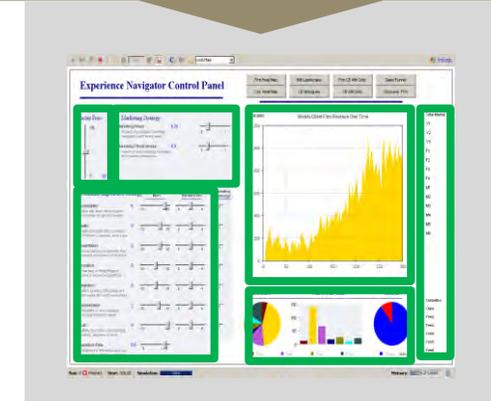
Simulation approach

Behavioral and simulation modeling

Simulate real-world relationships between consumers, providers, distributors, employers, and other system players. This approach is able to show how and to what extent internal (e.g., consumer attitudes) and external (e.g., rising inflation) dynamics can alter outcomes.

“Cockpit view”

- Starts with decisions
- Data-driven mash-ups
- Information in context
- **“Cockpit” (forward) view**
- **“Systems” thinking**
- Driven by iterative and agile projects
- Dynamic visualizations
- Business-led

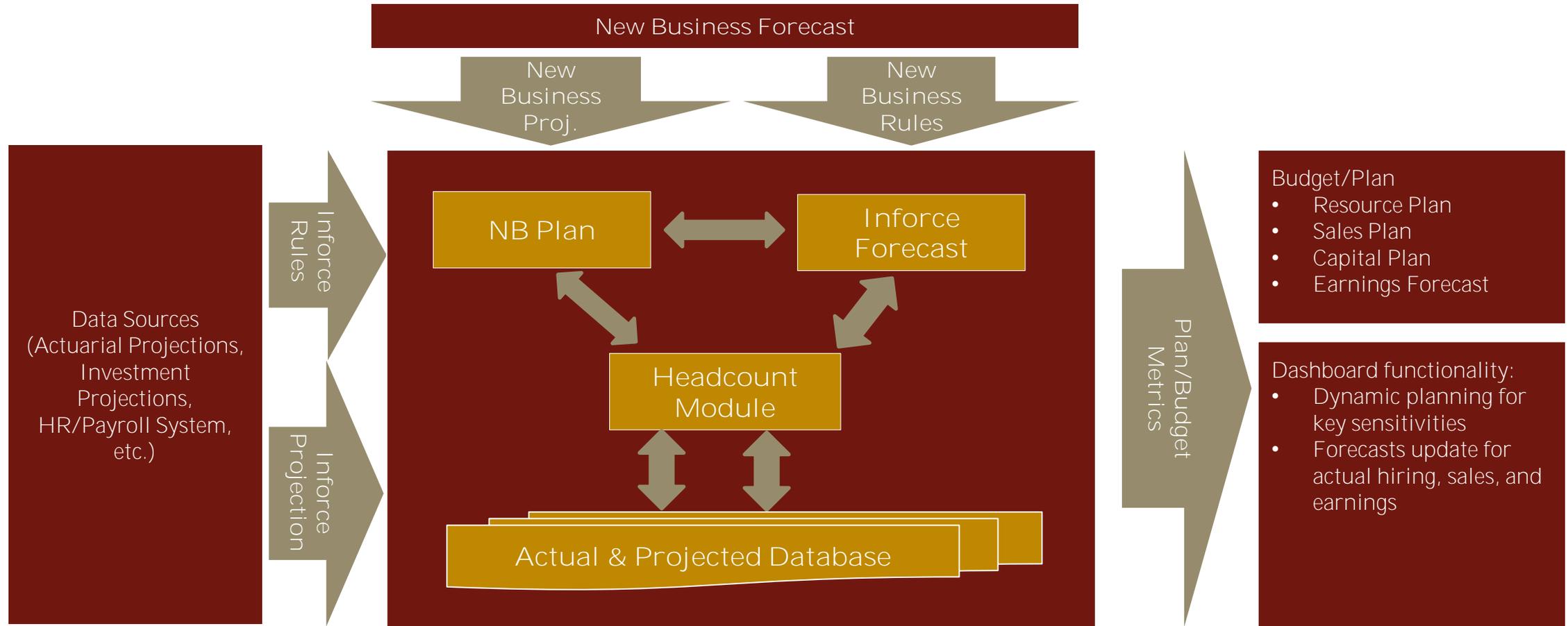


Simulation modeling strives to re-create real-world environments, employing scenario analysis to explore the full range of potential outcomes for a given strategy

Key steps on the finance modernization journey

- Clearly articulating and understanding the key components of the business strategy and building the finance and actuarial strategies to support them.
- Identify key drivers of performance in the form of metrics and reporting.
- Maintain traditional skepticism, but collaborating more effectively with the rest of the business and seeing things through their eyes.
- Dispense with low to no value analysis and reporting.
- Improve the data environment by moving to strategic platforms and systems, eliminating complexity, and virtualizing **data (especially where the benefit of converting history to new platforms is low to nonexistent)**. Creating “data lakes” and leveraging new technologies such as Hadoop and cloud technologies can allow for the quick combination of very large and disparate data sets while keeping costs low.
- Leverage advanced analytics, including predictive and prescriptive analytics and data visualization tools and techniques, to uncover hitherto unseen patterns and trends, as well as to facilitate scenario modeling and analysis
- Form close relationships with business, strategy, actuarial, data scientists, risk management, and others to deepen understanding of insights from expanded digitization.
- Creating a detailed and practical roadmap **that promotes achievement of the company’s vision**.
- Continually assess, adapt, and improve people, processes and systems in order to stay relevant.

