

SEAC 2020

Why the Chief Modeling Officer should have a seat at the Executive Table

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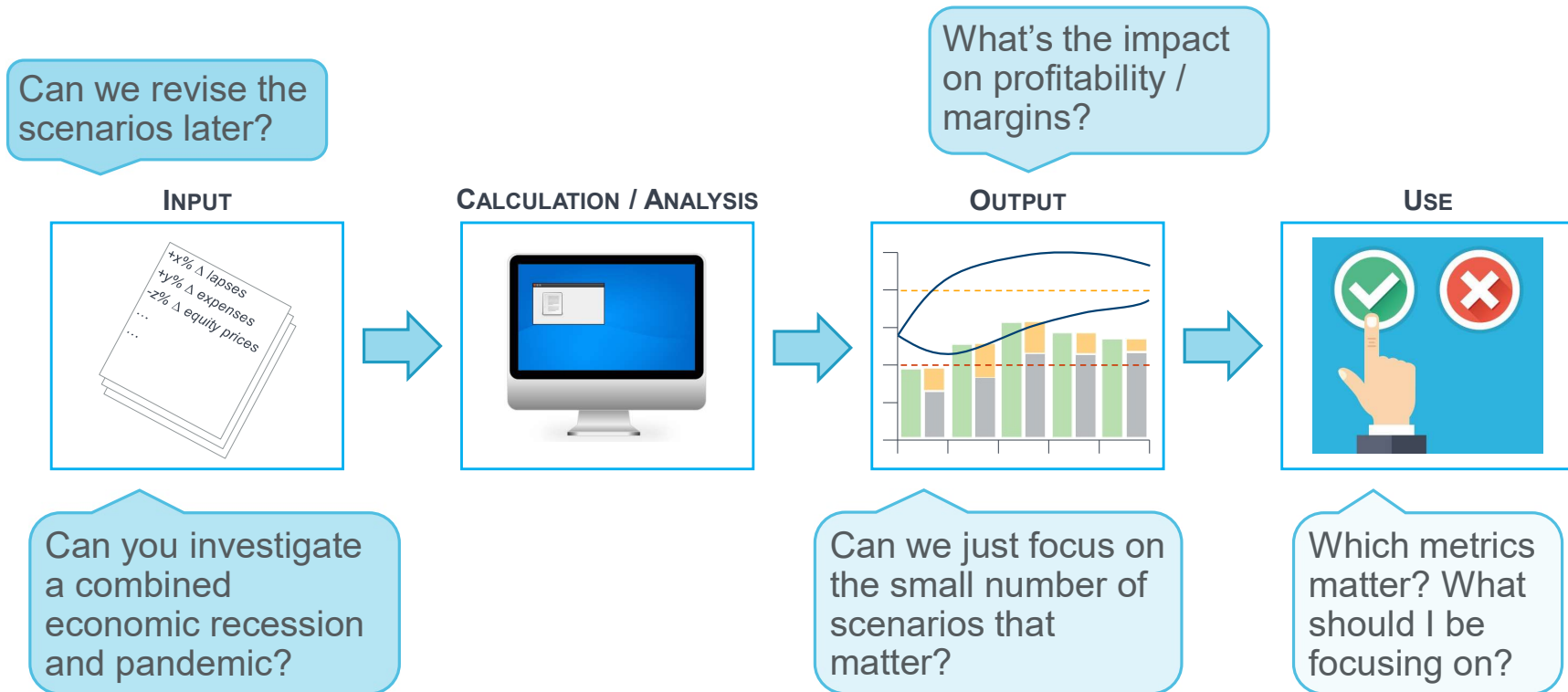
NOVEMBER 2020

