

## Next-gen' Solutions Enable Keeping Pace with Regulatory Changes and Rising Demand for Actuarial Services

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The insurance industry world-wide is facing a dizzying number of challenges including increased international regulation and focus on accounting and actuarial standards. The regulatory changes in the international arena include Europe's transition to Solvency II.

Solvency II is expected to come into effect in January 2013 and is likely to affect as many as 6,000 insurers across 30 countries.<sup>1</sup> A report by Standard & Poor's in 2008 titled, "One in Four of Europe's Insurers Could Face Major Strategic Decisions Under Solvency II", highlighted that many companies might not be able to meet the new Solvency Capital Requirement (SCR) under Solvency II. This means tough choices for a large number of Europe insurers.

The insurance sector has witnessed product commoditization, reduced investment return and negative underwriting profits. Firms are increasingly focusing on operational excellence and effective cost management, thus paving the way for the adoption of Business Process Outsourcing (BPO) by insurance companies. The focus has been on BPO because over the years BPOs have proven themselves to be a cost-effective vehicle for delivering a range of services. Recently, BPOs have started providing high-end, value-added services as well.

### Partner with Actuarial Service Specialists to Realize Gains

Within insurance, actuarial services have grown tremendously. Actuaries are now finding themselves increasingly placed within core business areas, not restricted to commercial businesses, corporate strategy, marketing, underwriting, claims management, planning, finance, accounting, planning and budgeting areas, in addition to the more traditional actuarial exposure areas of product designing, rating, product pricing, reserving, re-insurance among others. In a recent survey conducted by CNBC.com on the best jobs in America in 2011, actuaries have come in third.

By partnering with a BPO firm like WNS, insurance companies can leverage our expertise in augmenting their actuarial function and strengthening its effectiveness for more active decision-making support. WNS provides offshore actuarial services utilizing a cost-efficient delivery model, enabling customers to effectively deploy their valuable actuarial resources to strategic tasks.

With demonstrated capabilities in the BPO arena, coupled with a strong focus on quality, WNS's processes and governance are well-suited to create an attractive value proposition for clients.

### Financial Reporting and Measurement

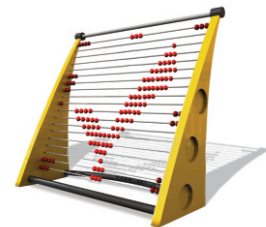
WNS has a strong knowledge of industry best practices as well as insight on emerging financial reporting standards. We work closely with our clients to simplify, rationalize and streamline their reporting processes. We advise and provide them tools that ensure the most accurate and efficient reporting. This typically involves end-to-end delivery of actuarial reporting including data validation, experience analysis, basis generation, validation of models, analysis of change, consolidation and submission of regulatory forms.

We help clients in understanding and implementing new financial reporting requirements, including local country GAAP, IFRS and European / Market Consistent Embedded Value reporting. We also support the development of financial measures and the understanding of potential ranges of financial outcomes ensuring that published information remains in line with external expectations.

### Risk and Capital Management

Increased regulations and a dynamic interwoven global financial market demand effective capital management by identifying the key risks and setting aside capital explicitly for managing those.

<sup>1</sup> Source: Actuarial and Statistical Services at the National Association of Insurance Commissioners, United States.



New concepts and tools are emerging to better assess risks and establish needed capital and reserve levels.

WNS works with clients to advise on capital management in two ways:

- Develop capital models from scratch using available actuarial and financial software tools
- Assist companies in adapting their existing models to incorporate newer, more sophisticated risk evaluation concepts

The result is a complete picture that takes into account a wide variety of risks, for example, underwriting, credit, market, liquidity and operational risks. Each risk is then evaluated for volatility, unforeseen catastrophe, and modeling uncertainty and reserves are calculated to manage those.

### Actuarial Modeling

WNS assists clients in improving governance of the actuarial function – for better controls, increased performance and faster reporting. More specifically, we provide extensive experience in model rationalization and improvements. WNS has vast experience of modeling insurance products to produce customized models.