Sample – simplified -- Architecture for Forecasting



LDTI CFO Cockpit | Inforce and New Business Management (Base On Face Amount)

Product Name

- (All)
- TL
- WL

Cohort

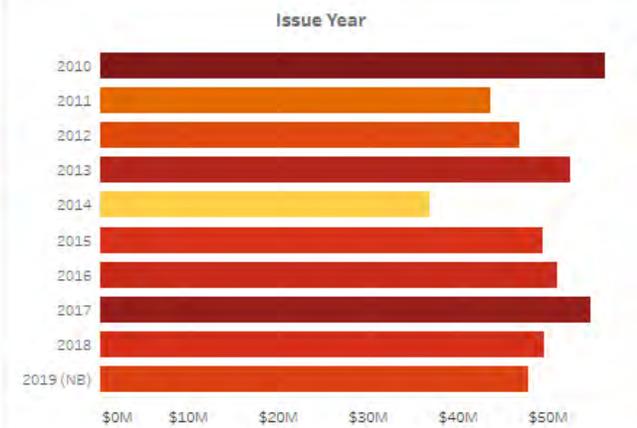
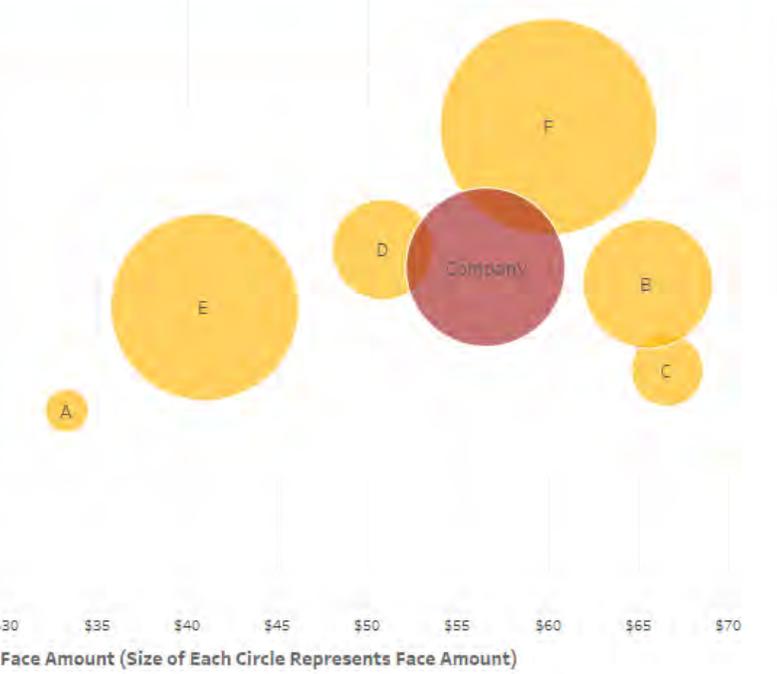
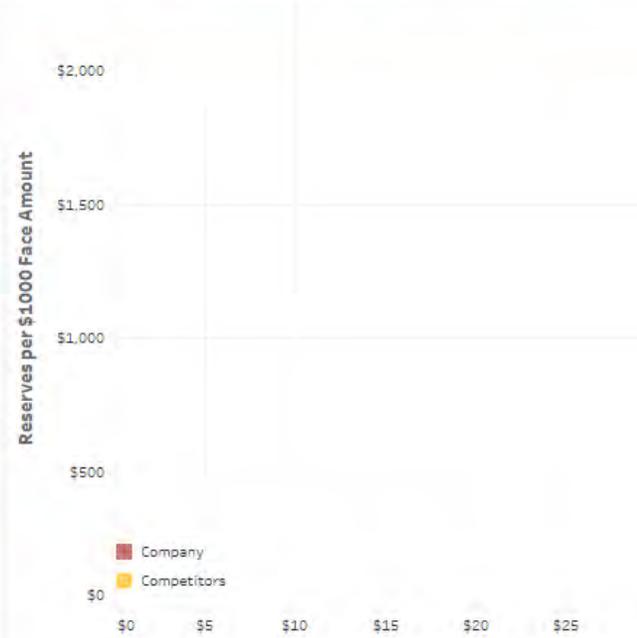
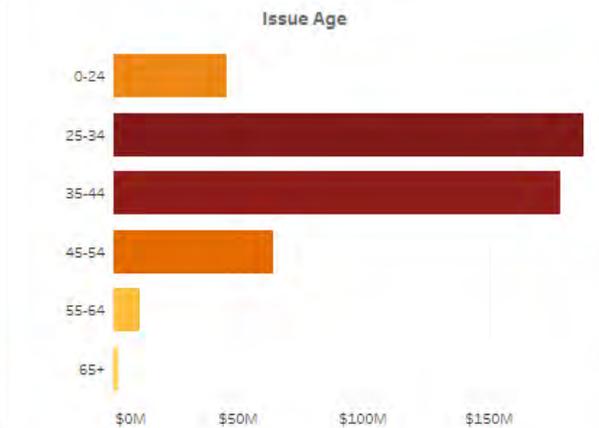
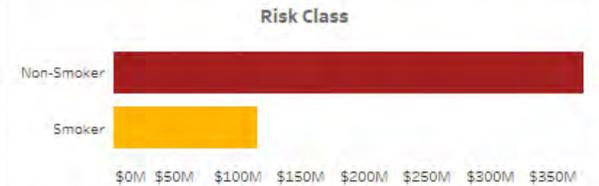
- 2010
- 2011
- 2012
- 2013
- 2014
- 2015
- 2016
- 2017
- 2018
- 2019 (NB)
- Total