1. Stakeholder Requirements

Increasing demands for analysis and quality

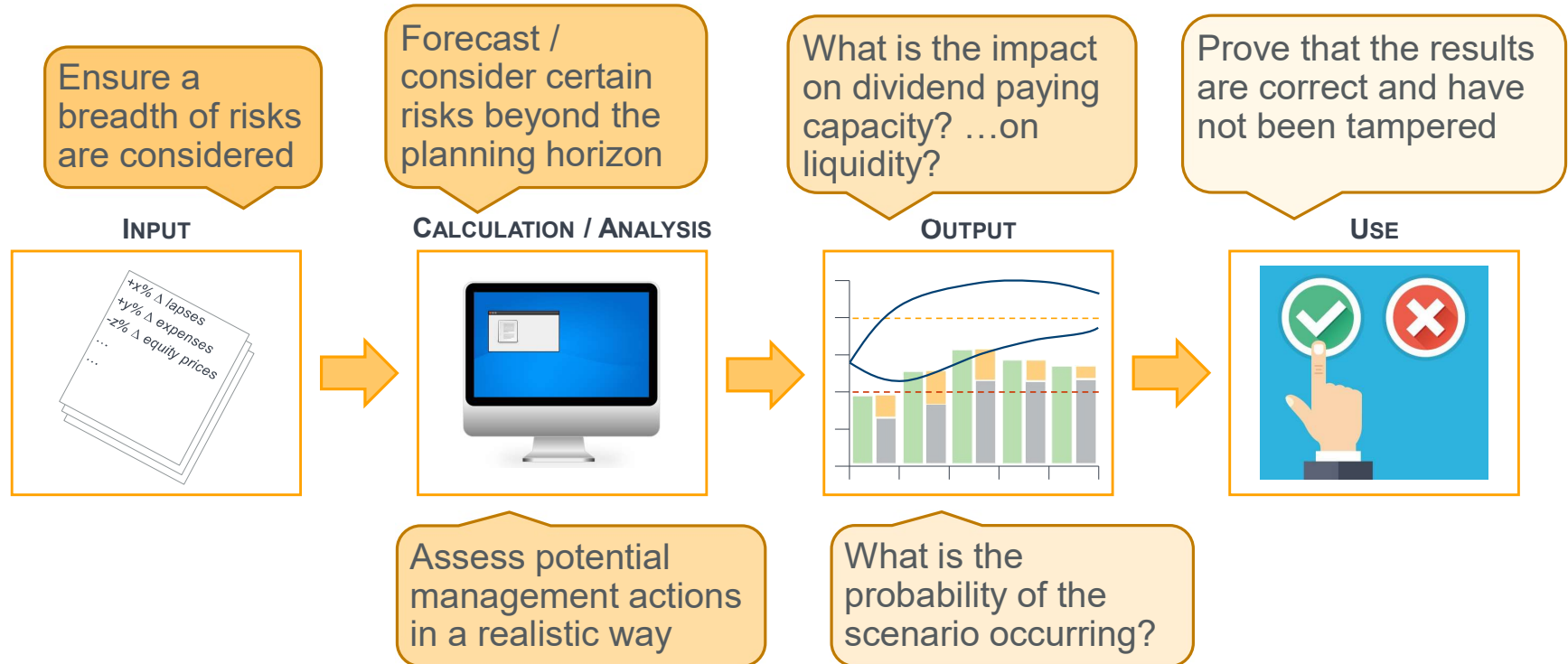
Stakeholder Requirements (1)

The Board



Stakeholder Requirements (2)

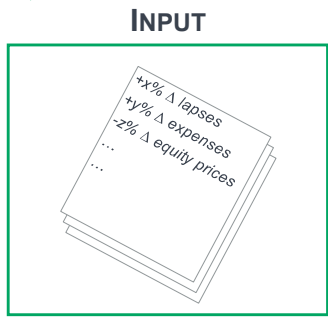
The Regulator



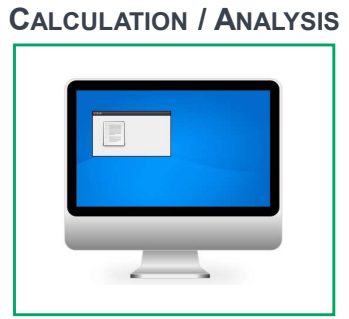
Stakeholder Requirements (3)

Chief Risk Officer

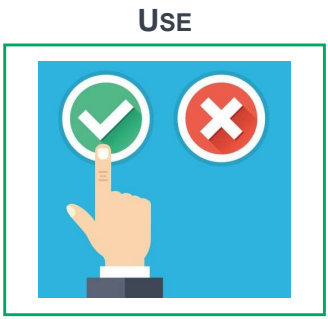
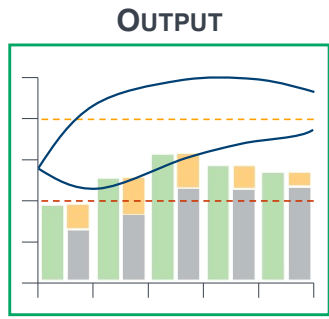
Can we change / refine the assumptions from last year?