We offer the following financial modeling services:

- Cash-flow models for individual and group business
- Optimization of existing models for consistency, run-time efficiency, effective audit and control framework
- Loss reserve studies
- Stochastic models for asset-liability strategy and cost of guarantees

Prophet is a widely used actuarial software used by a large number of companies. WNS has the largest team of Prophet modelers in India that help ensure adherence to best modeling practices, better controls and faster delivery of reviewed models.

### Product Development, Pricing and Distribution

Product designing, pricing and distribution are the most critical areas for any insurance company. WNS offers the following value-added, end-to-end services in this area:

- Product review and profitability analysis
- Advanced pricing techniques; for example, catastrophe, stochastic, risk-based techniques
- Integrated pricing, underwriting and valuation framework – increased consistency between pricing, underwriting and reporting processes

- Predictive modeling for customer behavior, relationship value and distribution channel design – understand key value drivers, including cross-selling opportunities for distribution channels
- Specialized work in niche areas, such as cost of assessing the cost of new guarantees and group pricing
- Re-insurance pricing analysis

### Asset Liability Modeling

The projection of assets and liabilities under a range of different possible economic scenarios is important. It provides a methodical framework to identify and quantify investment risk and to evaluate and compare alternative strategies.

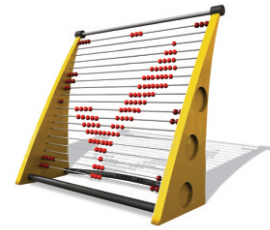
WNS services include:

- Assessment of liabilities using actuarial models
- Developing a framework for asset allocation based on market conditions
- Review of product design and pricing to assess the new business profitability, capital requirements and the quantum of risk undertaken
- Review or development of bonus policy to ensure sustainability and flexibility
- Preparedness for Solvency II or risk-based capital regime

### Marketing and Claims Analytics (GI)

Within general insurance, actuarial services have grown tremendously. There is immense scope for actuaries to assist insurance companies estimate the reserves required for the future.

Acquisition Analytics	Retention Analytics	Claims Analytics
<ul style="list-style-type: none"> <li>■ Segment customer base</li> <li>■ Market sizing</li> <li>■ Developing pricing strategy</li> <li>■ Marketing scorecard</li> <li>■ Channel optimization</li> </ul>	<ul style="list-style-type: none"> <li>■ Retention modeling</li> <li>■ Life-time value of the customer</li> <li>■ Price sensitivity analysis</li> <li>■ Profitability versus retention matrix</li> <li>■ Cross-sell / up-sell strategy and modeling</li> </ul>	<ul style="list-style-type: none"> <li>■ Data foundation activities</li> <li>■ Fraud detection</li> <li>■ Prioritization and optimization of subrogation activities</li> <li>■ Automated claim reserving</li> </ul>



## Claims Reserving (GI)

**Reserve evaluation:** WNS helps clients understand what is at stake in the reserve evaluation, identifying key assumptions, explaining the potential variability and describing the implications.

WNS reserve analysis offers:

- Unparalleled experience and expertise
- State-of-the-art loss projection tools and techniques
- Reports that are clear, concise and informative

**Reserve variability:** The WNS reserve variability models are designed to help clients explain their results to corporate executives, regulators, rating agencies and board members. The models help estimate distribution of possible losses, providing:

- A clearer picture of how to effectively allocate capital among businesses
- Key inputs into economic capital models
- Important insights into re-insurance requirements, including aggregate retention and stop loss calculation

## Solvency II

Solvency II, the planned overhaul of prudential regulation for European insurers is well underway. It is a risk-based, forward-looking regulatory regime founded on a 'total balance sheet' and market-consistent approach.

The draft directive sets a deadline of October 31, 2012 for Solvency II implementation. This new directive introduces a Solvency Capital Requirement (SCR) that is different from the target level that exists in most countries. Given the various levels of maturity and sophistication at which the member countries are operating, implementing the directive would be a challenge. However, a well-planned approach could provide optimal capital, organizational and structural solutions.

WNS works with clients to implement an integrated capital, performance and risk management framework to help their capital models to meet the regulatory requirements. Our experienced team assists clients in accelerating their Solvency II program by providing expertise in the following areas:

1. Actuarial modeling
2. Information technology and data
3. Risk management
4. 'Use Test' of internal models
5. Reporting and disclosure requirements

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To learn more, please write to us at [marketing@wns.com](mailto:marketing@wns.com)