



Challenges in Actuarial Services Delivery from India

Ankur Agrawal, FIA, FIAI

Head, Actuarial Services, AXA Business Services

Waves of Reforms...Oceans of Opportunities

2013 AGFA & 15th Global Conference of Actuaries

17th – 19th Feb, 2013 | Mumbai,
India

Table of Content

A. Motivation For Outsourcing

B. India's Story So Far

C. Challenges in Actuarial Services Delivery from India

E. Cost Arbitrage – Intellectual Arbitrage

F. The Way Forward

Contents



Motivation for Outsourcing

■ **Cost and Labor Arbitrage:**

- Ongoing market competition and pressure on financial results, making process efficiency imperative
- The need to manage costs is ever increasing due to global economic environment

■ **Access to Additional Talent Pool:**

- Larger talent pool
- Access to unique skillset
- Exposure to different thought patterns

■ **Transition Existing Resources to New Skillsets:**

- May result in higher value work-streams domestically
- Provides an opportunity for greater management focus on core competencies and business expansion

■ **Readily Available Infrastructure:**

- Almost all major global players have an offshoring setup (captive and / or third party) for IT / other business processes
- Opportunity to leverage the investment of these setups in technology, people, and methodologies

India's Story So Far (1/2)

Key Highlights:

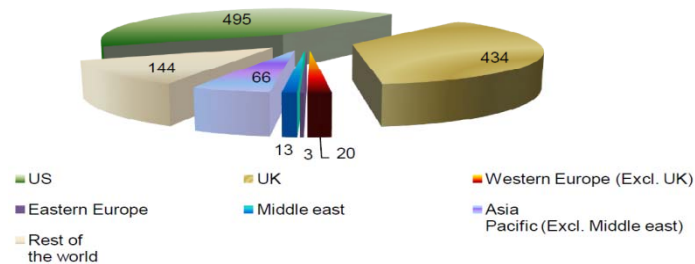
- Actuarial activities from all major domains being executed from India with Life, Non-life, and Pensions being largest
 - Global market exposure with all major geographies including US, UK, Europe, Middle East, and SE Asia being serviced from India for a wide spectrum of services
 - Growing number of off-shoring units from small size (1-10 employees) to large units (> 300 employees) and many of them servicing more than one geographies
 - Actuarial off-shoring units in multiple tier I and tier II locations, with very mobile talent pool across the country
-

Key Lowlights:

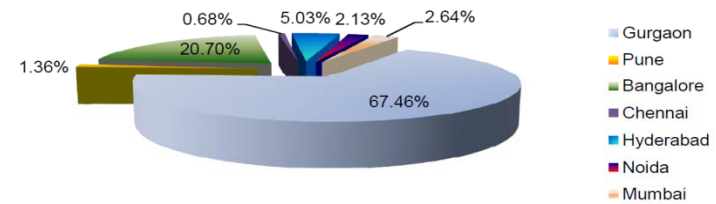
- Low-end, non-core functions continue to be the biggest piece of the outsourced activities to India
- There are lessons to be learnt from some not so successful outsourcing ventures
- Wide gap between number of student resources and qualified actuaries, indicating slow transition

India's Story So Far (2/2)

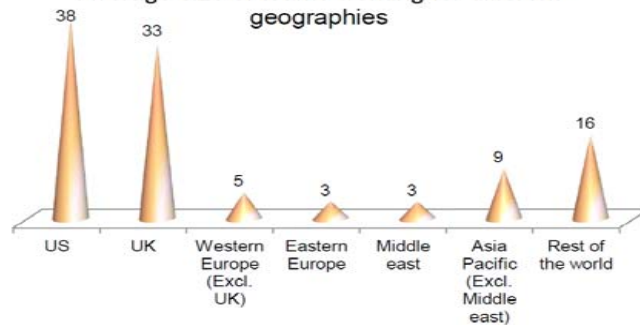
Employees working for different geographies



