



Could your future start in your finance function?

Finance in insurance reimagined:
designing next-generation service delivery



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Building a better
working world

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Executive summary

Our “Finance in insurance reimagined” series sets out why now is the right time for insurers to rethink, redefine and transform their finance operations to drive insight-led decision-making and adopt a more holistic and cross-functional approach to financial management. Such an approach would integrate the multiple groups and functions involved in calculating, projecting and managing financials for insurance companies. Beyond the traditional finance unit, actuarial, investment teams and certain risk disciplines need to work together to provide accurate information and clear insight.

EY’s vision for the future of finance includes all of these groups collaborating seamlessly and accessing the same complete and timely data sets. Tax and treasury teams must also be more closely linked to the broader finance ecosystem than in the past. By leading the collaboration among these groups, finance can produce more than incremental efficiencies and deliver tangible performance improvements and exponentially higher value to the business.

This degree of collaboration and coordination is especially important in light of the pending implementation of the IFRS 17, LDTI and other regulatory standards, and rising demand for more detailed reporting. Other aspects of the uniquely dynamic post-COVID insurance market - with its wave of de-risking transactions, expanding inflows of private capital and need for new offerings to meet changed consumer needs - underscore the need for finance to rethink how finance orchestrates more effective financial management.

Today’s inward-looking orientation with its emphasis on reporting and control will shift and expand to a forward-looking and outward-looking perspective aligned to the wider enterprise vision and focused on improving business

outcomes. Integrated with risk, actuarial, investments and other teams, finance will be a curator of complete and timely performance data, a provider of predictive insights and an enabler of more confident decision-making. The finance function may serve as the hub and chief financial officers (CFOs) may be uniquely positioned to provide leadership, but chief risk officers (CROs), chief actuaries and chief investment officers have essential roles to play in optimizing financial management in the future.

To make this future vision a reality, senior leaders must set a clear course forward that defines a vision to deliver more effective financial management for the entire company. On a practical basis, this involves:

- ▶ More time and resources invested in providing analytical services to guide the business
- ▶ Automation of nearly all transactional activities, using rules-based processing and standard, “right-first-time” data sets that eliminate the need for manual workarounds and adjustments
- ▶ Sharing insights and intelligence across the enterprise to enable fast action
- ▶ Expanding beyond purely financial planning and metrics to broader enterprise views, focused on business drivers and strategic planning

Given the rising demand on finance to produce more intelligence and the huge opportunity to add more value to the business, this article will explore the strategic evolution of the Finance organization and how it’s shifting to new focal points that will help it add more value to the business. It will also outline how the service delivery model must change if finance leaders are to seize the opportunity.

1

The strategic evolution of the finance organization



Historically, finance organizations have focused on protecting the enterprise and establishing financial controls and optimizing the allocation of resources and investment of capital. To date, many large, complex transformation efforts in finance have focused on these traditional roles and activities.

Today, in a more dynamic industry landscape, and with increased demand for the services of finance, forward-looking leaders are looking at new ways for finance to add value. Some organizations have begun to spend more time on creating commercial and customer value and leading

strategic transformation, often as part of broader business transformation programs and in collaboration with risk, investments, actuarial and other groups.

Reporting, control and compliance activities remain important responsibilities, of course, and finance teams will continue to tend to them. But growing new capabilities (e.g., delivering actionable and value-adding insights quickly and at scale) require adjustments to the structure of the finance organization and a significant expansion of capacity. That's true both in terms of allocating budget for necessary investments (e.g., in talent and technology) and finding time to focus on the new priorities.

In refocusing their efforts, they are encountering challenges – including the difficulty in changing day-to-day priorities – as they seek to operationalize and mature these critical capabilities.

For finance teams to embrace the value creation and transformation opportunities, leaders must address potentially difficult questions around the future vision, strategy and service delivery model. Thus, in setting a course forward, leaders must think in terms of both current needs and future objectives:

- ▶ What services do we provide today? Which are truly core? What should we stop doing and what should we start doing?
- ▶ Where do we lack skills and capability? What gaps must we fill to provide new services?
- ▶ How do we enhance the technology architecture to deliver new services and integrate with other functions? What is the best way to address our technology debt?
- ▶ Does the service model enable a truly strategic solution or just tactical improvements?
- ▶ What is our sourcing strategy and framework? How should we explore new sourcing models? Which services can other organizations deliver more effectively?



