



Genworth®
Financial

Outsourcing Actuarial Work – A Discussion

Southeastern Actuaries Conference

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Why Outsource?

Allows For Additional Resources At Less Than Market Costs

– Enables Development of Needed Skills for:

- Routine, Repeating Processes
- Analytics, Both Elementary and Advanced
- Surge Resources, Special Projects

Can Provide Expertise In Targeted Areas Once COEs Are Developed

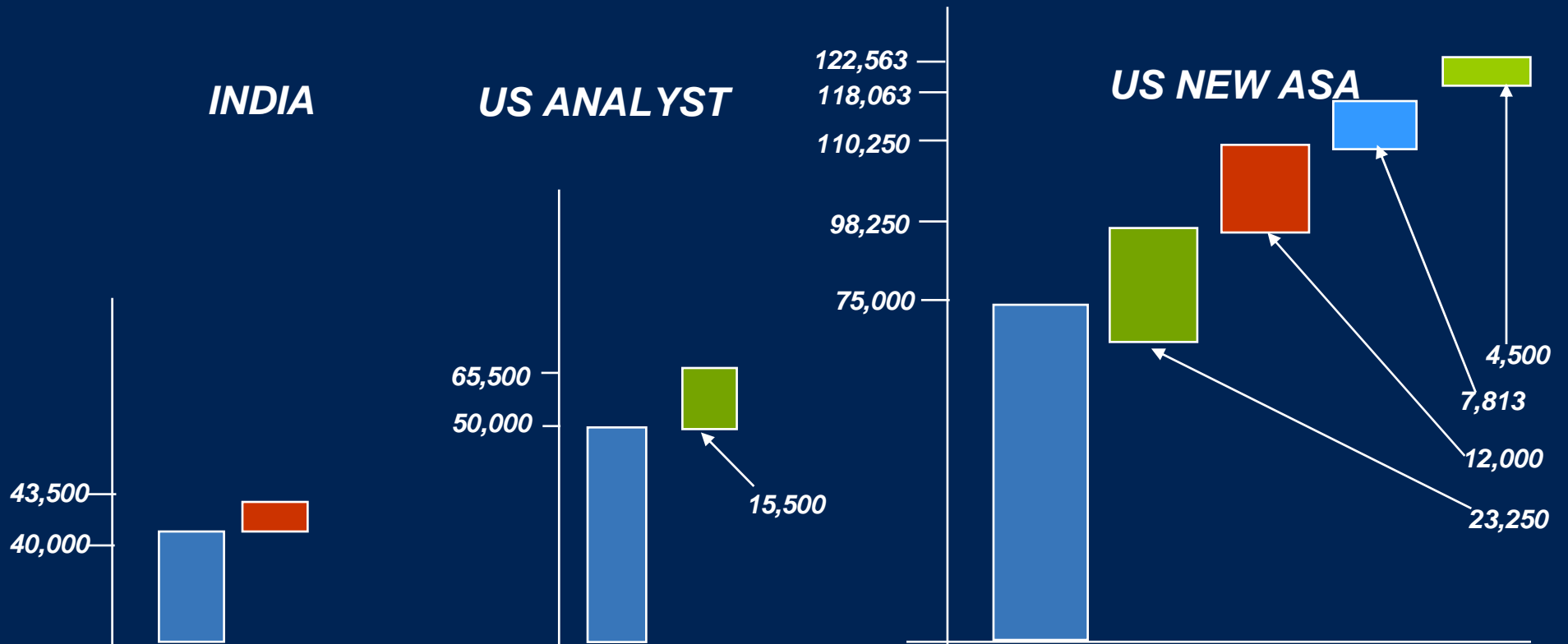
Helps Organization Remain Competitive

Can Contribute To A Better Work/Life Balance

Advanced Math And Statistics Skills Available

English Speaking

Comparative Costs



Average Costs Per FTE

Average Costs Per US Analyst and Actuary (New ASA)

- Billed Amount per FTE
- Estimated Training and T/L
- Base Salary
- Benefits
- Relocation
- Training/Study Time
- Recruitment Fee

Estimated Training and T/L, Relocation and Recruitment values linearly amortized over 5 years

What's Needed Internally?

