

Accenture 2014 High Performance Finance Study

Insurance Report

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GROWTH

INTEGRATION

INTRODUCTION

Growth is still on the agenda for the insurance industry, despite a protracted period of financial upheaval and the challenges ahead.

The financial crisis of 2008 has given rise to far-reaching, ongoing changes in regulation, adding to the issues created by various forms of complexity. Internally, the need to grapple with complex legacy systems and organizational models looms large. Insurers also need to keep up with changes in digital technology—the rise of cloud, big data and analytics poses challenges but also opportunities.

Our 2014 High Performance Finance Study comprised surveys of more than 600 senior finance executives—of those, 13% were from insurance. This report focuses on those insurance respondents only. We also conducted interviews with a number of chief financial officers (CFOs) and other senior finance professionals from the insurance sector.¹



COMPLIANCE

REGULATIONS



Finding 1: Insurers continue to struggle with integration across their systems and organizational models

Asked about the top challenges in addressing new risk, regulatory and compliance requirements, respondents claim a lack of integrated applications and processes as their leading issue. Poor integration with existing finance and risk processes, and silo-based organizational models and governance, also pose problems. Many insurers continue to struggle with a lack of integration between risk and finance—getting these two functions to work together more effectively is a priority, but often hampered by a lack of consistent data and processes.

Like any major business transformation, closer integration between risk and finance is a major undertaking, and companies clearly find it challenging to execute these types of changes effectively. Asked about the aspects of business transformation they find most difficult, finance leaders in the insurance industry highlight two in particular. The biggest challenges, according to respondents, are measuring the benefits of change and managing the change process.

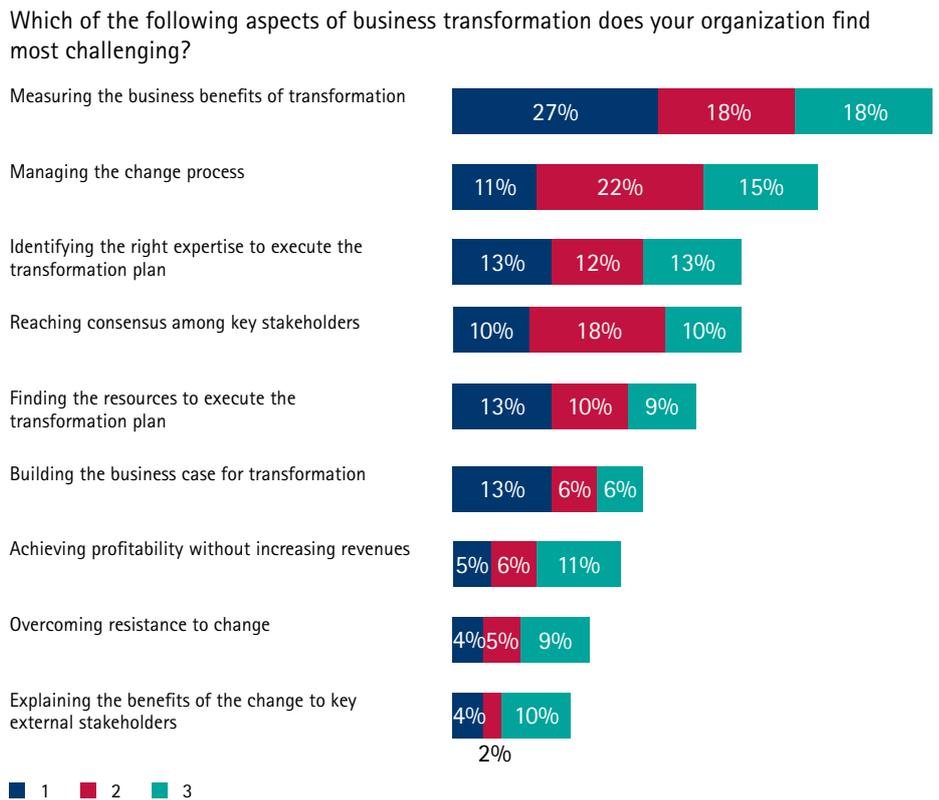
Regulatory change is a key driver for insurers to address integration issues. Insurers globally face a barrage of regulation aimed at strengthening their capital buffers, and ensuring that they are able to structure and manage their risk programs appropriately.

The scale of these integration challenges varies between Life and Property and Casualty (P&C) insurers. P&C respondent firms, which have very complex and diverse product ranges, struggle more with a lack of integrated applications and processes. Among P&C firms, 51% rank this as one of their top two issues in addressing risk, regulatory and compliance matters, compared with 39% of life insurers (although it is still the top challenge for both). P&C firms are also slightly more likely to struggle with a silo-based organizational model and governance.

