European Insurance Insights

# Making finance a game changer

## The 2020 insurance challenge

EY

Building a better working world

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## Executive summary

Today's insurance market is tougher than ever, with increasingly sophisticated customers and difficult economic conditions challenging insurers to innovate and reduce costs to survive. New and demanding regulation is only adding to the pressure.

Welcome to the "new normal" for insurance companies. By 2020, conditions will be just as, if not more, challenging.

To succeed in this new normal environment, all aspects of finance operations need attention: processes, people and organization, data and technology, and the sourcing and location of work. They must improve if finance is to meet its three most pressing challenges: lower cost, improved reporting and the delivery of real business value.

# Executive summary

**Delivering value to the business must be the CFO's priority number one.** With the competitive market requiring faster and smarter decision-making, finance needs to support and challenge the business to develop and implement the best possible commercial plans. By 2020, finance will need to own and manage the enterprise-wide performance management process — integrating finance, actuarial and risk skills. Quality and availability of timely management information will be key, as will the advent of a new breed of highly commercial finance professionals working as true business partners.

**Cost reduction is the second imperative for finance.** With rising pressure on margins, the costs of every department are under scrutiny — finance is no exception. But with business teams and regulators demanding more from finance, the function must not just cut its costs, but deliver more with less. To achieve operational efficiency as well as effectiveness, finance processes must be standardized, simplified and centralized. Finance resources need to be located in the most appropriate locations — only business-facing resources remaining in high-cost sites.

**Finally, but by no means least, finance needs to fix its reporting processes.** It is currently typically inflexible, time consuming and requires significant manual intervention. Yet demand for detailed financial information keeps growing. Reporting processes in 2020 will need to be faster, more robust and more integrated — capable of providing multiple reporting views to satisfy both business teams, regulators, the board, shareholders and analysts. Insurers that achieve faster reporting and integrated processes and data can expect to speed up decision-making and gain competitive advantage.

The new normal creates many challenges — for insurers and their finance teams. By 2018, finance will need to be meeting new accounting and regulatory requirements such as International Financial Reporting Standards (IFRS) 4 Phase 2 and Solvency II which, under current timetables, are set to be implemented by this time. By 2020, ongoing performance improvement should be embedded as a cultural norm. Finance should be running low-cost operations, delivering integrated and enhanced reporting, and partnering the business in driving real commercial growth.

Finance functions that fail to evolve risk being consigned to backroom, compliance and reactive roles. Alternatively, CFOs that take action now can ensure finance becomes a change shaper — driving strategic and commercial business success.

# 2020 vision for finance

**Imagine the year 2020: how does your finance function look?**

For some CFOs, the vision is inspiring. The finance team is now excelling on three core objectives: running efficient and effective finance operations at significantly reduced cost; reporting internally within days of month-end, delivering externally to regulatory and stakeholder expectations; and providing clear analysis and insight as a value-adding business partner. These CFOs have earned the position of trusted business leader, with their finance teams positioned as a business critical resource, capable of driving and supporting innovation and change.

For others, the view is more challenging. The finance function is a high-cost overhead, struggling to meet reporting deadlines; it is seen as a number-crunching burden by the business, not a strategic resource. CFOs heading these functions have been pushed into the operational backroom, seen as reactive and ill equipped to support business development.

What determines the future of your finance function? It depends on the steps you take now — in 2013 and 2014 and onward — to address the multiple challenges faced by the insurance sector and, in so doing, place finance as a key driver of business success.

**Today's insurance market: challenging for all**

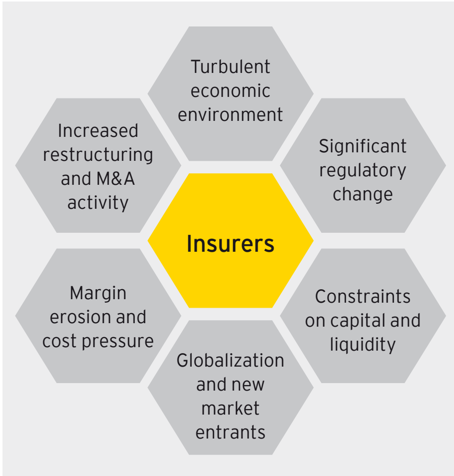
Today's insurance market is extremely tough and competitive, characterized by overcapacity, price competition and new distribution models. Pressure on costs is already high, yet still increasing, as established insurers struggle to meet shareholder expectations in the face of competition from leaner rivals, niche firms and, potentially, emerging market challengers.

