Redefining High Performance in the Insurance Finance Function

High performance. Delivered.
Introduction

The extraordinary stress placed upon the corporate finance function in the years since 2008 has made finance stronger, not weaker. With the restructuring of the global economy, insurers have relied upon the finance function to help the entire enterprise shape its response to a challenging environment.

As the Accenture 2011 High Performance Finance Study demonstrates, finance organizations in general, and insurance finance functions in particular, have done a good job in difficult times. Among the key findings are:

1. Insurance finance organizations as a group have substantially improved their capabilities and performance in the past three years, and have established a strong alignment with their internal clients within top management.

2. New challenges in the form of regulation, volatility, talent and data are creating new pressures and, overall, more complexity for the insurance finance organization to address.

3. Given the challenges that insurance CFOs face, they may have to rethink their focus on controlling costs and move to a growth agenda. This may require selective investment in capabilities to respond to these challenges, but CFOs must meet the expectations of their internal customers while delivering greater value to the larger enterprise.

On the next few pages we go into more detail about each of these key findings.
1. Insurance finance organizations as a group have substantially improved their capabilities and performance in the past three years, and have established a strong alignment with their internal clients within top management. In both our 2008 and 2011 editions of the High Performance Finance Study, we asked participating finance executives to indicate how advanced their organization’s capabilities were in each of the five key areas of finance: finance and accounting operations, corporate finance, finance function management, risk management and enterprise performance management. Overall, a significantly higher percentage of finance executives in 2011 – both in the insurance industry and in the overall study – reported advanced capabilities in each of these areas than did those responding in 2008, suggesting companies have made great strides in improving their finance capabilities in the past three years. This improvement, moreover, has led to increased levels of satisfaction; a majority of between 67 and 77 percent of finance executives in our study this year reported being satisfied with their own performance across these five areas of finance, a substantial increase over 2008 levels of satisfaction. This satisfaction extends to the finance organization’s internal clients in senior management. Nearly three-quarters of C-suite officers – CEOs, chief operating officers, and chief information officers – in our study said they were satisfied or very satisfied that their finance organization contributes to the strategy or execution of strategy for the larger enterprise; meets their overall business needs; and provides timely, responsive and accurate service. In addition, four-fifths of these respondents expressed satisfaction with how finance integrates with other company functions, while nearly seven in 10 said their finance organization’s capabilities are either at the top of their peer group (18 percent) or above average (51 percent).

As seen in Figure 1, insurance industry respondents showed relatively high levels of satisfaction with the performance of the finance function. They gave high ratings to the effectiveness of the finance function, with 81 percent describing themselves as satisfied or very satisfied overall, and 84 percent saying they were satisfied with the function’s ability to manage financial and non-financial risks. Other areas of strength included the efficiency of the finance function (78 percent); the finance function’s contribution to overall performance (73 percent); the effectiveness of the finance workforce (73 percent) and the function’s ability to drive positive enterprise-wide change (70 percent). At the same time, however, respondents acknowledged the importance of addressing new challenges stemming from both external factors and organizational concerns.

