

# A catalyst for change:

## New standards create opportunities for finance and actuarial transformation

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With significant regulatory, accounting and actuarial changes on the horizon, many forward-looking insurers are thinking about how they might use these changes as the catalyst to transform their finance function to become a better business partner and drive value for their organization.

In today's complex and highly competitive insurance markets, finance and actuarial functions often stick out as the 'poor relation' of the insurance back office. With under-invested systems, bolted together following a history of acquisitions, maintained by the IT equivalent of duct tape and chicken wire, many functions struggle heroically to achieve their daily and quarterly objectives.

At a handful of insurance organizations, however, these functions are no longer the poor relation but are positioned at the beating heart of the organization — the source of inspiration, leading practices and valuable insights that drive growth

and improve operational efficiency. These finance functions are actively improving the health of insurers' balance sheets and powering exciting new ventures and future growth.

### The business is looking for a partner

By now, the imperative for change is clear to any insurance executive. For some, the key driver will be a deep desire to improve costs and drive efficiency across the wider organization. Others may be more focused on transforming the finance function to help drive customer-centricity and growth. And most insurers are under pressure to comply with new rules and regulations in many of their key markets.



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Increasingly, CEOs and business leaders are looking to the finance function for help in achieving those objectives. But according to a survey of insurance CEOs conducted by KPMG International,<sup>1</sup> few think that the finance function is ready to take on the task. Only around half of the CEOs in our survey viewed their chief financial officer (CFO) as a valuable business partner, and only one in three felt that their CFO understood the challenges facing the CEO. Most damningly perhaps, only around one in five CEOs said that their CFO already plays a critical role in supporting the executive team.

### Looking for a reason to change

To be fair, most finance and actuarial functions are struggling to keep up with current demands from the business. Outdated technology and siloed policy administration systems are slowing down response times and soaking up significant resources. Growing competition for experienced professionals accelerates staff turnover and drives up costs. And many are still recovering from recent regulatory changes catalyzed by Solvency II in the EU and a wave of regulatory developments in other jurisdictions. Few have the appetite for more disruption.

Our discussions with insurance sector finance leaders suggest that past experiences and current perceptions are dampening enthusiasm for new transformation initiatives. According to another recent survey of insurance leaders by KPMG International<sup>2</sup>, almost two-thirds of all insurance organizations have started at least one major transformation initiative in the past 2 years. But the same survey also shows

that a full 57 percent of all respondents considered their most recent transformation to be ‘far from ideal’. Many are feeling somewhat burned by their experience.

The problem is that — in today’s highly competitive and customer-centric insurance markets — yesterday’s finance function is increasingly a barrier to growth for tomorrow’s insurance organization.

### Barriers to change are crumbling

The good news is that many of the traditional barriers to transformation are rapidly falling away. CFOs are being encouraged by their executive teams to step up to the plate and new finance-driven initiatives — such as enterprise performance management — are being warmly received in the executive suite. While capital for new projects may be tight, CFOs that are able to create a business case for transformational change that demonstrates alignment to the organization’s growth objectives should find budgets and executive support to be more forthcoming than in the past.

Technology is also easing the pain of change. Today, technologies sold as a service, such as cloud infrastructure, help companies to vastly accelerate change and avoid fixed-cost hardware commitments via pay-as-you-go arrangements. Similarly, new software applications for data management and self-service analytics make it easier for the business to mine data for insights and lessen dependence on overburdened IT departments.

### Making it real: case study

A multinational insurer teamed with a KPMG member firm to deliver a full transformation of their life insurance actuarial valuation process in all business units across two continents. The key objectives were to eliminate complexity and unnecessary cost in the current operations by establishing a more globally consistent approach to valuation through changes in business process, valuation systems, data management and organizational structure. As well, to enhance flexibility to respond to emerging business needs. KPMG worked with the client to deploy the solutions in a secure and scalable cloud-based computing infrastructure, representing a significant innovation in the industry. The insurer realized the following benefits:

- simpler valuation processes and controls
- substantially reduced workload in valuation operations
- more readily accessible data and more time for actuarial analysis during the quarterly close because of the significantly faster production process
- lower unit costs for computing and data storage.

Just as important, the organization is better positioned to respond to upcoming regulatory and financial reporting changes, which require more sophisticated actuarial modeling and analysis within the same time frames as today’s quarterly and year-end reporting cycles.

<sup>1</sup> *The View from the Top*, KPMG International, 2015

<sup>2</sup> *Insurance Reinvented*, KPMG International, 2016

### Questions to consider:

- How will the systems architecture need to change given the new calculations and their consequences for data storage (such as grouping contracts into cohorts with similar characteristics in order to calculate the contractual service margin, and deriving details of current interest rates)? What broader opportunities will be created by these systems improvements? What else can we fix — while systems are opened up for change — that will benefit the business more broadly?
- How to bring together accounting and actuarial capabilities to build the sources of earnings (SOE) analysis, in terms of organizational design and controls over data?
- How to create a single source of truth for operational and financial data which will be the common starting point for the business, finance, actuarial and risk and capital management?
- How to enable the business to efficiently drill into results to understand the drivers of change at a granular level?
- How to enable what-if scenario analysis for the purposes of business planning, capital and management, alliances, acquisitions and carve-outs?

