Current challenges and solutions in the insurance industry
The financial services industry is in the midst of transformation toward a new reality. The whole picture must be understood, from every perspective.

Those who do not adapt will be left behind.
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In the Swiss market, the insurance business is regarded as stable, with demand for insurance cover running well above the international average.

The framework of macroeconomic, social and technological conditions has changed. New ideas are called for. Stricter regulation, changes in client behavior and increased transparency of pricing pose additional challenges for insurers. Coupled with high volatility on the capital markets and persistently low interest rates, these factors are creating a growing need to take action. An adaptation of the business model is inevitable. Investments in innovative solutions and in the digitization and industrialization of processes will improve the advisory experience for clients in the long term, thereby enhancing competitive edge.

This brochure explores the increased expectations that insurers must meet. We hope you enjoying reading it and look forward to discussing it with you.

Achim Bauer
Partner
Insurance Leader Switzerland
A new reality

The insurance industry is undergoing a fundamental transformation process that will create a new reality. In the past, the financial industry was heavily dollar-based and mainly controlled by the Western world, with low levels of automation and technology in its business processes. In the new reality of the future, the financial industry will be based on multiple currencies, with a multipolar orientation and business process which are highly automated and digitized.

The drivers behind the current transformation process are the shift in the geopolitical power structure; demographic change; changes in customer behavior; changing values in society; technological advances in social media and data management; and sharp increase in regulation following the financial crisis.

The current change process is shaped by four factors: volatility, uncertainty, complexity and ambiguity (VUCA). These forces are impacting all financial institutions.

Business fundamentals are changing and value chains are undergoing restructuring. This is not an orderly transition; on the contrary, what we are seeing is a seismic shift that is generating instability. This phase has already started and is set to continue over the next ten years.
Current challenges and solutions in the insurance industry
Superficially, the insurance business is stable. Premium volumes are developing at a relatively steady pace over time, with a few exceptions, such as the occupational pensions segment. On the other hand, high volatility is evident in financial results and economic balance sheets, especially in the life insurance business. This is due to trends on the capital markets. If interest rates rise rapidly or current rates fall further (or even turn negative), this will have a major impact on insurers’ financial circumstances. Movements on the equity and real estate markets also translate into more volatile results for insurance companies.

Insurers take on risks related to the entire national economy. This means that uncertainties are part of the insurance industry’s core business. The underwriting models used to value these risks are based on numerous assumptions about actuarial uncertainties. The life insurance business is also confronted with additional political uncertainties. Decisions about tax concessions for individual life insurance policies or restructuring of the first and second pillars would have far-reaching consequences. The insurance business also deals with uncertainties arising from new technologies and changes in client behavior.
Complexity

These uncertainties, coupled with the volatility described previously, are increasing the complexity of actuarial models and of the entire process chain. The need for a multi-channel sales strategy and customized products makes matters even more complicated. The regulatory framework requires additional collateral, validated assumptions and greater transparency. Business processes are also becoming more complex as insurers adapt their products and sales to the new reality and the continual growth of the investment universe.

Ambiguity

The rapid succession of trends that have swept through the insurance market in recent years act in different directions. It is impossible to project the future with any clarity. The insurance industry is facing up to the ambiguity of new reality by envisioning scenarios with financial, strategic and political dimensions.
Impact of VUCA in the insurance industry

To survive in the new reality of the future, interdisciplinary action is required across these areas.

Furthermore, new regulatory requirements have to be implemented. Audits must provide assurance by anticipating developments and assessing their influence on the insurance company, together with the board of directors and the management.
One thing is clear in the current environment: those who do not adapt will be left behind. Companies must take measures in order to master their entry into the digital world. The corporate strategy must be reconsidered and the business model optimized. Changes in customer behavior, pressure on margins and stricter regulations are forcing banks to reorient their value chains. Banks will need new ideas and concepts in the new reality. And we are not talking about gradual adjustments. Rather, the sector is essentially facing a paradigm shift. IT is a key strategic element as a means of guaranteeing an organization’s growth, scalability and efficiency in the context of VUCA.
“Strategy is defined by where to play and how to win.”  Achim Bauer, Partner
Rethinking the strategy

In past decades, corporate strategies were based upon a fundamental understanding of value creation, the validity of which has eroded over time. Financial institutions must rigorously adapt their strategy to a new reality. However, many aspects of the future playing field are not yet foreseeable. And companies must be agile enough to respond more quickly. Specific aspects of the strategy have to be reviewed more than once a year. In addition, companies have to cope with an unprecedented array of parallel strategic priorities: implications of regulatory changes, sustainable enhancement of efficiency, profitable earnings growth and a reorientation of the business model to a new reality.

