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

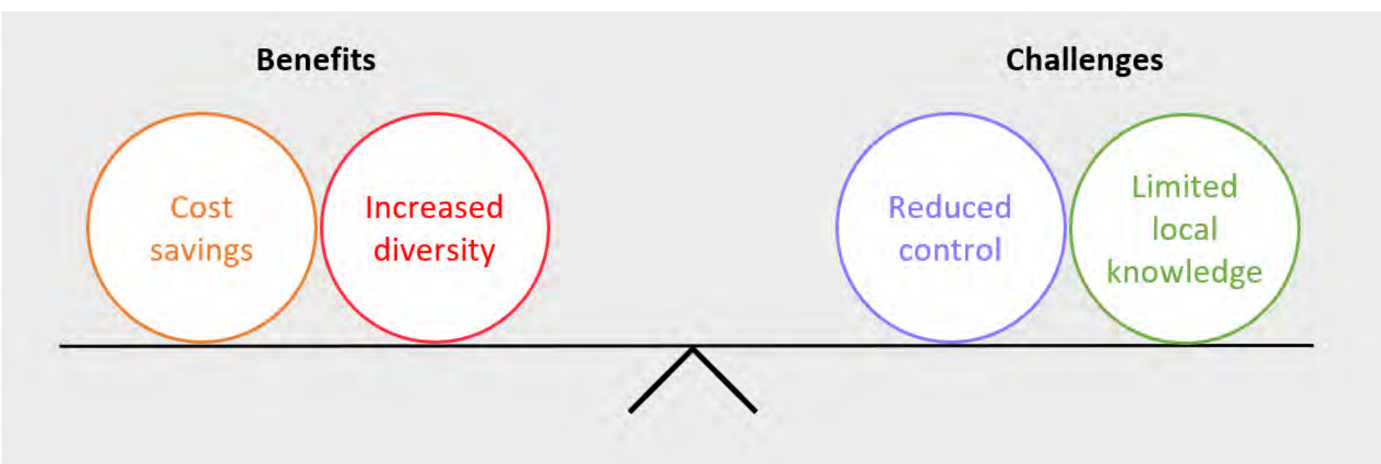
By Mark Spong and Shelby Densman

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

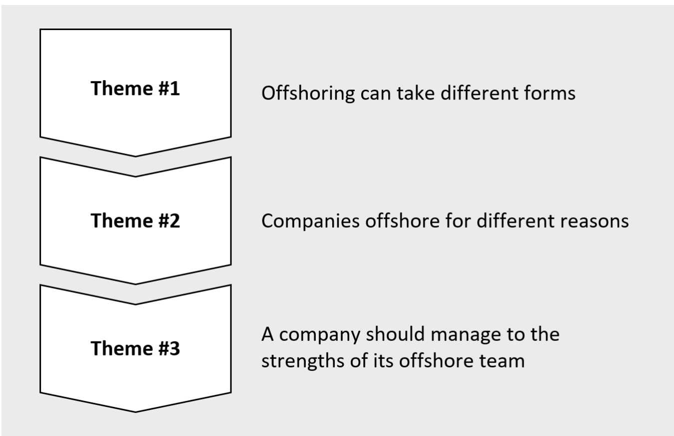
Figure 1
Benefits and Challenges of Offshoring Actuarial Activities



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 midsized 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:

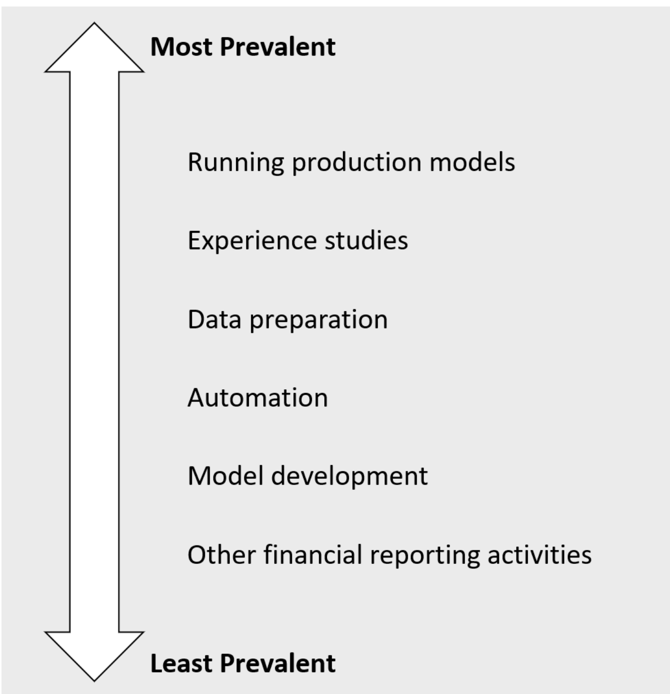
- being able to efficiently work around the clock;
- addressing temporary or prolonged capacity constraints; and
- shifting onshore focus to more analytical and results-oriented tasks.