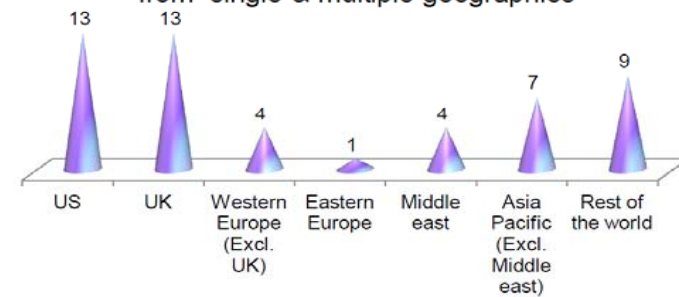
Employee distribution in India-Percentages



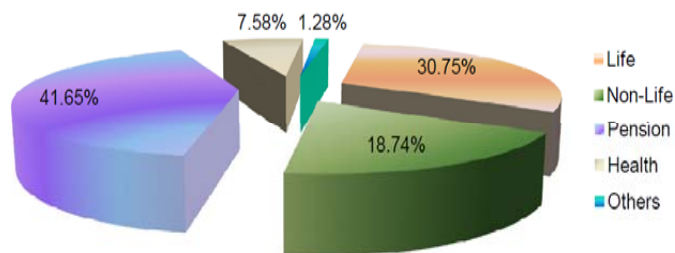
Average size of teams working for different geographies



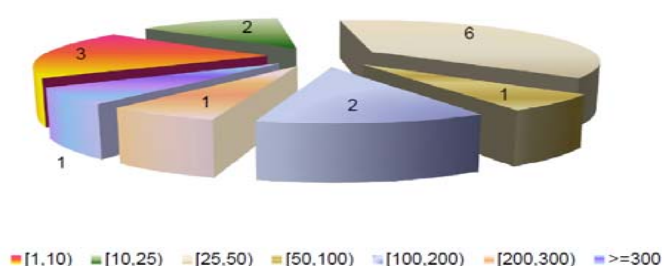
Number of institutions involved in off-shoring work from single & multiple geographies



Distribution of off-shored work in India



Units with employee count falling in different ranges



Challenges in Actuarial Services Delivery from India

■ **Reducing Cost Arbitrage:**

- Reducing cost arbitrage due to wage inflation
- Lack of momentum to move up the value chain

■ **Increasing Competition From Other Outsourcing Destinations:**

- Philippines, South Africa, Latin America, and Eastern European countries are fast catching up with India in terms of both cost advantages and growing talent pool
- Clients have an incentive to outsource to newer destinations to manage the supplier concentration risk

■ **Scarcity of Experienced Resources:**

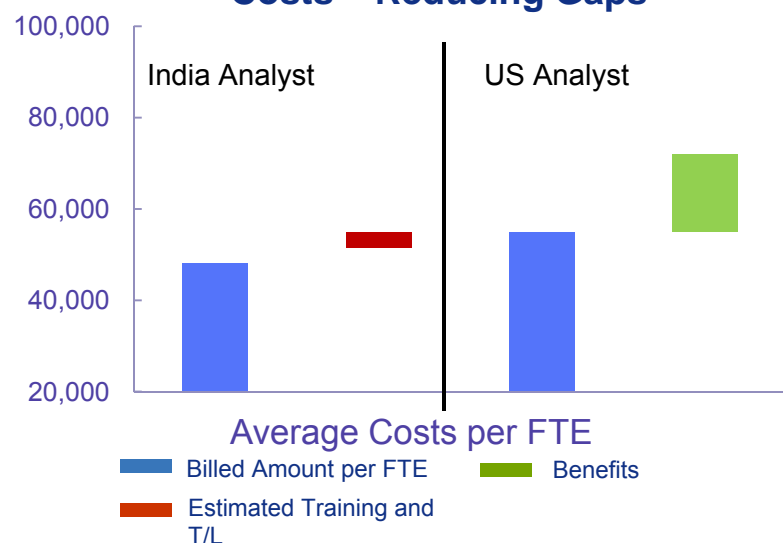
- Scarcity of highly experienced resources to deliver on high-end complex projects
- Large pool of less experienced / student level resources, which are more suited for repetitive process-oriented work
- Long journey time from student to fellowship

