



*Optimising capital model
validation resourcing in 2024*

Five actions to take now



Optimising capital model validation resourcing

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CONSULTING

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Introduction

We are delighted to present the results of our market review on capital model validation resourcing. Here, we define 'validation' as the formal internal model validation performed to meet regulatory requirements.

This report will help you optimise your validation resourcing based on up-to-date insights from our market review of 39 firms, conducted jointly with Eames Consulting.

The majority of respondents were London Market insurers, but the findings are relevant to all insurers conducting capital model validation.

Please contact us to discuss how you can optimise your validation process.

Why should firms worry about validation resourcing?

56% of participants in our market review agree or strongly agree that there is a lack of suitable candidates for capital model validation roles.

This is consistent with Eames Consulting's own analysis showing that they are three times more likely to fill Reserving, Pricing and Capital roles than Validation/Risk roles.

More broadly, two-thirds of respondents expected actuarial resourcing shortages to last for at least the next three years. Given that validation resourcing relies heavily on actuarial expertise, validation resourcing shortages also look set to continue for some time.

The real question is: what can you do to address the challenges of validation resourcing? This report gives practical solutions that you can implement in your firm, including five key actions to take now.



Wendy Kriz Evans

Principal

+44 (0)20 3862 0066

wendy.krizevans@lcp.uk.com



Charl Cronje

Partner

+44 (0)20 7432 6751

charl.cronje@lcp.uk.com

Optimising capital model validation resourcing

Five key actions to take now



1. People

Ensure the validation team (including both internal and external components) has the right people with the right knowledge and skills to perform the validation, and create a plan for resourcing over the long term.



2. Contingency

Create a contingency resource plan, including external resource, to address the risk that work planning, recruitment or retention do not go as expected.



3. Front-loading

Determine which aspects of the validation can be done early to help spread the workload over time.



4. Deadlines

Set clear interim milestones and, if these become problematic, promptly adjust plans and resourcing to avoid placing undue pressure on regulatory deadlines.



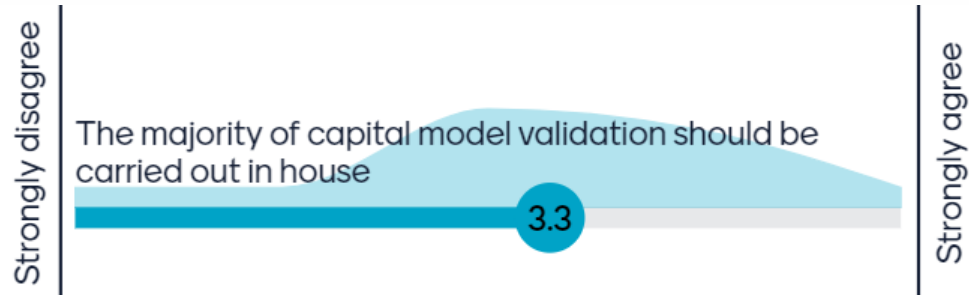
5. Culture

Develop a supportive and collaborative culture and keep abreast of market trends in compensation, benefits and hybrid/flexible working to retain key staff.

Optimising validation resourcing | 1. People

Planning your validation resourcing will depend on the maturity of your firm, the complexity of your model and validation priorities (eg major model changes). The validation team, including both the internal and external components, needs the right people with the right knowledge and skills and independence from the model.




Our market review showed a range of views on whether the majority of validation should be performed in-house. Most respondents favour a blend of in-house validation and collaboration with an external validation partner.



LCP view: Most firms rely on a blend of internal and external validation expertise. A strong external validation partner is key to providing fresh independent challenge, wider market perspective, satisfying independence requirements and ensuring that validation regulatory deadlines can be met reliably.

Longer-term planning

Creating a longer-term validation resourcing plan is important because:

- 
 Your current internal validation team is unlikely to be able to robustly validate the same model for many years in a row.
- 
 Validation requires a market-wide view which your current internal team may struggle to maintain if they are validating just one model.
- 
 Validators need to be independent of the model so any potential future validators should not work in the capital team or close to the model.