“The CFO function at Munich Re always has been defined as a business partner with close involvement in the strategic dialogue, M&A activities and all Board decisions.”

Hermann Pohlchristoph, CFO Reinsurance at Munich Re

Figure 1. Insurance respondents find measuring benefits of business transformation challenging



Note: Percentage of insurance respondents ranking 1, 2 or 3
Source: Accenture 2014 High Performance Finance Study, insurance respondents, September 2014

Figure 2. Insurance respondents challenged by issues around applications, processes, organizational models and governance



Note: Percentage of insurance respondents ranking 1, 2 or 3
Source: Accenture 2014 High Performance Finance Study, insurance respondents, September 2014

ENTERPRISE-WIDE RISK MODEL

COMPLEXITY



Finding 2: There is a strong aspiration to move to a single, enterprise-wide finance and risk model

In general, surveyed insurers have been relatively slow to centralize their finance and risk resources. Many have multiple operating segments, each with their own risk and finance groups, and this has made integration challenging to achieve. Currently, just 12% of insurance respondents say that they have a single, enterprise-wide finance and risk repository.

There is, however, a clear appetite in the industry to change—in part driven by the needs of the business, but in part by regulatory pressures and demands. In

two years' time, almost three-quarters of insurance respondents say that a single, enterprise-wide risk and finance repository is their target model. P&C surveyed insurers have a particularly strong aspiration to reach this objective. Greater centralization would have many benefits, including more efficiency, and the ability to serve customers better and on a timelier basis. But moving towards greater centralization, particularly in a timeframe of just two years, is an ambitious goal. The CFO must play a key role in driving this agenda, and serving as the "architect" who will build the business case and aligns stakeholders around the change process.

Finding 3: Complexity, in its various guises, is a key challenge

Asked about the challenges they face as senior finance executives, respondents point to complex legacy systems and environment as their number one issue (this is particularly a challenge for respondents from the Life sector). Other aspects of complexity also loom large. The third biggest challenge, after legacy systems and the need to optimize the capital structure, is managing the complex needs of diverse stakeholders. Surveyed insurers also highlight the difficulties of managing new and complex risks as an important challenge (Figure 4).

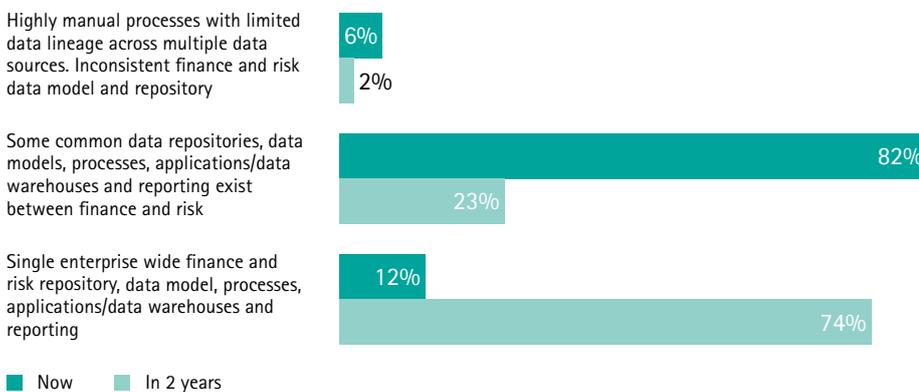
Managing the complexity that insurers face requires concerted action to simplify, standardize and optimize their business processes. Complexity cannot be avoided—indeed, it is a natural by-product of growth and success. High-performance businesses must therefore find ways of managing complexity—for example, by standardizing and optimizing processes to streamline and simplify the organization.

"We are focused on becoming more efficient and competitive, and are looking at what we can do to manage complexity and control costs. We are currently working through a comprehensive process optimization effort, evaluating our core processes and related systems to identify any and all opportunities to find commonalities and ways to standardize our core processes."

