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Enabling Agile Insurance Finance and Risk through Shared Services

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I. INTRODUCTION

THE PROLONGED UNCERTAIN BUSINESS CLIMATE IS DRIVING INSURERS AROUND THE GLOBE TO SEEK INCREASED BUSINESS AGILITY.

In our view, low interest rates, increased competition, sales channel pressures, legacy technology and proliferating regulations make it imperative for insurers to find ways to reduce costs, increase operating efficiencies while remaining responsive to challenges and capable of seizing opportunities as they arise.

Insurance industry Chief Financial Officers (CFOs) are taking on much of the responsibility for addressing these challenges and the opportunities they create. To do so, they are finding an increasing need to access more specialized finance skills and talent on a scalable, near-real-time basis. As a result, many insurance CFOs are exploring further expansion of shared services for their organization.

The shared services model has been in place for a number of years, commonly used by companies to organize and deliver global internal support services more efficiently and effectively. Shared services involves the transfer of work activities performed on a decentralized basis among different lines of business to a more centralized structure. Shared services is run like a business on its own, with standard processes and operating procedures, service level commitments and oversight from both administrative and business leadership.

The shared services model has historically been used to support routine, repeatable processes. Now, insurance company CFOs are seeking to leverage shared services further to create enterprise value, manage risk, improve controls and address regulatory concerns. Properly structured and implemented, shared services can create a cost-effective and scalable global support platform for insurance finance and risk functions.


REGULATORY PRESSURES
TALENT CHALLENGES

II. MAJOR CHALLENGES FOR INSURERS

THE INCREASE IN REGULATION AT LOCAL, NATIONAL AND GLOBAL LEVELS HAS ENHANCED THE STRATEGIC IMPORTANCE AND VALUE OF INSURERS' FINANCE AND RISK FUNCTIONS.

REGULATORY CHALLENGES

As shown in the figure below, these functions now must work together to improve capital planning, risk management and regulatory compliance across the enterprise and to ensure effective reporting and stakeholder relationship management.

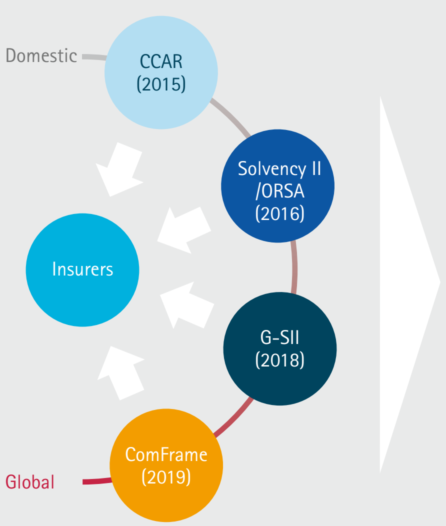
The precise implementation dates and specific requirements of many of these new regulations are not yet known, but insurers do know that they must improve their finance and risk infrastructure before final implementation. We have observed that finance and risk organizations have found that without improvement to their existing processes as well as to technology and resource deployment, they will need to add resources and specific skills at unprecedented rates, leading to higher costs and unsustainable demands on limited pools of talent. The key challenge is to create additional capacity within the existing talent pool.

GREATER COST PRESSURES

Our client experience in the space indicates insurers are also facing greater cost pressures, partly attributable to increased regulation but also due to other factors including constrained profits, low investment yields, and slower growth since the financial downturn beginning in 2008. Industry consolidation, new market entrants, changed distribution models and competitive pricing — along with the cost of operating multiple, decentralized businesses and administrative support organizations – add to the pressure.

CFOs are being asked to do more with less — to rationalize the finance cost structure to contribute to overall margin improvement. As a result, insurance CFOs are looking at a range of options to manage complexity and control costs while providing better service to internal customers.

