Finance transformation in insurance: a strategic imperative

To foster growth and effectively partner with the business, finance leaders and their teams must balance strategic and operational priorities

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Executive summary

In an industry facing disruption on multiple dimensions – including technological, regulatory and competitive pressures – the ability to transform critical functions and operations is essential to improving performance and creating the conditions for future market leadership. Nowhere is that truer than in finance organizations across the insurance sector.

Ongoing consolidation and merger activities, intensifying regulatory pressures, and the imperative to adopt big data and advanced analytics are shifting the market landscape. These forces have made finance transformation a strategic imperative for chief financial officers (CFOs) and other senior leaders at life and property and casualty (P&C) carriers, as well as specialty reinsurers.

The bottom line is that finance teams must strike a delicate balance between four critical priorities that sometimes conflict:

- Driving the business forward by promoting better decision-making and providing more accurate, real-time reporting and better insights
- Increasing efficiency and reducing costs in the finance back-office through common platforms, increased process automation and standardization, data governance and an effective operating model
- Promoting strong governance through appropriate controls to help reduce financial risk and streamline the regulatory compliance process
- Providing a point of process and data integration with actuarial as well as the risk management functions which previously operated separate pillars

These imperatives – along with the associated benefits – extend beyond the boundaries of finance. In that sense, finance transformation is often an enabler of broader enterprise transformation efforts.

This paper explores the “why” of finance transformation in insurance, while also outlining the “how” with a high-level view of initial steps finance leaders and teams can take to move their organizations forward in a time of considerable turbulence.
Why finance transformation? Why now?

A range of external megatrends has moved finance transformation near the top of the strategic agenda for all types of insurers:

- Ongoing merger and acquisition (M&A) activities as well as the need to consolidate previously unrationalized, related entities
- Increasing regulatory pressures in the aftermath of the global financial crisis
- Rising consumer demand for personalization of products and services, as well as for enhanced digital experiences
- Subpar investment portfolio performance and its impact on product pricing, annuity offerings and capital requirements

A number of internal drivers are in play as well. Some of these are by-products of the external forces described above, while others result from the organic and inorganic (or M&A-driven) evolution of finance capabilities and organizations. These include:

- The need to serve as a more enabling and strategic partner to the business, largely through a focus on data analytics and value-adding analysis
- Increasing demand for high-quality and easily accessible performance data within finance and across the enterprise – most notably from tax, risk and actuarial units
- Ongoing cost pressures to reduce finance costs to be in line with industry-leading practices and shareholder expectations
- An aging and long-tenured workforce and a limited availability of skilled talent
- Inflexible and siloed legacy systems that make it cost- and time-intensive to meet information requests – as well as constraining business responsiveness

Collectively, this set of unprecedented challenges has dramatically raised the stakes for the finance function's role. It has also revealed critical weaknesses and gaps in the organizational structures, skill levels and capabilities at many insurance finance organizations. As a result, finance leaders are seeking major advancements on several fronts concurrently – hence, the need for broad-based transformation.
Defining our terms: what transformation means

Because transformation has become something of a business buzzword, it often means different things to different people. In fact, for some organizations, transformation is a frightening concept thanks to disruptive change initiatives that failed to realize the expected returns on large-scale investments.

Therefore, it is worth providing some context about the meaning of transformation for finance organizations in insurance. Typically, it involves establishing a new operating model that enables significant advancements in key capabilities (such as analytics) and a shift of emphasis from transaction processing to more strategic activities, like data analytics and forward-looking analysis to support better business decisions. Rationalization of teams and the streamlining and automation of back-office processes are also important components of finance transformation.

New or updated technology (especially in situations where outdated legacy systems prevent or limit the adoption of advanced analytics practices and tools) is another common driver for finance transformation. Up-skilling or re-skilling of existing resources, as well as changes or enhancements to existing technology, may also be required.