Finance's traditional roles – which remain important responsibilities and must be done with high degrees of efficiency and effectiveness:

Protecting the enterprise and establishing financial controls by:

- ▶ Processing and delivering timely and accurate financial information
- ▶ Managing a fully automated and highly efficient factory model to reduce timelines and cost through efficiency and scale
- ▶ Driving trust into daily operations and organizing and maintaining governance and controls, in coordination with risk management and internal audit

Optimizing enterprise resources and assets by:

- ▶ Cultivating a culture of capital accountability and promoting decision-making based on optimizing liquidity and capital
- ▶ Supporting providers and users of liquidity and capital with accurate and timely information for decision-making
- ▶ Managing relationships with liquidity and capital providers, including private and alternative capital, particularly relative to funding transformation programs
- ▶ Working closely with chief investment officers and providing data and decision support
- ▶ Defining a credible narrative to share with investors regarding new accounting standards and their impact on performance

Finance's new focal points – which will allow it to add exponentially more value:

Creating commercial and customer value by:

- ▶ Closely monitoring and accurately tracking business performance with a range of appropriate metrics
- ▶ Providing timely, actionable insights to leaders to make informed decisions about the business
- ▶ Continuously enhancing the experience for internal and external stakeholders that consume financial information
- ▶ Bolstering analytical and insight generation capabilities leveraging combined finance and actuarial data

Leading strategic transformation by:

- ▶ Working with transformation and innovation teams to assist with strategic initiatives and change programs with funding options, business case development, ROI modeling and metrics definition
- ▶ Driving delivery of continuous improvement, including actuarial model development, system improvement, process improvement and development of new reporting outputs
- ▶ Tracking the benefits of change programs and monitoring returns on transformation investments

2 Focusing on the new service catalogue



Refocusing the service catalogue starts with the identification of activities to be stopped, started and continued. Many transformation programs aim to optimize continuing activities. Even when there is alignment to the vision of being a stronger business partner and adding value through insight, there is insufficient focus on identifying the most beneficial activities to “start” and “stop.” We believe emphasizing new capabilities is the key to driving real change and for realizing the vision of finance as a true business partner.

To create more value for the business, CFOs need to prioritize the following services and activities:

- ▶ Examining performance holistically across the enterprise, linking planning to broad strategic objectives and long-term value creation, not just relative to the annual performance of standalone business units
- ▶ Replacing annual budgets with rolling forecasts to improve flexibility and enhance responsiveness as performance changes
- ▶ Engaging customer-facing business leaders on strategic initiatives (e.g., pricing optimization)
- ▶ Using driver-based forecasting models (e.g., expected market segment growth) where feasible, that go beyond revenue, cost, profit, and other common metrics
- ▶ Managing efficient processes for faster turnaround, more frequent analysis, and more extensive scenario modeling
- ▶ Moving past static management information to deliver actionable management intelligence that informs decisions about key business issues (e.g., product pricing, customer segmentation, geographical expansion)
- ▶ Developing credible analytical models that show how business decisions impact revenues, profit, reserving and capital ratios
- ▶ Enhancing decision support, utilizing predictive analytics and scenario forecasting based on financial data, non-financial data and reserving analysis
- ▶ Providing insights about upside (what must go right), downside (what may go wrong) and outside (what may surprise you) risks to support more informed and confident decision-making



To help foster strategic transformation, CFOs need to emphasize:

- ▶ Promoting the development of new business models to support organic and inorganic growth
- ▶ Proactively identifying and assessing strategic opportunities (e.g., acquisitions, new market entry, new sales channels, cost optimization)
- ▶ Developing business cases for mergers and acquisitions and overseeing the value creation from combined operations
- ▶ Prompting responses to industry disruption, competitive threats and new regulations
- ▶ Creating innovation hubs to quickly assess and scale disruptive technologies and fostering a culture of continuous improvement
- ▶ Developing the business case for major change initiatives, identifying benefits and tracking the realization of those benefits

The future service catalogue needs to be re-defined as demands will only continue to increase. Thus, leaders must find ways to create capacity, both in terms of budgets and time, to refocus on new capabilities, even as they achieve and sustain a lower overall cost.