These developments put a company’s performance capability to the test. A strategic interpretation is key to converting risks into opportunities, driving ahead market consolidation, transforming business models and optimizing the value chain. Restructuring operations and acquisitions will be core elements of many corporate strategies in the coming years. In the new reality, the message is clearer than ever before: Get big, get niche or get out.

An isolated perspective does not help our customers achieve their objectives. This is why our strategy advisors are fully integrated members of a team, contributing the proven experience that is critically important for you on subjects ranging from regulatory aspects or operations and IT to finance, tax and legal.

We also stand out from our competitors because of our pragmatic, results-oriented approach, offering the benefits of our technical advisory know-how combined with transaction support skills.

EY’s strategy team can work with you to help you adapt successfully to the new reality.
Transforming business models

“The entire value chain needs to be adapted to the new economic framework conditions.” Achim Bauer, Partner

Strategic realignment will in turn lead to review and revision of business models. Business models which were successful in the past may no longer be economically feasible in the new conditions.

There are major differences between insurers’ business models. Moreover, insurers have to deal with very different challenges. But one factor is common to them all: pressure to change is increasing due to regulation, the low interest environment, demographic trends, technology and client behavior. Businesses must find ways to pursue seemingly conflicting goals in parallel. Specifically, this means boosting efficiency and growing at the same time, or cutting costs and investing in IT systems or process adaptations—all against a background of changing client behavior.
**Costs**  Pressure on margins is growing. Especially in life insurance, the business model is being questioned in light of persistently low interest rates. Businesses have to produce at lower cost because earnings in traditional business areas will decline. The path to the future is marked by greater automation, industrialization and standardization of core business. Insurers are breaking up value chains, increasing process standardization and automation, focusing more on centralization, reviewing sales channels and stepping up outsourcing for certain functions while transferring others from the front office to the back office.

**Clients**  But these steps are not always enough to react successfully to changes in client behavior. Client structures are constantly becoming more diverse. The rapid availability of transparent information is bringing about fundamental changes in consumer behavior, and companies need to change the way they communicate and interact with clients. Relations between clients and providers are being remolded.

**Digitization**  Businesses that develop and implement an integrated IT strategy will gain competitive advantages. They will strengthen relationships with customers and enhance the client experience while boosting operational efficiency and keeping service costs low. Technology is a decisive competitive edge in this context.

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**Key prerequisites for future success**

include a sharper client focus; the creation of new sales channels and products – and review of those already in place – and simplification of complex processes. Success hinges on achieving the best possible balance between clients, costs and digitization – with fewer, but better resources and processes. This is the way to secure a competitive edge.

With knowledge of the entire peer group and benchmarks at all stages of the value chain, EY draws on a wide range of industry models and our lengthy experience to offer enormous benefits. Our integrated approach to business optimization is based on the underlying factors of time, costs and quality within your organization, with the aim of identifying areas where sustainable optimization is possible.
Transforming control & support functions

“Requirements for control and support functions will change fundamentally in the new reality.”

André Dylan Kohler, Partner

When the financial and economic crisis emerged, initial dramatic changes were seen in the requirements for the finance and risk management control functions. This was coupled with increased expectations around cost efficiency.

Now, the new reality calls for a strategic realignment of both control and support functions. What is important is that this will entail a sustainable improvement in efficiency by industrializing administrative and transaction-based procedures in a standardization drive. Even more important, however, is the new contribution that these functions need to make to value creation, and an entirely new type of cooperation between the functions. In today's evolving regulatory environment, insurers must combine their risk and finance functions.
**Integrated risk management** The time has come when risk management can no longer be regarded as a separate function within an insurance company. Integrating risk management with overall control of the business is not only best practice nowadays – it is also a regulatory requirement according to the risk-oriented regime of the Swiss Solvency Test and EU Solvency II. Risk management’s responsibility used to be limited to preparing risk information for control purposes at the end of the chain, but that era is finally over. Finance and risk management are also growing closer together. As well as significantly stricter regulatory reporting requirements, this is also due to new accounting standards, including IFRS 4 and 9.

