Organizational Effectiveness Health Check

By Rahat Jain and Mark Spong

How fit is your actuarial organization? Actuarial functions are not designed in a vacuum to optimize efficiency or resilience. Instead, they grow organically, responding to the demands of the business, the need to grow talent and cost pressures of the economic environment. Most important, they are a function of connections, strengths and subject-matter expertise of individual people who show up (or log on remotely) every day to make the wheels turn.

As actuarial talent develops, roles and responsibilities shift and technology changes, what often evolves is a complex structure of interdependency, handoffs and mismatch of activities with skill sets. A periodic health check of an actuarial organization helps actuarial leaders make the most of limited resources.

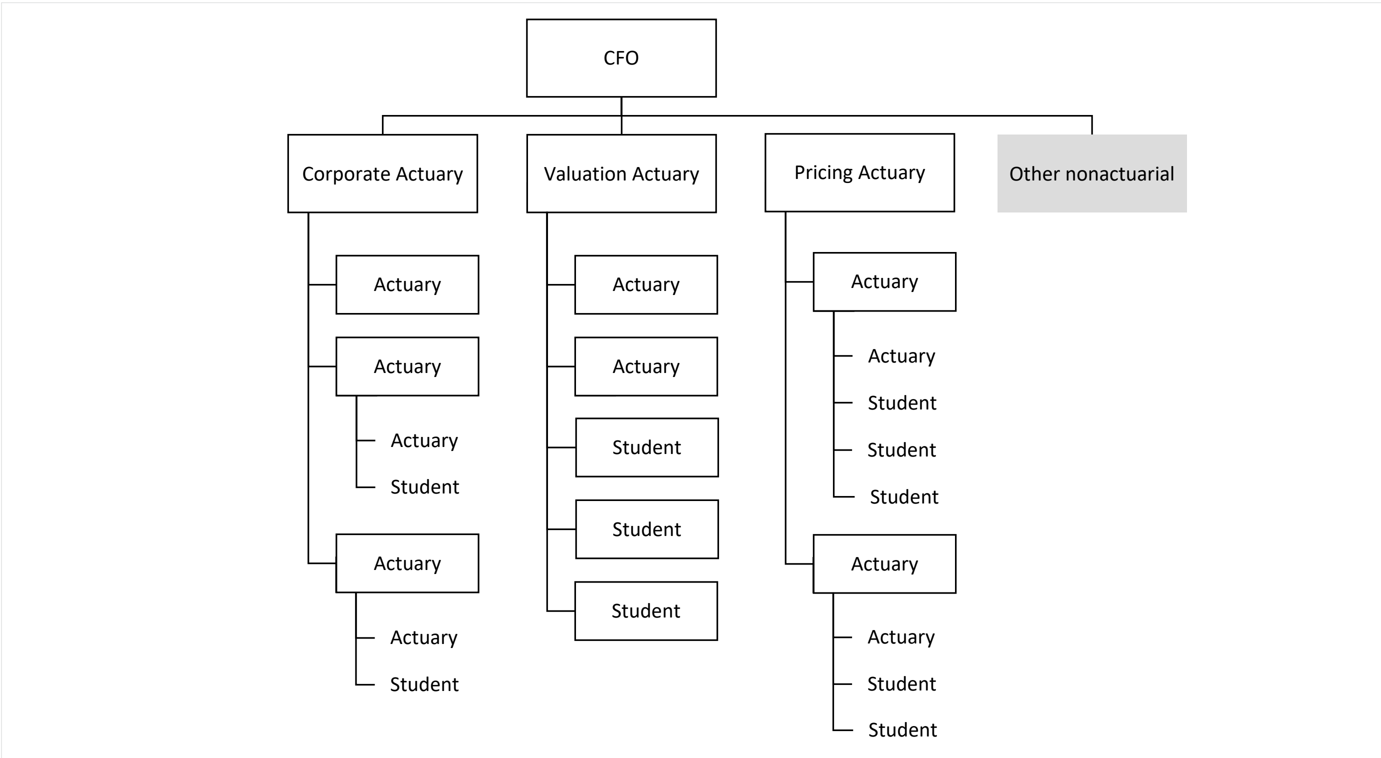
In this article we demonstrate three analytical tools, along with a sample case study showing how they might be applied to a fictional actuarial organization within ABC Life. The goal is to highlight how they might be applied to perform a health check of an actuarial function organizational design. This can measure effectiveness quantitatively via benchmarking how an actuarial function might stack up against the industry and management expectations.