3

Four considerations for redefining and optimizing finance service delivery



Historically, new service delivery models have been forced upon finance and actuarial teams, primarily as cost-saving initiatives or due to market transactions. Those approaches have not enabled finance functions to realize their full potential. With so much transformation underway, now is the time to proactively define a new vision for the organization, one that strengthens the links between all people and teams involved in financial management. The following considerations represent how insurers can become truly data-driven and analytics-enabled in all of their financial management processes.

In the future, the finance service delivery model will balance all of the roles CFO organizations play - from keeping the business safe through control and reporting activities, to creating the capacity to drive and scale innovation, to strategic and value-adding activities that drive growth and competitive advantage.

Collectively, these simple questions reflect the need to strike the right balance of quality and cost efficiency for each service finance provides and in line with business objectives. The optimal balance will vary, of course. Indeed, most insurers will design future service delivery models that emphasize different core services and feature unique combinations of internal centers of excellence, offshore operations, and outsourcing and managed services arrangements. In other words, who does what and why will be different for different insurers.

1. Strategy and alignment: setting strategic priorities and building the operating model to match the vision

It's natural to want to be best-in-class in everything, but time, cost and resource constraints make that an impossible goal. Unlocking the true value of finance requires high degrees of efficiency and effectiveness, though that balance will be struck in different ways for different functions. Thus, it is important to identify where it's worth striving for excellence and where it makes more sense to prioritize efficiency and engage others for support. For example, common activities across all services, (e.g., actuarial modeling, data sourcing, routine calculation and recording) are generally good candidates for outsourcing



because outside firms can deliver quality outcomes cost-effectively.

In contrast it pays to aim for and deliver the highest level of quality and performance when the focus is on value creation and strategic transformation. That's true because success in those roles can help differentiate the enterprise from competitors.

Some services are best kept close to the business, while others can – and likely should – be centralized. The most complex services may be best delivered via centers of excellence (CoE). CoEs typically take advantage of economies of specialized skills, technical expertise and standardization to optimize specific processes or functions. Some insurers use CoEs to establish new communities of skill (e.g., data science, predictive analytics). Other carriers pool their resources in specific areas, such as technical accounting, reserving, data-heavy assumption analysis, complex asset valuation and tax.

CFOs can use the complexity of activity and need for proximity to the business to determine the best approach. They can organize end-to-end services around outputs and outcomes, rather than functional capabilities, which often lead to organizational silos, sub-par communication and duplication of effort.

A more effective service delivery model would involve:

- ▶ Core services that help drive competitive advantage delivered through small groups that combine finance, investment, risk and actuarial professionals
- ▶ Specialized business skills and technical expertise working collaboratively and cross-functionally within a knowledge sharing environment to develop predictive and prescriptive analytics
- ▶ Resources with deep business segment knowledge proactively focused on customers and understanding their wants and needs
- ▶ Less complex business services delivered through shared services and third parties that can deliver economies of scale for high-volume, transactional activities
- ▶ Third-party relationships that go beyond cost arbitrage to include access to specialty skills and specific technology capabilities

Overall, the finance function will be designed to be forward-looking and highly responsive to business needs, with the ability to produce scenario modeling and analysis for decision support. With the proximity to liaise and partner with the business, teams will be well positioned to deliver real-time analytics to enhance forecasting and planning accuracy.



2. Sourcing and service models: engaging alternative resource solutions and mastering managed services

Expanding or modifying shared service and offshore capabilities is another common tactic. In such situations, leaders will examine current offshore operations to see whether:

- ▶ The expected benefits from labor arbitrage are still being realized
- ▶ Certain services can or should be automated
- ▶ Offshore capacity can be streamlined or reoriented to gain access to a broader skill base than currently utilized

Over time, top outsourcing providers have evolved their offerings, matured their service quality and upgraded their technology assets. As a result, outsourcing no longer applies only to accounts payable and accounts receivable, journal bookings and other fundamental finance and accounting tasks; the outsourcing of tax, statutory reporting and actuarial capabilities has become an appealing option for many insurers. Entire processes and even forecasting and planning activities are being outsourced.

