

The challenges of advising international insurance companies

IAA & IPEBLA Joint Colloquium

Mike Lombardi

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GUIDING YOUR BUSINESS TO A BETTER FUTURE

mlbcconsulting.com

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Mike Lombardi is President of MLBC, which provides advice to insurance companies with respect to business strategy, M&A opportunities, reinsurance, and corporate financial challenges.

Prior to forming MLBC, Mike was Executive Vice President, European Acquisitions at Reinsurance Group of America (RGA). In this role, he was responsible for identifying, pricing, as well as executing acquisition opportunities in Europe. Mike held various other positions during his years at RGA, including Chief Risk Officer for the company's Global Financial Solutions Division as well as Chief Pricing Actuary for the International Division.

Before joining RGA, Mike was a Managing Principal at Tillinghast (now Willis Towers Watson) and managed its Canadian life and property-casualty consulting practice. During his 18 years with that firm, he specialized in mergers and acquisitions, financial reporting, and embedded value. Mike is a former President of the Canadian Institute of Actuaries and a former Vice-President of the Society of Actuaries.

Mike has been a presenter to a variety of industry and regulatory audiences including, the Canadian Institute of Actuaries (CIA), the Society of Actuaries (SOA), the Caribbean Actuarial Association, the Mexican Actuarial Association, the Actuarial Society of South Africa, the Society of Actuaries in Ireland and the Institute of Actuaries of Japan. Mike has met and presented to various international regulators including Canada (OSFI), China (CIRC), Japan (FSA), Korea (FSS), Mexico (CNFS) and Taiwan (FSC).

Mike has chaired a variety of professional committees and authored articles dealing with insurance topics. For many years, he chaired the CIA's international committee (now International Council), which is responsible for monitoring IFRS and Solvency II developments, approving delegates to the International Actuarial Association (IAA) committees, and reviewing formal submissions, such as responses to IASB Discussion Papers and Exposure Drafts.



Agenda

- I. Why consult to multinationals
- II. Differences from regular consulting assignments
- III. Consulting challenges
- IV. Case studies
- V. Conclusions



Why consult to multinationals

- Globalization
- Complex issues
- Additional consulting opportunities



Why consult to multinationals?

Globalization

Insurers are increasingly multinational.

Examples:

- Creating foreign subsidiaries
- Entering into joint ventures
- Acquiring competitors
- Having a banking arm or parent company
- Managing cross border investments
- Acquiring distribution capabilities

Complex issues

Insurers expanding into new countries face new challenges....

- Customer needs
- Technological change
- Product regulation
- Language
- Business culture
- Employee relations

....and seek integrated, global solutions

- Accounting
- Financial projections
- Risk management
- Reinsurance
- Benefits and rewards
- Regulatory compliance

Consulting opportunities

Advisors able to leverage their capabilities and extend their global reach will benefit.

- Enhanced reputation
- Deeper relationships
- Increased client revenue
- Additional cross-selling opportunities

More opportunity to form alliances with other experts and centers of influence

- Law firms
- Auditors
- Investment bankers
- HR and pension advisors
- IT consultants

- **The extent to which these drivers are relevant varies by company and by country.**
- **Expected to intensify as competition and technological changes continue to challenge existing business models.**



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Differences from regular consulting assignments

- Team size
- Geographic reach and expertise
- Sales and proposals
- Client decision maker
- Management of assignment
- Executive alignment



Consulting Assignments (Regular vs. Multinational)

Feature	Regular	Multinational
Team size	<ul style="list-style-type: none"> 1-5 consultants 	<ul style="list-style-type: none"> 10-100+
Geographic reach and expertise	<ul style="list-style-type: none"> Local market Narrow focus 	<ul style="list-style-type: none"> Two or more countries Variety of experts
Sales and proposals	<ul style="list-style-type: none"> Single proposal 	<ul style="list-style-type: none"> CRM tools Multi-stage, formal RFP process Finalist presentations
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Management of assignment	<ul style="list-style-type: none"> Informal Simple contract Selling principal acts as informal project manager 	<ul style="list-style-type: none"> Formal engagement letter Full-time project manager
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Consulting challenges

