Integrating Finance and Actuaries for FP&A at L&A companies

February 2022

The need to change

Life and annuity (L&A) insurance companies are facing mounting pressures. From a low interest rate environment, to slow market growth, to changing customer risk profiles and preferences, L&A insurers are persistently challenged to enhance business performance while also finding ways to enhance operational processes with maximum efficiency.

Given the dynamic nature of the market, L&A leaders are seeking more from their finance and actuarial processes. Leaders are expecting their financial planning and analysis (FP&A) teams to provide more strategic business insights, build exceptional business partnerships, and quickly identify emerging trends from their planning, budgeting, and forecasting (PB&F) processes.

Instead of focusing effort on gathering data to produce hindsight, leading insurers are looking to explain results with greater clarity and speed through enhanced capabilities that also enable insight and foresight. To establish and scale new, forward-looking processes, and enable more dynamic scenario analysis and forecasting, FP&A and actuarial functions must collaborate to share tools, processes, and skills more effectively. In doing so, they can produce a cohesive story, showcase desired insights, and better guide their organizations forward.

A Deloitte survey (Deloitte FP&A and Actuarial Study) of L&A insurance companies found that many insurers struggle to integrate their FP&A and actuarial processes, which negatively impacts their ability to manage enterprise performance.[1] Why? Though the reasons cited by the insurers in our study include limitations in processes, tool sets, skill sets, and data, L&A insurers also noted a general gap in the understanding of what roles FP&A and actuarial functions should play in PB&F processes.

1. Deloitte, FP&A and Actuarial Integration Study Survey, conducted 2020-21. Additionally, recent client interviews were conducted to supplement the dataset.

Given the unique and crucial role of the actuarial function at life insurance companies, L&A organizations must implement and execute forward-looking processes where the roles and responsibilities of FP&A and actuarial functions are clearly defined and closely integrated. This can effectively open the door to enhanced capabilities, consistency, and efficiency in the following ways:

- Actuaries can support FP&A by adding a level of precision to the modeling of insurance cash flows, liabilities, and capital requirements.
- Actuaries can help FP&A better understand best estimate assumptions, ranges of potential outcomes, and the potential for second order financial impacts.
- FP&A tools and skill sets can enhance actuarial processes, results explanation, and overall storytelling.
- FP&A reporting can help to enhance the precision of actuarial models in the near-term.
- When working together, actuaries and FP&A teams can improve efficiency and consistency in results explanation, reduce redundant efforts, and help both teams to enhance tools and process.

Outlining the responsibilities of each of these functions while also enabling the right tools, processes, and data solutions will help life insurers generate value-add analysis and outcomes from their enterprise performance management processes.[2]

This chart highlights what survey respondents indicated regarding the involvement of their actuarial groups in FP&A processes.

Actuarial role in business performance management processes:

88% maintain models core to the planning process

63% support analysis in the explanation of variances

50% support limited components of the planning process

38% provide critical drivers applied in the planning process

25% primary in the explanation of forecast variance

13% co-own the planning process

2. Deloitte, FP&A and Actuarial Integration Study Survey, conducted 2020-21. Additionally, recent client interviews were conducted to supplement the dataset.

Common performance management roadblocks

Our survey of FP&A and actuarial leaders from L&A organizations revealed several challenges around their performance management processes:

Siloed processes and skill sets

We often see FP&A organizations owning planning processes end-to end, including defining the PB&F calendar, aggregating the financial results, developing actual versus plan variance, reporting analysis, and executing forecasts. While FP&A works with functions and business unit leaders from across the enterprise to collect inputs, the creation of the plan or forecast can be a siloed exercise with each group only considering their part of the collective story.

This approach can result in several shortcomings:

- Limited integration and collaboration between FP&A and actuarial functions can result in different versions of projected figures or disconnected top-side adjustments with no cohesive storyline. Even when actuarial and FP&A teams report to the same leader, the teams may still act as disparate functions due to separate processes, tools, and skill sets.
- In communicating plan and performance results, the FP&A function may have trouble owning the end-to-end story of the projected figures and deviations in actual results. In these cases, the FP&A function often relies on business actuaries to understand the drivers of variance and to pull together business insights for leadership, which often slows the decision-making process.

Nearly 60% of the FP&A organizations we surveyed focus primarily on plan aggregation and rely on the valuation actuaries to respond to management questions and explain the plan and results.[3]

- FP&A typically owns top-down target setting and the processing of last-minute plan adjustments identified by leadership. Given that bottom-up planning processes often exist in silos, FP&A may have a difficult time updating the aggregated bottom-up plan to meet updated top- down guidance.

83% of participants identified gaps in the integration of their models to enable PB&F.[4]

85% of participants also noted that they relied indirectly on actuarial models and required significant adjustments to these models to enable PB&F.[5]

Underutilization of technology with disconnected solutions

FP&A organizations are mainly using programs like Microsoft Excel to execute their plans and forecasts, effectively bypassing key capabilities offered by leading performance management solutions. This underutilization of technology makes planning, budgeting, forecasting, and reporting processes more difficult and less efficient. Planning cycle lengths can be as long as 6 months in cases with heavy dependency on Microsoft Excel and lack of integration with actuarial tools.