Christopher Swift, CEO, former CFO at The Hartford

Figure 3. Very strong aspiration among insurance respondents to move to a single enterprise-wide finance and risk repository

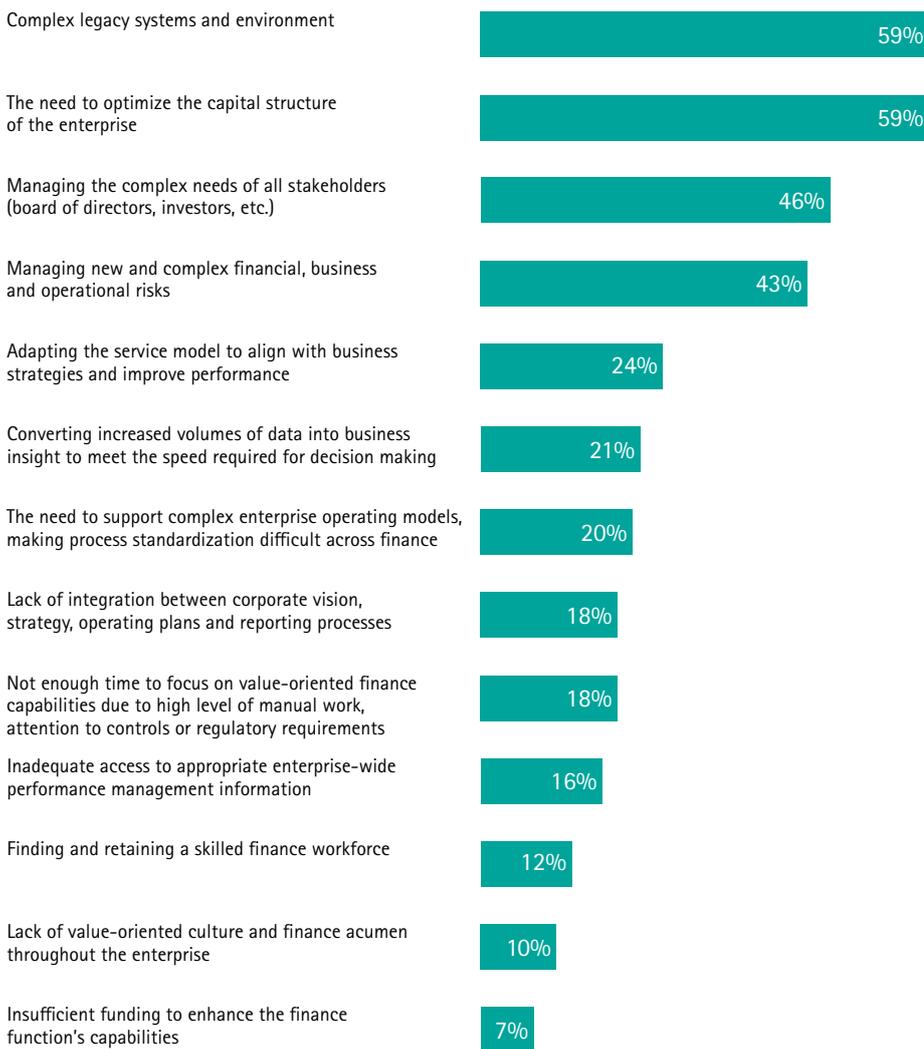
Which of the following best describes your organization's current risk, regulatory reporting and compliance processes, technology and data architecture, and what is the target model in two years' time?



Source: Accenture 2014 High Performance Finance Study, insurance respondents, September 2014

Figure 4. Complex legacy systems and the need to optimize the enterprise capital structure are the greatest challenges facing senior finance insurance respondents

Which of the following are your greatest challenges as a senior finance executive?



Source: Accenture 2014 High Performance Finance Study, insurance respondents, September 2014

Finding 4: Regulation continues to have a high impact on the insurance industry

Among insurers surveyed for this research, 43% say that regulation is having a high impact on their finance function's performance. Similarly, an overwhelming 98% say that addressing regulatory and compliance issues is important to their finance function's performance. The CFO's influence in helping the organization to manage its compliance burden continues to grow—57% of respondents say that the finance leader's influence in proactively responding to regulatory changes has increased.

"The changes taking place in the regulatory environment have brought or will bring increased complexity and cost. So whether it's requirements for highly sophisticated economic capital modeling and enterprise risk management, group supervision, Solvency II, and own risk self-assessments (ORSA), among others, you have to look for ways to get ever better and more efficient in your existing processes to free up time and resources for compliance with these new requirements or accept dramatic increases in your cost structure."

Jay S. Benet, Vice Chairman and CFO at Travelers

Finding 5: Insurers maintain their focus on growth

Over the past two years, surveyed insurance companies have had a strong focus on cost reduction. When asked about the initiatives that they had implemented over the past two years, cost-cutting measures dominate the list. For example, 82% say that they have made functional cost reductions, 79% have initiated operating model rationalizations, and 68% have undergone business portfolio rationalizations.