Meanwhile, the regulatory environment continues to evolve, producing ever more demanding requirements for insurers — including increased volume, speed and granularity of reporting. Insurers also face a much greater focus on capital management under new solvency requirements.

Achieving topline growth is an imperative, but a huge challenge in the current environment. As insurers look to implement new growth strategies that tap into the potential of new segments and emerging markets, so their structures constantly evolve through restructuring and M&A activity.

Finance must play its part in responding to these challenges and shaping future strategies.

Market challenges



# Finance challenges

Finance must evolve to meet the three key challenges facing insurers today: cost pressure, regulatory demands and the need for business growth.

Businesses are threatened by lower-cost competitors and CEOs are looking for more from less. Finance is no exception and must look at how it can cut its own costs – by reducing headcount, using lower-cost locations where appropriate, and standardizing and automating processes.

To meet regulatory requirements, finance must be able to report more reliable and more comprehensive information more quickly. By 2018, new requirements under IFRS and Solvency II will be in place, with integrated reporting the necessary response. The need to optimize capital will require finance to help drive and deliver business restructuring.

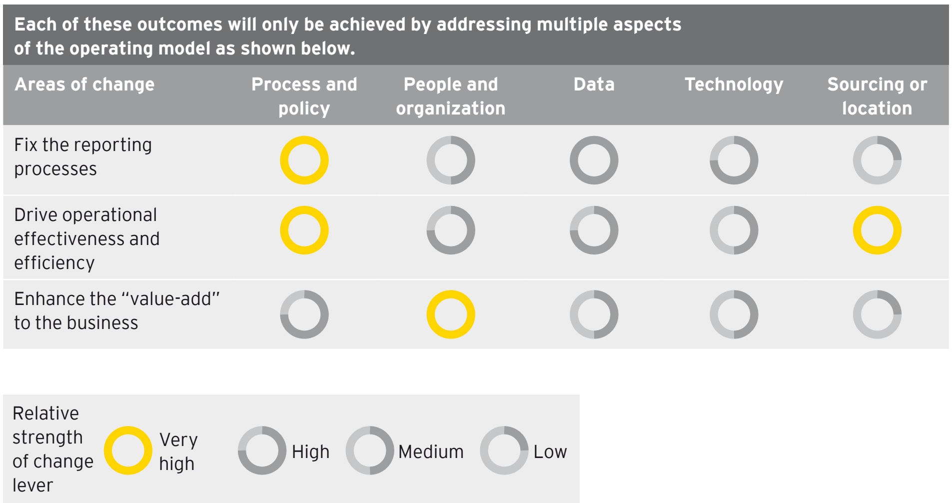
With insurers battling to deliver topline growth, finance must become a true business partner, delivering not only more relevant and timely performance information, but also clear insights to help business leaders take appropriate strategic and operational decisions that capitalize on opportunities. Finance must also develop the capability to integrate new acquisitions effectively, supported by scalable systems.

**Finance operations in the spotlight**

If finance is to meet the demands placed on it, further operational improvements must be made. All aspects of finance operations are likely to need attention, including processes, people and organization, data and technology, and the sourcing and location of work.

Most insurers today have scope to develop each of these dimensions. Not all, however, will want or be able to become leading edge in every category: matters of cost or practicality may dictate a slightly less ambitious evolution. Highlighting key priorities for developing well-balanced operations will be necessary. For many organizations, for example, standardizing, simplifying and centralizing processes will be a core goal.

Priorities for finance change



# A three-pronged approach to enhancing finance

### 1. Meet the cost challenge: drive operational efficiency

Finance functions in insurance are significantly more expensive than in other industries. This has to change. With rising pressure on insurers' margins, the costs of every department are under scrutiny – and finance is no exception.

Business leaders question why so many finance personnel are required to perform what they perceive to be regulatory compliance tasks. They have a point. High staff numbers in finance and actuarial cannot be sustained in the light of the threat posed by lower-cost competitors.