Challenges related to lack of technology use include:

- The use of forecasting to speed up and simplify planning processes is limited.

Only 50% of FP&A organizations leverage forecasts on a periodic basis for management analysis and to decrease the cycle time for planning.[6]

- Driver-based models are primarily limited to select expense line items and aren't used to connect operational and financial plans.

87% of organizations surveyed reported having FP&A applications mainly focused on aggregating plans, with limited insights into the drivers behind the plan. Only 13% of organizations had detailed assumptions in their planning applications to help drive management discussions.[7]

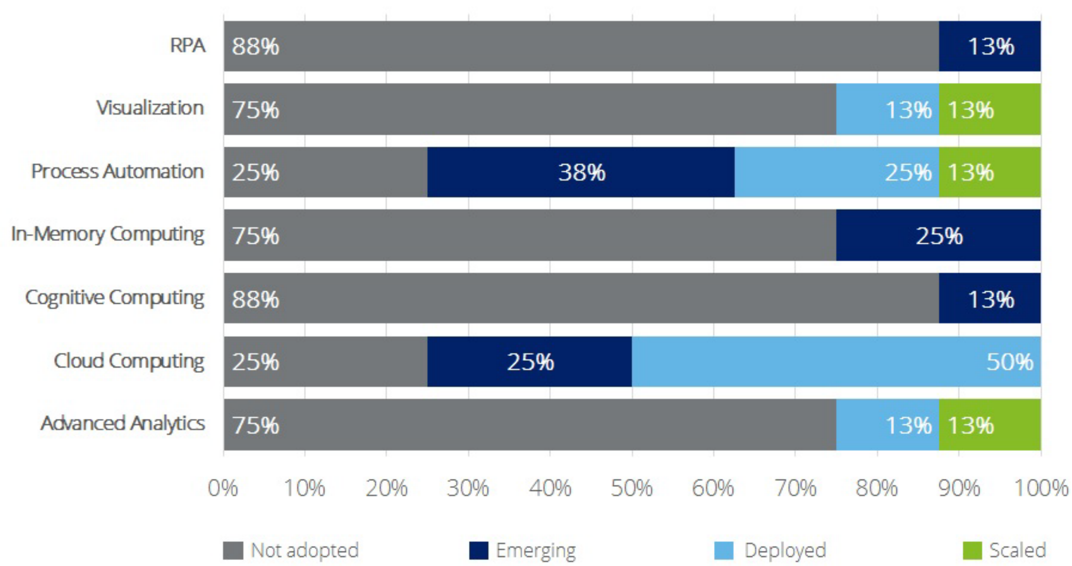
3, 4, 5, 6, 7. Deloitte, FP&A and Actuarial Integration Study Survey, conducted 2020-21. Additionally, recent client interviews were conducted to supplement the dataset.

- Many of the FP&A teams we surveyed said they lacked time in the planning or forecasting cycle to run different scenarios. Manual and disconnected processes have resulted in lengthy processes which have made multi-scenario planning nearly impossible.
- Disconnected valuation and forecasting models limit the ability to drive stress testing/scenario analysis for the enterprise. Stress testing is not realistic when using disparate models and piecemeal solutions that need to be run individually and aggregated manually.
- There is a lack of connected solutions to enable collaboration and information sharing between FP&A, actuarial, and other functions. Email, instant messaging, and SharePoint were the primary communication methods used to share information throughout performance management cycles. This created fragmented information and longer than anticipated timelines for responses and feedback to be incorporated into plans.
- The typical process for the explanation of results is cumbersome given the dearth of effective dashboards, tools, and capabilities across all business and data elements. The variety of data sources, business domains, and technical skill sets required often necessitates farming out analysis across the organization, thus limiting an organization's ability to put together a cohesive picture. If not well-coordinated, this process also risks being redundant and inconsistent with the stories told by other business functions.
- Change in reserve is one of the most complex components of L&A forecast and results. Valuation actuaries are typically consulted or relied upon in the development of forecasts and the explanation of these results. Ideally valuation models and assumptions are integrated into the planning and forecasting processes. Forecasting models that are disconnected from valuation can drive significant differences in expectation.

One survey participant said, "We need to rethink how we integrate actuarial and FP&A models to enable scenario modeling, given regulations like LDTI."[8]

- The process to determine the allocation of investment income to a product level for the explanation of performance and results can be overly complex, may differ across products, and is often highly manual. Simplified allocation rules can be better understood, automated, and consistently applied for both planning and the explanation of results.

The chart below outlines technology adoption among survey participants. The results indicate that technology adoption is still in its early stages, with robotic process automation (RPA), in-memory computing and cognitive computing only just emerging.



Source: Deloitte, FP&A and Actuarial Integration Study Survey, conducted 2020-21.

8. Deloitte, FP&A and Actuarial Integration Study Survey, conducted 2020-21. Additionally, recent client interviews were conducted to supplement the dataset.