But, the ultimate value proposition involves strategic and business-enabling capabilities, which are underpinned by highly efficient and effective back-office environments. For instance, closer alignment and synchronization of finance, risk, and actuarial functions and processes can pay off in many ways, including clearer visibility into performance for senior leaders, which sets the stage for better business decision-making. Thus, successful transformation is all about striking that balance between cost rationalization and efficiency on the one hand, and strategic partnerships with the business on the other.
Priorities on the strategic agenda

Results from EY’s 2014 Insurance CFO survey confirmed the priorities for most CFOs (see sidebar). Delivering more value to the business through performance measurement and improved decision support is the top priority for the finance function through 2020. A full 71% of survey respondents indicated that “being a better business partner” was a top-three priority, with 35% placing it as number one.

Managing costs, another top priority, confirms that there is real pressure to evolve the back-office into a highly, efficient and scalable state, with a low and flexible cost structure. This goal reflects the need for CFOs to think holistically and look beyond the historical focus on crunching numbers and closing the books. It also underscores the need to balance the strategic and tactical aspects of the business.

Therefore, it is worth asking what better business partnership really entails. To a large extent, it’s a matter of helping other executives and managers understand not just the financial results, but also the underlying causes, trends and drivers of those results. In other words, CFOs must serve as thought partners and strategic advisors to the CEO, Board of Directors and the business in general. They are well positioned to play this role, given their integrated view of the business across the enterprise. After all, the market drivers and megatrends faced by finance are largely the same as those facing front-line and market-facing insurance executives.

Looking at finance’s role in fostering growth, insurers today recognize the need for much more robust analytical and decision-making processes and tools to support potential acquisitions, new product development, market expansions and other common strategies. Finance leaders can provide insights and challenge “business as usual” decision-making patterns in such scenarios. As such, they take ownership of the financial drivers of business value and help set the direction for the company as a whole.

Looking at cost reduction opportunities, leveraging aggressive globalization, shared services and outsourcing can present significant savings opportunities. Typically, performance improvements can accompany these cost savings, assuming standardized and automated processes and integrated systems are in place to eliminate the need for manual processing activities. Collectively, these gains represent the core of the business case for finance transformation in insurance. That is especially true in terms of enabling the broader strategic gains that come through stronger partnerships with the business.

The CFO Survey results also provide useful insights. Most participants expect to have more of their reporting and budgeting processes managed through lower-cost shared service centers by 2020. There is no “one-size-fits-all” answer when it comes to shared services or sourcing models. In fact, insurers are experimenting with a range of models. For example, they are comparing the risks and benefits of full outsourcing and offshoring with those associated with hybrid and near-shore models. Lower-cost domestic locations are also being evaluated.

Other insurers are looking to develop centers of excellence in specific functional areas, such as reporting and budgeting. It is no surprise that reporting is a priority, given the shifting (and intensifying) regulatory regimes around the world. Well-designed, highly efficient and flexible reporting processes are critical for insurers that need to provide different information to comply with new or changing regulations at the international, national and state levels. Process automation and data integration, core components of finance transformation, are also necessary to establish such a reporting environment.

There is also considerable upside in closer collaboration between finance leaders and their colleagues in actuarial and risk functions. Two key priorities must be to ensure that information-sharing occurs at optimal times and that these separate (but related) teams work from the same set of high-quality data. Discrepancies in data sets among finance, risk and actuarial, for example, are known to result in significant manual reconciliation effort, and can ultimately lead to inaccurate information being reported across the organization.

Further, a common and contextual understanding of performance data will help promote confidence in analytical outputs, as well as help facilitate consensus in defining risk tolerance and establishing risk management practices. When it comes to data, there is a symbiotic relationship between finance and these other functions. Pricing, product development, underwriting and claims data can be a valuable complement to core finance data. When finance teams can access quality data from these groups, they can provide better analysis and strategic guidance to their peers and colleagues in the business (e.g., by helping to shape pricing for higher profitability).
From EY’s Global CFO Survey, 2014

In late 2014, EY asked CFOs and senior finance executives from 35 global insurers about their most pressing challenges and their plans for driving improvements through critical initiatives.