Full Support From Senior Actuaries

- They can't sit on the sidelines
- Must help drive the processes

Offshore Associates Must Be Thought Of As Actual EE's

- Can't be thought of as "Us" vs. "Them"

Long Range Goal MUST Be A True COE

- A full-functioning consulting firm supporting your actuaries
- All areas should be addressed
 - Pricing
 - Valuation
 - Projections

What's Needed Externally?

Controllershship And Management By Outsourcing Group

- Consistency in hiring process
- Install appropriate performance metrics
- Advertise capabilities to your in-house actuaries

Implement Training To Target Needs

- Apply existing skills where possible
- Develop additional ones where needed

Look To Be Fully Utilized Throughout Enterprise

- Help your actuaries realize cost efficiencies
- Allow projects on “back burner” to be addressed
- Take advantage of exclusion of headcount

Requirements for Outsourcing Work

More Cost Efficient Than If Performed In The US

Quality Of Work Product Must Be Equal To US Standards

Accurate And Reliable Output

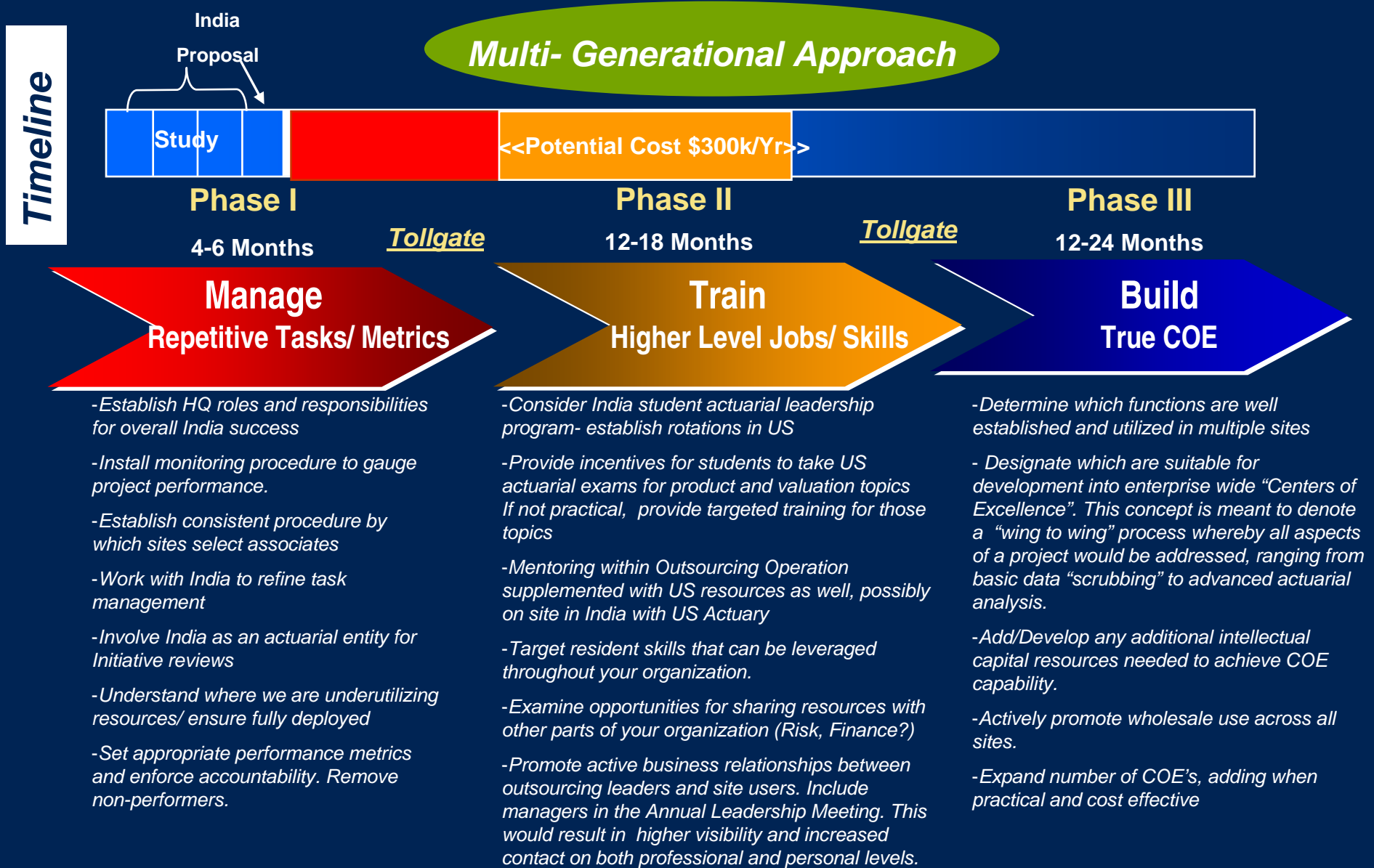
Timely Delivery / Quick Turnaround

Well Understood Processes That Work

- Backed up and documented thoroughly
- Easily recoverable back to the US

Effective Communications Network Needs To Be Established

Implementation Timetable



Phase II Refinements

Increase Training

Find US Actuary To Spend 2-3 Years In India OR Several US Actuaries Travel To India Per Year

- 1-2 month stays
- Selected to target specific actuarial areas deemed weak
- Builds familiarity and long-term relationships among senior actuaries

Develop Targeted Training Materials

- Possibly for on-line use

Include In ALDP, SWAT

Develop US/India Mentoring Program

Attend Selected SOA Functions

Encourage Participation in SOA Exam Syllabus

Develop Effective Student Program

Expand Usage

Identify Skill Sets That Can Be Leveraged Throughout The Organization

- Catalog of tasks
- Individual skill sets

Extend Process To Include Examination Of Responsibilities Not Currently Transferred That Could Be Considered

Encourage/Facilitate Transfer Of Additional Tasks