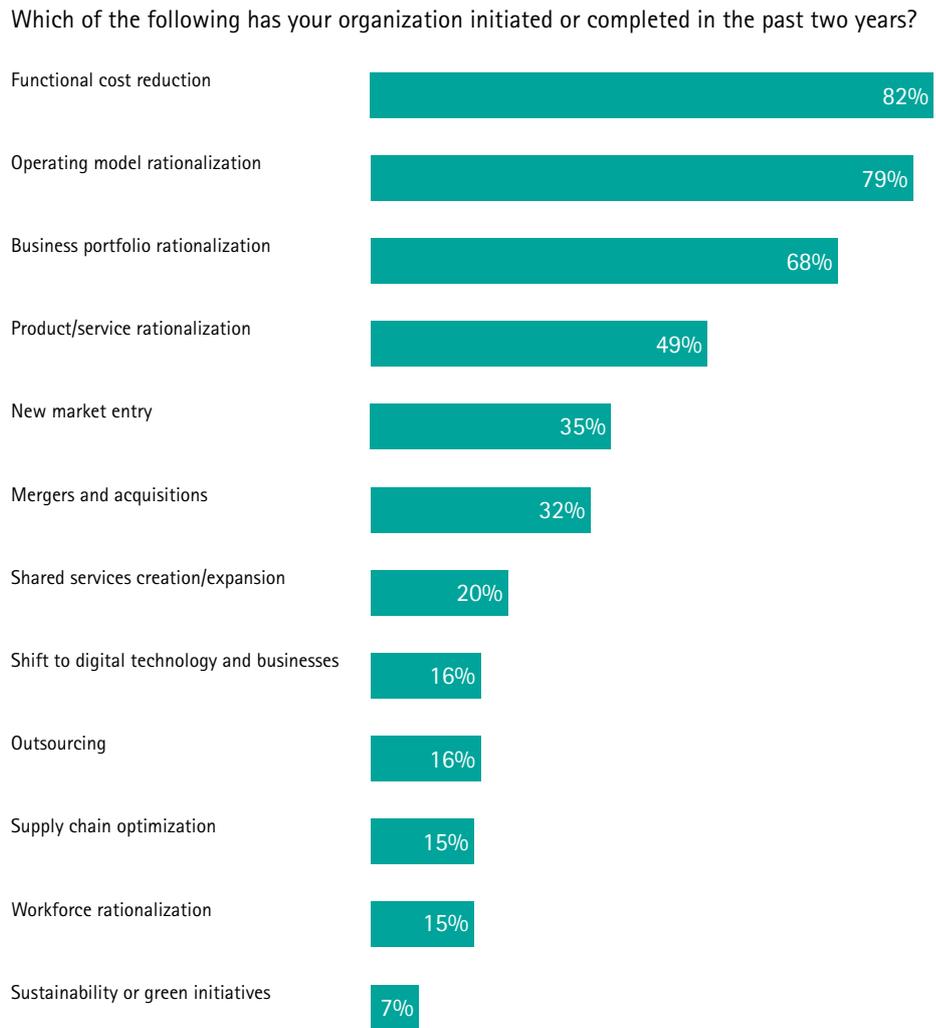
Despite the attention to cost reduction activities, looking ahead insurance respondents continue their shift towards growth. Almost three-quarters say they are primarily focused on investment in growth-oriented activities, and this will continue to increase to 78% in two years' time. P&C insurers are particularly focused on growth opportunities.

CFOs cannot, however, look at their business through a single lens. Every insurer has more mature, traditional lines of business with more predictable revenue streams, and emerging products that offer good prospects but are inherently uncertain. This requires finance leaders who can maintain cost discipline on the more mature parts of the business, but allow a suspension of this focus for more promising growth opportunities. At the same time, CFOs need to be able to react quickly to changing situations—so that they can tighten expense controls if premiums are not emerging as expected, or loosen them if a promising idea requires more investment to achieve scale.

"There are pressures to be as efficient as possible, while balancing the tension between short-term results and long-term investment. The way to balance that is to go at a measured pace, and to make investments as self-funded as possible."

David Herzog, EVP and CFO at AIG

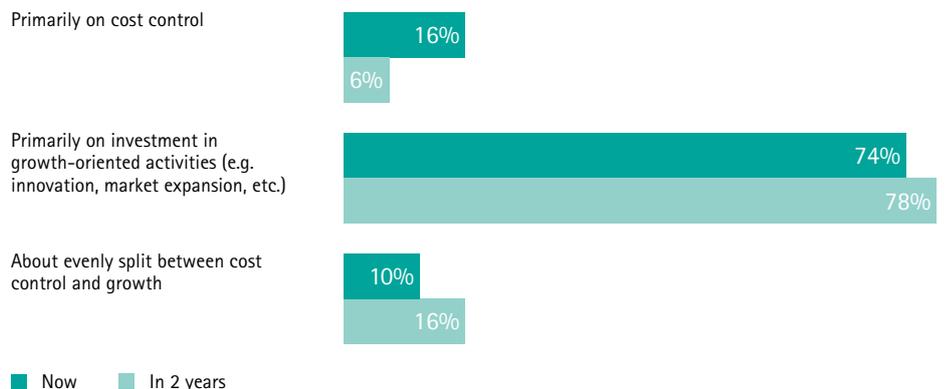
Figure 5. Insurance respondents have been focused on rationalization and cost reduction activities