- Business case
- Risk evaluation
- Team alignment



Consulting challenges

Challenge	Questions
Business case	<ul style="list-style-type: none">▪ Impact: How will this client assignment affect our firm?<ul style="list-style-type: none">▪ Profitability▪ Resource allocation▪ Reputation▪ Opportunity for add-on assignments
Risk evaluation	<ul style="list-style-type: none">▪ Business risk: Is this a client we want to work with?▪ Conflict of interest: Are we already working for a competitor?▪ Capabilities: Is the team capable of delivering the required results?▪ Legal risks: If we are sued, what remedies and protection do we have?
Team alignment	<ul style="list-style-type: none">▪ Is consulting firm senior management engaged?▪ Are the right people motivated to pursue this opportunity?▪ How are people rewarded for obtaining the assignment?▪ How are people rewarded for delivering the assignment?▪ How are priorities and resource conflicts to be managed?▪ Are roles and responsibilities clear (both internal and client roles)?▪ Will any of the work need to be subcontracted?▪ How much of the work will require engagement by client staff?

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The consulting process

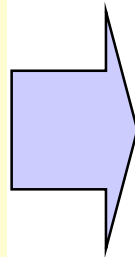
- Broadcast and client marketing
- Qualifying the opportunity
- Developing the proposal
- Planning work activities
- Developing the assignment plan
- Executing the work
- Measuring performance
- Process and product review
- Communication and documentation



Broadcast Marketing

Marketing Media

- Articles and papers
- Press releases
- External conferences
 - Professional
 - Other
- Internal seminars or workshops
- Professional associations



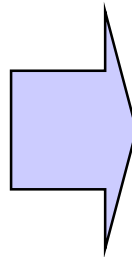
- Raises awareness
- Establishes credibility
- Reinforces technical expertise
- Can provide qualified leads



Client Marketing

Client Marketing Methods

- One on one meetings
- Client presentations
- Client 'workshops'
- Corporate hospitality
- Centres of influence
 - Accounting firms
 - Investment banks
 - Investment analysts



- Builds relationship and trust
- Identify specific business issues
- Demonstrate understanding of issues and your ability to help resolve
- Opportunity to propose for work



Qualifying the opportunity

- Qualifying the opportunity is important
 - Need to make sure it is the right type of business
 - Need to understand the implications of accepting an assignment
- Some basic steps:
 - evaluate the risks and benefits of the potential assignment
 - determine whether you are qualified to undertake the work
 - determine whether special acceptance procedures are required
 - check for conflicts of interest



What is our value proposition?

Tailor your message. Know your audience.

Executive	Basis for decision	Time Horizon	Typical Motivator
Administration	Cost and ease of implementation	Under 1 year	<ul style="list-style-type: none">▪ Lack of internal expertise▪ Compliance requirements
Business leader	Profitability and market share	1-2 years	<ul style="list-style-type: none">▪ Internal promotion▪ Bonus▪ Avoidance of crisis
Senior management	Strategy implementation	3-5 years	<ul style="list-style-type: none">▪ Legacy▪ Vision▪ Share price

Developing the proposal

- The proposal is meant to achieve a common understanding with the client about the assignment.
- The proposal should address:
 - Background and scope
 - the issues and their client implications
 - your objective in assisting the client
 - The benefit of your proposed solution. Examples:
 - questions you will answer; and/or
 - insights they will gain; and/or
 - actions they might take as a result
 - Qualifications: highlight your competitive advantages
 - Overall timescales
 - Data requirements / other dependencies



Developing the proposal (cont'd)

- Deliverables. Consider whether to offer
 - a single overall assignment or
 - break it into a sequence of stages
- Limits on distribution and use
- How client will be charged for the assignment
- Proposed staffing, budget and timetable
- Key terms and conditions
- Any other relevant matters.



Planning work activities

- For “low risk” assignments, a less formal combined proposal and contract can be used
- For “high risk” assignments, consider a separate contract. Examples:
 - appraisals / due diligence / embedded values
 - any project where the work or opinion could be made public.
- For an ongoing client relationship with various projects, it may make sense to have a master “consulting services” agreement.
 - Standard terms and conditions.
 - Additional assignments become amendments to the “scope” section
- Inclusion of a “limitation of liability” clause is strongly recommended
 - E&O insurance may be insufficient or not available
 - Avoids risk of unlimited liability
 - Liability may be limited to fees charged, a multiple of fees charged, or some other negotiated maximum dollar amount



Developing the assignment plan

- Each assignment has a project manager who is responsible for successfully completing the assignment.
- A detailed assignment plan lays out the steps to produce deliverables on time and within budget.
- It should:
 - contain detailed list of work steps for scope of work
 - identify any major project milestones
 - reflect the necessary staffing.
- Getting the assignment plan peer reviewed is recommended as a valuable “reasonableness check.”