The tools and techniques are critical for actuarial leaders and managers but are also relevant to all actuaries, since we can all benefit from understanding how our individual work efforts fit into the bigger picture of an organization.

HOW DO WE EVALUATE THE EFFECTIVENESS OF AN ACTUARIAL ORGANIZATION?

It can be difficult to identify universal metrics to compare one actuarial group to the next. Sometimes nonactuarial outsiders find it difficult to understand what an actuarial function does, let alone appropriately evaluate its effectiveness. Product mix, distribution channel and governance structures differ company to company, and as a result it can be tough for actuarial leaders to demonstrate the level of efficiency of their function.

Figure 1
ABC Life Actuarial Organization Chart



TOOL 1: SPANS AND LAYERS

Spans of control (SOC) refers to the number of direct reports a manager has. Across a function, it refers to the average number of direct reports across each layer. Organizational layers represent the number of levels that an entity has. Flat organizations have few formal layers. Figure 1 shows the organization chart for ABC Life.

SOC and layers are generally inversely related: More layers mean fewer direct reports for each manager. There may not be an optimal structure across all organizations, but management should understand the trade-offs between the two measures, making sure to strike the right balance. Too many direct reports per manager may manifest as complaints from individual contributors who feel their managers are too busy juggling the needs of a large team. Alternatively, too few direct reports per manager may result in bureaucratic waste (too many managers and not enough doers). In addition, few direct reports may trap capacity and prevent flexibility to respond to demands of peak workload periods. This in turn may result in key-person risk, minimal opportunities for cross-training and lack of holistic prioritization.

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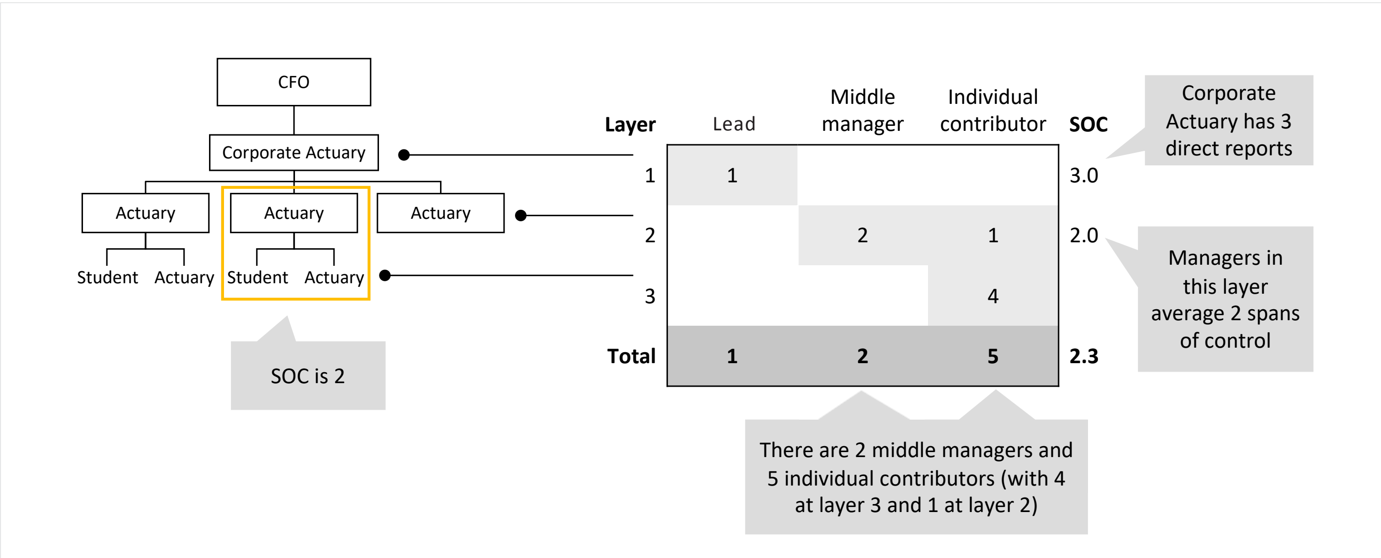
The optimal structure for the actuarial function tends to have fewer direct reports relative to other functions because of the technical nature of the work, exam-based career progression and a more centralized organizational structure. However, this can depend on organizational factors such as size and industry as well as the level of the manager within the organization. For example, a vice president may have more direct reports than a director given the difference in responsibility and type of delegation to be done.