Optimising validation resourcing | 1. People

Features of different team structures

Advantages

- Already familiar with firm specifics
- Easier access to other teams in the firm
- Maintain full control and ownership

- Enables in-house validators to focus on specific areas
- Ability to scale up external team size
- Benefit of expertise from external providers
- Access to market-wide views

- Fully independent team
- Team size can be more easily scaled up
- Easier to rotate team members to maintain independence
- Wider view on market practice and trends

All in-house



Combination



All outsourced



Challenges

- More difficult to maintain independence from the capital model
- Can be harder to resource and has increased key person risk
- Scaling up resources at short notice can be challenging
- Less likely to have a view of market practice and trends

- Investment of time needed for planning and collaboration between internal and external validators
- Requires collating validation results from different sources

- Still requires some engagement from the risk and capital teams
- Firm will need to demonstrate overall board ownership
- Can be more expensive in the short-term, but weigh against recruiting costs and maintaining an in-house team all year

Optimising validation resourcing | 2. Contingency

Scaling up resources when needed

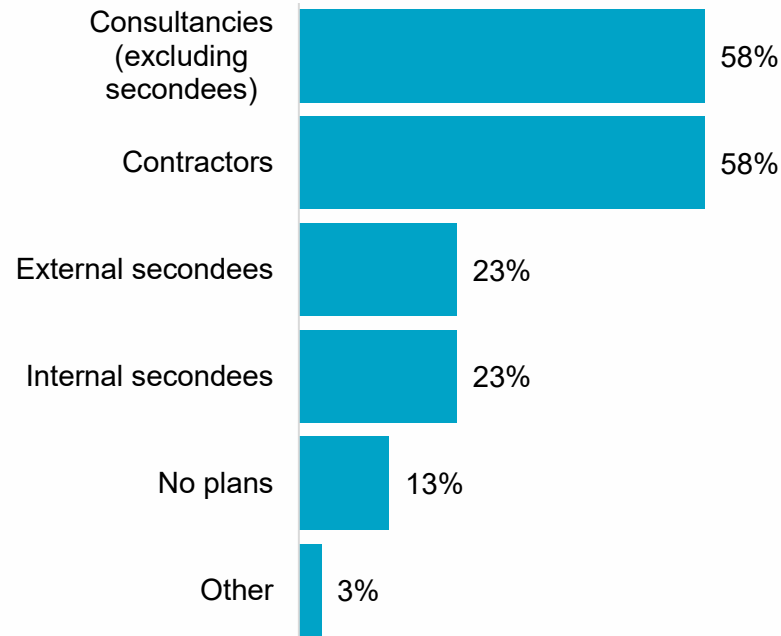
Your validation team will often be the last in the information chain, meaning any delays along the way will compound, increasing time pressure on the team. This creates a risk that you will need additional resources as the validation deadline approaches.

The required additional resources can come from one or several places. In our market review, we asked firms which actuarial resources they are using or planning to use in the next year.

The chart opposite shows that most firms expect to use consultancies and/or contractors – only 13% of firms have no plans to use additional resources. While additional resources can be more flexible, it is important to plan in order to shorten lead times and ensure availability.

In the box on the far right we describe three actions to take now to reduce the risk of needing to scale resources at short notice ahead of deadlines.

Which additional resources are you using or planning to use?



Actions to take now



Create a contingency resource plan, including external resource, to address the risk that work planning, recruitment or retention do not go as expected.