Can we refresh the analysis? Can we investigate that proposal before a decision is made?



Can Risk Mgmt. get access to more granular outputs?



How can I be confident with that simplification?

We need to also consider non-modeled aspects... customer outcomes, operational performance, etc.

Do I trust these results?

Stakeholder Requirements (4)

Chief Actuary

Investigate initiatives that reduce capital
Investigate initiatives that improve return

INPUT

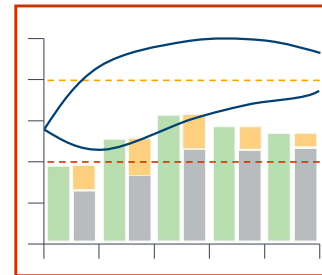


Can we look at product ROI under LDTI as compared to current GAAP?

CALCULATION / ANALYSIS



OUTPUT



How do I know that these results actually capture the financial dynamics of my business?

USE

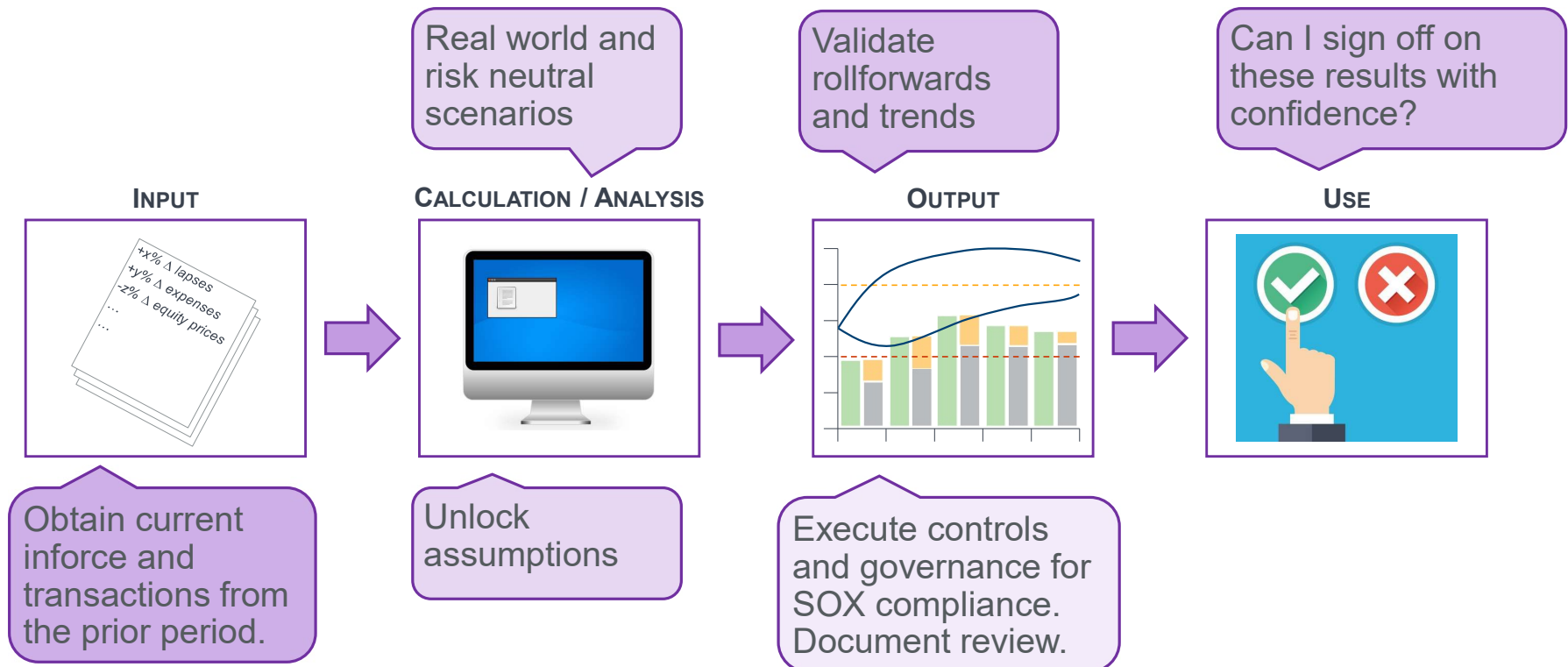


What is the impact of changes in tax rates? What about future tax proposals?

Keep track of all iterations so we can see impact of various assumptions on the outcomes.

Stakeholder Requirements (5)

Valuation Actuary



2. Practical Challenges

Actuarial and Risk Functions

Practical Challenges

What is hard about keeping the stakeholders happy?