While we expect outsourcing to be a common element in top-performing finance groups in the future, insurers must recognize that not all service providers will have the unique industry expertise necessary to, for instance, design end-to-end and cross-functional processes. The top providers will also have specific functional expertise (e.g., actuarial, risk) and deep understanding of the industry's unique tax challenges. In the strongest and most productive outsourcing relationships, insurers will view their providers as extension of their own operations. Further, they will feature shared risks, aligned incentives and high degrees of collaboration.

Forward-looking insurers are no longer turning to third parties solely for cost arbitrage. The business case for managed services now includes access to industry-specific insights, deep technical knowledge (e.g., regulatory compliance) and advanced technology. In some cases, insurers may turn to third parties for regulatory expertise as they expand into new geographies. Thus, managed service arrangements that have traditionally focused on accounting services now support a broader range of processes and activities including key regulatory and

internal reporting tasks, as well as actuarial work. For instance, one insurer turned to a third party to design and support a business intelligence CoE that standardized the intake and prioritization of new reporting requests, reduced the time it takes to deliver key reports, and create an intuitive self-service reporting platform for business users.



The benefits of managed services typically include:

- ▶ Ready access to new capabilities, advanced technology, benchmarking data and industry insights
- ▶ Continuous improvement in service delivery
- ▶ Increased capacity for internal teams
- ▶ Increased scalability
- ▶ Faster paths to digitized processes, which can be taken back in house
- ▶ Reduced regulatory risk when entering new markets

3. Talent and culture: establishing the right skills and right working environment

As teams shift their focus to new activities and services, finance leaders will need to evolve the organizational skillset and knowledge base – a daunting challenge given the intense competition for scarce talent. Since the pandemic exacerbated an already difficult situation, talent has shot to the top of the C-suite and boards agenda. Beyond recruitment and retention efforts, many insurers are seeking to retrain and reskill their existing workers to find the capabilities they need.

The finance teams of the future will need a broader range of skills; technologists, data scientists and business analysts will complement core accounting and actuarial skills. Insurers will also need to foster collaboration among diverse types of talent. Along with the right talent, diversity of thinking and inclusive work environments can help finance functions drive commercial advantage.

A good question for many insurers to ask is whether their actuaries are their best kept secret. They typically have a wealth of business knowledge and strong analytical capabilities. Deploying this expertise can improve finance's ability to produce intelligence – and, ultimately, value – for customers and the business.

The top finance units of the future will be notable for having:

- ▶ Strong commercial acumen with an understanding of key business drivers



- ▶ A curious mindset, with the ability to ask the right questions and develop both predictive and prescriptive analytics
- ▶ A deep understanding of ethical decision-making in support of the organizational purpose (e.g., ensuring underwriting and pricing models are fair and equitable and investment decisions consider ESG factors)
- ▶ Extensive knowledge of ESG metrics and ratings and the tactical skills for accurate ESG reporting
- ▶ Change management skills to help facilitate transformation across the business, as well as within finance
- ▶ Closer integration and broader data sharing with the broader financial management community and deep commitment to continuous improvement and operational excellence
- ▶ Agile working styles to respond nimbly to changing business demands and market conditions
- ▶ Strong relationship management skills, especially relative to shared and managed services companies, outsourcing firms, offshore teams and other service providers

The work environment and employee experience are other key elements of success. Clearly defined career journeys will be necessary to attract, develop and retain talent. So will interesting and fulfilling work based on a strong alignment to a higher purpose that help address societal needs (e.g., shrinking the protection gap, increasing financial well-being). Talent development programs will provide opportunities for rotation through different roles and experiences.

