



Unsure About Offshore? A Recent Survey Shows You're Not Alone

By Mark Spong and Shelby Densman



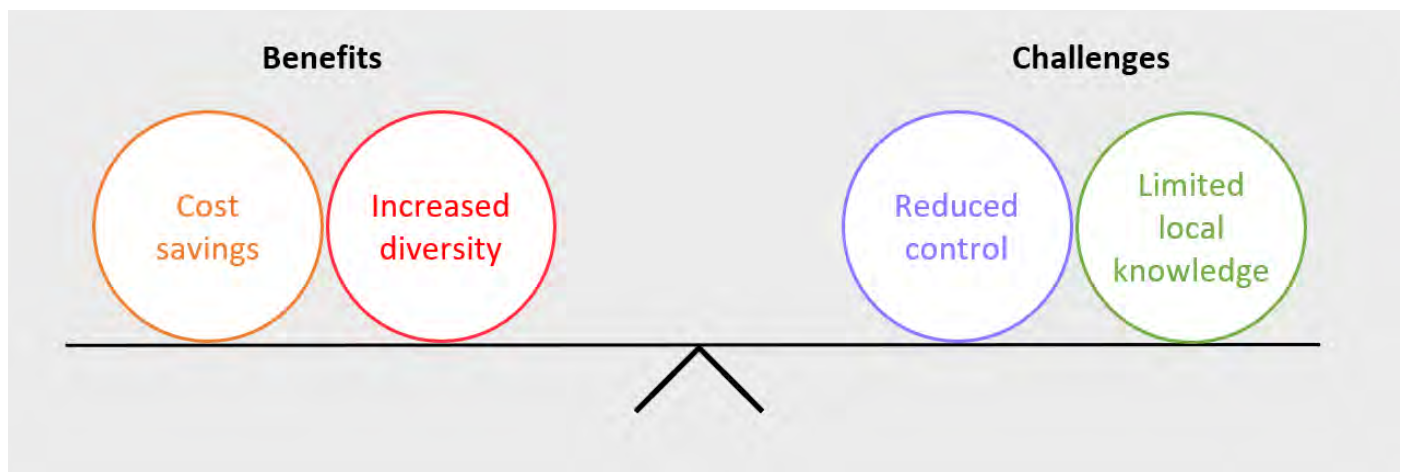
A year ago, the idea that actuarial functions could carry on without any face-to-face interaction would have been met with skepticism. However, the rapidly developing global pandemic has shown that actuarial activities can effectively be performed remotely. This remote working experience has acted as a proof of concept, driven by necessity.

The recent shift to remote work has been drastic and will have lasting effects on how actuarial teams collaborate in the future. As a result, business leaders may see the idea of shifting from a domestic remote workforce to an international one as being

more feasible than in years past. Further, challenging market conditions and a wave of modernization initiatives may compound the benefits of moving roles offshore.

Offshoring actuarial activities presents a range of benefits and challenges for organizations, as depicted in Figure 1. Expected decreases in operating costs and increases in diversity across multiple dimensions are two common benefits of moving actuarial activities offshore. However, managing offshore teams can be more challenging than managing onshore teams, and offshore employees may lack important product and regulatory

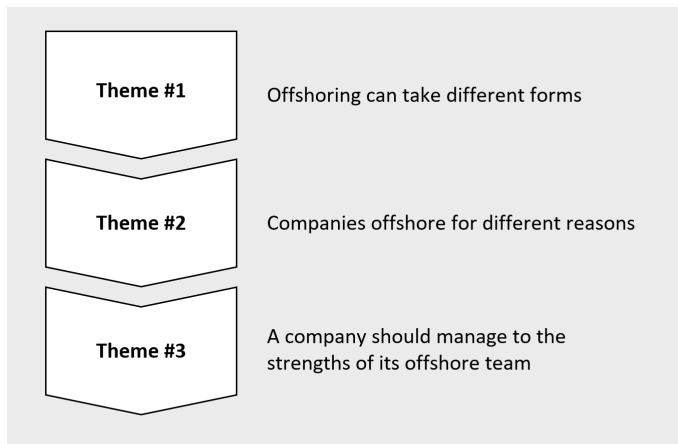
Figure 1
Benefits and Challenges of Offshoring Actuarial Activities



knowledge. These challenges deter some organizations from implementing an offshore program.

Oliver Wyman recently conducted a survey of nearly two dozen insurers regarding the use of offshore actuarial resources. The results, when combined with broader industry insights, can be sorted into three key themes related to different forms of offshoring, various rationales for offshoring and strengths of the offshore team (Figure 2). This article will explore each in turn.