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. ■

Mark Spong, FSA, CERA, MAAA, is a senior consultant at Oliver Wyman. He can be reached at *mark.spong@oliverwyman.com.*

Shelby Densman is an analyst at Oliver Wyman. She can be reached at *shelby.densman@oliverwyman.com.*

Serving Latin American Actuaries: SOA Webinar on Professionalism

By Federico Tassara

In April 2020, the Society of Actuaries (SOA) Latin America Committee conducted its first webinar in Spanish aimed at actuaries in Latin American countries, "Profesionalismo en América Latina/Professionalism in Latin America." More than 200 people from 10 countries attended the webinar.

Three local actuarial associations participated in the webinar, giving access to all their members: the Professional Council of Economic Sciences of the Autonomous City of Buenos Aires, the Colombian Association of Actuaries and the National College of Actuaries of Mexico.

Coordinated by Sofi García, international projects specialist at the SOA, the event featured presentations by Christian Mora, delegate superintendent of insurance for the Financial Superintendence of Colombia, and two members of the Latin America Committee: myself and Stephen Camilli.

Mora presented on the evolution of the Colombian Association of Actuaries, which has 150 members and since 2013 has been a full member of the International Actuarial Association (IAA), and on how the actuary is a strategic ally of supervision. The objectives ahead in Colombia are (1) to reinforce training; (2) to enforce the professionalism code; (3) to define specialized training to practice; and (4) to empower actuaries.

In my presentation, I described the current situation in Chile, where despite having a solid market, the profession as such does not exist. There is no actuarial career or actuarial association. Only 17 percent of the 408 professionals who practice as actuaries are effectively actuaries (from Argentina mainly), while others belong to different professions, such as engineering. Three case studies were analyzed to understand how this can bring problems to society. The presentation highlighted the need to regularize this situation if the regulator wants to implement modern insurance standards like Solvency II and IFRS 17 in the short term.

Camilli presented a possible path to professionalism, based on the recommendations of the IAA. He explained the workings of the main elements of actuarial professionalism in the United States:

- Code of Professional Conduct
- Actuarial Standards of Practice
- Discipline System
- Qualification Standards
- Continuing Education

The speakers answered questions from the audience about how to help develop the profession in their countries, how legislation between different markets compares and how to take advantage of professional development opportunities. Attendees were also invited to participate in SOA webinars, access the material available on the **SOA website** and get involved in our activities.

The webcast can be downloaded from ***https://www.soa.org/prof-dev/recordings/2020-profesionalismo-america-latina/***. ■

Statements of fact and opinions expressed herein are those of the author and are not necessarily those of the Society of Actuaries or the author's employer.

Federico Tassara, ASA, is portfolio manager of MetLife Chile and professor at the Pontifical Catholic University. He can be reached at *ftassara@metlife.cl.*

International Financial Reporting for Insurers: A Collaborative Effort of Actuaries and Accountants

By Carlos Arocha

The purpose of financial reporting is to evaluate the degree to which a firm's accounting captures its underlying business reality. But financial reporting is being overhauled, and we as actuaries need to keep up. The Society of Actuaries (SOA) has several resources—webinars, books, podcasts, this newsletter (and the Financial Reporting Section's)—to help actuaries stay abreast of new developments.