On the other hand, both business and regulators are demanding more from finance – more and better information, delivered to tighter timescales. The function is being pushed, therefore, not just to cut its costs, but to do more with less. Given this environment and based on the ambitions we see among insurers, by 2020, finance should be aiming to meet improved performance metrics:

- Contributing less than 4% of total operating cost
- Positioning at least 30% of finance staff in low-cost locations
- Spending less than 30% of time on transaction processing

Achieving these goals will require more flexible and scalable finance systems, and improved data quality. Finance must work smarter – using standardized, simplified and centralized processes.

The shape of finance must also change so that processes are performed by the right people, in the right location, using the right systems. Headcounts must be controlled – or more likely reduced – regardless of acquisition activity.

### 2. Meet the regulatory challenge: fix reporting processes

As reporting requirements have increased, so insurers' traditional response has been to bolt on tactical fixes and workarounds. The result? Finance is now burdened by its inflexible and time-consuming reporting processes, widespread use of spreadsheets and high levels of costly manual intervention.

This is a problem. Reporting requirements continue to evolve – and finance needs the flexibility to be able to respond effectively and efficiently. Finance needs the capacity not only to meet regulators' information needs, but also to produce analysis to support business decision-making and explain performance to multiple, increasingly sophisticated stakeholders.

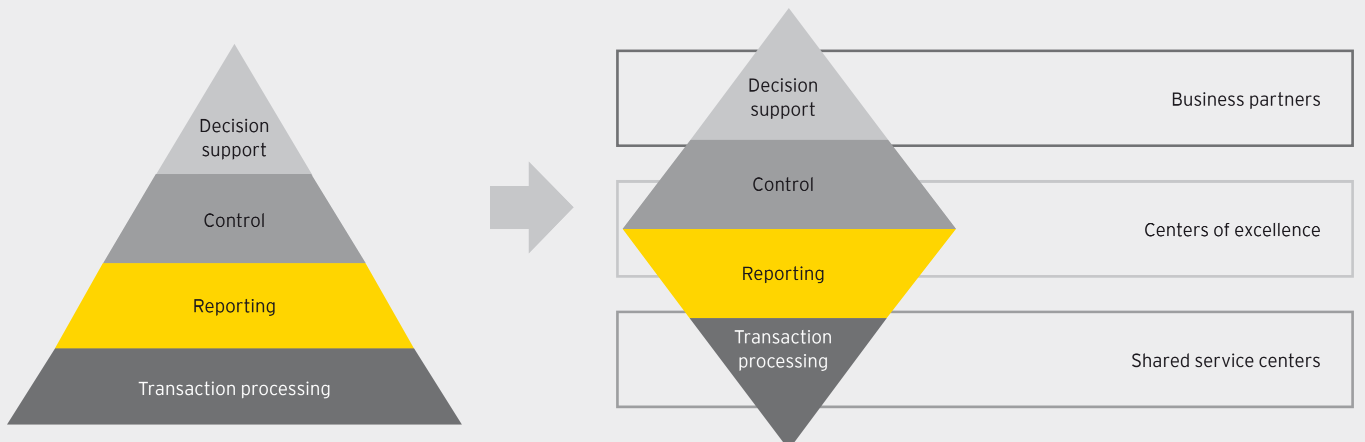
CFOs look ahead and see many new reporting requirements on the horizon, particularly in relation to the globally recognized IFRS, US Generally Agreed Accounting Principles (GAAP) and Solvency II in Europe. They see the growing demand for sustainability reporting, for consistency of reporting across finance, actuarial and risk, and for reporting of key metrics to management.

Reporting timescales are also an issue: the quarterly Pillar III reporting required under Solvency II will need to be available six weeks from quarter-end. For many insurers, this is a very significant challenge.

If all these challenges are to be met, reporting processes in 2020 will need to be faster, more robust and integrated – capable of providing multiple reporting views that can be fully reconciled.

Insurers that achieve faster reporting and integrated processes and data can expect to speed up decision-making and gain competitive advantage.

