



Insurance transformation

Modernising the finance function



November 2023

Organisations are navigating a digital future that is far more connected than the past. Insurance leaders understand the need to modernise their finance function to help achieve growth and strategic objectives. In doing so, this can enable organisations to develop a stronger, more efficient infrastructure and better equip finance colleagues to deliver value through strategic direction and operational excellence across the value chain.

The urgency of transformation is clear. As insurers start to move into new areas and develop new business models, leaders within the organisations are looking to the finance function for insight and advice on how to create and protect value, along with the continued expectation to act as a reliable facilitator of regulatory change and compliance.

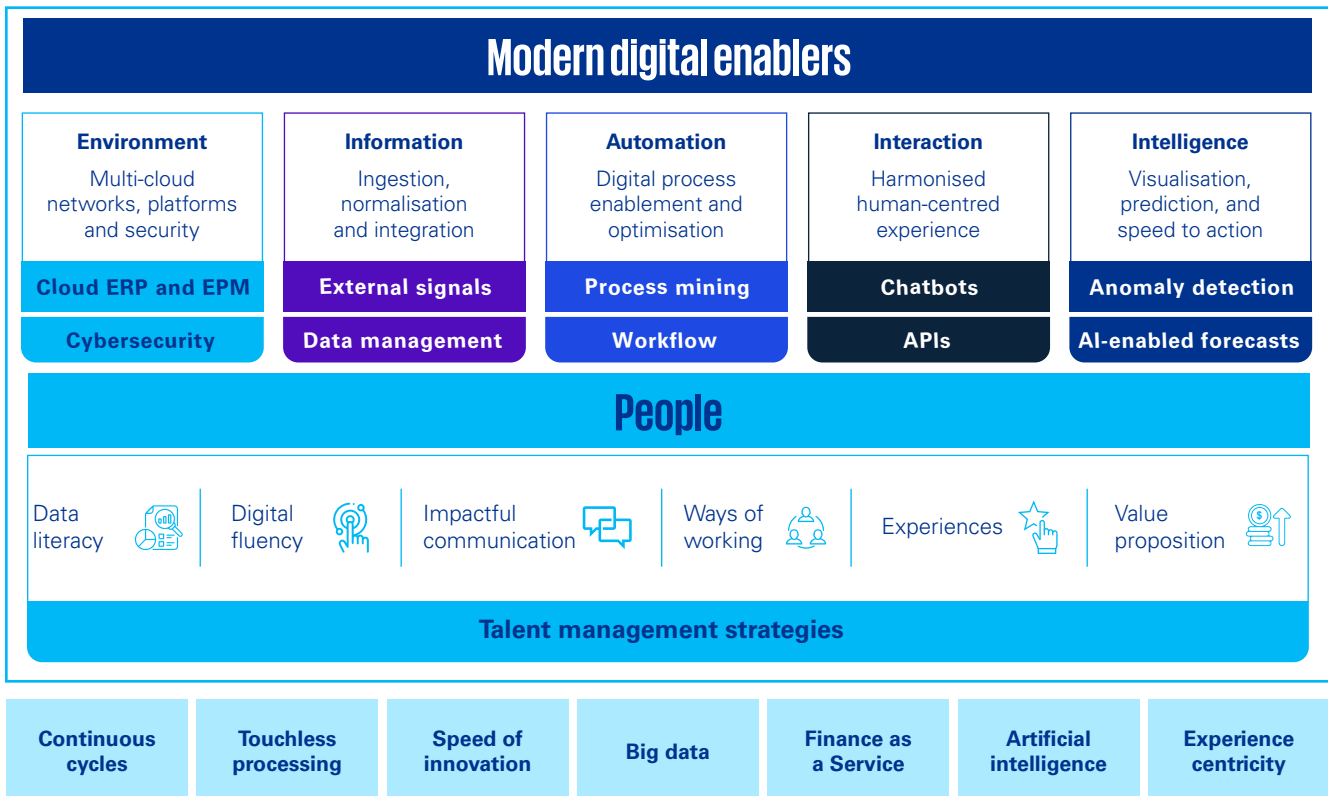
For example, organisations might create value by generating insurance and investment profit using available capital, or protecting value by managing risks and meeting ESG obligations. To support this, the Finance team is responsible for quantifying the value

created across the entire insurance value chain. And with visibility of value drivers across all functions, the finance team should be well positioned to help drive enterprise-wide transformation.