The SOA recently added a new title to its book offerings: *International Financial Reporting for Insurers* (*IFRI*) (available in print and digital editions). The book presents a comprehensive analysis of the fundamentals outlined in key International Financial Reporting Standards (IFRS). Although the book focuses on IFRS 17, "Accounting for Insurance Contracts," *IFRI* discusses accounting for the entire insurance entity, not just accounting for insurance policies. There is no existing practice of IFRS 17, since its effective date has been pushed to Jan. 1, 2022. However, the book covers what the application of IFRS 17 is likely to be.

IFRI is aimed at actuaries involved in financial reporting. It is a valuable tool to help actuaries understand the fundamentals of key nonactuarial components in the international reporting environment. One added benefit is the inclusion of several spreadsheets that are provided to illustrate the underlying financial reporting principles.

A collaborative effort, the book was written by 21 authors—actuaries, accountants and other professionals with many years of relevant experience—and was edited by Tom Herget[1] and Jim Milholland, two long-standing volunteers with the SOA. Further, the work was vetted by a team of reviewers to ensure accuracy and clarity. Much of the writing was accomplished in several full-day face-to-face meetings. All the volunteers deserve a standing ovation for their fine work.

The 400-page book is organized into 20 chapters:

1. Introduction and Background
2. Overview of Insurance Contract Accounting
3. Risk, Classification, Unbundling, Recognition, Derecognition, and Contract Boundary
4. General Model
5. Contracts With Participating Features
6. Premium Allocation Approach
7. Reinsurance Contracts Held
8. Onerous Contracts
9. Fair Value Concepts
10. Financial Assets and Liabilities
11. Derivatives and Hedge Accounting
12. Service Contracts
13. Income Taxes
14. Other Assets
15. Other Liabilities

16. Equity, Changes in Policies and Estimates, and Correction of Errors
17. Business Combinations and Transfers of Contracts
18. Transition
19. Presentation
20. Disclosure

Each chapter highlights changes under IFRS 17 in that area of accounting once it is implemented. The spreadsheet illustrations help bridge theory and practice.

ACTUARIES AS BUSINESS ADVISORS

IFRS 17 represents a major transformation in financial reporting for insurers. Whereas in the past the finance department of an insurance company was able to prepare financial statements with somewhat limited involvement from the actuary, under IFRS 17, it will be virtually impossible to construct an income statement without actuarial input. For example, revenue made up primarily of gross written premium could be obtained from transactional records. Under IFRS 17, instead of premium it will be necessary to compute an "insurance service result." This item is really an actuarial calculation that involves present value estimates of risk-adjusted cash flows.

Most entries in the income statement and the balance sheet will involve actuarial input. This could be an outstanding opportunity for actuaries to become advisors to the business, as an imminent integration of actuarial and finance functions is expected. In addition, the use of performance metrics and resorting to business analytics tools and techniques (including visualizations and dashboards) will contribute to the understanding of key profitability drivers and will help the insurance company gain insight into business performance.

For further information about *IFRI*, please visit the **SOA's Publications webpage**. ■

Carlos Arocha, FSA, is managing partner of Arocha & Associates, an actuarial consulting firm based in Zurich, Switzerland. He can be reached at *ca@ArochaAndAssociates.ch.*

ENDNOTE

1 Herget was also the editor of *US GAAP for Life Insurers*, 2nd ed. Schaumburg, Ill. Society of Actuaries, 2006.

International Section Buzz

Your go-to source for international areas of actuarial practice

SECTION COMMUNITY

In 2019, the IAAHS conducted a health care survey, where they gathered information and insights on the future of the health actuarial profession in an effort to develop ways to collaborate and communicate on a global scale. One hundred eighty-two actuaries from 22 countries responded. Listen to our latest podcast "**The Future of the Global Health Actuarial Profession**" to hear Roseanne Harris discuss the results of the survey and implications for health actuaries.

PROFESSIONAL DEVELOPMENT

Sign up for the **Virtual International Retirement Olympics Webcast** taking place on July 20, 2020, to find out how retirement risks and consumer attitudes stack up in relation to consumer sentiments around the world, including the United States, Canada, Asia Pacific and Latin America markets. Participants will learn about a variety of risks and opportunities, product features and consumer retirement aspirations, and will see which markets are leading the industry.

Get access to more info at ***SOA.org/sections/international/***