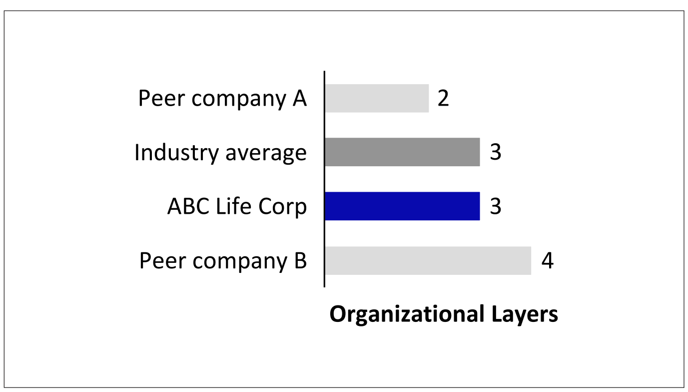
Figure 2 illustrates how one vertical department (Corporate Actuarial) can be deconstructed for spans and layers analysis.

Figure 2
Spans and Layers Analysis



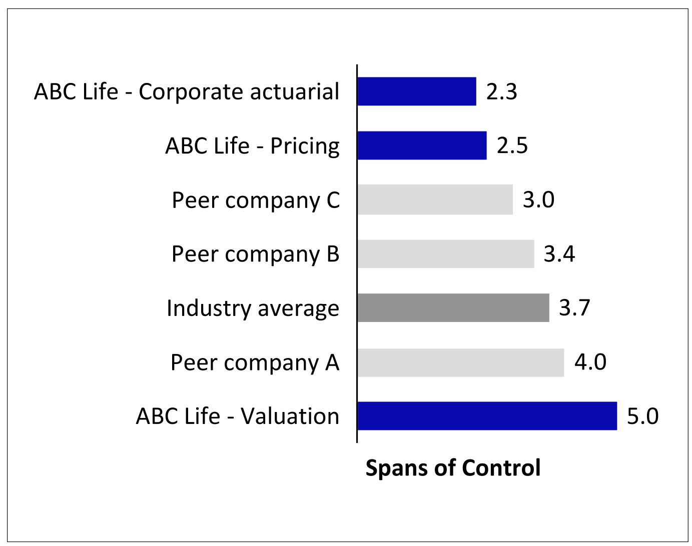
Counting layers and SOC in isolation does not give much insight. However, comparing these metrics to internally set goals, feedback from employees and managers, and appropriate industry benchmarking provides more value. Figure 3 shows that the number of layers in Corporate Actuarial for ABC Life is on par with industry average.

Figure 3
Corporate Actuarial Layers Benchmarking



Benchmarking layers is of limited value because it is discrete in nature and highly dependent on the size of company. Also, having the right number of layers is important, but it's key to balance that with the right number of spans of control within each of those layers. SOC is more agnostic on the size of the company, which makes comparing different companies more meaningful (see Figure 4).

Figure 4
Actuarial Spans of Control Benchmarking



ABC Life's Corporate Actuarial and Pricing teams have fewer direct reports for each manager, while their Valuation team has more for each manager compared to peer groups. Fewer direct reports generally means that managers are also responsible for being individual contributors in addition to their management responsibilities. While this may be true and desired in Corporate Actuarial, it may not be in Pricing. It is common for valuation managers to have a higher number of direct reports because of the higher volume of well-defined and recurring work.

TOOL 2: HISTORICAL ACTIVITY ANALYSIS

The phrase "What you measure is what you get" is a teacher's mantra that often refers to standardized testing, but it can also be applied to managing a team. A historical activity analysis is a means to track the amount and volatility of a department's projects. This helps determine if it has the right number of people or full-time equivalents (FTE) at any time.

A prerequisite is that teams somehow track their time. In reality this is not always the case. Some managers monitor their teams verbally or only have a feel for what people are working on and how long tasks are taking. Some teams use virtual scrum boards while others use some sort of time and task tool in a formal way that aids significantly in tracking. Even those who don't track time using these tools can get a lot of value by tracking informally first. People often think tracking is too difficult, hence use this as a reason to not track anything at all. However, even taking a couple of minutes at the end of each week to estimate the time dedicated to key activities provides some value.

Figure 5 depicts a sample historical analysis done for ABC Life showing peak busy times throughout the year.