Yet many insurance finance functions are still working with legacy platforms accompanied by manual, complex processes that require intervention. This has left finance teams and systems under strain, battling to meet their reporting deadlines while looking at ways to add value to the wider business.

The finance landscape is changing rapidly

The need for an integrated approach to technology, data and people to drive business outcomes is becoming more important.





While there has been extensive change driven by regulatory compliance over recent years, few programmes have delivered significant value to the business. Transformation starts with people, and insurers should look at how to bring teams and technology together to develop a cohesive, enterprise-wide digital solution that can deliver value to the business.”

Brenden Tsang
Partner
KPMG in the UK

Many insurance CFOs and finance leaders have been advocating for transformation for some time. Some believed that the shift to meet the IASB® IFRS 17 *Insurance Contracts* requirements might provide the wider opportunity to modernise finance technologies, processes, and models. However, organisations quickly found that the effort required to translate and integrate a principles-based standard into existing IT systems and processes had been underestimated. And for many, focus quickly narrowed to achieving compliance by meeting regulatory deadlines and getting back to business as usual. The initial vision of a transformed function was lost.

IFRS 17 hasn't been the only change — Insurers have had to navigate other statutory and regulatory reporting challenges, for example, Solvency II reporting and US GAAP Long-Duration Targeted Improvements (LDTI). CFOs can often list numerous examples of transformation, modernisation, and simplification projects that they have undertaken over their careers. However, few can point to one that delivered the value expected.

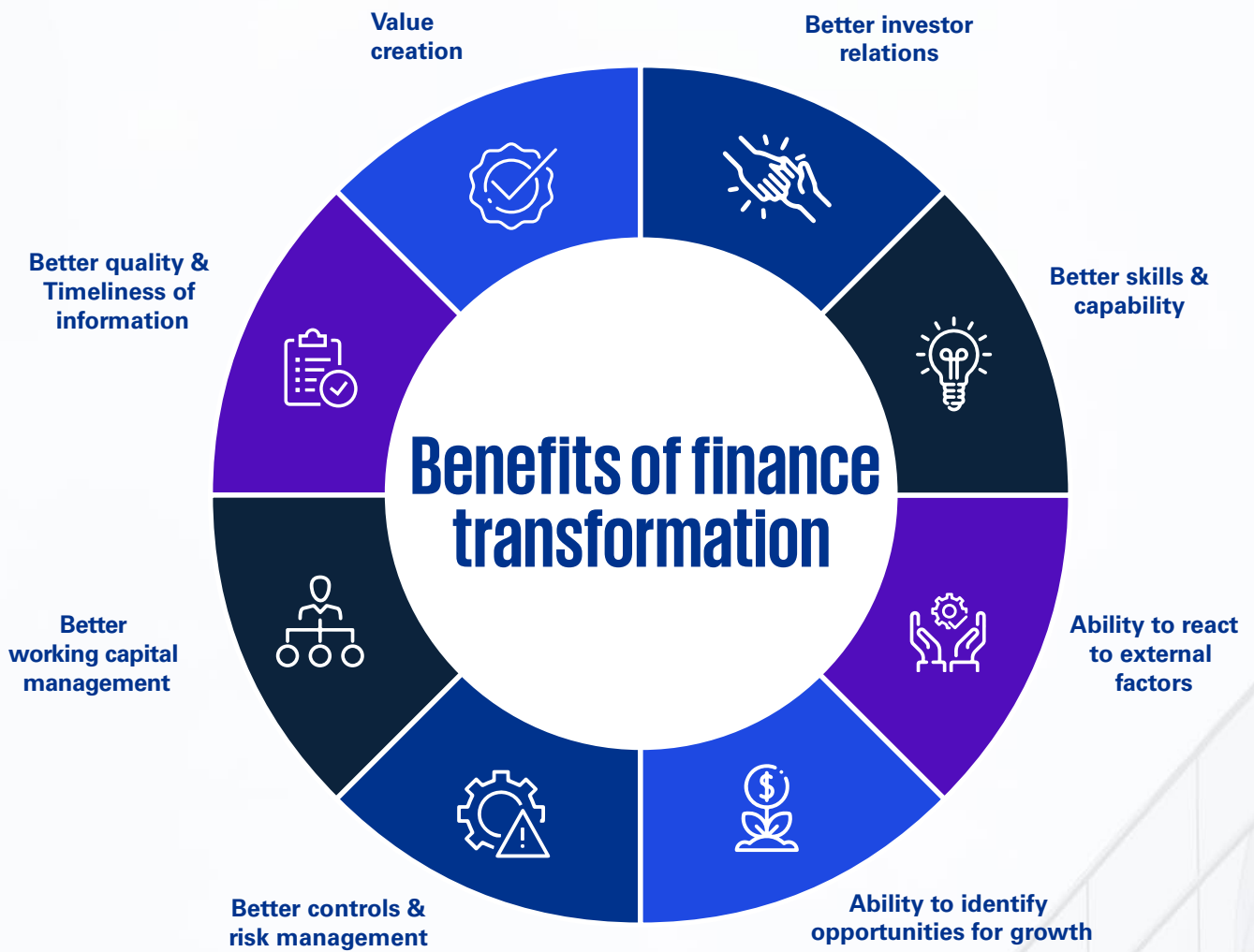
A common reason for this can often be attributed to the initial vision for change; having a clear view of what the business wants to achieve, along with a breakdown of areas requiring change which are then validated by key stakeholders, including the finance function. Without this clear target, expectations are unclear and teams are left with insufficient understanding of the process and the changes required to enable a successful transformation.