A holistic vision must also consider changes to the talent framework and culture to go along with upgraded technology and re-engineered processes. When redesigning the service delivery model, leaders should consider a range of cultural considerations that affect ways of working and help individuals understand where they fit in:

- ▶ What does the employee experience look and feel like? Do our return-to-work and hybrid working strategies reflect the increased employee demand for flexibility?
- ▶ Do our workers relate to and feel inspired by our purpose? How does the purpose of the finance organization relate to the broader enterprise mission?

- ▶ How do we foster personal growth and development, in addition to offering traditional career paths?
- ▶ What does a day in the life of your team entail?
- ▶ What are the right accountabilities and reporting lines?

Leaders will need to define how the organization operates so teams know how they can work together:

- ▶ What opportunities have you created to attract, retain, grow and reward the right talent?
- ▶ What skills will the team need to develop and how best to enable them?
- ▶ What capabilities and capacity need to be created?

Leaders must model new ways of working and create momentum for change:

- ▶ How can leaders represent the right behaviors and “be the change” they want to see?
- ▶ How to harness the power of change to energize the organization?

4. Data, technology, processes and controls: optimizing, democratizing and modernizing

Future service delivery models need to be underpinned by technology and data to facilitate seamless sharing of information across the organization and with third-party service providers. To boost user confidence, data quality should be embedded, from original source to report. This is well recognized and core goal for many insurers' plans for transformation. However, in making this journey, fewer insurers consider the extent to which their technology debt can be resolved through different sourcing strategies. When business cases prove challenging in terms of financial benefits, early gains can be realized by taking advantage of outsourcing and managed services models to access newer technologies sooner. Indeed, outsourcing and managed services providers can be viewed as transformation partners relative to data and technology. Such thinking could be an effective interim tactical step as the technology strategy evolves.

To support objectives around continuous improvement, there is a case to embrace tools that put the power to generate analytics, different reporting cuts and data visualization into the hands of more users. When supported by the appropriate skillsets to embrace these tools, teams

can be more agile in responding to business needs without the need for a separate change team.

Changes to the service delivery model will also necessitate adjustments to processes, especially for new activities that finance will start to perform, and the overall control framework. Reweighting the process taxonomy for stronger alignment to the service vision typically leads to increased detail and depth of processes to support the creation of commercial and customer value and strategic transformation. It also helps to define how processes can be continuously improved.

Control frameworks will also need to evolve with the implementation of new processes. Specifically, controls should be simpler, more automated and designed to be predictive and preventive so they can support the expansion of capacity to focus on new services.

Reviewing the control framework is especially important for organizations that adopt a mixed delivery model of third-party providers, federated teams, internal CoEs and shared services. The control framework should be redesigned to mitigate risk as end-to-end processes are redesigned and involve new parties. Moving forward, agile process development and continuous improvement are important capabilities, given the need to respond nimbly to the changing needs of the business.



A proven transformation approach: revolutionary thinking and evolutionary change

In reimagining what finance does and optimizing how they do it, CFO organizations can generate more value for the business. Further, by designing their approach around near-, mid- and long-term time horizons, leaders can deliver tangible value and improvements as they transform the function. In setting off on this journey the keys are to:

- ▶ **Start strategically:** define a clear vision for the future of finance and what improved financial management looks like, identifying where a shift of focus is required to deliver new services and embrace optimal sourcing strategies (including outsourcing and managed services)
- ▶ **Think creatively around constraints:** devise change programs that leverage the Service Delivery Model to overcome the limits of technology, data management and skills and capabilities in support of new services
- ▶ **Define the target service delivery model:** create a clear implementation roadmap and tactical action plan to go beyond incremental efficiency gains and enact a revolution in what finance delivers and how it delivers

Enabling a high-performance future

Industry veterans understand the risks of overly ambitious transformation programs. However, they also recognize the need to transform the finance function. The future upside is so compelling that leaders must act – and the sooner the better. Transforming the service delivery model is the first step to seizing the value that's within reach. The experiences of first movers confirm that an evolutionary approach to change is the best way to deliver on a revolutionary vision.

Those groups that redefine their service delivery model and empower CFOs to create business value and lead strategic transformation will help the business take advantage of market opportunities in a strategic, safe and informed way. They will enable the business to compete more effectively and therefore contribute more meaningfully to bottom-line performance.



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