Regulatory requirements are increasing as insurers shift from traditional to new non-traditional business models with additional systemic risk



	CCAR	Solvency II /ORSA	G-SII	ComFrame
Foundational Risk Management	✓	✓	✓	✓
Capital Planning	✓	✓	✓	✓
Governance and Process	✓	✓	✓	✓
Audit	✓	✓	✓	✓
Stress Testing	✓	✓	✓	✓
Enhanced Supervision			✓	
Resolution Planning	✓	✓	✓	✓
	2015	2016	2018	2019

Glossary of terms

CCAR: Comprehensive Capital Analysis and Review legislated by the US Federal Reserve Board

Solvency II/ORSA: EU Directive regarding Own Risk and Solvency Assessment (ORSA); similar Risk Management and Own Risk and Solvency Assessment enacted by the US National Association of Insurance Commissioners (NAIC)

G-SII: Global Systemically Important Insurers (G-SII) as designated by the Financial Stability Board (FSB) and the International Association of Insurance Supervisors (IAIS)

ComFrame: Common Framework for the supervision of internationally active insurance groups

Source: Accenture analysis of publicly available information, August 2014

INTERNATIONAL GROWTH OPPORTUNITIES

Many insurers are seeking growth through expansion into new markets, while developing innovative products and services aligned with the needs of these higher-growth markets. Through cross-border acquisitions and organic expansion, insurers seek not only growth but diversification and reduced dependence on home markets. Geographic expansion and product line innovation, however, call for an agile, nimble and scalable administrative support model.

For finance, critical processes such as general ledger accounting, period end close management, external reporting and legal entity reporting can become complicated and subject to cycle delays. Resource deployment decisions (for example, decentralized and geography-specific deployment versus centralized deployment using shared services) and utilization of technology (multiple general ledgers and reporting databases versus a common finance technical platform and toolset) can hold the key to simplification and timeliness. In Accenture's view, the shared services approach often affords the best structure for cost-effective production.

NEW TALENT STRATEGIES

Many insurers are struggling to identify, recruit and retain the finance skills and develop the talent strategies needed to support planned initiatives. Insurers, for example, often have a mature finance workforce, with significant tenure within the organization. This valuable experience may be accompanied by the negative implication of a higher cost to serve, pyramid imbalances, and potential stagnation of skills and perspectives.

Spans of control have become too narrow. Accenture's experience indicates that, within the insurance finance function, spans of control for manager-level and above finance executives to those below manager-level (associates and analysts) can be as low as 1:1, sometimes 1:2 and only rarely 1:4 or greater. With cross-industry averages at 1:8 or more, there may be opportunities to examine the legacy operating structure of the insurance finance organization.

We have also observed among some insurers greater challenges in attracting and retaining top talent as "Millenials" tend to seek innovative, high-growth potential lines of work in emerging industries. Insurance finance functions should thus consider education and development programs, competency models and clear career paths for new and existing team members to overcome these and other barriers.

ASKING THE RIGHT QUESTIONS

In Accenture's view, asking – and answering – six essential questions can help insurance company CFOs address major issues related to resource allocation, supporting enhanced productivity and future growth while controlling costs:

1. Regulatory
How can insurers create sustainable capacity gains within finance to manage new and rapidly evolving regulatory concerns?

2. Partnering
How can finance operate as a strategic partner with the business and its key stakeholders to manage increasing demands for analytical and reporting support while maintaining strong controls and producing timely, accurate financials (with insightful analysis to drive decision-making)?

3. Cost
How can finance reduce its own general and administrative (G&A) cost structure to better absorb changes and position for growth?

4. Operating Model
How can both finance and risk establish a flexible global operating model to support expansion opportunities along with innovation and continuous improvement?

5. Value
What has been the success of the shared services model for the actuarial function, established by many insurers? How about finance, risk and compliance? Are these models on-shore, off-shore, or both?

6. Talent
How can insurers create new strategies and opportunities for attracting talent and getting the right skills for the right roles?

III. PUTTING SHARED SERVICES TO WORK

ACCENTURE'S EXPERIENCE HAS BEEN THAT A SHARED SERVICES MODEL CAN HELP INSURANCE FINANCE FUNCTIONS IN A NUMBER OF PRIORITY AREAS AND ADDRESS THE SIX CORE OPERATING MODEL QUESTIONS FROM PAGE 4 IN THE FOLLOWING WAYS.

1. MEETING REGULATORY DEMANDS

The lack of common data platforms, standards, and data governance models hampers insurers' efforts to meet new regulatory demands. Reporting results can vary widely, in both content and format, from business to business and location to location. Establishing common processes, a common governance model, clear ownership and consistency among business models makes it much easier to define, consolidate, communicate, and implement changes needed for new regulations.

A common shared services platform for finance, risk and compliance should help standardize the reporting and data architecture and the operating model used by both finance and risk. Often risk and finance should be using the same data, but are not; shared services integrating the finance and risk operating model and financial data architecture could deliver this benefit.