### Welcoming the arrival of new standards

With the upcoming introduction of new reporting standards<sup>3</sup> in countries around the world, insurance CFOs now have a strong motivation and catalyst for transformation. In many markets — where local standards mandate IFRS for all public reporting by insurers — the impetus for change is unavoidable and insurers are starting to recognize that the implementation of these new standards and regulatory requirements will — at the very least — require significant change in their current finance and actuarial operations.

Often these initiatives start from the perspective of how numbers that are externally reported, such as earnings and capital, will change; but very quickly these conversations lead to much more fundamental questions surrounding the core business drivers: topics such as earnings trends, growth opportunities and the target operating models required to deliver these outcomes. Ultimately, the broad scale and complexity of operational and technology impacts become apparent. And this is when insurance executives tend to realize that these changes are actually an opportunity to transform their finance function.

These changes highlight some of the historical root causes of malaise in the finance function: myriad data sources and patchwork solutions to bring data into accounting and actuarial calculators; inconsistent valuation approaches and data definitions (e.g. product hierarchies) in different business units; loss of granularity and the ability to drill-down as results are aggregated from the line of business or operating entity up to the Group; and limitations in capacity (people, computing and otherwise) to support the Group in 'what-if' analysis for business planning, capital management, acquisitions, distribution arrangements and other strategic decision-making. Finance leaders will need to take a hard look at their systems and data architecture, business processes, controls and organizational design, in order to extract the best possible value from the investments to comply with these changes.

### Key success factors for finance transformation

With the stage set for transformation in regulation and external reporting, finance leaders should now be thinking seriously about how they might take advantage of the current environment to become a better partner to the business. Clearly, every organization will

take a slightly different path depending on local requirements, the demands of the markets in which they operate, their capabilities and their current infrastructure.

However, our experience in helping leading insurers achieve transformational changes within their finance and actuarial teams has raised a number of key success factors that we believe are critical to designing and delivering successful finance transformation in the insurance sector.

1. **Be bold and visionary:** This is an opportunity to fundamentally transform the way the function operates. Take bold steps, make hard decisions and set out a vision for the future that drives engagement and encourages support from across the function — and from the business.
2. **Focus on the business outcomes:** The goal of the transformation cannot be to simply implement a new technology or fulfill a compliance requirement. Finance leaders will need to design their new operating model and processes with the business outcomes they need to deliver at the front of their minds in order to become a better business partner.
3. **Don't let technology drive the decision:** Remember that technology is an enabler of transformation, not a driver. Successful transformations identify the right mix of technologies to enable the target operating model instead of creating an operating model that enables a technology.
4. **Break down the program:** Massive transformation projects can be difficult for employees to digest and complex to manage and deliver. While the overall initiative must remain focused on achieving the long-term vision, insurers will want to break down their projects into manageable steps and retain the ability to innovate and adapt to change.
5. **Deliver quick wins:** Drive immediate improvements, demonstrate value and achievability and lift morale by planning

<sup>3</sup> In particular, the long-awaited delivery of the forthcoming Insurance Contracts standard by the International Accounting Standards Board's insurance contracts project and the introduction of Principle-Based Reserving and Targeted Improvements to the Accounting for Long-Duration Contracts in the US.

for a series of quick wins throughout the process. Recognize and celebrate successes as project milestones are achieved.

6. **Measure progress:** Ensure you have strong discipline around measuring progress — both from a cost and from a benefits perspective — on a regular basis and be ready to make adjustments if projects are not delivering their expected goals.
7. **Look at the bigger picture:** Insurers that approach these changes purely as a shift towards new accounting

standards and regulatory requirements will likely miss significant opportunities to drive real business value. Go beyond the technical considerations to think about the strategic impact — for the business and for investors.

8. **Expect the goals to shift:** Even with the advantages of modern technology and agile approaches, transformation can still take time and much can change in the internal and external environment before the 'end point' is reached. Set clear goals and objectives but prepare to pivot or reassess the strategy if required to adapt to change. ■

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A Partner in the finance management service line of KPMG in Canada, Doron specializes in business transformation for large organizations. Recent experience has been in life insurance and finance helping clients to prepare their organization, business processes and IT for complex regulatory and accounting standards change.

## Be a better business partner

Ultimately, we believe that finance leaders and CFOs should be looking at the implementation of these changes as an opportunity to rethink their operating models, refresh their organizational design and create stronger alignment to the business. And we know that the cost, complexity and barriers to transformation are rapidly falling away. As such, we believe there is no better time for finance leaders and CFOs to start thinking about finance transformation.

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