### Figure 1: Satisfaction with the Performance of the Finance Function

<table>
<thead>
<tr>
<th>Area of Finance Function</th>
<th>Insurance</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing financial and non-financial risks</td>
<td>84%</td>
<td>67%</td>
</tr>
<tr>
<td>Effectiveness of the finance function</td>
<td>81%</td>
<td>71%</td>
</tr>
<tr>
<td>Efficiency of the finance function</td>
<td>78%</td>
<td>70%</td>
</tr>
<tr>
<td>Contributing to financial performance</td>
<td>73%</td>
<td>71%</td>
</tr>
<tr>
<td>Finance workforce effectiveness</td>
<td>73%</td>
<td>69%</td>
</tr>
<tr>
<td>Driving positive enterprise-wide change</td>
<td>70%</td>
<td>64%</td>
</tr>
<tr>
<td>Addressing regulatory issues</td>
<td>68%</td>
<td>71%</td>
</tr>
<tr>
<td>Managing through the downturn</td>
<td>68%</td>
<td>65%</td>
</tr>
<tr>
<td>Preparing for growth</td>
<td>66%</td>
<td>67%</td>
</tr>
<tr>
<td>Contributing to the strategic direction of the enterprise</td>
<td>65%</td>
<td>66%</td>
</tr>
<tr>
<td>Flexibility of the finance function</td>
<td>65%</td>
<td>64%</td>
</tr>
<tr>
<td>Capitalizing on M&amp;A opportunities</td>
<td>65%</td>
<td>58%</td>
</tr>
<tr>
<td>Addressing sustainability issues</td>
<td>49%</td>
<td>51%</td>
</tr>
</tbody>
</table>

- Very Satisfied or Satisfied
- Dissatisfied or Very Dissatisfied
- Neither Satisfied nor Dissatisfied
2. New challenges in the form of regulation, volatility, talent and data are creating new pressures and, overall, more complexity for the insurance finance organization to address.

While finance executives have made tremendous progress over three years, they must address numerous challenges confronting both the finance function and the larger enterprise. The most pressing of these is regulation, including such initiatives as Solvency II in Europe and Dodd-Frank in the United States, identified by almost three-quarters (70 percent) of insurance finance executives as having a significant impact on the finance organization.

The single issue within regulation taking up the most time for insurers is Solvency II, with 16 percent of industry respondents putting it at the top of the list. Other regulatory initiatives commanding attention include healthcare reform and Sarbanes-Oxley (each at 11 percent) and prevention of fraud and money laundering at eight percent. Major concerns stemming from these broad regulatory initiatives include demands for greater transparency and more challenging capital adequacy requirements.

The need to address this changing regulatory landscape is absorbing a great deal of the insurance finance organization’s time and resources—more than for other industries. Just over half (51 percent) of the study population identified regulation as a high-impact concern.

Finding, developing and retaining talent is the second-most frequently mentioned factor in terms of impact, with 51 percent of insurance finance executives identifying concerns in dealing with major changes in the demographics, skills and needs of the global workforce, compared to 40 percent of the overall study population. Dealing with a high volume of data is cited as a concern by 46 percent of insurance finance executives, compared to 40 percent of the study population, while permanent volatility—ongoing fluctuations in prices and markets—is less of a concern for insurance CFOs, with 38 percent citing such volatility versus 46 percent for the larger group.

Complexity is a theme common to four of the top five issues that insurance finance executives said they face. Insurance finance executives must manage new and complex financial, business and operational risks; the complex needs of all stakeholders; the need to support complex enterprise operating models, making standardization difficult across finance functions; and the difficulty of dealing with complex legacy systems and environments.

3. Given the challenges that insurance CFOs face, they may have to rethink their focus on controlling costs and move to a growth agenda. This may require selective investment in capabilities to respond to these challenges, but CFOs must meet the expectations of their internal customers while delivering greater value to the larger enterprise.

Over the past few years, the primary concern of virtually all businesses has been to bring costs in line with a large drop in demand. In many cases, the finance organization took the key role in this effort.

While controlling costs is still a major concern for insurance finance executives—with 49 percent of executives in our study saying that their finance organization remains focused on controlling finance costs—the study indicates that these executives’ attention will shift toward a broader growth agenda over the next 12 months. It is an open question, however, whether insurance finance organizations that have focused on reducing costs for three years will have the capabilities in place to support growth. In fact, our study found that companies reporting smaller finance budgets (expressed as a percentage of overall company revenues) also reported having less-sophisticated finance capabilities overall—including core capabilities but also more value-adding capabilities. When growth takes precedence over cost control, these organizations may be unable to provide what the larger enterprise needs.