- Allow US actuaries to focus on business issues instead of procedural or computational ones

Phase II Refinements

Increase Communication

Continue Phase I Process Control Reviews

- No less frequent than quarterly

Distribute High Level Dashboard To Senior Site Actuarial Leadership

Continue Actuarial Initiative Reviews With India

Consider Participation In The Annual Leadership Meeting

Other

Look for Opportunities To Team Up With Other Areas

- Finance
- Risk

Incorporate Specific India Use Targets In Each Site's SLA And Emphasize During Review

Limit Ability Of Sites To Hire Additional Domestic Resources

- Do not penalize for outsource usage

Current Assignments (Group Incl. For Illustration)

	<u>Term/UL</u>	<u>Annuities</u>	<u>Group</u>	<u>LTC</u>	<u>Corp</u>	<u>International</u>
Experience Studies	<i>Exp Analysis</i>	<i>Exp Analysis</i>	<i>Preparation Of Reports</i>	<i>Exp Analysis</i>		
Valuation	<i>Valuation</i>	<i>Valuation</i>	<i>C F Testing Valuation Reporting</i>	<i>Stat Reporting</i>		<i>Claims Reserving</i>
Projections	<i>MG-ALFA Development</i>	<i>Financial Projections</i>			<i>MG-ALFA Development</i>	
Product Development	<i>Product Development</i>	<i>Illustration Software</i>	<i>Special Studies</i>			
OBV					<i>OBV Analysis</i>	
Risk Management					<i>EC Support</i>	
Associates	6	5	2	2	4	2

Other Considerations

Back-Up Planning & Cross-Training

Objective

Creation Of Back-Up For Actuarial Processes And Cross-Training Of Individuals To Ensure

- Knowledge retention
- Continuity of processes during absence of individual
- Enhancement of individuals' technical capabilities

Design Of A Peer Review Mechanism To Ensure Output Quality In Terms Of

- Data accuracy
- Validity of the inputs, logic, and methodology used

Competency Mapping

Identify the Parameters Required For Flawless Process Execution

Map Individuals Against Each Process In Terms Of Their Current Ability To Work On A Process And The Level Of Additional Training Required To Do The Process

Assess The Individual's Software Knowledge And The Level Of Training Required In The Relevant Area

Creation Of Back-Up For Each Process Taking Into Account The Competency Of The Individuals