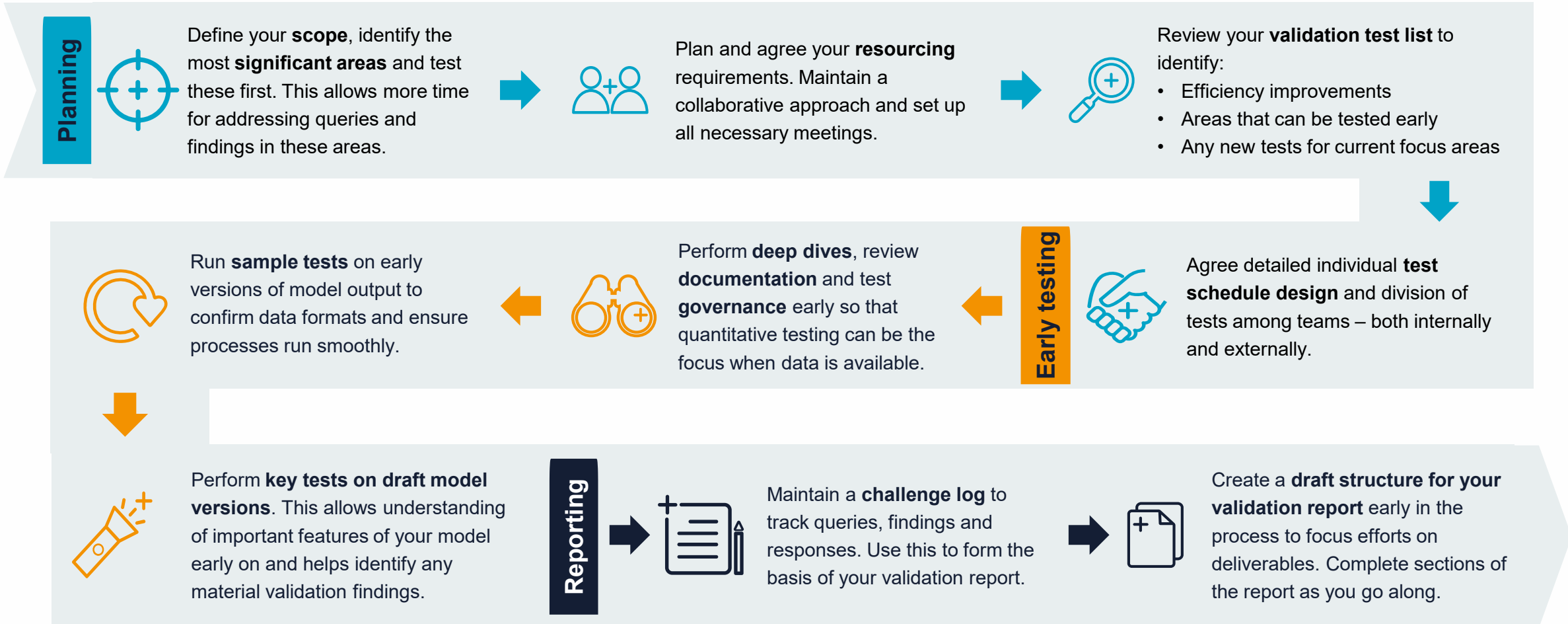
Maintain relationships with external validators and recruitment agencies so you can scale up quickly if needed.



Provide a programme of internal training to expand the group of internal candidates who can perform validation.

Optimising validation resourcing | 3. Front-loading

Many firms find validation deadlines challenging to achieve. 80% of respondents in our market review agreed or strongly agreed that the validation deadlines should be after the associated capital deadline. Following our tips for front-loading your validation will reduce pressure on the delivery of the validation. It will also improve team morale and retention.



Optimising validation resourcing | 4. Deadlines

As discussed in the contingency and front-loading sections, validation teams can often find themselves with unforeseen delays. To help avoid this situation, consider in advance how you will deal with deadline discipline.

These actions will help your validation team by setting and monitoring deadlines within the firm and creating a supportive environment which fosters collaboration.

Actions



Set deadlines

- **Set** clear interim and final delivery deadlines.
- **Prioritise** items necessary to provide the necessary assurance to the Board.



Monitor

- Hold regular **catch-ups** with key stakeholders.
- **Track** deadlines and received dates.
- **Share** the monitoring results with influential committees.



Consequences

- If milestones are missed, **promptly adjust plans** and resourcing to avoid placing undue pressure on regulatory deadlines.
- **Raise** awareness of the financial and reputational consequences of missing final submission deadlines.



Culture

- **Encourage** communication, coordination, and accountability.
- **Develop** a supportive and collaborative culture.