Insurers may also require increased granularity of source data to support the requirements of different regulatory bodies. A shared services operating model for finance can enable the needed consolidation and integration of these areas. Shared services can take the lead on design, but can also provide central governance as the single point of contact for maintaining and managing a common financial data architecture with ongoing standards for data integrity and reporting across the enterprise.

2. REDUCING PROCESS COMPLEXITY AND COST

Many routine insurance finance and risk processes are often clear candidates for consolidation to achieve economies of both scale and skill. In finance, these routine processes may include: settlement payments, expense allocation and reporting, operational accounting (premiums, claims and commissions), general ledger accounting and period-end close, account reconciliation and ledger confirmation, investment accounting, premium tax accounting, financial system management, and some portion of treasury operations. Internal audit and control functions are also typically strong shared services candidates.

Common risk processes for consideration include: risk data management and reconciliation, risk model management and data input, risk application and tool development, and supporting risk analysis with standardized reporting.

Actuarial processes for shared services consideration have begun to encompass pricing support, market analysis, statutory reserving and reporting, experience analysis, application/database development and data management and reconciliation.

Insurers are now finding opportunities to move even further up the finance value chain and are considering shared services models for higher level planning and analysis and management reporting, to achieve even greater consistency in service performance and outputs while achieving significant cost savings and enterprise value.

Shared services provides the tools to enable this process simplification and cost structure optimization. Since many insurance companies have legacy systems and disparate/duplicative functions — with multiple individuals responsible for the same activities at varying levels and for different business groups, there is a significant opportunity to consolidate, simplify, standardize, and reengineer these activities to take out complexity that has built up over the years. While technology rationalization is quite often employed as an enabler to centralization and establishment of a cost-effective scalable model, there are efficiencies to be realized even without major technological innovation. Insurers can realize value from shared services by simply consolidating and rationalizing the steps, roles, responsibilities, and inputs and outputs to financial reporting.

3. SUPPORTING GLOBALIZATION

Insurers undertaking global expansion will benefit from greater coordination and consistency across multiple local businesses. The new global business model calls for a new global finance support infrastructure, and shared services can provide an agile, flexible method of supporting new business while operating on a global scale. Shared services helps insurers optimize global and regional site selection based on business needs, cost structure, talent availability, language skills, customer service needs, and risk balancing.