This perspective, interestingly, is shared by a large percentage of senior management/ internal clients, with nearly a third (32 percent) in the larger study saying that insufficient funding to enhance the finance organization’s capabilities was one of the greatest challenges facing finance leaders.

This is a clear signal to insurance CFOs that it is time to shift the focus from controlling costs to exploring opportunities for growth.

Figure 2: Challenges Facing Finance Executives

Lack of integration between enterprise strategy, operating plans and performance management
Not enough time to focus on value-oriented finance capabilities
Managing new and complex financial, business and operational risks
Complex legacy systems and environment
Lack of value-oriented culture and finance acumen throughout the enterprise
The need to support complex operating models, making standardization difficult
Managing the complex needs of all stakeholders
Finding and retaining a skilled finance workforce
Complex outsourcing and shared services arrangements
The need to optimize the capital structure of the enterprise
Inadequate access to appropriate enterprise-wide performance management information
Insufficient funding to enhance the finance function’s capabilities
Other
The study suggests several areas in which insurance finance executives should consider investing to deliver the greatest value to the larger enterprise. Although the organizational focus today is on cost control, this focus is shifting to investment in growth activities (Figure 3).

This shift in focus has several implications for insurers reviewing investment priorities:

1. Insurance CFOs should consider how they can increase the overall maturity of their finance capabilities. While finance capabilities are more advanced in 2011 than they were in 2008, there are still substantial areas for improvement. Notably, the capabilities least likely to be identified by finance executives as “highly advanced” are workforce management, strategic planning, performance reporting and analytics, transaction processing, and business and operations risk management.

2. As they invest to improve these capabilities, insurance CFOs should also make sure that the basics are in place. For example, we found that companies that excel in core accounting capabilities – those related to “closing the books” – are more likely, as well, to have advanced capabilities that are critical to delivering value, such as target setting, a value-oriented culture, budgeting and forecasting, and managing business risk. Companies must get the basics right before they can move on to delivering added value in finance.

3. Insurance CFOs should set priorities for investing in top areas of importance. We found that the percentage of finance executives indicating that they were satisfied or very satisfied with their organization’s performance in a particular area lagged behind the importance that they attributed to that area. In the top three dimensions – effectiveness of the finance function for the business, finance workforce effectiveness, and managing financial and non-financial risks – we saw the largest gaps between importance and satisfaction percentages (16 to 17 points). These areas merit particular attention by those finance executives who are considering increasing their organization’s budget.

4. CFOs could consider taking action to reduce the gaps between their own expectations and those of their internal customers. Internal customers are more likely, for instance, to view capitalizing on mergers and acquisitions (78 percent versus 69 percent) and addressing sustainability issues (71 percent versus 56 percent) as important to the finance organization. They are also more likely than finance executives to think finance leadership should be developing a finance function strategy in the next two years (42 percent versus 37 percent) and to see as a major challenge the lack of integration between enterprise strategy, operating plans and performance management (44 percent versus 33 percent). By investing in these areas, CFOs can meet the expectations of their customers and, ultimately, provide better support to the business.
Dealing with permanent volatility

Volatility, uncertainty and globalization are the three outstanding characteristics of the business world today. Companies are planning for weak economic growth, overcapacity and high unemployment in their key markets, creating challenges for the finance function but also presenting opportunities for finance to develop solutions. Respondents indicated that the finance function is improving its capabilities and delivering more data than in previous years, and nearly half (48 percent) said the finance function is proactively responding to regulatory changes (Figure 4).

Finance executives identified a number of factors related to permanent volatility as affecting their organization’s ability to perform at a high level. Half named economic challenges, while 44 percent named market volatility and 37 percent reported commodity price changes as having a significant impact.

Other factors include rapid growth opportunities (32 percent), workforce skills (32 percent), currency exchange rates (32 percent) and emerging market competitors (30 percent). Workforce turnover was named by just 23 percent of finance executives. While the relatively low consideration given to workforce turnover reflects the fact that many employees are happy simply to have a job in a difficult economy, we believe this issue will become a larger concern in the near future as the economy grows stronger and companies once again begin to compete for talent.