Choosing the right time to transform

Undertaking a transformation project can be challenging and complex. But insurance organisations now better understand the requirements and areas of risk. Many 'first mover' insurance organisations are already successfully transforming key aspects of their finance functions. These are organisations that — either due to regulatory deadlines or competitive drive — have set their initial vision, understood the transformation process and are now moving ahead.

For insurance organisations who see themselves as 'fast followers' — those who quickly learn from the success of others to rapidly adapt and transform — now is the time to move. In part, this is because there are now a range of tested models and approaches to successful finance transformation. Complexities and increasing costs arising from topics such as regulatory reporting and M&A also demonstrate a need for change. Businesses can leverage a number of existing accelerators and tools to take some of the uncertainty and complexity out of the journey.

Many CFOs understand the power of data and are working to align their transformation journey with the organisation's overall business strategy, to get the investment and support needed. And while there will likely be a number of challenges to overcome, delivering a successful transformation of the finance function can provide a number of valuable outcomes to both the function and wider organisation in which it sits.



As organisations review the processes required for a successful transition, it is important to acknowledge the role that data — particularly the reliability and quality — can play. Not only can these insights support transformation leaders in building a business case and securing investment, but it can also enable the business to effectively monitor and manage progress. And the finance function has traditionally been where leaders go for data.”