Procedural production has heavy cyclical periods of January and July, which causes a strain on resources. There may be opportunities for automation or use of nonactuarial resources to perform some of the standardized tasks. Additionally, ABC Life could temporarily borrow resources for these key production activities from other departments, keeping their annual staff enough to support the average month, rather than peak months.

In addition, study time causes deficiencies in April and October. Any noncritical projects should be avoided during these months. Also, ABC Life can review the impact that folks taking time out to study has on their yearly calendar to evaluate whether a position should be a student or a nonstudent position.

TOOL 3: ACTIVITY ANALYSIS BASED ON FUTURE NEEDS

Starting with the number of available staff and trying to portion out work often leaves pockets of untapped allocation and no room for new initiatives that were nonexistent last year. This is because people often find work (and maybe not the most crucial tasks) to fill their time. If they were busy last year, using that as a benchmark would imply that they will be busy doing the same tasks this year.

A better route is to start with essential activities and work up to the number of employees required to meet that goal. This approach drives a distinction between required and merely nice-to-have as well as splitting out permanent versus temporary activities.

By starting with the key activities that need to get done, the mindset changes to using people's time as a limited resource and deploying it more intentionally. A common theme in the industry right now is to explore automation, offshoring, touchless processing and other techniques that enable more analysis. Figure 6 shows the comparison between a current breakdown of activities and what management may expect the future state to be for ABC Life.