- Ever increasing reliance on models not built for scale or consistency
- Reliance on manual processes and key persons
- Models not well-understood



- Making changes without breaking other calcs
- Insufficient granularity for reporting
- Lack of scale for complex analyses



- Inter-team resource / priority conflicts
- Sub-optimal skills and resourcing
- Clarity on requirements



- Low technology enablement
- Diversity of tools and processes
- Loose change management
- Actuarial domain not well-understood

3. Remodeling the Actuarial Function

Introducing the Chief Modelling Officer

Evolving the modeling function

- Understand the process
- Reduce the effort to produce the “must-haves”
- Refocus and redeploy the capacity
- Recognize and consolidate the function
- Get the org structure, skills, and responsibilities aligned
- Elevate a leader for accountability and respect

Business vs. Operations | Development and Production

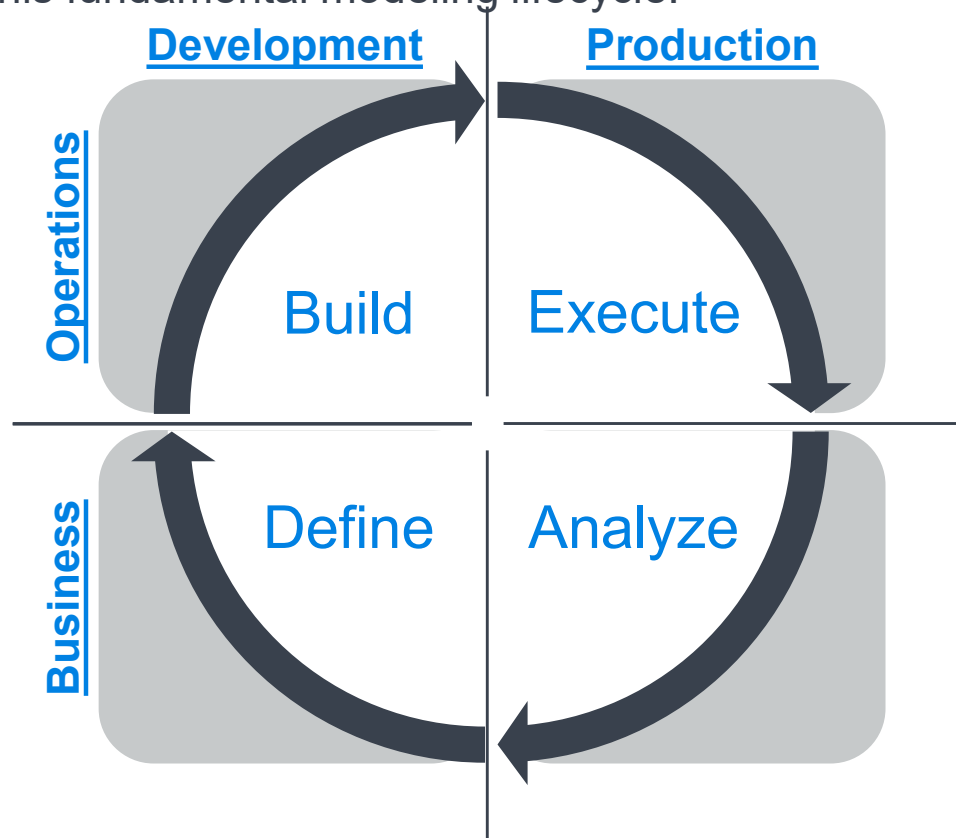
Modeling has evolved to become a complex, diverse, manual process that is often not well-understood. First we must understand this fundamental modeling lifecycle.

