



PolySystems, Inc.

HORIZONS

April 2010

Issue #58
Copyright © 2010
PolySystems, Inc.

EDITOR
Jackie Smith

ASST. EDITOR
Tom Cook

PRODUCTION
Debbie Christensen

CHICAGO OFFICE
30 N. LaSalle Street
Suite 3600
Chicago, IL 60602
P 312.332.5670
F 312.332.2391

NJ OFFICE
2 Executive Campus
Suite 320
Cherry Hill, NJ 08002
P 312.332.5670
F 856.663.8712

www.polysystems.com

Visit Our Website
www.polysystems.com
for the Latest
PolySystems
News and Events!

4 
PolySystems, Inc.
Celebrating 40 Years of Service

Model Audit Rule: Transforming More Cost Into More Opportunity

—Timothy C. Cardinal, FSA, MAAA, MBA, Vice President

During “March Madness,” I heard experts debate and compare coaches’ abilities to develop good game plans. We all know the best game plans cannot remain static; they are inherently dynamic. Many coaches make adjustments at half-time. Winning coaches and players make subtle adjustments before the first TV time-out, while the cheerleaders are shooting T-shirts into the stands, and whenever else the opportunity arises throughout the game.

The Model Audit Rule (MAR), the NAIC version of Sarbanes-Oxley (SOX), became effective 1/1/2010 and has been adopted by 49 states. Mutual companies now have similar costs and regulatory burdens as SOX-compliant public companies.

What adjustments should you be making to your MAR/SOX Game Plan?

Creating a Game Plan

First, consider Management’s view – is Reporting a cost center and is SOX/MAR a cost or an opportunity? I am reminded of the classic Miller® Lite ad in which two groups of athletes shout “tastes great” and “less filling” at each other. They are in apparent disagreement over two desirable qualities. The MAR ad slogan, in stark contrast, could instead be the undesirable qualities “more cost” and “less opportunity.”

There is no doubt about “more cost” – companies are spending millions on MAR. We learned from SOX that post-implementation compliance costs are also substantial. Resources are diverted away from value-creating activities and opportunities. Are MAR costs similar to other operating expenses in that the only opportunity to enhance one’s relative low cost position is by being able to manage and minimize costs better than competitors?

Game winners will differentiate themselves by being able to transform MAR from a pure cost and an ongoing drain on resources by leveraging MAR into an investment in their financial framework and resultant decision making. Given that everyone will incur big budget costs, game winners will choose wisely where and how to invest.

Executing a Game Plan

The first half of MAR implementation consists of evaluation, diagnosis, planning, establishing a budget and starting a host of projects. For many companies, big ticket items to document and control include IT and actuarial processes. In the second half, companies fight deadlines and budgets as they wrap up lagging projects and remediation and realize that executing the Game Plan can be more challenging than anticipated.

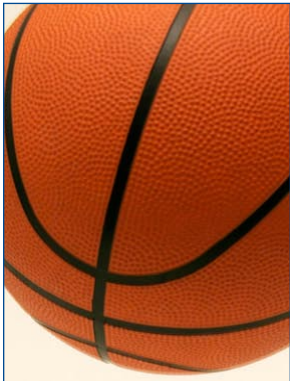
What second half adjustments can you make? Is more remediation needed than expected? Do you have one linked-spreadsheet too many? Are you running out of time? There is still time to win the game.

Consider whether your important processes are receiving passing grades on controls and documentation. Does your report card identify:

- operational inefficiencies such as manually intensive, highly variable, perhaps spreadsheet driven processes;
- processes containing quick fixes, stop-gap solutions, and numerous intervention points; and
- limited tools, linear processes, numerous bottlenecks, breakdowns and re-runs?

Such workarounds result in higher operating costs. There are direct costs, such as time, since work is tedious and challenging for the preparer, reviewer, and auditor. Changes to the process can be incomplete, cumbersome, intensive, time consuming, and costly. Unstable infrastructures as a result of inconsistent development and maintenance and chronic resource demands and conflicts lead to capacity limitations. Staff resources are stretched as well because of issues with cross-training, business continuity, disaster recovery, and knowledge creation and transfer.