Figure 5
ABC Life Valuation Monthly Historical Activity Analysis

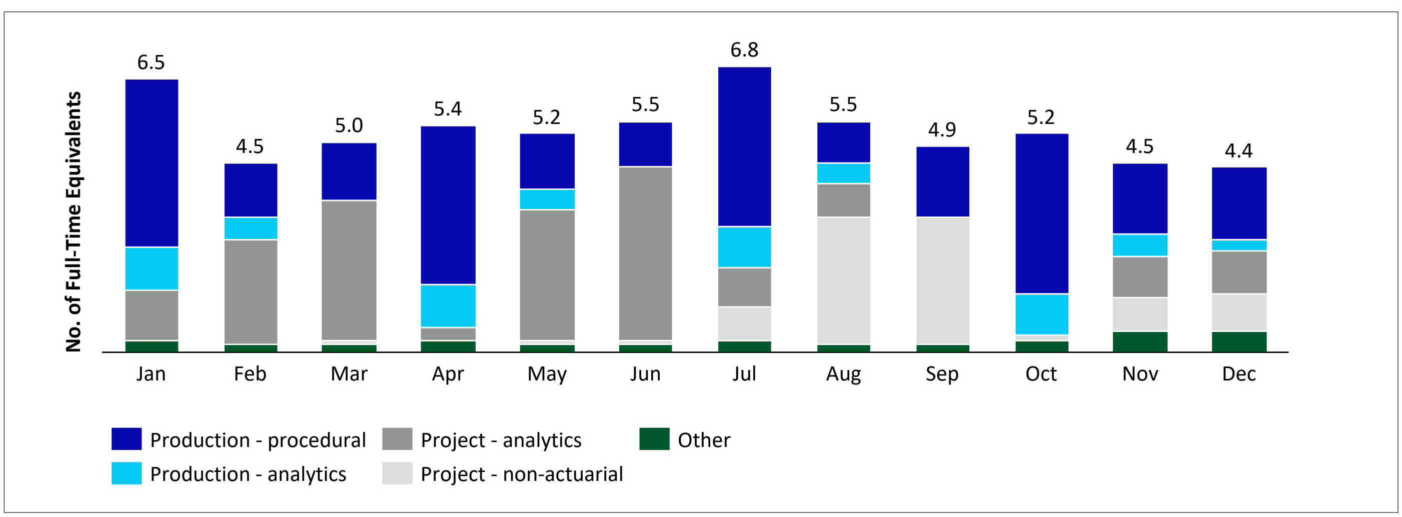
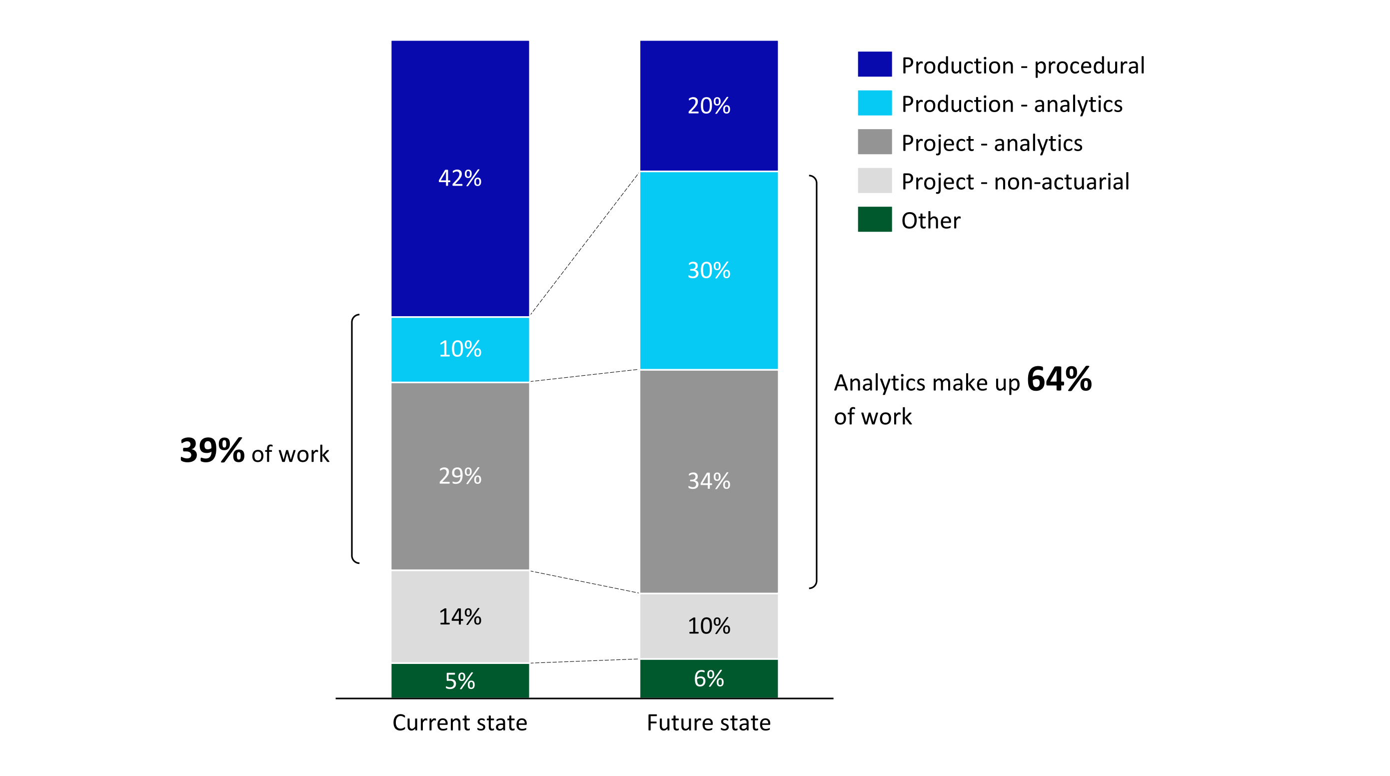


Figure 6
ABC Life Valuation Activity Analysis



This view gets down to how the limited resource of time gets deployed directly and, as a result, makes leaders investigate why certain activities are encroaching on priorities. For example, production may take nearly half of a department's time because administrative data is in such poor shape. Perhaps it is desirable to spend more time on analytics. In the past, leaders may not have been aware of how costly this was on a recurring basis and what implicit trade-offs were being made.

CONCLUSION

Efficiency is doing things right and effectiveness is doing the right things. The analytical tools presented in this article are important to those thinking about the design of their actuarial organizations because they help everyone focus on those two dimensions.

Two warnings on where one can go wrong with the evaluation of organization design:

- When conducting SOC or layers benchmarking, avoid comparing to a company of different size or industry focus (health, property and casualty, etc.). Similar companies and industries provide more meaningful insights.
- For activity analysis, the granularity of recording time can be too detailed, becoming a burden to conduct or too generic to provide insights. One way this can be addressed is through targeted and limited activity investigations. Management could take a sample of one production cycle, set expectations on allocation of work efforts and measure against the expectations for a couple of weeks.

These are just three tools that provide actuarial organization leaders an organizational health check. Given the importance of the linkage between resourcing and meeting company goals, these will serve as good building blocks to better optimize organization structure. ■

The views or opinions expressed in this article are those of the authors and do not necessarily reflect the official policy or position of Oliver Wyman.

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