Operations

- Owns the “how” of the model
- Skills are highly technical
- Processes are general and must be consistent

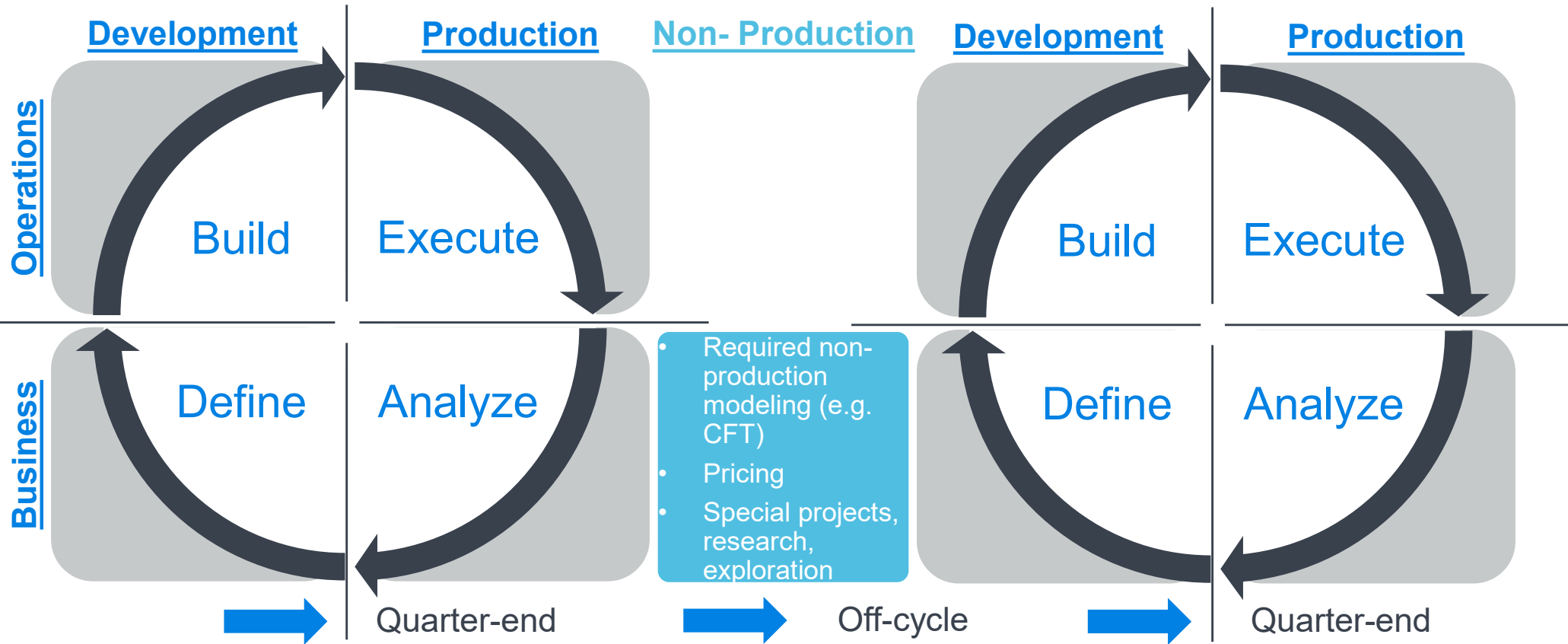
Business

- Owns the “what” of the model
- Skills are business and analytical
- Insights are diverse and specific to the analysis