Distribution Channel

- (All)
- Captive Agent
- Direct Mail
- Internet

Competitor

- Company
- A
- B
- C
- D
- E
- F



LDTI CFO Cockpit | Insurance Rollforward and Projection

Product Name

- (All)
- TL
- WL

Cohort

- 2010
- 2011
- 2012
- 2013
- 2014
- 2015
- 2016
- 2017
- 2018
- 2019 (NB)
- Total

NIBT Projection Year

2019

Scenario

- (All)
- 1 - Lapse -25%
- 2 - Mortality -25%
- 3 - Interest -100bp
- BE Baseline

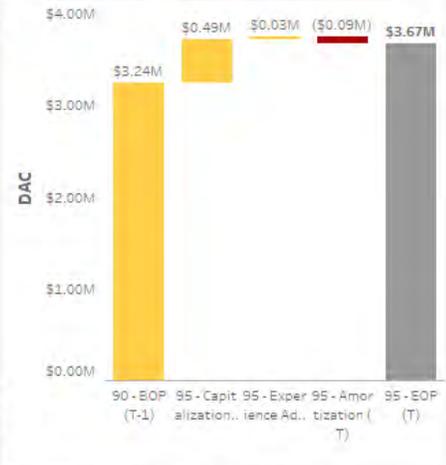
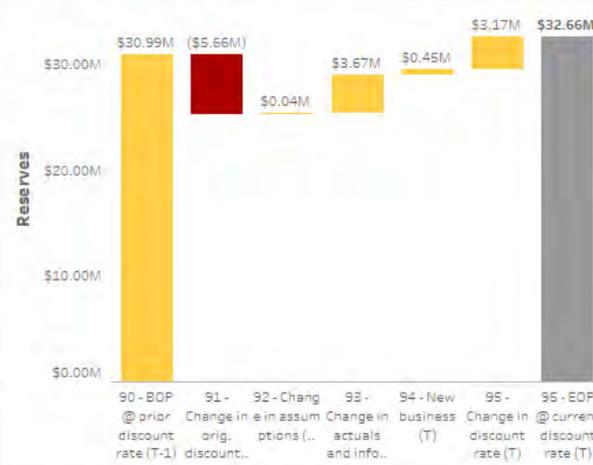
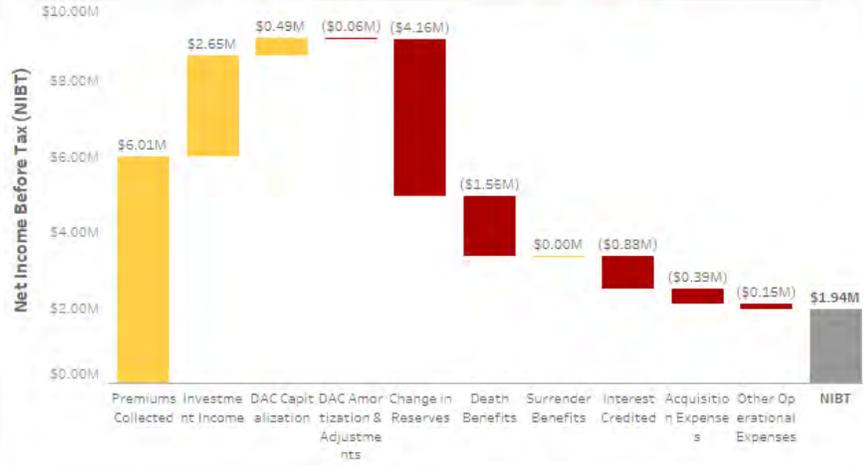


Best Estimate Rollforward

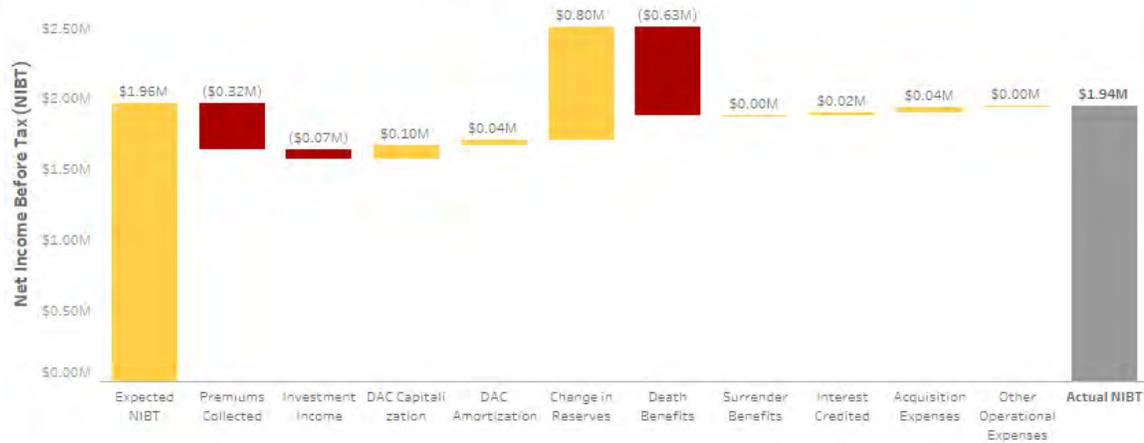
Profit Margin for Selected Cohort(s): **29.81%**