1. Most urgent challenges
   - 66% Data
     - Quality/granularity not synchronized with needs
   - 63% Technology
     - Infrastructure (not fit for purpose)
   - 54% People
     - Lack of resources/quality (skills) of resources

2. Top priorities
   - 71% Implementing new regulatory and financial reporting requirements
   - 56% Being a better business partner
   - 50% Improving quality of reporting

3. Top three business drivers through 2020
   - 71% Growth
   - 54% Costs
   - 51% Regulations

4. CFOs are taking action
   - The majority are actively addressing drivers and challenges
   - 60% Have launched improvement programs
   - 29% Improvement programs planned
   - 11% Planning not yet underway

Learn more and review the full report at ey.com/insurance/CFO2015
How to achieve transformation?

**Key steps for moving forward**

Striking a balance between the strategic and operational or tactical areas of transformation requires holistic thinking and potentially large-scale adjustments to many parts of the organization. Experience teaches us that the best first step is to set out a clear vision and strategy for finance, and define a blueprint to prioritize planning and implementation projects. Such blueprints should include a quantifiable business case that clearly articulates why undertaking broad-based change is worth the effort.

Further, it should define a target operating model for the future. Such a model should incorporate:

- Process delivery models highlighting centralization and location strategies from which to perform critical processes (such as reporting and transaction processing), as well as links to current and future technology needs
- Organizational models defining clear roles, responsibilities and ownership along process lines, and in terms of business partnering relationships
- A global performance measurement framework
- A high-level design of the target finance systems architecture and tools that support the overall strategy of the organization
- A well-defined strategy for data and a Chart of Accounts
- Required skill sets in line with the target operating model, and succession plans for key finance resources
- An analytics roadmap showing where, in the company value chain, finance can help identify analytics that can create growth, quality and service improvements

The development of such a blueprint starts with a high-level assessment of all dimensions of the current operating model (e.g., organization, processes, controls, technology, data, resources). It is essential for finance leaders to focus on the organizational and process components if they are to achieve an efficient, balanced model that is aligned to the needs and objectives of the enterprise. Many transformation programs that have not adopted this top-down approach (opting instead for a technology-driven approach or focused exclusively on merging an acquired organization) have struggled to achieve results.

It’s also important to note the potential interdependencies among different finance processes and activities, and how they shape overall value creation. For instance, by standardizing and automating processes and activities, finance can reduce the complexity and manual-intensive nature of data mapping and report generation. That step also can also help reduce overall costs.

Achieving such success also requires strong program management capabilities. Skilled program management resources do more than just track progress against timelines and budgets, but also ensure that the planned benefits are being realized. Effective organizational change management is another important ingredient. Few, if any, transformation programs succeed without clear and visible support from senior executives. Similarly, companies should name internal change agents whose responsibility is to drive change by engaging with various stakeholders so they understand the reasons for the change, as well as how the value will be realized.

While there is real risk in technology-led transformations, it’s clear that successful transformations are impossible without enabling technology and data improvements. The constraints of rigid legacy systems are simply too great at many insurers. The large gap between today’s technology assets and tomorrow’s requirements must be addressed.
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The vision of a highly efficient and effective finance organization that not only enables strategic business decisions and growth, but also effectively manages risk through strong controls may seem an extraordinarily ambitious undertaking. However, given the rate and scope of change in the insurance sector, it’s almost become a requirement for any company hoping to sustain market leadership.

That’s why finance transformation in insurance isn’t solely the province of CFOs. It is an undertaking that impacts the entire enterprise and thus resonates across the C-suite. Certainly, many CEOs see how potential benefits can accrue across the enterprise, especially by improving risk management and actuarial capabilities. Leaders in these areas are facing the same profound challenges as their colleagues in finance. As such, successful finance transformation is about improving business performance as a whole, and not simply about increasing process efficiency within the finance function.

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