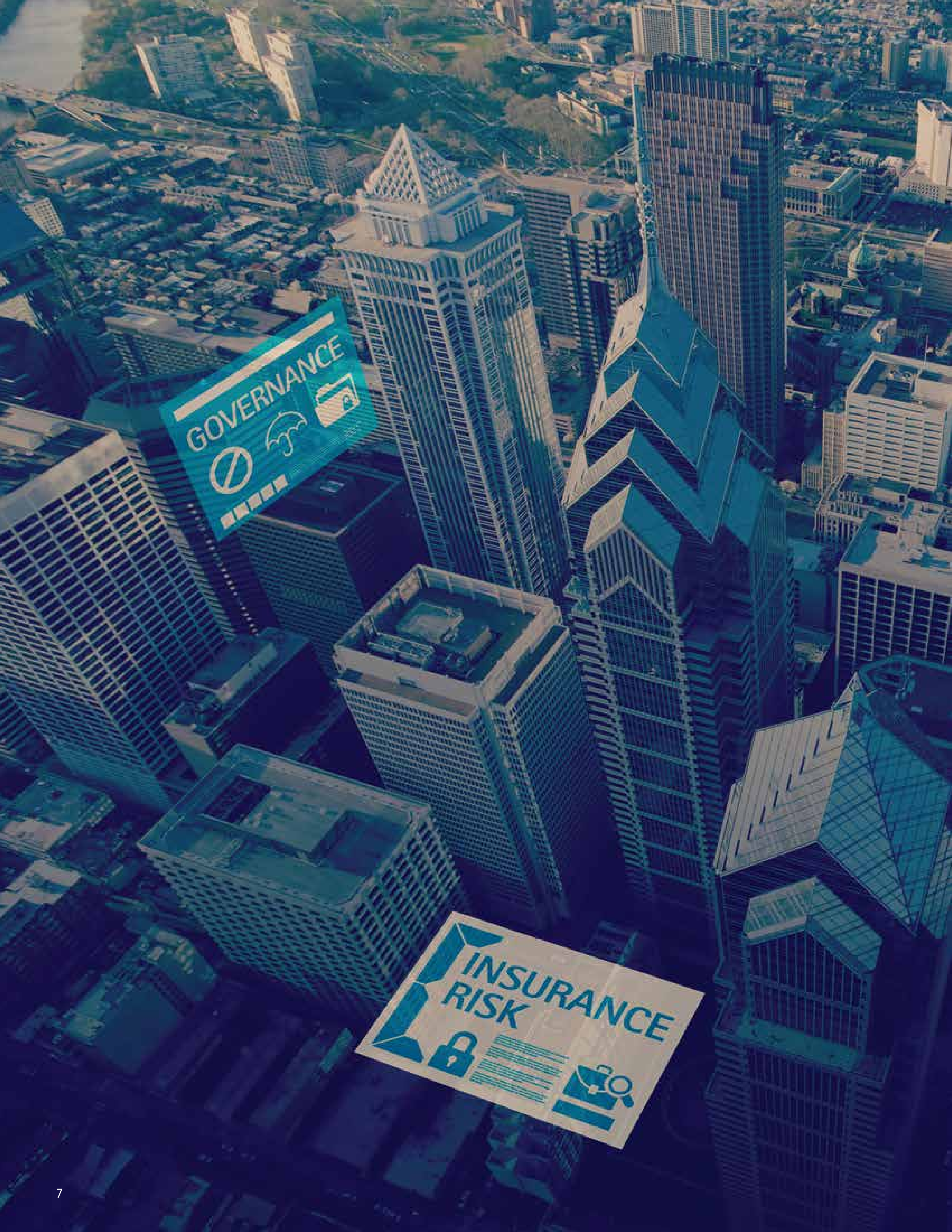
Many of Accenture's clients across the globe are looking at a variety of sourcing models for their global shared services operations to reduce costs and increase resilience while taking advantage of talent in lower-cost locations. Shared services models create an opportunity to examine location strategy and determine the optimal site and wage structure needed to support both regional and global operations.

Shared services can also help insurers pursuing a non-organic, M&A-based path to growth. Shared services can drive a global standard operating model, set of processes and enabling technologies—this supports an "adopt and go" merger integration strategy which reduces the time and cost of successful integration.

4. ATTRACTING AND RETAINING TOP TALENT

Shared services helps the insurance finance function tap into new, global talent pools, bypassing restrictions and hurdles found in local markets. Shared services can also provide insurers with a "fresh start" opportunity to address pyramid or role imbalances that may have developed over the years by creating the right structure and jobs to lead the function into the future. In addition, shared services helps the finance function move from a "jack of all trades" model to one with more focused specialists, allowing higher-skilled individuals to focus on their core competency.

Shared services can help expand opportunities and create new leadership and management roles. Depending on site strategy and location considerations, shared services may become part of a rotation for high performers to move laterally and upwards through the organization. Since insurance finance requires unique knowledge not always available from other industries, it becomes essential to build rigorous foundation and industry training into the employee onboarding process.


GOVERNANCE
INSURANCE
RISK

CONCLUSION

ALTHOUGH A SHARED SERVICES MODEL IN INSURANCE RISK AND FINANCE CAN DELIVER MANY BENEFITS, DEVELOPING THE RIGHT APPROACH IS A COMPLEX UNDERTAKING INVOLVING PEOPLE, PROCESS DISCIPLINE, COMMUNICATIONS, AND AN UNDERSTANDING OF SERVICE EXPECTATIONS.

Shared services must have the ability to continuously monitor and improve performance, supported by key cross-functional processes such as formal continuous improvement programs and client relationship management. This broader system – which we call the service management framework – distinguishes high performing shared service organizations from traditional centralization.

In light of continuing competitive and cost pressures, insurance finance organizations and CFOs can expect greater demands from the organization, not just for traditional finance and accounting services but for data-driven insights leading to better decisions and higher margins. The shared services model can help provide a way to obtain maximum value from always-limited resources of talent and technology.


PROCESS
COMPLEXITY


INCREASED
COMPETITION
SHARED
SERVICES

ABOUT THE AUTHORS

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ABOUT ACCENTURE

Accenture is a global management consulting, technology services and outsourcing company, with more than 305,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$30.0 billion for the fiscal year ended Aug. 31, 2014. Its home page is www.accenture.com.

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