for New Business 2019: **26.23%**

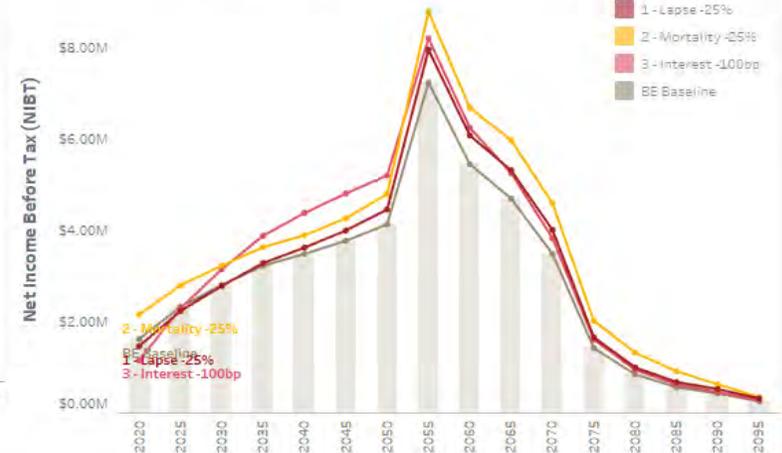
for All Cohorts excl. 2019: **30.22%**



Actual to Expected



Projection Runoff and Sensitivities



Thank you

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Integrated FP&A Projections and What-If Analysis

Youyou Tao, FSA, CERA, MBA

Lead – Client Engagement, Americas Insurance Solution

Moody's Analytics

1

Business Context

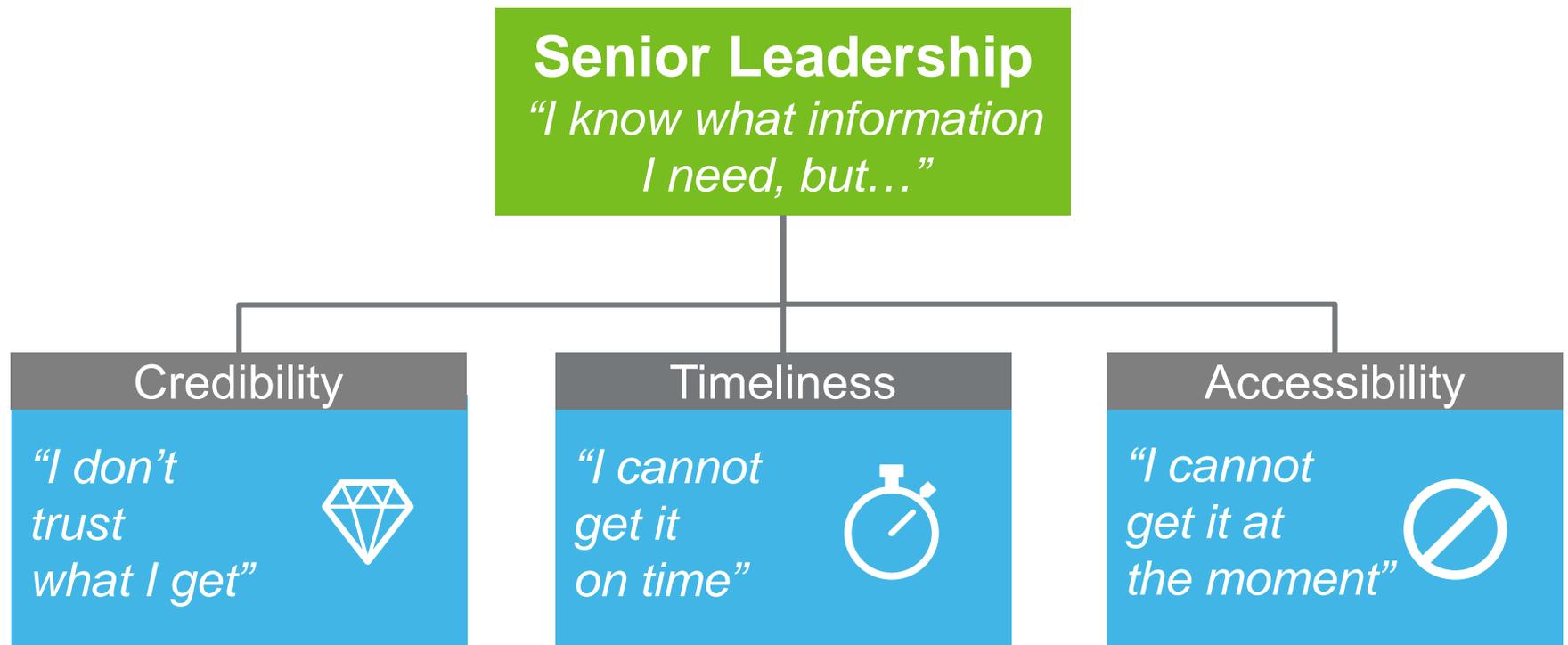
Forward Looking Insight Needs

Business Forecasting & Analysis



Common Challenges Organizations Face

Forward Looking Insight Needs



Why Challenging?

Stakeholders



Multiple Stakeholders

Difficult to address different perspectives/needs across multiple stakeholders.

Different priorities, requirements on timing, granularity of information

Processes



Data & Model Integration

Multiple model and data sources are used for corporate consolidations

“Improvise” the corporate model: losing credibility of insights

Culture



Model Ownership

Difficult to re-run and consolidate multiple models where ownership de-centralised.

Not easy for corporate team to use or access, significant reliance on the heavy model re-runs

Corporate Solutions



Spreadsheets

Too much reliance on complex spreadsheets to meet an enterprise need.

