

Achieving the actuarial Target Operating Model: Transformation is more than just a tech upgrade

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Recent global events—everything from increasing natural disasters, accelerating technological innovation, and a world-changing pandemic—have shone a spotlight on the critical role that actuaries can play, not just for insurance companies but for a variety of industries where risk management is vital. Despite a potential for growth in the value of actuaries, their roles within their organizations have stagnated; limitations in technology have increasingly led to bottlenecks that require actuaries to spend more time on inefficient processes rather than on providing strategic insights.

In recent years, digital transformation is getting attention from nearly all companies, not just those wishing to stay at the forefront of technology advancements. Today, it is mission-critical to survival. While organizations understand the need to transform, this understanding is rarely adequate to motivate a meaningful transformation. Why? In large part, because there are misconceptions of what a true transformation entails.

In order to be successful, and to attain better value from your actuarial team, transformation must move beyond a sole focus on technology. Simply updating systems with the latest tech provides little value if the organization does not change as well. True transformation requires a reimagining of not just the actuary and their function, but also their value in informing and driving business goals.

It also requires an evaluation of the internal and external processes required to maximize the value of the entire actuarial function. Technology is a complement and can even be the conduit for transformation, but it is not the objective.

When companies seek first to focus on the human resource and organizational elements of an actuarial transformation, and use technology to help support and strengthen that transformation, they are better positioned to achieve their ideal actuarial Target Operating Model (TOM).

Why focus on the Target Operating Model?

To be fair, there is no one ideal TOM that works for every organization. Just like any business strategy, discussions need to begin at the top of the organization, within the C-suite, to determine what the company needs and how it can be most successful. By framing these considerations within the scenario of a TOM, it paints a clearer picture of how the actuarial department can contribute to broader business goals.

The purpose of a TOM is to create, locate, combine, and use knowledge effectively, not just to drive efficiencies but to play a key role in business strategy. The ideal TOM is driven by the goal of maximizing the value of the people within the organization and allowing technology to better serve the individuals.

When their value is properly utilized, actuaries have the power to play a significant role in achieving business goals and improving a company's performance. Actuaries are masters at creating and interpreting information, observations, analysis, insight, and ideas. The C-suite can and should be relying on actuaries to bring fresh ideas forward that can solve big problems and accelerate the company's realization of its vision.

To capitalize on this effort, an actuarial TOM should be focused on key pieces of knowledge within the business that drive strategy—this includes everything from insights, analysis, and observations to harnessing data and aligning the skills and talents of your actuarial team with technology that can enhance and support.

Primary drivers for actuarial transformations often include:

- **Increasing speed.** The ability to respond more quickly to current market conditions, competitive activities, changing technology, and especially the rapid emergence of unexpected events is a vital consideration for your TOM. What's more, your organization needs a better way to understand and react to changes in financial markets in days, not weeks or even months.
- **Improving efficiencies.** Focusing on technology can certainly help identify inefficiencies and potential opportunities. However, undergoing system upgrades and new implementations without taking the time to address business processes can be a wasted investment in the end. Creating the ideal TOM has to start with transparency in where inefficiencies really exist and a consideration for how to address them.
- **Enhancing governance.** In a world of principle-based regimes and rapidly emerging technology, actuaries are being asked by multiple stakeholders to mitigate model risk and the risk associated with reporting errors. When addressed in a reactionary way, these efforts can consume significant time and resource. However, if viewed through more of a transformation lens, these efforts can dovetail nicely with the development of an actuarial TOM targeting not only enhanced governance, but strategic business outcomes as well.
- **Creating a better reporting structure.** It does your organization no good to have actuaries crunching numbers in a siloed environment. Their true value lies in surfacing the right information to the executive team and advising on strategy. Your TOM should address how best to report to senior management while also allowing for greater transparency and accountability to the board.
- **Developing greater understanding of risk and improving risk management.** Risk is a constantly evolving element for any organization and understanding its impact is critical to any insurance company's success and longevity. Evaluating risk is the lifeblood of your actuarial department and should be a key driver for any TOM discussions.
- **Improving coordination among teams.** Actuaries can be more effective when their work is better understood and utilized by the rest of the organization. Technology can certainly help to improve transparency and coordination, but successfully addressing coordination inefficiencies requires taking a deeper look at your organization's structure and policies.
- **Retaining top talent.** While all of the above is critical, it fails without the right people in place. As the demand for actuaries increases both within and outside of the insurance industry, a thoughtful human capital plan to create a strong working environment that allows for necessary growth and advancement should be a key element of your TOM strategy.

A successful TOM should also seek to better coordinate decision makers, carefully orchestrate organizational design, and evaluate when and where centralizing or decentralizing makes sense for your organization.

The question of centralization is an important one and should be thoughtfully considered. Many organizations choose to centralize decision making for their actuarial modeling team, and that may often make sense. The primary reason for centralization is due to the need for strong coordination when the actuarial modeling ecosystem is so interrelated. Monitoring and direction can be easier when centralized, and it also helps to address model risk.

Decentralization has its place as well, however. Relying on the broader team allows for better collection and use of data and knowledge in real time, and more specialization often results in deeper expertise. Lower-level team members might have access to more information and better analysis tools, and decentralization can help facilitate ad hoc communication while taking advantage of diversity of thought and approach. This can be a way for senior leadership to tap into the creativity and innovative thinking of their actuaries. Technology alone cannot solve for this, which is why a crucial part of developing your TOM will be considering whether you keep decision-making centralized, choose to decentralize it across the team, or find a mixture of both.