■ **Changing Customer Requirements:**

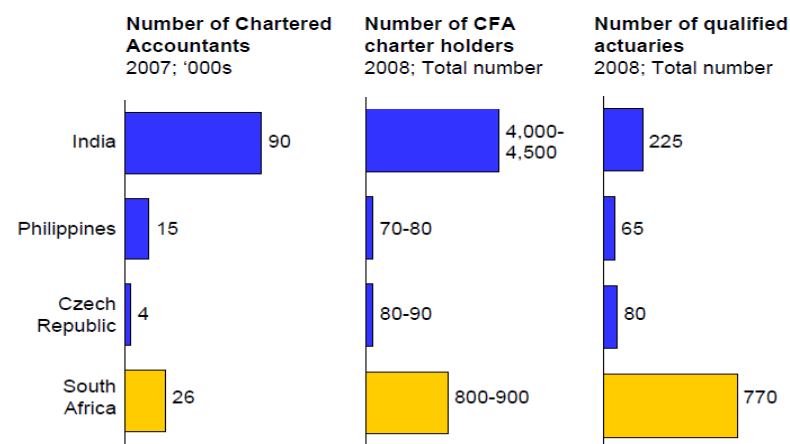
- Customers looking for flexible sourcing strategies (focus on smaller size projects)
- Increased customer focus on quality of delivery and enhanced value propositions
- Customer perception that high-end complex actuarial work is not suited for outsourcing

Challenges in Actuarial Services Delivery from India

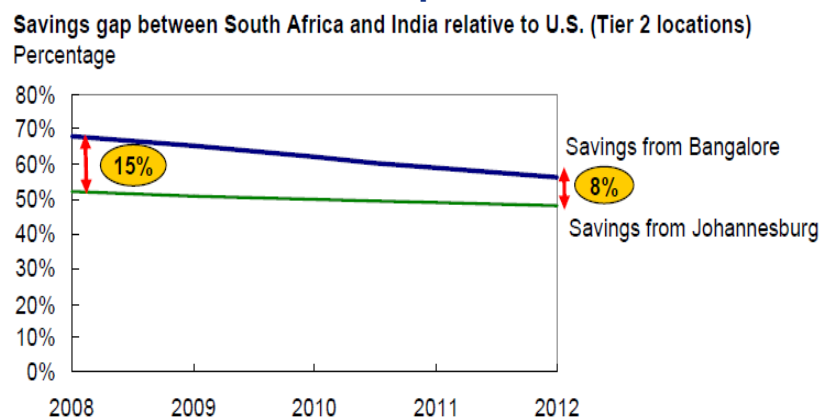
Costs – Reducing Gaps



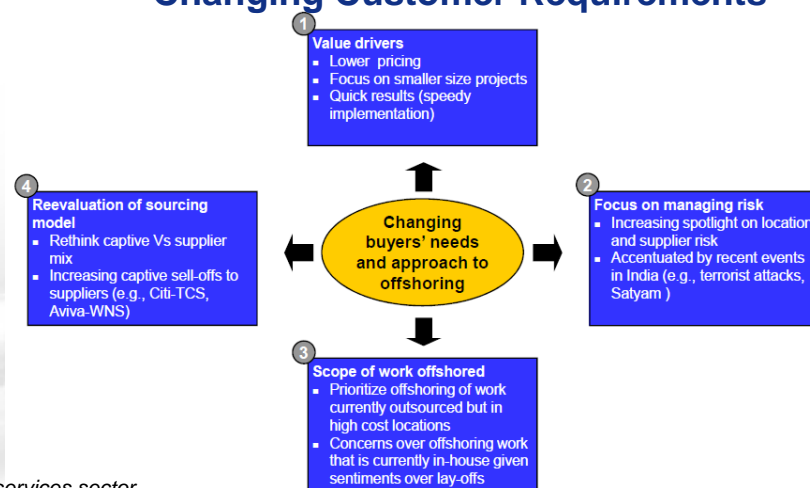
Resources – Well placed but increasing competition