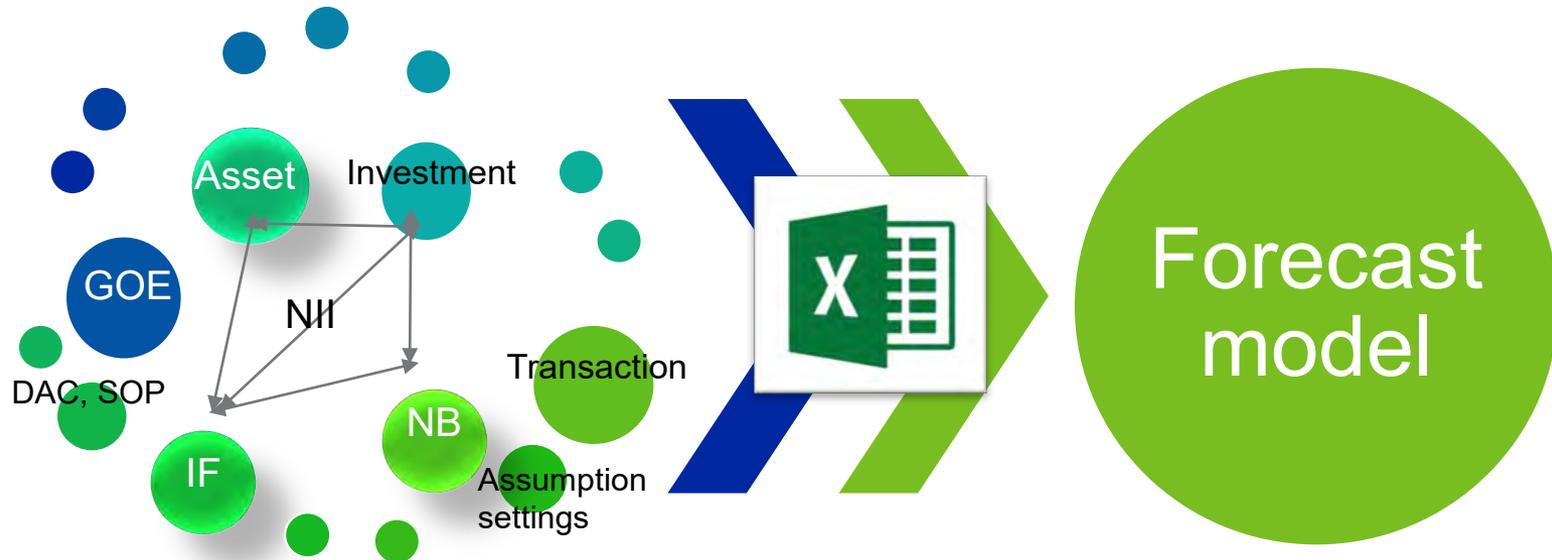
Lack of governance and efficiencies

An Example of Excel Challenge

Fragmented Forecasting Processes

Audit trail goes cold fast, lack of governance and efficiencies, hard for investigation, expose to key man risk and model risk.

Illustration: a typical bottom-up forecasting process (1-3 months)



Q1
Board gives guidance

Q2/Q3
Bottom-up business planning

Q4
Board approves the plan

2

Advanced Modeling Framework

Enhanced Analytics

A Business Orientated Approach

Modelling Capability

Optimal balance between bottom-up and top-down modelling approaches.



Timely

Within hours rather than weeks.

BUSINESS ORIENTATION

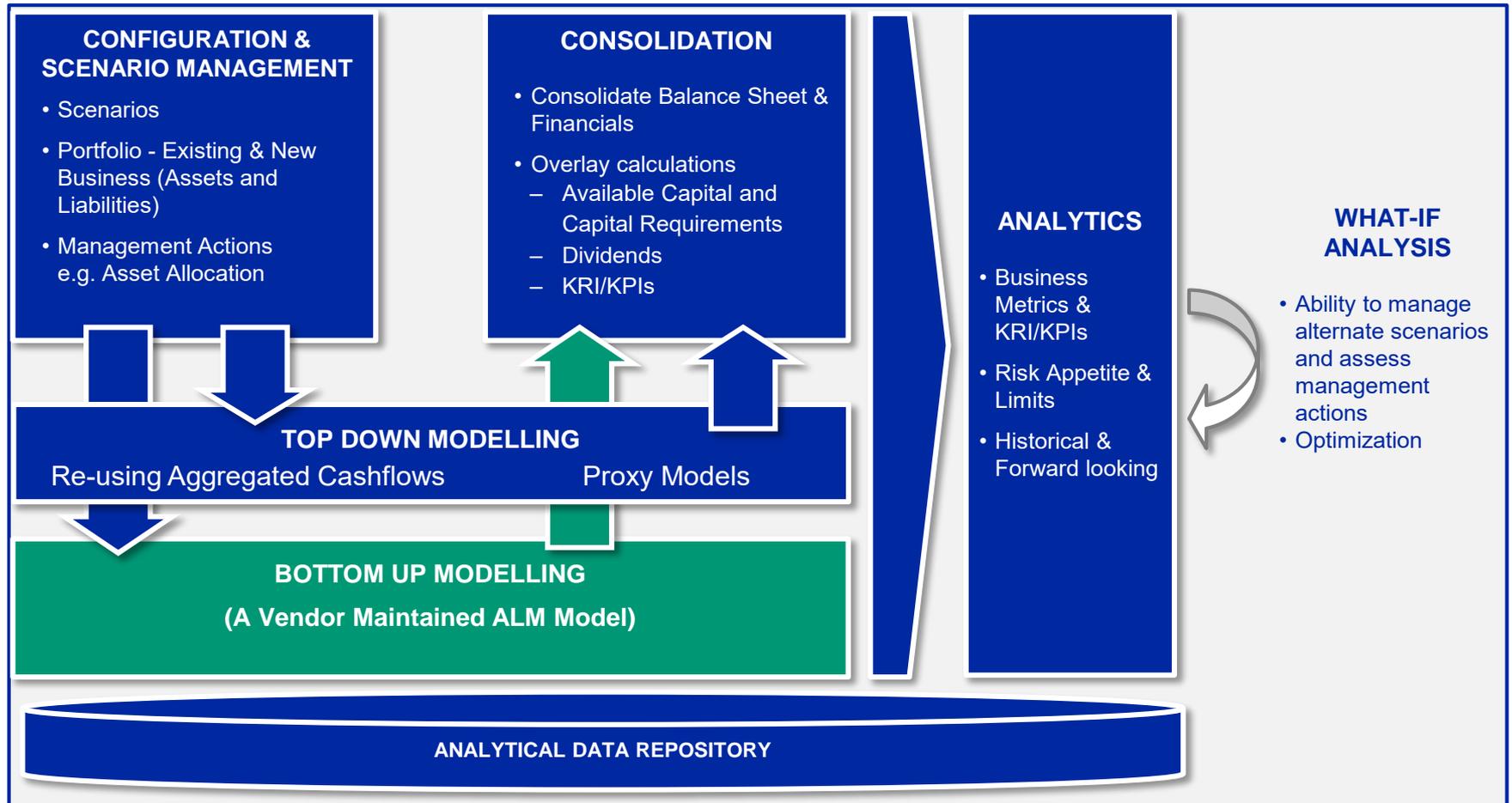
Focus on the senior management's business needs