Likewise, the requirements for internal audit as the third line of defense have increased under risk-oriented regulatory regimes. The main requirement here is for specialized technical skills, which were not so necessary in the past. Like risk management, compliance functions too are gaining in importance. Compliance can only succeed once it climbs down from the ivory tower and moves closer to the business. Many insurers have already implemented concepts aimed at improving their expertise in risk management and compliance functions as well as internal audit. Rotation of employees between different disciplines and co-sourcing models enhance the quality and efficiency of support functions.

EY has extensive experience of risk management, compliance and internal audit.

Our experienced professionals can help you introduce innovative new concepts and assist your co-sourcing efforts in areas, such as actuarial services, IT, tax and legal.

As one of your key strategic sponsors, we will work to help ensure that you benefit from the “no surprises” approach.
Adapting IT infrastructure & data management taking into account information security

“Data and analytics play a decisive part in coping with the implications of VUCA.” Andreas Toggwyler, Executive Director

The strategic importance of IT and the value of data must be recognized as a key production factor. There must be a clearly defined technology strategy at the heart of every insurance company. IT systems and harmonized data management make it possible to implement the necessary changes to business models and processes with agility and cost efficiency. In addition also the appropriate protection of data is key.

By integrating IT architecture and implementing efficient data management, financial services providers can improve their agility and equip themselves to react to changes more quickly and adequately. The integration of data and application architectures remedies some of the legacy complexity that has developed over time. This approach will simultaneously unlock opportunities to tap into new business areas and improve
risk mitigation with the help of data and intelligent analyses. Dynamic data that can be collected and evaluated over time is gradually becoming more important than static data. Dynamic data makes it possible to measure customer behavior and to implement new types of segmentation—offering significant advantages for marketing, sales and digitization especially. Methods of this sort have already become established in retail banking and insurance, and they are also emerging as a critical success factor in the asset management business. These new approaches also open up the way to efficiently supplying management and supervisory authorities with the information they require. Thereby the value of data has increased significantly for insurance companies and therefore this data has also to be appropriately protected from new cyber risks.

**IT systems**  Current IT systems, often legacy systems that have developed over time, are in need of a thorough overhaul. The growing mass of information and the constant increase in cost pressure are forcing institutions to examine possibilities for stepping up the joint use of key resources. This calls for IT architecture that allows standardization and industrialization of business processes. End-to-end integration at the application level is the basis for a faster and more efficient response to regulatory requirements.

**Data management**  Data has a particularly significant role in the new reality. The prerequisite for functional data management is an integrated data architecture that enables efficient business-wide generation of standardized analyses and reports from a variety of perspectives. A comprehensive data management concept is essential in order to respond efficiently to regulators' increased requirements. This is why the growing complexity of data management calls for an expansion of data governance, in order to ensure the integrity and quality of data throughout the enterprise.

**Digitalization and Security**  Changes in customer behavior in a changing market—due to digitization in particular—are significantly increasing demands on companies’ analytical capabilities. Processes and technologies that enable forecasting of likely customer behavior and the development of a customized offering are required. The most common applications include client segmentation, strengthening customer loyalty, increasing turnover and profitability, and credit scoring. Digitalization and the introduction of new distribution channels are also leading to new challenges with regards to
data security. Cyber risks and threats will continue to increase and insurance companies have to make sure that their cyber security measures are aligned to the fast and significantly changing environment they are operating in.

**Insurers can strengthen their position if they are agile enough to exploit changing market conditions to their advantage.** When the aim is to support the necessary transformations of strategies and business models so as to generate profit, a clearly defined technology strategy is the key to success.

**EY** focuses on the benefits and uses of data, facilitating gradual, value-oriented expansion in line with the IT strategy defined in the business. Our experience shows that the special requirements for data can be developed successfully from the strategic perspective. Adopting an integrated approach, we provide support for your data-driven transformations.

Whether you are launching a reorientation or harmonizing your existing solutions, EY has the proven teams, experience and process to move your project forward.
Current challenges and solutions in the insurance industry
“A performance-oriented culture is not the result of corporate success—it is the decisive factor in that success.”

Jörg Thews, Partner
Changing corporate conduct and culture

Corporate culture must be developed and influenced over the long term in order to attain effective implementation of organizational objectives and to make businesses more dynamic and adaptable. In this sense, culture is even more important than structure as a competitive factor.

To achieve this, corporate goals, values and desired behavior patterns must be reviewed and transformed into actual work practices and decision-making principles in day-to-day working life.

A corporate culture that is successfully geared to the goals calls for effective and efficient implementation of the strategy and organizational requirements as the outcome of the activities and decisions of all employees.

