



## Malcolm Jewell

Partner

Head of Actuarial

Tel: +27 82 683 5505

Email: [malcolm.jewell@kpmg.co.za](mailto:malcolm.jewell@kpmg.co.za)

# Real-time reserving and reporting

**One of the reasons we like watching sporting events in a live environment is that we can share in the banter with our friends, and give our expert opinion on the incredible try, amazing catch or mind-blowing free kick.**

If you are an avid sports fanatic as I am and missed a match for whatever reason, you might occasionally play catch up and watch the replay within a few days of the event; less commonly would you watch the match a month or two after it had taken place. The world keeps moving and the conversation moves on quickly, so talking about a match that happened two months ago is 'ancient history' ...unless your team just won the world cup for the fourth time, in which case it never gets old! Otherwise, something new has already happened and captured everyone's attention.

So why are we behind the times when it comes to financial reporting, and, in particular, why are we still running ad-hoc annual or quarterly reserving processes that often take a full quarter to report results? What would it take to get us closer to real-time actuarial reserving and financial reporting?

## Firstly, why would we want to get to a state of real-time reporting?

Many of us may have heard of sports betting syndicates that try to gain an edge by having someone dial in from the stadium where the sporting event is happening, providing the back-office with live updates, benefitting from the lag on tv or radio transmission.

While having access to more accurate and up-to-date reserve estimates more frequently should allow insurance companies to respond to adverse developments

more quickly, rather than deliberating on developments one or two months after the event, this is probably not the primary incentive.

My view is that the main benefit would be derived through efficiency gains and longer-term cost savings that could be achieved. The automation of reserving and reporting processes would free up valuable time of business managers, actuaries, accountants and IT specialists to focus on other priorities, such as areas of judgement or higher risk. For example, more time could be spent on analytics to understand and respond to the underlying drivers of change in the business within shorter time frames.

Big data, robots, machine learning, generative artificial intelligence (AI) - technology is moving forward at pace. This begs the question, why have we not seen more significant progress in the automation of actuarial reserving and financial reporting within the insurance industry? Especially given the cloud enabled technologies now available.

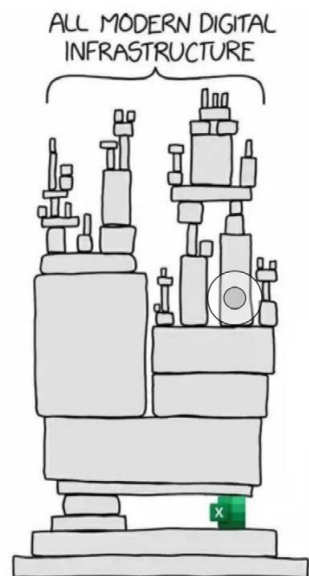
Constructive collaboration across business units and specialists is one of the biggest challenges to overcome, to bridge the gaps between:

- IT specialists, who understand the technology landscape and possibilities;
- actuarial resources that understand the data requirements, assumptions and key areas of judgement in technical reserving models; and
- the broader financial reporting teams, that understand the reporting requirements and business needs and who need to find the best way to communicate results with various stakeholders.

There is a lot of new technology out there and as technology develops, what is possible to achieve and the cost thereof keeps changing. Keeping on top of the fast moving, dynamic technology landscape and joining the dots between this and business reporting needs is where real value can be added.

IT specialists, actuaries and accountants speak different languages and can easily get frustrated with each other. Significant value can be unlocked by reducing this friction, and overcoming challenges created by structural silos within entities, that create political barriers to organisation-wide initiatives. These challenges can be compounded by the inappropriate design of key performance indicators, that can result in short-term budget focus, rather than long-term value creation.

We need to be cognisant of the circumstances. Incumbent business and process owners have typically invested significant amounts of time and money to develop the status quo and may resist change. In the spirit of typical human nature of protecting one's territory, these individuals might argue that it is near to impossible to automate as there are many key judgements that need to be made and ad-hoc manual updates to numerous excel spreadsheets are an essential part of the process:



- Key judgements - yes! That is why the specialists making those judgements should be focusing on analytics that can help understand the drivers of change and appropriateness of assumptions.
- Impossible to automate – no!

Interestingly, machine learning and artificial intelligence developments have seen companies attempting to 'clone' experts, to improve outcomes that will result in robust and consistent decision making. For example, robots are being trained by top-performing call centre operators to 'clone' their responses.

Despite all of the technological advances in this respect, I think the human touch and expert judgement overlay will continue to be critical.

To achieve the vision of real-time reporting, in addition to getting the right people in the room and getting everyone to collaborate as one, it would be key to source and cleanse data from numerous channels and systems.

As we know the foundation of excellence in financial reporting is built on quality data. Data would need to be sourced at the required level of granularity, appropriately structured and integrated to provide a live feed into systems in the required format. Of course, application programming interfaces (APIs) could assist with this aspect, facilitating the exchange of data between different software applications; and cloud services could speed up processing times.

In parallel to focusing on the data-feed, the model assumptions and logic would need to be untangled from the plethora of software and/or Excel spreadsheets currently in use. With the logic and assumptions as inputs, robust software could be developed relatively cost-effectively nowadays, and improved visual analytic reporting tools could be used to enhance the quality of management information.

Distilling the current processes into the key components, as described above, would also result in improved governance, reduced operational risks associated with manual processes, and increase transparency and understanding of key assumptions.

This would seem like a natural next step given the direction within which *IFRS 17 Insurance Contracts* has already taken us. Let us say goodbye to out of date and ad-hoc reserving and financial reporting. As much as I look forward to watching live sport this weekend, I am also excited about the prospect of reserving and reporting being produced in real-time!