Requires complementary modelling capabilities

TRADITIONAL MODELLING PERSPECTIVE

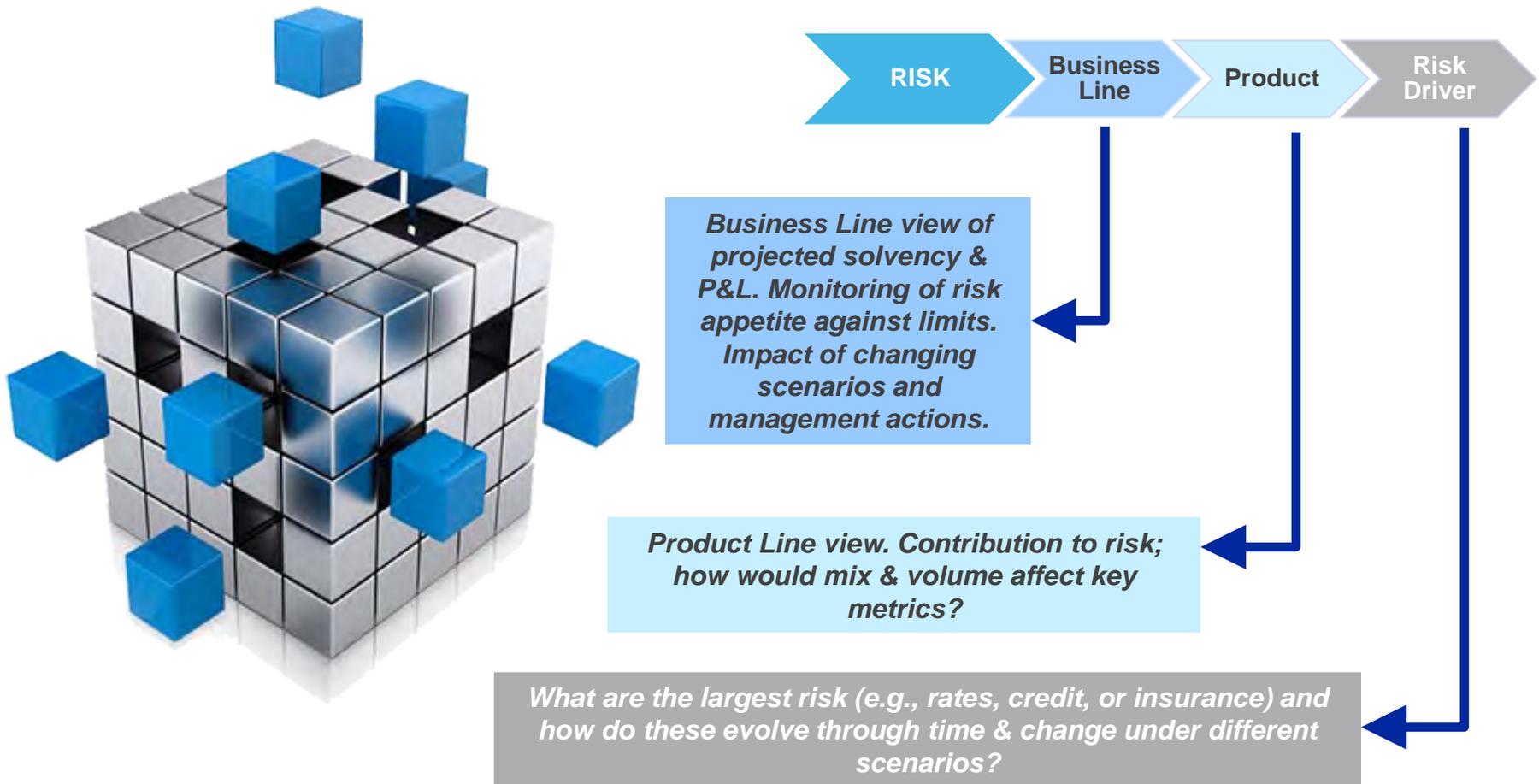
Focus on granularity & accuracy

Target Modelling Framework



Actionable Risk And Business Analytics

Layered approach with drill down to the underlying drivers

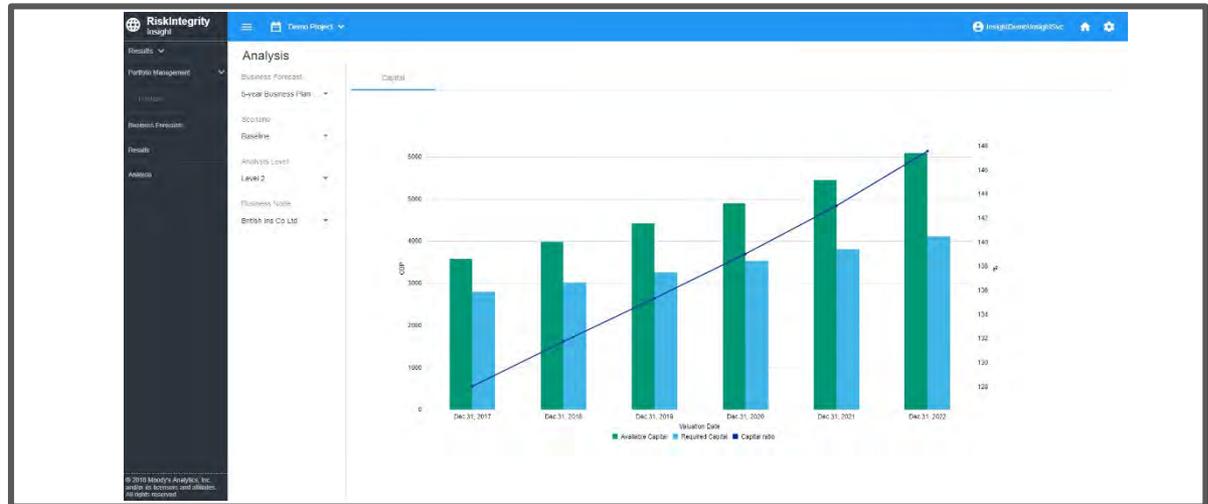


Empowering The Business

Business Orientated Solution

Configurable off-the-shelf modelling solution designed to project the:

- Income statement
- Balance sheet
- Solvency



Combination of Top-Down and Bottom Up Approach

The combination of Top down and bottom up modelling framework designed to **leverage output from existing modelling** infrastructure.

Strategic “What-If” Solutions

- Market stresses
- Insurance stresses
- NB planning
- Asset balance

Layered Analytics

Designed to enable **multi-dimensional drill down** analysis to the relevant underlying drivers.

Flexible charting and **comparison analysis** out-of-the box.

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Integrated FP&A Projections and “What-if” Analysis

Jordan Edwards, FSA, MAAA

VP & Actuary, Model Development

Mutual of Omaha

10/29/2019



SOCIETY OF ACTUARIES

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The United States antitrust laws aim to protect consumers by preserving the free economy and prohibiting anti-competitive business practices; they promote competition. There are both state and federal antitrust laws, although state antitrust laws closely follow federal law. The Sherman Act, is the primary U.S. antitrust law pertaining to association activities. The Sherman Act prohibits every contract, combination or conspiracy that places an unreasonable restraint on trade. There are, however, some activities that are illegal under all circumstances, such as price fixing, market allocation and collusive bidding.

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- **Do not** discuss what you or other entities plan to do in a particular geographic or product markets or with particular customers.