Changing the shape of finance




- Increased focus on strategy and decision support
- Technology and low-cost locations used to reduce cost of transaction processing

### 3. Meet the growth challenge: become a real business partner

With increasing competition, low investment returns and competing demands for capital, management and boards have a heightened need for more relevant and timely performance information. They will expect insights around product and channel profitability, and robust analysis of strategic decisions that combine finance, actuarial and risk perspectives.

To meet such expectations, CFOs must not only overcome process inefficiencies but also develop a team of finance professionals who work as real business partners.

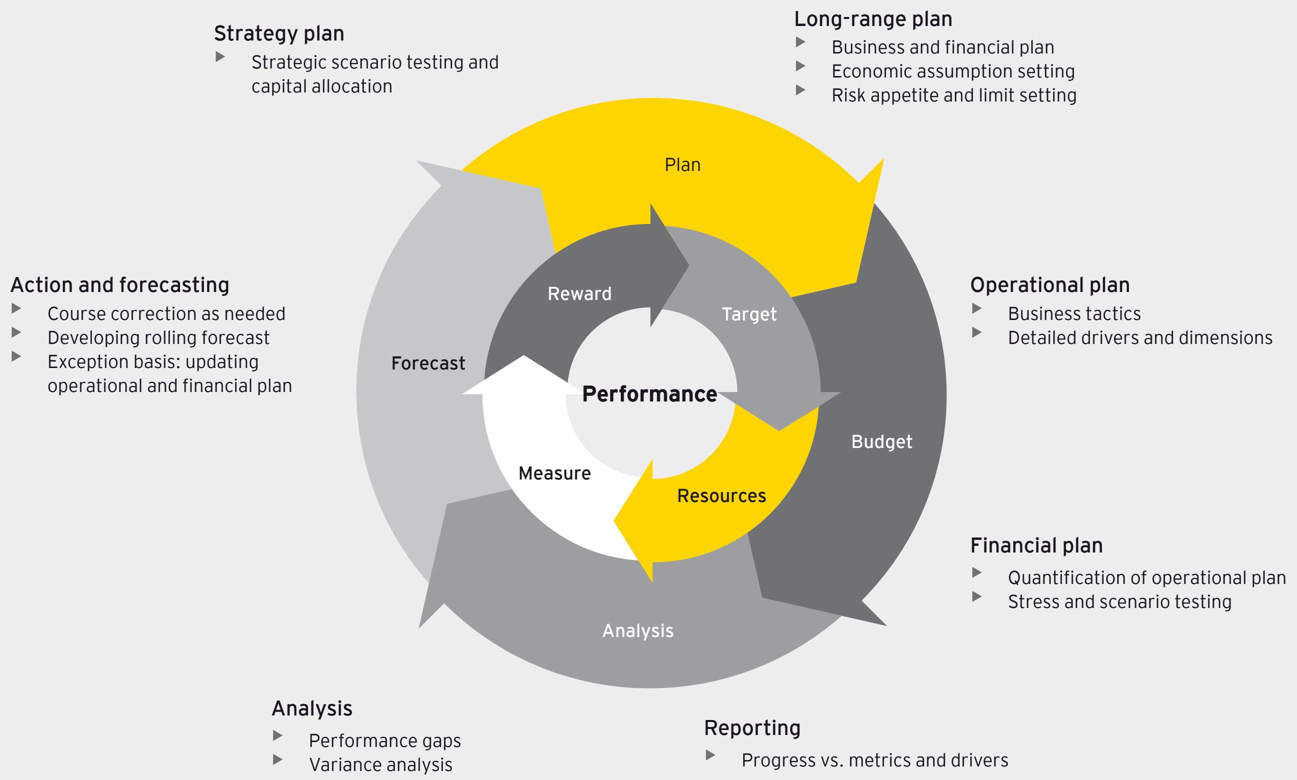
Attempts have been made at business partnering before, but without the planning, training or process and system support really required. Now is the time for CFOs to embrace the opportunities for commercially minded finance professionals to enable business teams to make faster and smarter decisions.

What will the role of the business partner involve? It will range from planning, budgeting and forecasting to cost management and profitability analysis. Business partners will address the strategic issues – managing products, customers and channels, optimizing capital, managing risk, defining new ventures and appraising new investments.