Costs – Competition



Changing Customer Requirements

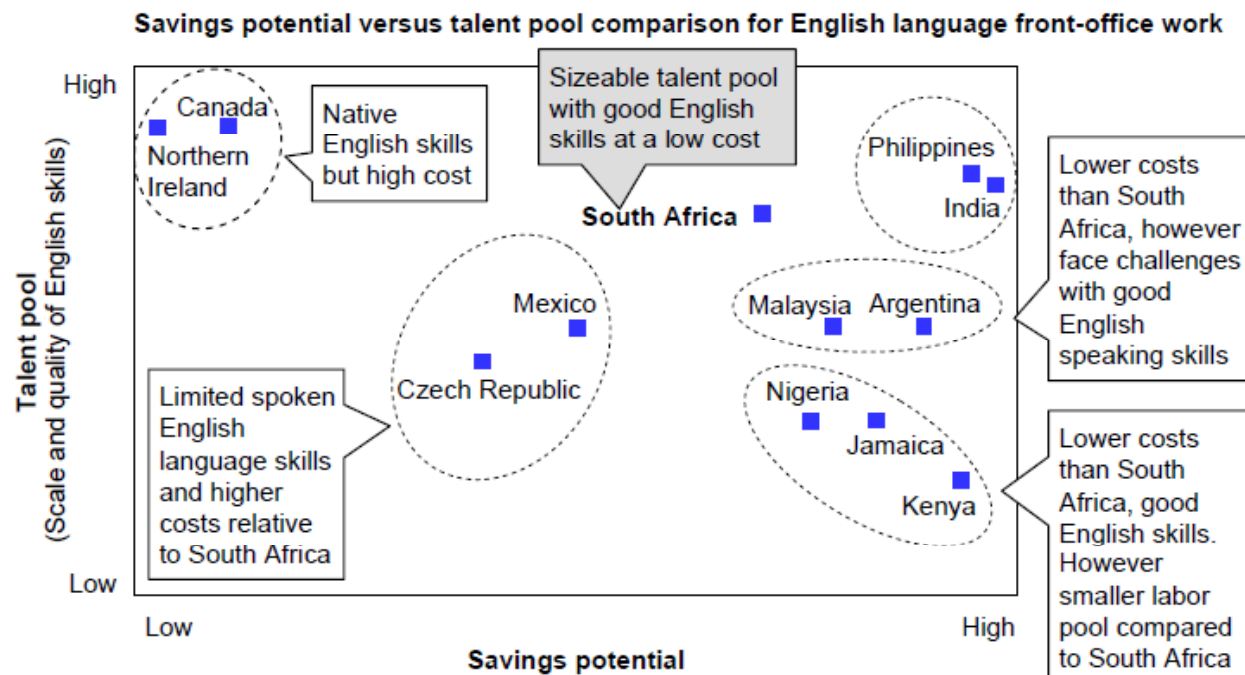


Source: Everest Group and Letsema Consulting – Study on South Africa's capabilities in the financial services sector

Outsourcing Actuarial Work – A Discussion (Paper by Steve Marco in Southwestern Actuaries Conference – June 2009)

Drivers For Growth

- Global talent shortage
 - Skills are in shortage internationally, more so for GI specialists (about a fifth of the total actuarial profession)
 - Highly competitive market, lots of employers competing for small talent pool
- Economic slowdown increasing pressure to optimize costs
- Regulatory changes like Solvency II and Healthcare reforms, creating more demand
- India is still relatively well placed for both cost and talent pool as an actuarial outsourcing destination



Source: Everest Group and Letsema Consulting – Study on South Africa's capabilities in the financial services sector

Juggling Uncertainty The Actuary's Part To Play - GIRO Conference and Exhibition 2012