- **Do not** speak on behalf of the SOA or any of its committees unless specifically authorized to do so.
- **Do** leave a meeting where any anticompetitive pricing or market allocation discussion occurs.
- **Do** alert SOA staff and/or legal counsel to any concerning discussions
- **Do** consult with legal counsel before raising any matter or making a statement that may involve competitively sensitive information.

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Actuarial Modernization: A first and foremost milestone on the FP&A Journey



What will be covered



Catalysts



Modernization efforts are critical to comply with new regulatory requirements and support future business needs in a cost effective way

System shortfalls

1. Modeling processes were not scalable and had key person risk
2. Systems could not deliver deeper and more timely insight to business partners
3. Regulatory requirements compound complexity of modeling, audit and model risk management

Capabilities gaps

- **6 different** actuarial systems, some homegrown
- **Inefficient to run insightful forecasts** (GAAP & SAP; Inforce and New Business)
- **Added complexity** of new reporting regimes – PBR, GAAP LDTI, EV

Vision



A single unified model that streamlines modeling, ensures consistent data usage and delivers a cost efficient operating model which creates capacity to provide better insights

Scope

1. Single modeling platform
2. Integrated across all functional areas
3. Modernized actuarial data feeds aligned with data strategy
4. Enhanced operating structure, governance and control environment

Capabilities delivered

- ✓ PBR compliance
- ✓ Streamlined actuarial modeling and controls across all products
- ✓ Capacity to perform insightful analysis
- ✓ Enhanced model risk management framework
- ✓ Cost effective use of actuarial resources – Right Resources doing the Right Tasks.