Martin Hoser

Global Insurance Finance Transformation
Lead and Partner
KPMG in Germany

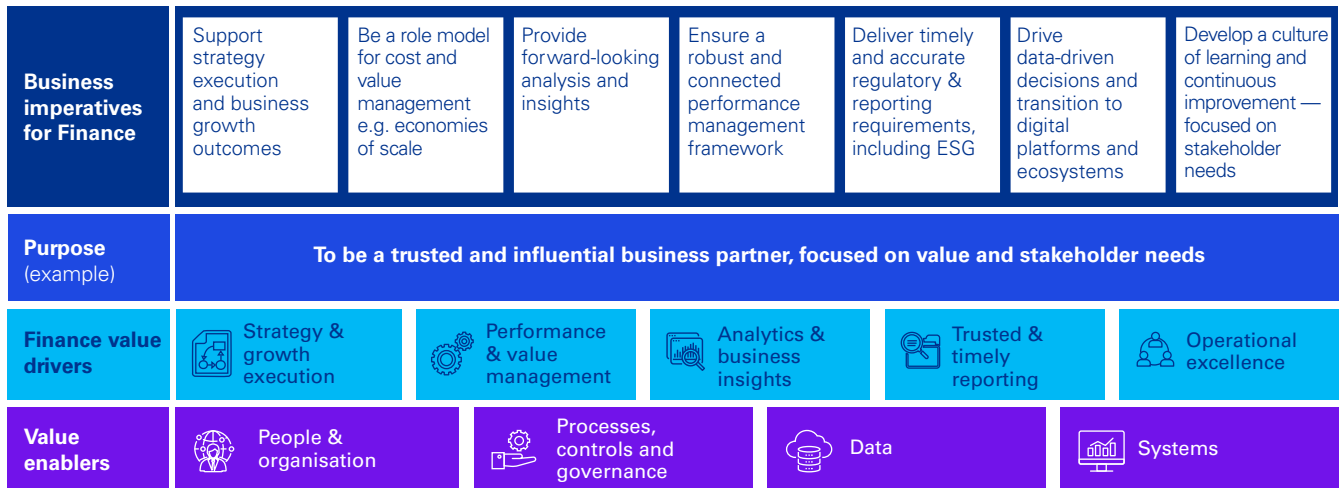
Key considerations when getting started

Finance transformation should be people-centred, outcome-oriented and technology-enabled. Here are three key considerations when getting started.



Setting a vision for change

Key components of a finance vision



Real transformation does not happen in siloes. It is not about solving a single regulatory problem or modernising a distinct process. The vision needs to be broader, more impactful and consider wider considerations aligned with business objectives.

Articulating a vision for the transformation is critical. It can assist with driving and guiding the journey, to help ensure the organisation remains aligned and engaged with the scope and governance of the project. At the same time, setting a vision allows the function to get their stakeholders (both leadership and those directly impacted) on board with the case for change.

The vision should include the finance function's purpose and also consider the needs of the business, the value enablers, and the business outcomes that the function plans to achieve. Insurance CFOs and Finance leaders should identify the problems they are trying to solve and how they can provide better insights and value to all their stakeholders, regulators, and investors. It is important to then look at the full process and value chains to see how the finance function can build that future state operating model that delivers the value they want to provide.

It's important to ensure that the future finance vision is closely aligned to the enterprise-wide strategy. It needs to manage specific regulatory and stakeholder requirements, as well as future expectations around evolving issues and emerging trends. Aligning this with business objectives also enables the transformation process to be segmented into core themes or milestones to demonstrate progress and value along the way.

For example, the finance function could embed its enterprise-wide strategy by monitoring value creation and protection. Insurers typically monitor key performance indicators (KPIs) — such as things like operating profit,

new business profit and free surplus generation. From a non-financial perspective, this might include minimising the Weighted Average Capital Intensity which measures the intensity of CO2 emitted by funds the insurer is invested in (Environmental), maximising Transactional Net Promoter Score measuring Customer Trust (Social), and optimising the top-up around corporate tax paid to comply with the BEPS Pillar 2 minimum tax regime (Governance).

Finance can then help the business understand the value drivers behind these KPIs and their impact. For example, a life insurer demonstrates value through participating products and annuities, which is largely driven by investment returns, unit-linked products by margins and customer numbers, and protection products by underwriting profits.

For a general insurer, value may be driven by managing loss, expense, and combined ratios, and by customer numbers and fees for other services.

One way finance can deliver on that value is by developing an integrated value driver tree across the business which quantifies the dollar value created by a change in any value driver. Traditionally this is a manual process, but by leveraging technology and integrated data, Finance can automate this and provide early indicators on the change of drivers and the related financial impacts, along with any regulatory requirements.