Within insurance, 68 percent of finance executives identified cost management as the most important tool or process for managing volatility, followed closely by risk management (65 percent) and capital planning (57 percent). Insurers placed more emphasis on these tools than on advanced planning and forecasting, cited by 60 percent of bankers (and 80 percent of utility finance executives) but by only 41 percent of insurers.

Figure 4: Volatility Factors Affecting High-Level Performance

- The finance function is improving its capabilities
- The finance function is delivering more data than in prior years
- The finance function is proactively responding to regulatory changes
- The finance function is driving into the greater company/organization to deliver value
- The finance function is expanding its input into strategy and high-level decision making
- The finance function is providing analytics to the company/organization
- The CFO is aggressively leading the finance agenda
- The finance function is partnering with other corporate functions
- The finance function is identifying growth opportunities

Not applicable, the finance function is not expanding its role and influence
Many insurance CFOs see keeping up with changes occurring in the demographics of the current and future finance workforce as a considerable challenge, especially in terms of finding the right mix of skills.

Another challenge is keeping finance skills up to date, with 32 percent of overall study participants – and 38 percent of insurance finance executives – saying that a significant proportion of finance skills are out of date, and 29 percent (24 percent in insurance) saying they simply lack the skills their finance organization needs. Slightly more than half of companies have trouble attracting finance workforce skills, either because they cannot afford to pay what those skills demand (25 percent) or because people with those skills do not want to work in their industry (23 percent). For insurance finance executives, this is a particular problem, with 36 percent saying that people do not want to work in their industry – more than any other industry surveyed.

To manage and maintain their finance workforce, companies employ a wide range of practices. The two most popular may seem the most basic: offering competitive salaries and benefits, and tying performance rewards to both individual success and to overall enterprise profitability. Almost two-thirds (62 percent) of insurance finance executives tie rewards to success, and more than half (54 percent) say they offer competitive salaries and benefits. In addition, a majority (56 percent) of insurers say that their finance leadership encourages innovation and provides employees with opportunities to share ideas.

Despite the problems acknowledged in finding and developing the right skills, insurance finance executives are generally satisfied with their workforce, with 27 percent saying the overall skill level of their finance workforce is industry-leading (versus 18 percent overall) and 49 percent describing it as higher than most peer organizations (compared to 44 percent in the larger survey). This raises the possibility that survey participants are overestimating the skills of their workforce; once the economy fully recovers, gaps in skills and needed competencies may become more evident. Anticipating possible shortages of talent, some insurance company finance teams have begun tapping into pools of talent that exist elsewhere in the organization to find and develop skills needed to support initiatives in data management, analytics and other areas. It is essential, however, to have a comprehensive talent plan in place rather than to rely solely on stepped-up recruiting efforts. The right structure can provide the organization with the flexibility to build rather than buy needed skills.

Most companies now have access to more data than ever before, yet few have the analytics tools or the skills and processes to turn this data into meaningful insights. Fully 40 percent of finance executives (and 46 percent of insurance CFOs) said increasing and incompatible data volumes, along with more difficulty in making data useful, are making a large impact on the finance function. While companies overall reported shortcomings in key capabilities for making use of critical data, they do not see these as a major issue affecting the finance function’s performance.

Only 18 percent of finance executives rated their organization’s reporting of non-financial measures as being at the top of their peer group, and about the same percentage (19 percent) described their ability to produce business models, and to test the impact of proposed changes to those models, in similar terms. About one in five finance executives said they had peer-leading integrated technology systems to support the collection and reporting of key performance information (21 percent) and quick and accurate forecasting (22 percent), and only one-fourth (26 percent) said they led their peers in the speed and accuracy of the monthly reporting cycle.