Figure 2
Survey Results: Key Themes



THEME 1: OFFSHORING CAN TAKE DIFFERENT FORMS

Companies use a variety of models for offshoring their actuarial services. Common approaches to offshoring include the following:

- hiring offshore employees to perform actuarial activities for the onshore company;
- engaging with a third party that specializes in providing international resources to perform standard repeatable procedures for the onshore company; and
- engaging with a third party to perform a specific activity with or without knowledge that the third party may perform some of the activities offshore.

The first approach is feasible only for larger companies seeking to shift a significant amount of work offshore and ultimately achieve scale. The second approach is more attractive to small and mid-sized companies looking to leverage offshore resources for very specific standardized and repeatable activities; this approach does not appear to require the same scale as the first to become cost effective.



All three approaches require careful management in order to be effective. Email is universally used between onshore and offshore counterparts but is not the primary tool for workflow management. More mature offshore programs tend to centralize workflow through an onshore coordinator or committee to prioritize and assign work. Others centralize management through offshore coordinators or combine oversight with a joint onshore-offshore approach. Regardless of approach, the key to success is directly addressing the reduced control challenge through robust workflow management structures that promote accountability.

THEME 2: COMPANIES OFFSHORE FOR DIFFERENT REASONS

The reasons why companies choose to leverage offshore resources are more nuanced than commonly perceived. Cost is an important consideration, but it is never a stand-alone factor. That is, companies elect to pursue the use of offshore resources when cost is coupled with other strategically important factors. Examples include:

- being able to efficiently work around the clock;
- addressing temporary or prolonged capacity constraints; and
- shifting onshore focus to more analytical and results-oriented tasks.

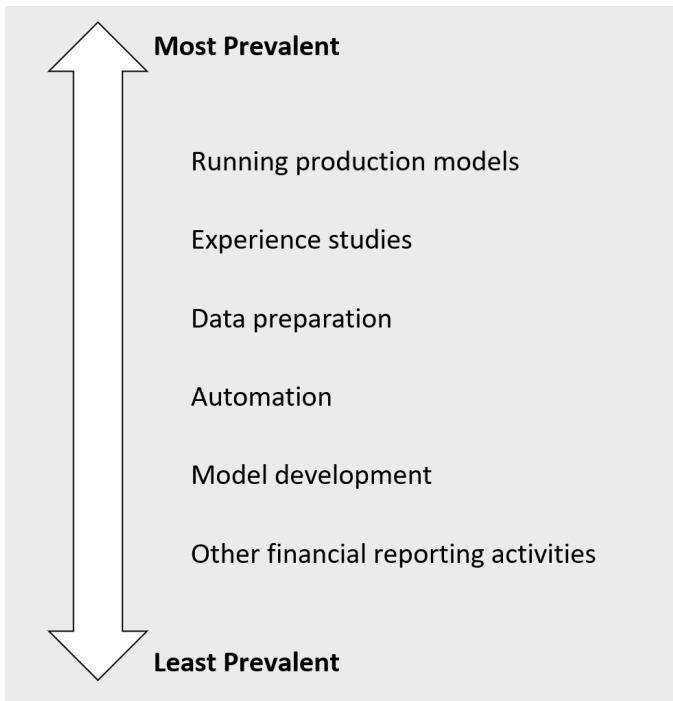
Generally, larger companies are more likely to establish offshore programs than smaller companies. Larger company programs are also more likely to achieve measurable cost savings within two

years. Cost savings are driven by the scale of operation and the characteristics of the offshore talent pool, including geography and education. For example, over 70 percent of offshore resources covered by the survey do not have an actuarial credential, which may reduce the appeal of an offshore program at a smaller company.

THEME 3: A COMPANY SHOULD MANAGE TO THE STRENGTHS OF ITS OFFSHORE TEAM

The six activities most commonly shifted offshore, as reported by survey respondents, are noted in Figure 3.

Figure 3
Activities Most Commonly Shifted Offshore



Companies, however, vary materially in what proportion of each activity is moved offshore. Some companies may go “all in” on one activity and elect to offshore the entire process. For example,

model development and validation is an uncommon activity to offshore, but for the companies that do, they offshore a vast majority of model validation activities. Other companies may use offshoring for multiple activities, such as data preparation and experience studies, two of the most commonly offshored activities, but only offshore a relatively small portion of each activity.

Although some may have the perception that offshore employees produce lower-quality work, all Oliver Wyman survey respondents indicated the quality of work to be about the same across onshore and offshore teams. In fact, offshore teams were assessed to have a better work ethic, greater documentation skills and superior knowledge transfer and training abilities. Conversely, offshore teams were assessed to be less knowledgeable of onshore products and regulations and to find judgment-based decision making more challenging.

CONCLUSION

Although offshoring has its challenges, our survey shows nearly all adopters are seeing signs of success. The current remote working environment, coupled with economic challenges brought on by the global pandemic, is likely to encourage business leaders to shift an increasing number of actuarial activities offshore. This would extend the trend of the past decade, during which the majority of established offshore programs were founded. ■



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