Effective analysis around value creation and protection needs to be informed by forward-looking insights. This requires Finance to leverage available data, technology and enable talent to predict how the value drivers will behave. This predicted value should be incorporated into the multi-year plan, annual budget and rolling monthly forecast, which strikes the optimal balance between accuracy and agility.

Although this understandably sounds daunting, this is achievable with the appropriate investment in technology and organisational capabilities. Actuarial teams already project the expected value of each policy (profit, capital, and risk), while Policy Administration already records actual value arising from premiums, claims and fees. Cloud computing also has enabled large volumes of data to be processed economically, and low/no-code technology has armed end-users with the tools they need to tackle business problems. Some insurance organisations may still need to play catch-up on the investment made towards technology in these areas, and should consider implementing in a cloud-enabled, multi-basis Finance general ledger

and Actuarial model, event-based accounting rules engine and integrated Finance and Actuarial policy data store. This helps to ensure that value is measured in a standardised way to achieve operational efficiencies through automation and centralisation.

Over and above core technology, it is also crucial for insurers to attract, nurture and retain top talent. A Finance function of the future will likely be characterised as a cross-functional team that draw on their collective Accounting, Actuarial, IT and data expertise to answer key questions. In doing so, organisations are helping to ringfence people and time for analytical insights required to fuel growth, not just produce reports.



Finance is critical to developing an integrated driver tree across the business which quantifies the value created by a change in any value driver. Not all drivers are equal – Finance can help the business ascertain which drivers could have the most impact KPIs and results.”

Jiaying Han
Senior Manager
KPMG in UK



Leveraging data to drive success

As insurance organisations think about their strategy and ambition, consider the enterprise data requirements — the information needed to deliver value, including the traditional financial data. This will not only help to identify priority areas and pain points across finance and the wider business, but also potential areas of risk that need additional attention, for example, rising expenses for claims, or acquisition costs. Developing this data-led view early on will provide a clearer view on progress.

Data is one way for Finance to unlock business intelligence and deliver insights and value. Leaders should consider how to create a ‘single source of truth’ around other, increasingly important, non-financial data. This includes not only how to find it, but also how teams can integrate, analyse, disseminate, and use the information available.

The key isn’t just in controlling the data, but the ability to standardise it. Consider creating a robust data governance framework that helps all functions agree on a consistent

definition around insurance topics such as products, cost centres and activity types. When systems are aligned and standardised, data can be available when needed, even if it sits in other systems of record.

To enable this, consider how the new operating model should look, and which long-term technology solution could meet the demands of the business and potential challenges to overcome.



Organisations should take a data-led approach, using these insights to inform the transformation strategy and developing the case study for buy-in, and investment, from the business.”

Megan Williams
Senior Manager
KPMG in Germany

Is there a job for GenAI in the finance function?

Natural language generation capabilities are already being used to create Solvency and Financial Condition regulatory reports, which are standardised and describe basic analytics such as whether risk thresholds are adhered to, and how results compare against previous data. AI is also being trained to identify patterns and trends in financial datasets that may indicate errors or anomalies.

Other finance functions are using AI to raise reporting queries, using a conversational prompt which is more intuitive than building reports and requires much less time. Similarly, it is being used to provide the business and finance professionals with accounting advice (“Hey ChatBot, I had a client meeting where we received gifts. How do I account for that?”).

Ultimately, AI can help insurance companies improve the accuracy and speed of their financial reporting, which can help them make better-informed decisions and improve their overall financial performance. In order to harness the real power of GenAI, however, organisations need a modern technology stack, access to quality data and an ability to integrate new technologies.



Identify routes to action and set conditions for success

Finance leaders should also take the time to set the foundations of good transformation. Don't underestimate the importance of good change management supported by open and continuous communication. A key determining factor of success in transformation is the ability to influence and bring senior stakeholders, alongside the wider workforce, on the journey. Executive support and buy-in will be critical to securing budget, resources, and collaboration from the business. And the more engaged finance professionals are in the project, the more value the organisation will get out of the investment in the long run.

Consider the types of skills and capabilities that will be required. In part, this is about upskilling colleagues to add value within the new operating model, in addition to identifying new talent that understands the benefits that the new technology can deliver to the organisation, as well as people who can bridge the gap between finance technical skills and data/technology capabilities.