Guiding principles



Guiding principles provide fundamental vision and direction for project team

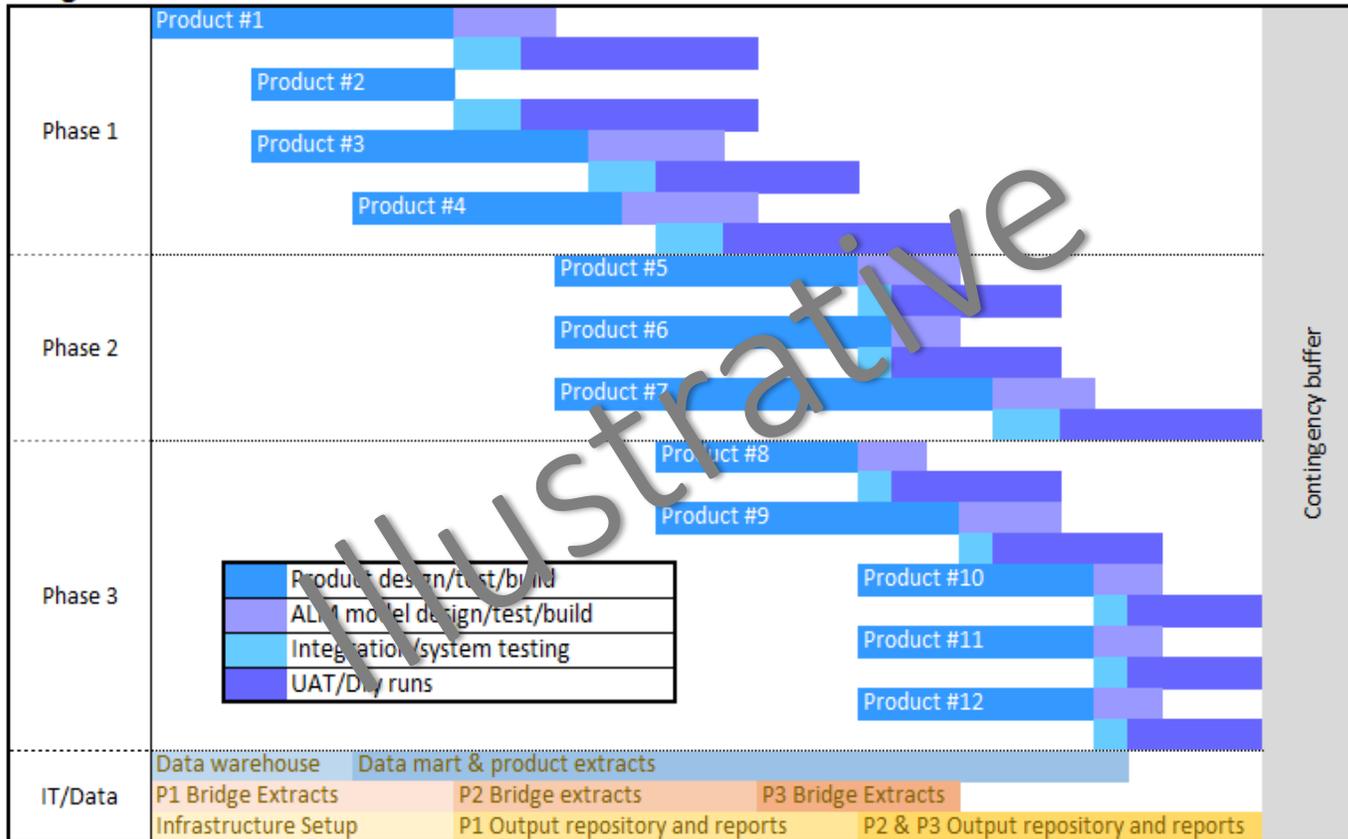
1. **One Corporate Actuarial model** per product line
 - A. across all actuarial functions
 - B. across inforce and new business
 - C. with one streamlined data extract
2. Models built in accordance with **Model Development Life Cycle** and Model Governance Framework
3. Actuarial **Data Processes modernized** and aligned with the Finance Data Strategy
4. Models rebuilt, not converted where appropriate and cost effective
5. **Effective change management** process ensures that model owners receive quality models in line with business requirements

The journey ahead



Three phase project...currently midway through Phase 1, nearing phase 2 kickoff

Program Gantt



- Each product workstream encompasses all actuarial functions
- Prioritization based on regulatory requirements, model complexity, and legacy system retirement plan
- Dual path for data modernization and model build for each product

Early successes



Early successes helped project and modernization efforts gain momentum

1. Early **executive buy in** and full **funding approval**, project seen as “Enterprise Blue Chip”
2. Early actuarial stakeholder buy in into **system selection** and **dedicated project team resources**
3. Built and tested **proof of concept models**. This proves quality of requirement gathering and build processes
4. Already **retired first legacy actuarial system**
5. New **actuarial system is already in use** for PBR impacts to pricing and upcoming new product roll-outs
6. Key **methodology decisions agreed upon** across stakeholders
7. Financial **impacts quantified** and coordinated with accounting team

Lessons learned



Experience from past projects and ability to react quickly to new challenges is critical to our success

Lessons from past projects

1. Fully dedicated project resources are a must
2. Clear timeline with clear deliverables and agreement on definition of done
3. Establish roles at the outset and ensure clear ownership for decisions
4. Gain commitments from teams outside core project.

Lessons from this project

1. Lots of show and tells with owners to get early feedback
2. Deliver smaller components sooner to reduce complexity and provide clarity as well as value
3. Effective collaboration is critical to manage priorities and resolve dependencies across teams
4. Lean out defect identification and remediation and sequence the testing across functions