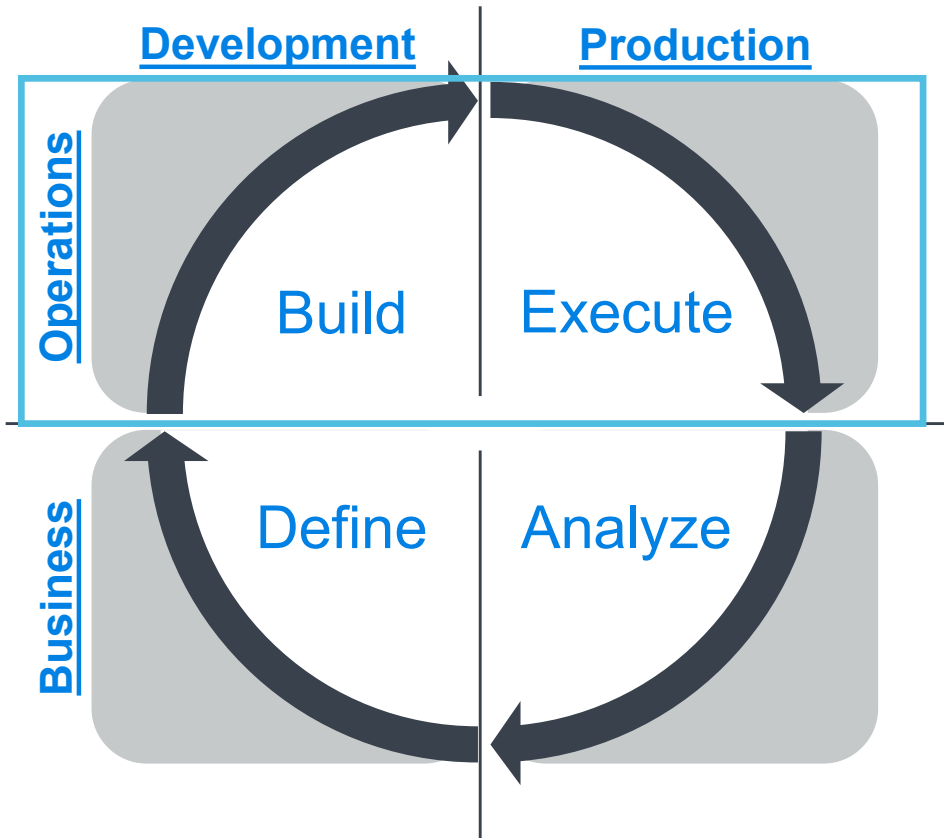
Production modeling too often dominates actuarial activity