Source: Accenture 2014 High Performance Finance Study, insurance respondents, September 2014

Figure 6. Insurance respondents continue to invest for growth

Which one of the following best characterizes your company's/organization's overall focus today and which do you expect to characterize your focus in 2 years' time?



Source: Accenture 2014 High Performance Finance Study, insurance respondents, September 2014

Finding 6: Many insurers are ramping up their investment in cloud, big data and analytics

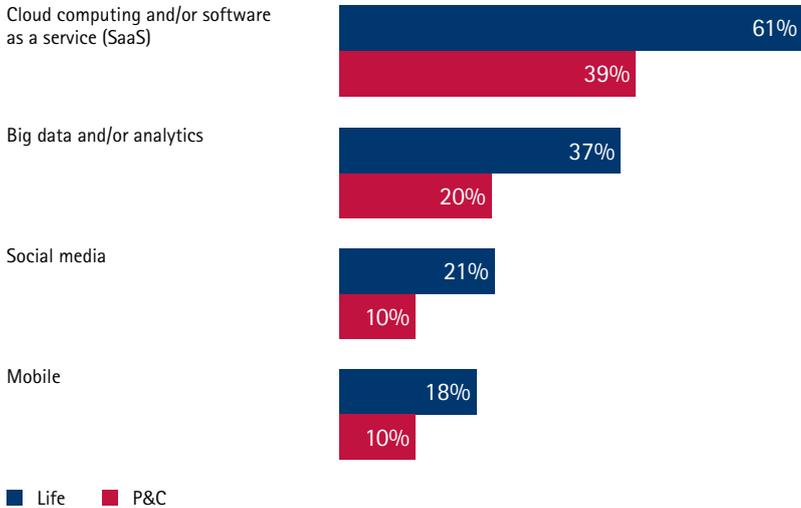
Insurers are investing heavily in digital technologies, although there are large variations between P&C and Life. For example, 39% of surveyed P&C insurers say that they are investing in cloud computing and software as a service by more than 25% over the next two years. Among surveyed Life insurers, however, this rises to 61%. Investment appetites for big data and analytics are also high overall, but are particularly large among the life insurance respondents, with more than one-third saying that they will increase their investment by a similar level. Among our respondents, 85% of insurers say that they are applying big data and analytics to accelerate insights for better decision making, compared with 72% of respondents from other sectors. CFOs are often involved in assessing these technologies, but only a minority of respondents drives decisions and actions.

“Finance has a very significant role in identifying what data needs to be unlocked and evaluating its potential benefits. At Travelers, we try to bring a fact-based, common-sense approach to business decision making, using insight and judgment to weigh benefits against their costs.”

Jay S. Benet, Vice Chairman and CFO at Travelers

Figure 7. Life insurance respondents show stronger desire to invest in digital technologies

Over the next two years, how will the level of investment (this includes all personnel, technology, administration, and project costs) by the organization change for the following technologies?



Note: Insurance respondents indicating they expect to increase their investment by more than 25 percent
Source: Accenture 2014 High Performance Finance Study, insurance respondents, September 2014

CONCLUSION

Finance has made strong progress in adapting to the new post-crisis climate for the insurance industry.

Insurers need, however, to make further progress in integrating their systems and organizational models. A large majority aspire to move to a single, enterprise-wide finance and risk model. CFOs will need to play a key role in driving these changes. They will also need to strengthen further the finance function's ability to deal with complexity. Meanwhile, addressing regulatory and compliance issues will remain central to the finance function's performance.

Surveyed insurers are managing cost, but their focus has been and continues to be growth. The CFO will play an increasing role in driving profitable growth, and also has scope for greater influence over technology decisions as companies ramp up their investment in cloud, big data and analytics. Insurers in which the CFO is able to effectively act as value architect will be well placed for success.

CLOUD

BIG DATA



ANALYTICS



NOTES

1. "Accenture 2014 High Performance Finance Study, September 2014. Access at: <http://www.accenture.com/us-en/Pages/insight-high-performance-finance-study.aspx>

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