Building industry-leading enterprise performance management systems

Given the importance of the enterprise performance management ecosystem, it is critical that L&A organizations strive to improve their processes, data, and skill sets in FP&A so they can:

- **Shift from hindsight to foresight:** Rather than reacting to management questions, FP&A and actuaries should strive to increase strategic capabilities, partnering to more easily explain performance and proactively support leaders to drive strategic decision-making through forward-looking analysis.
- **Enhance quality of insights:** Leveraging actuarial and finance skill sets to fully assess underlying drivers of plan and results allows the FP&A organization to be better prepared to answer management questions quickly and provide deeper insights.
- **Enhance value to business leaders:** Enhance business partnership by having centralized access to the data required to identify and address variances, rather than waiting until the following reporting cycle to recognize and attempt to course correct.

Enabling the right organizational model, supported by the right processes, toolsets, and data allows leaders to enhance the value they add to the organization. We recommend considering the following enhancements based on our experience and insights from peer FP&A and actuarial leaders.

Organizational structure

Leading FP&A teams typically own financial target setting and drive expense planning. While overseeing planning and reporting calendars, communication, and coordination, they must work closely with business functions such as actuarial, investments, and tax to drive the integrated development of projections and management insights. Leading insurance organizations need to further facilitate teaming, processes, and tools across business functions to enhance capabilities and insights within FP&A and actuarial teams.

- FP&A teams should explore adding actuarial personnel to their teams to help answer questions and to “tell the story of the plan,” collaborating with business units or other functions when necessary.
- FP&A teams should have a strong understanding of underlying assumptions and targets across product lines. FP&A teams should consideradding a business partnering group where individuals are assigned to different functions (e.g., HR, investments, etc.) and business units. This practice can enable greater collaboration and a single point of contact for functional and business unit leaders. FP&A business partners should frequently engage with their assigned organizational leaders and set a cadence for regular connects to collaborate and review results.
- As actuarial valuation models become more granular and principles-based, these models can be fully integrated into the planning process to represent current best-estimate actuarial assumptions, valuation requirements, and to better enable sensitivity testing within the PB&F processes. Adjustments should be considered to reflect short-term economic conditions, new business sales volumes, and to streamline results integration and sensitivities for scenario planning.

Business performance management processes

Planning, budgeting, and forecasting processes should enable agile decision-making and on-demand scenario modeling. Once the right organizational structure has been determined, the processes should have the following characteristics:

- Operational/financial drivers and models are integrated. Line-of-business actuaries drive insurance cash flow and liability projections with scalars for new business sales projections and share PB&F information with FP&A seamlessly in real-time. FP&A drives expense planning models and consolidation/aggregation of plan and forecast.
- Extensive use of driver-based models, with organizations starting to leverage cognitive models for planning of expenses and other components, where the actuarial models can't be relied on as a sound fit for prioritized planning needs.
- Cash flow projection models linked to actuarial models with the actuarial output providing enhanced sales, scenario, and what-if planning capabilities.
- Forecasts should include both the current year and 2-3 out years for a continuous long-term focus, and to support year-over-yearcomparisons. Re-forecast at least quarterly for the "out years" (e.g., plan horizon).

Use of technology

FP&A and actuarial teams are only as strong as the data and tools that support them. Technology solutions should consist of the following:

- An integrated environment where top-down targets and allocations feed actuarial and FP&A models. Actuarial model outputs feed FP&A tools to enable a connected planning environment.
- Capabilities to quickly simulate various outcomes such as shifts in sales volumes, interest rates, or surrender rates.
- The ability to drill down into data details to pinpoint variances in results across all aspects of the plan. Valuation roll forwards, experience analysis, and reporting packages should be automated and shared to increase consistency and to reduce rework in explaining deviations from plan.

How should organizations get started?

As actuarial and FP&A teams embark on the journey to improve their enterprise performance management processes and frameworks, they should consider the following:

- Understand where there are bottlenecks and shortcomings in the current planning, budgeting, and forecasting processes. This includes areas where leadership isn't receiving the forward-looking insights it needs to make decisions and steer the business.
- Assign a transformation team consisting of actuarial and FP&A representation. Each function should strive to understand their key roles and responsibilities in performance management processes, including how their function can create value for the organization.
- Identify the people, processes, technologies, and data initiatives that enable greater collaboration and integration of actuarial and FP&A teams and models to quickly derive insights and enable robust scenario testing for better decision-making.

Effective integration of FP&A and Actuarial functions requires FP&A leaders to enhance current capabilities, including making investments in solutions that make the integration more seamless. Set a vision for the capabilities you hope to achieve and ensure your actions are helping you move forward towards your "north star".

For questions and more information, please contact:

Gina Vargas
Principal
Deloitte Consulting LLP
gvargas@deloitte.com

Corey Carriker, FSA, MAAA
Managing Director
Deloitte Consulting LLP
ccarriker@deloitte.com

Mukund Raghu
Senior Manager
Deloitte Consulting LLP
mraghu@deloitte.com

Shailendra Singh
Manager
Deloitte Consulting LLP
shailendrsingh@deloitte.com