Thus, the real costs are opportunity costs. Management needs timely, insightful information and answers regarding current/forecasted earnings, risks, and capital and liquidity. Is your reporting information disconnected from strategic and



tactical decisions? The quality and usefulness of information provided to Management should not be compromised due to a deficient framework.

Being MAR/SOX compliant by building controls around weak processes without addressing the underlying infrastructure exacerbates the operating and opportunity costs. PolySystems can help you leverage your MAR/SOX budget to capture an opportunity to improve your financial and risk framework. Instead of spending on controls for dysfunctional processes, collaborate with PolySystems to invest in your infrastructure and spend less on control implementation and maintenance. We have expertise, knowledge and experience.

Finishing the Game

Winning games takes more than a good game plan and tactical adjustments. It takes fundamentals, preparation, and team chemistry (the framework and parts aligned and working together). Finally, players (staff) have to make the plays (execution).

PolySystems can help you:

- Customize and integrate your financial framework—business close, forecast and corporate models—and operate with best practices by attaining the best fit.
- Streamline and automate begin-to-end processes and interfaces removing/solving quick fixes and stop-gap solutions.

- Build customized reports, metrics, and controls, collaborating on format and content.
- Document methods and processes and develop position papers.
- Review organizational structure for functional optimization and elimination of bottlenecks.
- Train staff.

The tangible benefits of a relationship with PolySystems include:

- Financial reporting and recommendations that are accelerated, accurate and complete, providing Management with a greater level of confidence to base its strategic and tactical decisions.
- A cost effective, scalable, flexible and adaptable financial infrastructure that meets business needs and demands.
- More accurate and reliable and refined experience studies for product development and data for reinsurance treaty negotiations.
- Increased productivity.
- Potential to reduce annual audit fees.

Contact Bob Keating at 312.332.5670 or via email at BKeating@PolySystems.com and we will help you develop a strategy to win the MAR Game. 🇺🇸



PolySystems Welcomes Tim Cardinal

—Robert S. Keating, Vice President

Tim Cardinal joined PolySystems in February 2010. Tim had been at Ohio National which, during his 19+ years there, grew from \$2 to \$26 billion in assets. He was an Executive Officer and most recently, was in Risk Management. Tim previously led the Actuarial Financial Reporting and Corporate Actuarial functions for 10+ years where he was responsible for business close, planning, etc., and a host of corporate issues.

In his own words...

“What attracted me to Poly was the combination of great people, products and services. I have countless hours of hands-on and high-level experience in using a financial framework built on Poly’s products to provide Management information, insights, and solutions to

make decisions and solve pressing business needs. I am excited to have the opportunity to innovate value creation and to provide solutions through collaboration with clients and Poly’s experts by utilizing, leveraging, and enhancing existing frameworks. It is a perfect match for my entrepreneurial drive and my strong belief in striving to do existing and new things better.”

When not in the office, Tim enjoys time with his wife and two children. His interests include listening to classical and jazz music; reading history and biographies; playing card, board and video games; and watching basketball and football. He has a B.S. and M.S. from University of Illinois and an MBA from University of Cincinnati. 🇺🇸

June is a great time to travel to Chicago and stay “in the loop” on the latest U.S. reserving principles. Visit www.soa.org to register!

June 9 – Traditional Life

June 10 – Universal Life

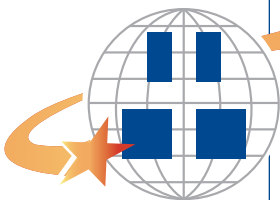
June 11 – Deferred Annuities (fixed & variable)

Health Training Class June 22–23, 2010

PolySystems is hosting a complimentary health training class in June covering HealthMaster, HealthMeasure, and HealthDelphi. Look for more information on our website and in your inbox soon!

Date: June 22–23, 2010

Location: PolySystems – Chicago, IL 🇺🇸



BITS & BYTES It's Time for Training!

—Jackie Smith, Actuarial Assistant

Reserves Courses – “Keeping You in the Loop,” Chicago’s Loop!

Once again PolySystems is cosponsoring Reserves Courses with the Society of Actuaries.