Cost Arbitrage – Intellectual Arbitrage

Why change the approach – > Cost advantages may erode over time

Challenges

- Reducing cost arbitrage
- Increasing competition from other Destinations
- Scarcity of experienced resources
- Changing customer requirements
- Perception management and confidence development of onshore counterparts for engagement in complex work

Drivers for Growth

- Global economic slowdown putting pressure on companies to optimize costs
- Focus on risk based management, Solvency II and US health reforms requirements
- Global resource shortage and sizeable resource pool in India (can be upskilled for high-end work)
- Matured ITES / BPO destination

Time to shift gears – change the approach from cost arbitrage to intellectual arbitrage

The Way Forward

■ **Know Your Customer (one approach doesn't fit all):**

- Understand your customer's specific business needs and limitations to offer custom-fit solutions
- Position your strategy based on nature of your customer's work / objective (is it a recurrent activity like model updation/reporting for cost optimization or revising pricing strategy for increased value proposition – details next slide)
- Invest in dedicated team's to research clients' markets - to anticipate changes and proactively propose solutions, besides gaining domain expertise on a particular market
- Work on providing an end-to-end solution to your customer by leveraging knowledge from the complete spectrum of outsourced services including, analytics, operations, IT, actuarial etc.

■ **Have Buy-in from Senior Management:**

- Manage perception that high-end complex actuarial work is not suited for outsourcing
- Manage anti-outsourcing sentiments (especially around complex work)

■ **Manage Skill Gaps**

- Be specific in discussing the service offerings with your clients in terms of existing skills / skill gaps
- Invest in training by having a structured program for up-skilling of resources
- Increase knowledge sharing through frequent interactions with onsite counterparts; creating cross teams between onshore and offshore location for managing complex projects, employee exchange programs, etc.

The Way Forward

■ Domain of repetitive processes aimed at cost optimization:

- Identify opportunities to automate to help improve process efficiency (both time and quality), reduce / optimize cost (reinstate the cost arbitrage)
- Be flexible in utilizing non-actuarial resources for simple manpower-intensive tasks, with a comprehensive review process from your actuarial resources
- Document your processes thoroughly for knowledge retention and make them independent of people

■ Domain of higher-end complex work aimed at creating value proposition:

- Adopt a consulting approach as projects of these nature require a high-degree of actuarial judgment
- Establish Centers of Excellence to build specialized competencies (like pricing, reserving, modeling, etc.) required for managing complex projects across geographies
- Actively participate with global communities to keep abreast of market changes, new technologies, case-studies, etc., as knowledge gained from these exposures will enable solving problems of a varied nature
- Implement management policies to create a congenial work environment required for nurturing a specialized actuarial unit (e.g., infrastructure, employee policies, study support programs, etc.)

Become a trusted advisor for your customers

Support from IAI

■ **Training Resources To Make Them Industry Ready:**

- Arrange more seminars, workshops, internship programs, etc. to increase industry exposure for students
- Possibility of introducing skill-based certification exams (like the IT industry has Cisco or MCSE certification, the actuarial industry could have its own certifications, say an Emblem or Prophet certified professional)
- Continue to reform the examination process to reduce the imbalance between number of students and qualified actuaries