Ultimately, the necessary, desired culture is not recorded on paper – it is evident in everyday working life and in day-to-day dealings with clients. Any deviations must be specifically addressed and corrected using the various mechanisms that are available.

This creates trust, which is of paramount importance in the insurance business. The conduct of client advisors, for example, in their regular interaction with customers is a particularly critical factor here. The desired behavior should not be controlled primarily by checks and the threat of sanctions, but by an understanding of objectives and values, and by gearing all the elements of the organization toward supporting the implementation of that behavior. To ensure a lasting transformation, operational change must go hand in hand with cultural change. Key target groups must be defined for an adaptation of the culture, and they must be involved in determining the vision, the objectives and the behavior patterns. If all the main players and decision-makers are involved in initiatives to deal with specific issues, cultural change will happen naturally. A performance-oriented culture is not the result of corporate success – it is the decisive factor in that success.

Let’s join forces to transform your corporate culture into a competitive advantage. Benefit from EY’s international competence centers in Switzerland and our wide-reaching experience with peer group companies.

Our approach is designed to deliver changes in corporate culture with direct, measurable and lasting impact.
Current challenges and solutions in the insurance industry

Implementing new regulatory requirements

IMD II; MiFID II; MiFIR; FIDLEG; EMIR; PRIIPs; CRD IV; CRR; AIFMD; UCITS V + VI; ELTIF; EuVECA; MAD II; RDR; FATCA; and the Dodd-Frank Act: these are just a few examples from the jungle of abbreviations and acronyms that insurance managers have to struggle through all over the world. Regardless of their size and diversification, all businesses have to negotiate their way through this labyrinth of regulatory changes. Failure to comply means risking sanctions and fines.

Client protection  Ever since the start of the economic crisis, organizations have had to tackle enormous challenges in order to maintain their existing relationships with clients. The crisis has directly impacted clients’ perceptions and the way they interact with their service providers. Insurance companies have to adjust to the new pressure on the markets: to stay competitive, the client’s experience and brand perception have to be improved, while complying with existing or future legislation and provisions on client protection. These changes should improve client protection and ensure the quality of financial services.

Tax transparency  Tax transparency seems to be the buzzword of the moment. Businesses have to take a proactive approach to this issue—not only for their clients, but also as regards their own tax position. The key factors at client level
are FATCA (the Foreign Account Tax Compliance Act) on the one hand, with CRS (the Common Reporting Standard) and AEOI (Automated Exchange of Information) on the other. At the corporate level, the Organisation for Economic Co-operation and Development (OECD) has initiated BEPS (Base Erosion and Profit Shifting).

The US Internal Revenue Service (IRS) is using FATCA in an attempt to contractually oblige all foreign financial institutions to identify their US clients and to disclose those clients’ assets and income. FATCA has been effective in phases since July 2014, forcing institutions to make significant changes to their systems and processes. Fiscal aspects are an important component of FATCA implementation, but the focus is on setting up the organization, processes and client management.

The OECD has published its proposal for a Common Reporting Standard (CRS) and an international Competent Authority Agreement (CAA). Both are intended to govern the automatic exchange of information on tax matters. In general, the CAA and the CRS require the exchange of client data, which the corresponding financial institutions must collect in the participating countries. The exchange takes place automatically between the tax authorities involved and at regular intervals. The CRS is intended to provide information not only about natural persons, but also about the beneficial owners of foreign companies, trusts and foundations. If the CRS is adopted in 2014, reporting obligations could already be in force from 2016 onwards.

The trend towards total tax transparency is not limited to businesses: Base Erosion and Profit Shifting (BEPS) is an Organisation for Economic Co-operation and Development (OECD) measure intended to prevent profit-shifting to low-tax countries so as to eliminate double taxation, low taxation and non-taxation. The OECD is working intensively to implement the action plan which it published on 19 July 2013. Your company would be well advised to assess its situation on the basis of the new proposals published by the OECD in September 2014. As they attempt to reconcile compliance obligations and risk-related aspects, insurance companies should begin to take a critical look at their existing business models.
Implementing the numerous laws separately is a costly and inefficient approach. Instead, insurance companies have to focus on reform as a whole as they decipher the meaning of each individual regulatory project. The objective should be to determine the interrelated aspects of the processes, and how they impact the entire business and the business model. This will create leeway in the future so that compliance requirements can be met.