Other Considerations

Back-Up Planning & Cross-Training

Current Status

Annuity Product Development Process

- Three-member team
- Back-ups in place

HQ Projection Team

- One member
- Needs immediate consideration

Life Experience Studies

- Two-member team handling common processes
- Natural back-up

Other Experience Processes

- Need for back-up creation

Proposed Road Map

Buy-In From The Site Actuarial Leaders On The Proposal

Identify Back-Ups Based On Technical Capability And Current Workload

Establish System Capability

Establish Timelines for Cross-Training

Draw Up Individual Training Plans For Individuals

Document the Processes; Prepare Training Material

Establish The Metrics For Successful Cross-Training And Back-Up Creation

Design A Peer Review Mechanism Using The Trained Individuals For Each Process

Other Considerations

Peer Review Mechanism

Methodology

Establish The Back-Ups For All Processes And Complete The Cross Training

The Individual Back-Ups For Each Process Would Be The Natural Peer Reviewers

Frequency Of Review To Depend On Work Type

Identify The Sub-Processes That Need To Be Reviewed—Critical / Non-Critical

Peer Review Process:

- Documentation of procedures for performing the process and acceptable standard of work
- Completeness of the required inputs
- Reasonableness of the results obtained
- Accuracy of data and methodology used
- Feedback to the individual

Concerns

Level And Seasonality Of Workload Of Individuals Will Determine The Success Of Peer Review Mechanism

Varied Level Of Expertise Of Team Members May Increase The Time Taken For Peer Review Process

Need To Decide On The Time That An Individual May Spend On Peer Review On A Regular Basis

Need To Make The Peer Review Process “Independent”

Need To Track The Effectiveness of Peer Reviewing

Other Considerations

Constraints

System Requirements

Obtain The System Access Required For Each Process

- Access to Mainframe
- Access to Local servers

List The Software Used For Performing Each Process And List Any Additional Requirements

- PTS
- MG-ALFA

(Currently India Actuarial Team has 10 MG-ALFA Licenses and Site License for PTS)

Other Questions

Time To Cross Train Will Depend On The Workload Of The Individual

- How do we address this?

There May Be Additional Cost Incurred Due To System Requirements

Should We Back Up Only The Business Critical Processes? Can We Pilot the Initiative With A Few Critical Processes And Replicate The Same For The Remaining?

How Do We Identify The Metrics For Successful Cross-Training And Back-Up Creation?

Other Considerations

Associate Not Able To Work Alongside US Process Manager

Large Time Difference

- 9 ½ hours for standard time
- 10 ½ hours for daylight time

English Is Not Always English

Some Cultural Differences

- Work ethic is there - BUT
 - Little familiarity with US Actuarial Practices (ASI is not the SOA)
 - Little or NO understanding of how Americans think
 - Reluctance to disagree—even though they actually do

Retention A Problem

Market In India Is Booming

- Salary increases of 75% not uncommon

Other Possible Locations

West Indies

- The University of the West Indies has an Actuarial Program
- Approximately 20 students are admitted each year

Advantages

- Close to home (Eastern Time Zone)
- English spoken that is more easily understood
- Many take SOA exams

Unknowns

- Cost Differential
- Feasibility / Cost of starting a dedicated practice

Some Final Thoughts (My Own, Not Genworth's)

Outsourcing CAN Work, BUT There Are Limitations

Ability To Send Advanced Actuarial Work Questionable

- Pre ASA work predominantly sent
- Need significant training to raise level of assignment

Turnover And Continuity Will Continue To Be A Problem

Cost Savings May Not Last Much Longer

- Weakening dollar
- Rapidly growing Indian insurance market

Constant “Push Back” From Front Line Actuaries

- Voiced in terms of poor performance **BUT**
- In many cases, a concern about job security

Appendix

Development of Domestic Actuarial Costs

Cost Items	NEW ACTUARIAL HIRE	NEW ASSOCIATE	NEW FELLOW	EXPERIENCED ASSOCIATE	ACTUARIAL ANALYST
1 Base Compensation	45,000	75,000	100,000	87,500	50,000
2 Benefits @ 31% of Salary	13,950	23,250	31,000	27,125	15,500
3 Training (Opportunity)Cost	4,688	7,813	0	9,115	0
4 Relocation Expense	2,200	12,000	12,000	12,000	0
5 Recruitment Fee	0	4,500	6,000	5,250	0
6 Incentive Comp	0	0	10,000	0	0
TOTAL COST	65,838	122,563	159,000	140,990	65,500

Training Cost based on assumed 200 hours per year study time, proportional to salary.

Benefit gross up @ 31%

Relocation expense based on 2003 budgeted amount amortized linearly over 5 years - \$11,000 for renter, \$60,000 for homeowner

Recruitment fee at 30% of salary, amortized linearly over 5 years

Actuarial Analyst assumed to be skilled actuarial resource not on an exam track