The results suggest that there is room for improvement in performance management capabilities at most companies. Fewer than three in 10 finance executives, however, said having to manage more data than ever before is driving them to enhance their performance management capabilities. While it is possible that finance organizations have in place what they need to manage the increase in data – meaning that data volume is not an issue – it is also possible that they lack the systems to receive the data in the first place. In this case, although the amount of data received may not seem overwhelming, it represents a large potential problem.
Achieving financial mastery

A select group of corporate finance teams excel across a range of key metrics designed to gauge finance performance. This group, whom we have termed “finance masters,” can provide guidance to other companies making decisions about where and how to improve performance in the coming year.

When we compared finance masters and non-masters, for example, we found that both groups are equally mature in the basics of finance. Where masters excel, however, is in the areas we consider to be more value-adding, including target setting, strategic planning, budgeting and forecasting, performance reporting and analytics, and treasury. Finance masters establish distributed and geographically optimized finance functions, as well.

Another attribute of finance masters: they leverage more of the practices and capabilities available to them than do non-masters, taking a broader approach to finance challenges. For instance, to manage volatility, masters are more likely than non-masters to make use of risk management, cost management, advanced planning and forecasting, analytics, balance sheet optimization, and tax planning. To address regulatory issues, masters are more apt to assess compliance with current and future regulations; to initiate proactive compliance programs; to devote resources to technology and capability development; and to hire experts with specific compliance skills.

Masters are also more likely to offer competitive salaries and benefits to attract and retain the advanced finance skills they require. They tie rewards to both individual success and to the profitability of the enterprise, and they encourage innovation and provide finance employees with opportunities and platforms to share ideas.

In comparison to non-masters, finance masters are planning a broader range of initiatives over the next two years to improve the finance organization. They are exploring various aspects of business process optimization (BPO) for both transactional and analytical tasks, and they are implementing shared services, standard and advanced enterprise performance management capabilities, and new workforce programs.

Overall, masters are heavily involved in many of the actions that we believe finance organizations should consider to engage with and deliver value to the larger enterprise. Masters are more likely than non-masters to say that their finance function embeds itself in the larger enterprise to deliver value; that it works to improve its capabilities; and that it expands its input into enterprise strategy and high-level decision-making. Masters also reported delivering more data than in prior years, partnering with other corporate functions, providing analytics to the enterprise and identifying growth opportunities. In short, masters take a broad view of finance and employ a wide range of tools and approaches to deliver as much value as possible to their companies.

Recent success, but room for improvement

While CFOs have enjoyed success over the past three years in strengthening their finance organizations and meeting C-suite expectations, they still have numerous opportunities to improve their finance organization’s capabilities and performance. This is especially true given the regulatory challenges ahead and the growing shift to growth mode in the coming year.

The 2011 Accenture High Performance Finance Study was based primarily on a survey Accenture conducted between January and August 2011 among 526 finance executives (including executives at 37 insurance companies) across 14 industries. The research focused on identifying what constitutes finance mastery and the actions and behaviors that masters exhibit. The survey was fielded using a mixed method of phone and online methodologies.

More than one-quarter of respondents were CFOs. The balance of respondents were finance directors, vice presidents of finance, and corporate controllers. More than 20 countries were represented in the survey. Eighty-five percent of the participating companies have revenues of more than US $1 billion and more than half have revenues of more than $5 billion. This is the fourth phase of Accenture’s High Performance Finance research, with the most recent installment prior to this one being completed in 2008.

In addition, a complementary survey of 297 C-level customers of finance was conducted in May 2011. More than 80 percent of the respondents to this survey were CDOs, CEOIs, and COOs across a matching set of industries, with 7 percent (20 executives) from the insurance industry.

The third stream of research was a series of in-depth interviews conducted with 11 finance executives and five CDOs representing large, global organizations across industries. These interviews were subsequently analyzed along with the quantitative data to provide additional insight and richness to the findings.
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