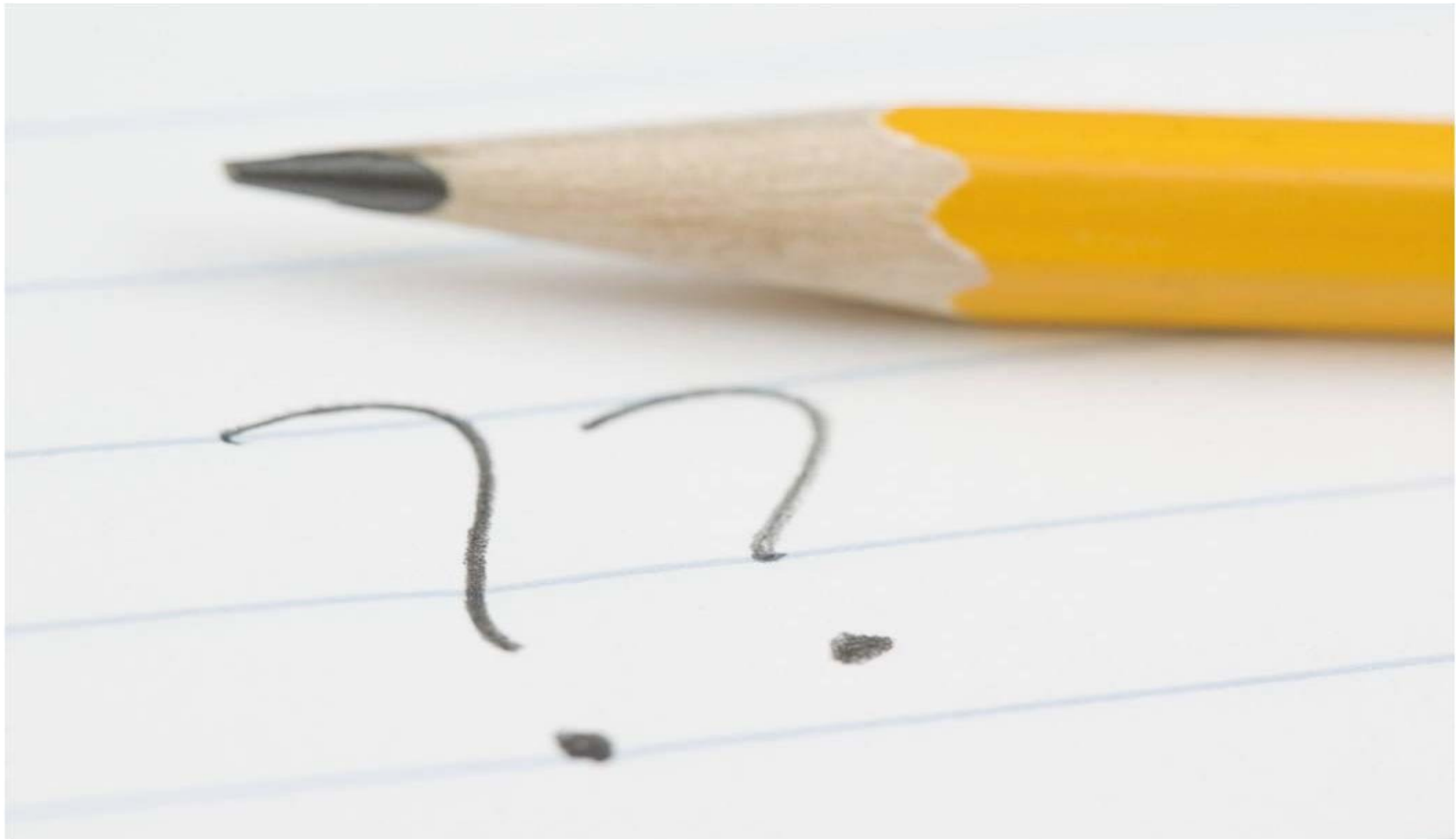
■ **Be The Brand Ambassador and Promote India (both within and outside India):**

- Help promote the actuarial career through other industry bodies like NASSCOM, CII, etc.
- Promote India as an outsourcing destination by participating in international forums, publishing case studies and success stories
- Facilitate forums for offshoring units to deliberate on industry issues, analyze not so successful stories, and drive change

Opportunities for Indian Actuaries

- Opportunities to learn global best practices with involvement in large global projects
- Develop understanding of both matured and emerging markets
- Exposure to actuarial roles in broader functions
- Knowledge of regulatory framework in global markets
- Gain international exposure with opportunities to travel globally for work and training
- Opportunity to leverage the global experience and prepare for a challenging Indian market of tomorrow

Questions?



The material in this presentation is for information only and is not intended to be actuarial, financial, legal, underwriting, or any type of professional advice. Numerical data shown are for illustration only.