To succeed, business partners will need core attributes not necessarily demonstrated by all current finance personnel. These include a deep knowledge of the business and commercial issues, insights into financial control, and the strength of character to provide a robust challenge to business leaders. CFOs must consider the capabilities within current finance teams, and the need for training programs and recruitment to ensure business partnering roles can be filled by the right people.

CFOs must also ensure that a robust enterprise performance management framework is in place – one that fully reflects the drivers of shareholder value. Through this framework, planning, budgeting, analysis and forecasting become far more integrated, faster and more effective. Timely and relevant management information and real commercial awareness will be the keys to success.

#### Enterprise performance management framework




**Planning and management information is a continuous, joined-up process. Rolling forecasting, combining top-down targets and bottom-up detail based on actual performance for period to date.**

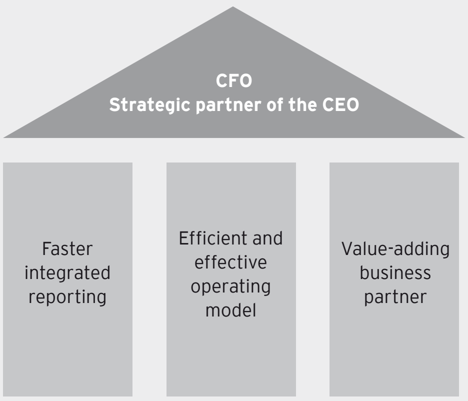
# Finance in 2020

By 2018, finance must already be capable of meeting new accounting, financial reporting and regulatory requirements.

By 2020, the new normal steady state must be achieved, with finance benefiting from streamlined, low-cost operations, delivering integrated and enhanced reporting, and partnering the business in driving real commercial growth.

Finance needs to be punching above its weight, not only in delivering more to the business from less, but also in terms of developing future industry leaders.

There is no alternative — not unless finance is willing to be sidelined to a back-office, compliance support or reactive role. CFOs who want to be change shapers rather than change responders need to be taking action now.




**Finance will be known for:**

- Delivering on time
- Being in demand by the business
- Attracting the best talent
- Offering challenging roles
- Developing its people
- Setting an example to other support functions
- Having a "right first time" mentality
- Being the single source of reliable financial information
- Having a lean operation
- Using available technologies effectively
- Supporting innovation

# What now?

**Take action:** cost pressures, reporting demands and business needs already exist. Finance must begin its process of transformation now.

**Ask questions:** boards need to ask how finance can support all business needs in the new normal environment in which insurers now compete.

**Set goals:** aspirations may not necessarily be fully achieved by 2018 or even 2020, but they draw an important line in the sand. How far can finance operating costs be reduced? How efficiently can budgets be produced? How soon after month- and quarter-end can figures be reported?

**Begin planning:** CFOs need a roadmap to move finance from its current state to the 2020 vision. This will involve identifying priorities and developing the business case, before creating a detailed plan for achieving finance change.

# How EY can help

From vision and business case through to detailed design and delivery, our Finance Transformation professionals deliver significant performance improvements across all aspects of the finance operating model.

## Our finance performance improvement services

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| Accelerated close initiatives | Finance target operating model development | Financial system architectural design and implementation |
| Performance management | Finance vision and strategy | Data strategy |
| Reporting regulatory, global, local, management | Organization design | Finance end-to-end process improvement |

**Industry/subject matter knowledge and team**

- Our depth of global experience, including extensive research and analysis, provides strong subject matter resources and insights to our clients.
- Our team integrates advisory capabilities across our multidisciplinary service lines to deliver the full range of recommendations to address client needs.

**Consistent service delivery execution**

- We leverage leading practice project management techniques to track benefits delivery and manage organizational change.
- Our integrated service delivery approach includes benefits management, starting with an individual project and ending with financial statement impact.

**Rapid and efficient**

- We are able to identify and deploy rapid savings initiatives that can fund the assessment, rationalization, and review and realization phases of an improvement program.
- We work closely with management to agree a common vision of success to shape a program that is commercially compelling and realizable.

**Drive sustainability**

- We understand the psychology of cost — sustainability is the key focus from the outset and embedding cost-optimization behaviors in the organization.
- We frame cost improvement in terms of a desirable end-state, encouraging motivation to “take the pain of change” out of the process.

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