Governance

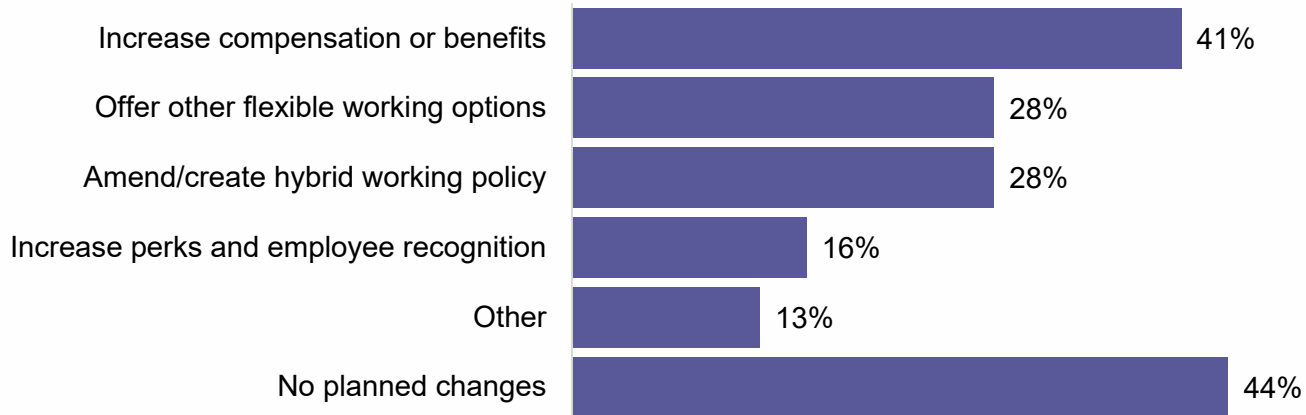
- **Establish** a clear and effective governance structure and oversight mechanism.
- **Ensure** key senior people support the aims of validation.

Optimising validation resourcing | 5. Culture

A supportive and collaborative culture is key to enabling your validation team to perform to the best of their abilities. The validation team need to engage with many other teams, potentially under deadline pressure, so maintaining good relationships with the capital and other teams is essential.

44% of respondents in our market review said they are changing either resourcing plans or team structures due to actuarial resourcing challenges. Additionally, we asked what firms are doing to attract and retain actuarial talent. Many firms have increased compensation and benefits, amended hybrid working policies and offered more flexible working. The chart below shows that 41% of firms in our market review have increased, or plan to increase, compensation or benefits.

To attract or retain suitable candidates my company has already or plans to:



Actions to take now



Develop a supportive and collaborative culture around your validation team.

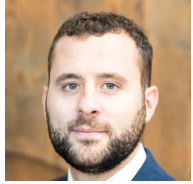


Encourage your validation team to develop relationships across the firm.



Keep abreast of market trends in compensation, benefits and hybrid/flexible working to help retain key staff.

Contact us – Eames Consulting



James Rydon
Partner & Director
+44 (0)79 2121 7363
james.rydon@eamesconsulting.com



Rafaela Fakhre
Partner & Senior Principal
+44 (0)74 5696 1050
rafaela.fakhre@eamesconsulting.com



Hannah Turner
Senior Principal
+44 (0)75 6171 0772
hannah.turner@eamesconsulting.com

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London, UK
131 Finsbury Pavement,
London,
EC2A 1NT

Singapore
1 Finlayson Green,
#15-02 One Finlayson Green,
Singapore

Hong Kong
Level 16, Hip Shing Hong Centre,
55 Des Voeux Road,
Central, Hong Kong

New York, US
115 Broadway Street,
5th Floor, New York,
NY, 10006

Contact us



To discuss how LCP can help you optimise validation resourcing, please contact your usual LCP adviser or one of our specialists below.



Wendy Kriz Evans
Principal

+44 (0)20 3862 0066
wendy.krizevans@lcp.uk.com



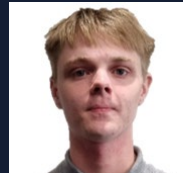
Charl Cronje
Partner

+44 (0)20 7432 6751
charl.cronje@lcp.uk.com



Krinal Dhiru
Analyst

+44 (0)20 3862 0029
krinal.dhiru@lcp.uk.com



Hugo Wood
Analyst

+44 (0)20 3862 0031
hugo.wood@lcp.uk.com

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Lane Clark & Peacock LLP
London, UK
Tel: +44 (0)20 7439 2266
enquiries@lcp.uk.com

Lane Clark & Peacock LLP
Winchester, UK
Tel: +44 (0)1962 870060
enquiries@lcp.uk.com

Lane Clark & Peacock Ireland
Limited
Dublin, Ireland

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