Regardless of whether national or international regulations are involved, we believe that an integrated approach to present and future regulatory changes will prove beneficial in the long term. Through our globally connected teams with local roots, EY maintains a continuous dialogue with national and international authorities and regulators. We can deploy our wealth of experience to help you exploit synergies. That is what makes us a strategically important sponsor in preparing for and implementing these regulatory regimes.
“Additional regulation only brings security if companies understand the concepts behind it.”

Thomas Brotzer, Partner
Auditing in the new reality – security, future prospects and added value

Clarity, simplicity and certainty have enormous value in the new reality of increasing volatility, uncertainty, complexity and ambiguity. These are the very factors that make assurance and trust possible. Ultimately, they are the essential prerequisites for soundly based analyses and sustainable decisions.

A comprehensive audit offers far more than a mere confirmation of compliance with legislation, regulations or relevant standards. It helps companies to understand the various financial reporting documents, such as financial statements, risk and controlling reports or performance reports, and to set them in the relevant context. It provides transparency and clarity with regard to the essential business processes and the quality of the control functions.

A comprehensive audit is future-oriented; it provides impetus and benchmark comparisons, and singles out relevant opportunities and risks. In these ways, we create added value for companies’ stakeholders and investors.

We focus our organization consistently on the financial industry, and we occupy a leading position in the audit sector. Our approach makes us a reliable and trustworthy service provider as we tackle the challenges and future opportunities for banks, insurers and fund companies, day after day and around the globe.
The EY service spectrum essentially spans:

- Financial Audit
- Regulatory Audit
- Compliance Audit
- IT Security Audit
- Sustainability Audit
- Risk Assurance Services
- Investment Performance Services
- Financial Accounting Advisory Services
- Internal Audit

We are here to help you.
Talk to us.

“Comprehensive audits reduce uncertainties and increase confidence — key requirements for good decisions.”

Patrick Schwallier, Partner
“Change means opportunities for insurance companies. For you. For us.”

Achim Bauer, Partner
Your contacts

Marcel Stalder
Partner
Leader Financial Services Switzerland
+41 58 286 31 11
marcel.stalder@ch.ey.com

Achim Bauer
Partner
Insurance Leader Switzerland
+41 58 286 34 12
achim.bauer@ch.ey.com

Rethinking the strategy

Achim Bauer
Partner
+41 58 286 34 12
achim.bauer@ch.ey.com

Nick Blaydes
Executive Director
+41 58 286 33 74
nick.blaydes@ch.ey.com

Transforming business models

Jörg Thews
Partner
+41 58 286 35 67
joerg.thews@ch.ey.com

Eric Lefebvre
Executive Director
+41 58 286 46 76
eric.lefebvre@ch.ey.com

Transforming control & support functions

Sabine Betz
Partner
+41 58 286 36 37
sabine.betz@ch.ey.com

Phil Vermeulen
Partner
+41 58 286 32 97
phil.vermeulen@ch.ey.com

André Dylan Kohler
Partner
+41 58 286 33 78
andre-dylan.kohler@ch.ey.com

Andrew Gallacher
Partner
+41 58 286 31 20
andrew.gallacher@ch.ey.com
Adapting IT infrastructure & data management taking into account information security

Andreas Toggwyler
Partner
+41 58 286 59 62
andreas.toggwyler@ch.ey.com

Tom Schmidt
Partner
+41 58 286 64 77
tom.schmidt@ch.ey.com

Davide Gobbo
Executive Director
+41 58 286 35 03
davide.gobbo@ch.ey.com

Changing corporate conduct and culture

Jörg Thews
Partner
+41 58 286 35 67
joerg.thews@ch.ey.com

Eric Lefebvre
Executive Director
+41 58 286 46 76
eric.lefebvre@ch.ey.com

Implementing new regulatory requirements

Thomas Brotzer
Partner
+41 58 286 34 12
thomas.brotzer@ch.ey.com

Stefanie Gey
Partner
+41 58 286 38 42
stefanie.gey@ch.ey.com

Auditing in the new reality – security, future prospects and added value

Stefan Marc Schmid
Partner
+41 58 286 34 16
stefan.schmid@ch.ey.com

Rolf Bächler
Partner
+41 58 286 44 95
rolf.baechler@ch.ey.com

Christian Fleig
Partner
+41 58 286 3214
christian.fleig@ch.ey.com

Thomas Nabholz
Executive Director
+41 58 286 38 98
thomas.nabholz@ch.ey.com
From all perspectives – understand the whole picture.

www.ey.com/ch/perspectives
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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