Production processes dominate, limiting time for value-add analysis



How to shrink the production footprint

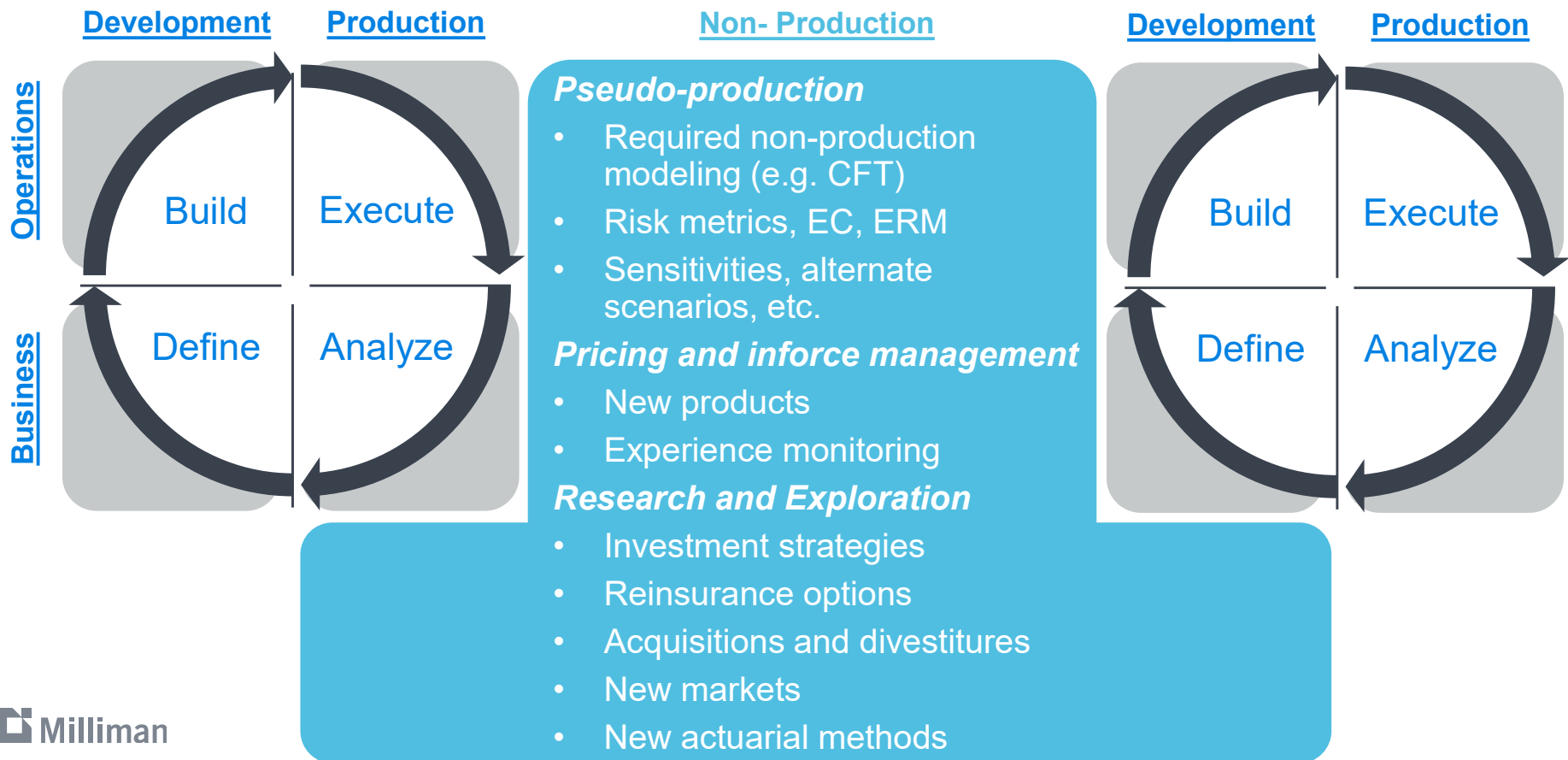
The challenge is operational



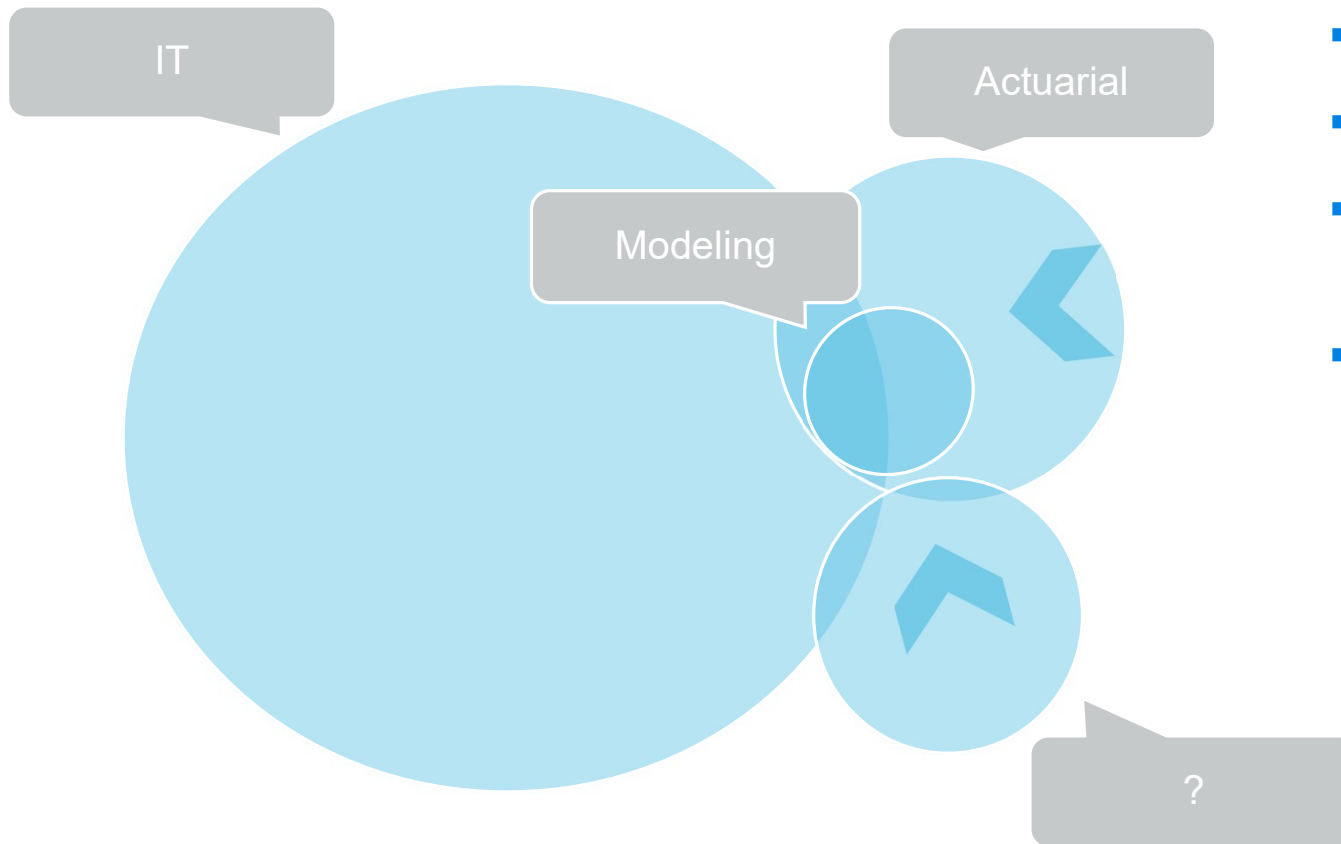
- Consistency and reuse
- Automation
- Focus on maintenance and structure of the models and process
- Rationalize tools and models
- Align skills with the tasks
- Build skills and best practices – continuously improve

What is to gain?

Optimizing the production lifecycle unlocks capacity



Worlds colliding – what to do?



- Partner with the IT org
- Partner with a vendor
- Bring the skills into the actuarial org
- Some combination of the above

Modern actuarial function requires an evolution

Business needs to drive more analytics; enabled through an operations-focused partner



- Leverage new technology
- Deliver automated, compliant processes
- Enable research and exploration



- Acquire and develop specialized skills
- Create synergies amongst IT, modeling, data science, process engineering, etc.



- Create partnerships
- Be accountable to business partners



- Consolidate, rationalize, and harmonize tools and process
- Focus on consistency, maintenance, AND enablement

Modeling needs to be recognized, consolidated, elevated

Chief Modeling Officer- Leader of the modern modeling function

An organization who can be a partner with the business – sum greater than the parts



- **Focused.**
 - Reduce cost of compliance and production
 - Enable greater levels of exploration and analysis
 - Long-term sustainability



- **Accountable.**
 - Measured on ability to unlock capacity and add value
 - Accountability to deliver to stakeholders



- **Diverse, Inclusive, and Respected.**
 - Cast wide net, assemble a diverse skillset
 - Create a career path to retain technical talent
 - Staff with appropriate resource (i.e. not junior actuaries)



- **Empowered.**
 - Mandate to optimize the actuarial modeling function
 - Aggressively pursue technology, expertise, approaches that will advance actuarial capabilities

Modern actuarial organization enabled to

move beyond compliance

to explore possibilities and

pursue competitive advantage



The CModO deserves a seat at the Executive Table

Read and hear more:

<https://theactuarmagazine.org/undeniable-synergy/>

<https://soapodcasts.libsyn.com/modeling-section-undeniable-synergy-a-discussion-on-the-chief-modeling-officer-role-with-van-beach>

Thank you

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