Talk to internal finance stakeholders about what they expect from the finance function in the future. Assess the internal capacity for transformation. Be mindful of your organisational strategy and how it impacts your finance customers.

Finding the right talent in a competitive marketplace

IFRS 17 demonstrated the increased demand for "Accountaries" — people who can combine deep analytical and interpretive powers with excellent communication skills to respond to the changing finance landscape. This created a war for talent across insurers, which is still visible today.

Good transformation starts with people. Insurers should consider a diverse workforce, not only to meet regulatory demands but also maintain a competitive advantage. A more modern workplace and technology environment can also help to attract talent with new skills and capabilities.





Driving effective change

Organisations should assess the internal capacity for transformation before starting out. Start building out a roadmap of where you want to go and any mandatory deadlines you may face.

At agreed key milestones in the project, stop to check progress against the initial vision and objectives set out, and remain aligned to the needs of the business. Use the initial data collected and curated when developing the vision as a baseline for progress, and a guide to help ensure the programme remains on track.

To help make transformation manageable, consider breaking the journey up into smaller and more achievable themes or tasks that contain individual KPIs for success. This can enable transformation leaders to focus on areas of risk, plan for future phases and allocate resources appropriately throughout the programme. Consider scheduling cadence calls to provide transparency, regular updates to the business and to keep colleagues accountable.

Questions to consider before undertaking finance transformation:

- 1 Does the current finance function operating model align with the needs of the business and other stakeholders?
- 2 How can you streamline and automate finance processes to reduce manual effort, increase accuracy and improve speed?
- 3 How are new technologies such as Cloud ERP, AI and data analytics impacting the finance function, and would adopting these help to improve finance operations?
- 4 Is finance talent being developed and retained through training, career development and performance management?
- 5 Are financial controls and governance frameworks sufficient to ensure ongoing compliance with regulations and mitigate risk?
- 6 Does the finance function have strong relationships with the business to strengthen decision-making and drive business performance?
- 7 What lessons has your organisation learned from either previous transformation efforts, or from wider industry examples of embedding transformation into the organisation strategy?



The journey to finance transformation can be complex, but there are platforms and tools available to help drive success. Having a clear vision, segmenting this into achievable tasks and having the right people – underpinned by technology – can help insurers overcome some of the challenges along the way.”

Mark Longworth

Global Head of Insurance Consulting and Partner
KPMG in the UK



Transformation never stops. Neither do we.

At KPMG we believe transformation starts with people. Our global network of experienced insurance professionals provides clients with deep industry knowledge, actionable insights and implementation expertise, helping to realise the full potential of their people and technology, and working together to achieve successful transformation. Because when people and technology are in harmony great things happen.

Making a world of difference

KPMG people can make all the difference on your transformation journey. Together we can help you to orient your business around the customer, optimise functions for a new era, manage enterprise risk and regulation for a safer future, rise to a new level of value creation, and create an environment for managing ongoing change.

Contacts

Frank Pfaffenzeller

Global Head of Insurance
KPMG International
E: fpfaffenzeller@kpmg.com

Martin Hoser

Global Insurance Finance Transformation
Lead and Partner
KPMG in Germany
E: mhoser@kpmg.com

Mark Longworth

Global Head of Insurance Consulting and Partner
KPMG in the UK
E: mark.longworth@kpmg.co.uk

Ed Chanda

Head of Insurance, Americas
KPMG in the US
E: echanda@kpmg.com

Erik Bleekrode

Head of Insurance, Asia Pacific
KPMG China
E: erik.bleekrode@kpmg.com

Jacques Cornic

Head of Insurance, EMA
KPMG in France
E: jcornic@kpmg.fr

Brenden Tsang

Partner
KPMG in the UK
E: brenden.tsang@kpmg.co.uk

A special thanks to those who contributed to the development of the report:

Megan Williams

Jiaying Han

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

home.kpmg/uk



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

© 2023 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved

CREATE | CRT152541A | November 2023