Why technology is not the complete answer

There are common threads that weave throughout actuarial departments today that keep them from operating as well as they should. Chief among them is flawed job design, with a legacy hierarchy system that does not optimize an actuary's skills. Over time this legacy hierarchy has—whether intentionally or unintentionally—sometimes resulted in job designs for actuaries that are characterized by low discretion, narrow or few tasks, a use of lower skill sets than are optimal, and, perhaps most damaging, poor motivation.

In addition to flaws within the job design, there is an inadequate use of actuarial systems and existing technology, which creates greater inefficiencies and needlessly increases the time spent on manual processes.

While certainly a lack of technology, or not having the right technology, can contribute to these problems, it is not the root cause. Too often organizations turn to a technological solution to solve issues within their organization without first addressing the broader goals of the TOM. This results in the technology itself becoming the focus of transformation, rather than the people.

Technology should be viewed as just one work stream in a highly coordinated program. Focusing solely on technology greatly elevates the risk of a dysfunctional mismatch between your TOM and the technology you're using to achieve it. This lack of alignment means that no matter how sophisticated or robust the technology solution it will be underutilized because the team, and the broader business goals, may not be well suited for it. In short, it can be a massive waste of money and resources.

The role of technology must be evaluated first for its ability to help drive what should be the ultimate outcome of any actuarial TOM—eliciting the right value from the actuaries themselves. When you reframe actuarial transformation as partly a people problem, or more to the point, a people opportunity, then the goals of the TOM more clearly come into focus and technology takes its proper place in a supporting or enabling role.

How to address the "people possibility"

To be clear, the current flaws within the system for actuaries are not actuaries' fault, so it's important to transition thinking away from seeing a "people problem" and instead consider your "people possibility." As mentioned earlier, the focus for any transformation project is to drive greater value from actuaries themselves, and that is why developing the right TOM is the best place to start.

If you think of each individual actuary on your team as their own repository of knowledge and skills, then the goal of the TOM is to better locate, combine, and use the knowledge and skills effectively. That means far more than just efficiency (a problem for technology). It means driving business strategy forward and helping to operationalize strategy—very much a problem for people to solve.

Company leadership looks to actuaries to bring fresh ideas forward that can solve big problems and accelerate the realization of the company's vision and strategy. Actuaries should be playing a significant role in creating and interpreting information, making observations, and offering analysis, insight, and ideas. For some companies, however, flaws in the current organizational structure prevent this from happening.

Actuarial teams tend to be separated from teams focused on innovation. Tasks related to regulatory requirements and financial reporting require more control and hierarchy, and this division creates a host of problems including synchronization and integration.

Attempts to fix these issues have skewed toward greater bureaucracy and a higher demand for rules. While some of this is necessary, it often places undue burden on the actuaries themselves. Increasing regulatory demands are aimed at enhancing the quality of information available to management. However, they may in fact divert actuarial resources from developing and interpreting the information needed to support management action.

Creating greater consistency across teams and using technology to support better collaboration and integration of activities is a good start to implementing the TOM. Driving better utilization of the team's knowledge, skills, and experience, while also using human capital to take advantage and improve understanding of available data, is also critical.

A focus on better utilization of the team needs to start at the top with the C-Suite and board. Authentic and deep-rooted actuarial transformation requires strong leadership.

The role of senior leadership

Undergoing actuarial transformation and seeking to achieve the TOM must be aligned with the broader business strategy, and it is the C-suite and board that have the greatest clarity on that strategy as well as an understanding of where the company needs to be in five years, 10 years, and beyond.

Transformation is more about culture change than anything else. For companies that are really transforming, you can feel it when you walk into the organization. There is an energy that is absent when it is relegated to just technology optimization or reshuffling of the org structure. For this reason, senior leadership should be leery of abdicating the responsibility of setting the tone and vision for the transformation. Senior leadership will of course delegate certain aspects of the work, but continuity from the top is crucial for real progress.

Leadership's responsibility in achieving the TOM is to keep the focus on better utilizing people on the team. To do this, leaders should shift the mindset to be one of "we are on a journey," rather than "we are doing a project that needs an end date so we can move on." That subtle shift in mindset allows the transformation to expand and contract until it fits the organization's needs in the best possible ways.

A lack of leadership often results in a great deal of money spent and opportunity wasted. Without strong and effective leadership, the risk is that teams find themselves essentially doing many of the same things they were doing before, using slightly different technology, perhaps with a shuffling of job responsibilities. Return on investment (ROI) is minimal. It can also result in hidden costs, especially around talent recruitment and retention.

By contrast, engaged senior leaders provide continuity and accountability. It helps the team to see that someone is invested in the progress and outcomes. It also helps to better delineate between control and creativity, and determine which is needed where. It opens the door to inviting in new talent while ensuring existing team members are more inspired to do meaningful work connected to clearly stated goals.

The Hidden Costs of Keeping Talent

Organizations that fail to properly plan and prepare for authentic transformation can be faced with an unexpected cost—that of attracting talent. Individuals are looking to join a company that demonstrates innovation and opportunities to grow, expand, and lead. If your company struggles to make that happen, your competition may look significantly more attractive to the talent you want to recruit or retain. Poor employee engagement and employee churn is a significant cost of failed or struggling actuarial transformations and why it must be a pillar of any TOM strategy.

Conclusion

Transformation remains a critical "next step" for most actuarial departments. But the approach to transformation needs to be adjusted if it is to result in lasting success.

Rather than focus solely on technology, actuarial transformation instead should seek to achieve the organization's Target Operating Model. People will be the driving force in making this happen. Technology, on the other hand, should serve only as one of the tools in achieving this goal. Any successful transformation and a realization of the TOM must be generated by the senior leadership of the organization, in line with broader business goals.

The right approach to the actuarial TOM will result in better utilization of the team and resources, a more effective use of technology, greater retention and utilization of talent, and, ultimately, a more successful outcome of the transformation initiative.



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