Effective project management

- Strong project manager, with clout and wide understanding
- Clarity of roles and timescales
- Prioritization of issues and tasks
- Clear delegation/accountabilities
- Sound communication and co-ordination
- Regular reappraisal in light of developments



Process and product review

- All substantive work processes and work products should be peer reviewed.
- Three types of peer review:
 - editorial review - quality of the deliverables
 - technical review - accuracy of the figures
 - consulting review - soundness of the approach and opinions.
- It is important that peer reviewers have expertise in the work being reviewed and are independent.
- Peer review starts at the proposal stage and continues throughout the project.



Communication and documentation

- An effective communication plan should be incorporated into the assignment at outset.
- Communication should take place both with the client and with consulting team members.
- Proper documentation ensures that clients and team members have a common understanding:
 - Proper documentation is the responsibility of everyone involved on a project.
 - It is good practice to assign one person to
 - organize files
 - remove old drafts or close loose ends
 - file regularly throughout the project



Measuring performance

- Assignment level:
 - client satisfaction survey
 - 360⁰ feedback from consulting team
 - post-project closeout meeting (and follow up!).
- Office or consulting firm level:
 - periodic audit of business practices (proposal standards, documentation, compliance with corporate guidelines)
 - action taken as a result of prior audits
 - plans to take account of any new issues raised.



Case studies

- Company “A”
- Company “B”



“Company A”

- Nature of company and relationship
 - Life insurance company
 - Centralized management
 - Primary markets: Canada, USA, and Asia
 - Had completed a number of local consulting assignments but no significant international work
- Marketing approach
 - Completed several small projects to build credibility and referrals
 - Developed a strong relationship with the chief actuary and several senior executives
 - Recycled papers, articles, and speeches to target audience to demonstrate our relevant intellectual capital



“Company A” (continued)

- Target marketing: demutualization
 - Our firm had demutualization expertise in other markets (but not locally)
 - Arranged several small meetings/informal discussions between chief actuary and our international demutualization experts
 - Followed by more formal presentation to senior management (sponsored by chief actuary and CFO)
 - To demonstrate seriousness of our commitment, also brought along our top firm leader as well as key USA and Australia experts
 - After demutualization assignment, we became Company A’s consulting firm of choice
- Subsequent consulting assignments
 - International review of actuarial reserves
 - Development of corporate projection models
 - Actuarial review of Embedded Value
 - Appraisals and M&A advice



“Company B”

- Nature of company and relationship
 - Life insurance company
 - Decentralized management
 - Primary markets: Canada, UK, and USA
 - Had no relationship with senior management, although pension colleagues had developed strong contacts
- Marketing approach
 - Developed a relationship with the chief actuary and several senior executives
 - Recycled papers, articles, and speeches to target audience to demonstrate our relevant intellectual capital
- Target marketing: demutualization
 - Pension consulting colleagues introduced us to key players
 - Offered to assist with a feasibility review to introduce our experts and to establish credibility
 - Secured our inclusion in RFP process and finalists presentation
 - Brought in senior firm management and our key USA and UK experts



“Company B” (continued)

- Demutualization work
 - Initial feasibility study (3-6 months)
 - Allocation of value work (6-9 months)
 - Approvals
- Subsequent consulting assignments
 - US GAAP work
 - Taxation review
 - International review of actuarial reserves
 - Actuarial review of Embedded Value
 - Appraisals and M&A advice



Conclusion

- Consulting to multinationals can significantly improve your growth and reputation
- However, not for everyone, some caveats
 - Need to have something of real value to offer
 - Need to lay the groundwork early
 - Need to know the company, the key decision makers , and selection criteria
 - Need to know your strengths, weaknesses and key competitive advantages
 - Need to have the appropriate expertise and infrastructure to manage the assignment



Q&A

