Finance in insurance reimagined: building a strong planning and performance management capability

Building a better working world

Contents

About the **Finance in insurance reimagined** series

The EY **Finance in insurance reimagined** series sets out why now is the right time for insurers to rethink, redefine and transform their finance operations to drive insight-led decision-making and adopt a more holistic and cross-functional approach to financial management. Finance is moving into a new era where it can go beyond incremental efficiencies, which have been the focus of past transformation programs, to improve performance and deliver exponentially higher value to the business.

Executive summary

In an era of intensifying regulatory scrutiny, rising investor expectations and increased competition, insurance business leaders are eager for better business information. Specifically, they want broader, deeper, dynamic and more forward-looking insights and information. And they want it faster, with direct real-time access and the ability to explore it on their own.

Today, to meet these demands, many insurers turn to small, dedicated financial planning and analysis (FP&A) teams or units. Typically, these groups are forced to be reactive and focused on reporting. They often must manually gather data from across the business and lack the tools to produce timely and forward-looking insights that business leaders value.

Moving forward, most insurers must adopt stronger planning and performance capabilities. Ideally, everyone involved in the planning process will commit to collaboration and an integrated approach. Those stakeholders include reporting and finance operations, treasury, actuarial, risk, business finance and human resources, and other areas potentially at both a group and business unit level. Collectively, these stakeholders can transform how planning is conducted and provide trusted advice to business leadership.

Instead of FP&A functions serving as curators of budget and forecast data, insurers should aim to create a planning and performance management capability that can serve as an oracle for the business. The key is to generate timely, consistent, high-impact insights into the performance drivers of results and to produce a persuasive business story for external stakeholders.

Realizing the vision will take considerable effort, but the potential upside makes it worthwhile. Processes, models, data and technologies must be streamlined and integrated. Different stakeholders must commit to agile work styles and increased collaboration. New talent and enhanced skill sets and mind sets are necessary for the planning team to deliver the insights and value that business stakeholders desire.

The value proposition for more collaborative and integrated planning processes is especially strong relative to on-demand decision support and modeling, where management can see the impact of potential management actions and decisions across financial frameworks and key metrics for performance and earnings, including liquidity, capital, Environmental, Social and Governance (ESG), and customer satisfaction.

This paper, part of the EY **Finance in insurance reimagined** series, highlights both *why* now's the time for finance and other leaders to rethink and expand their planning capabilities and *how* to thoughtfully and purposefully realize the powerful vision moving forward.

1 The unique challenges and complexities of planning and performance management in insurance

Historically, insurance company FP&A functions focused on explaining past results and deviations from plans and forecasts, as well as coordinating the budgeting process. In this sense, their mission was more focused on “reporting” than “planning and analysis.”

Beyond the business value of integrating and standardizing data, additional forces have increased the urgency to transform current planning practices:

- New accounting rules, including IFRS 17 and LDTI, that require more granular disclosures and reporting based on current estimates
- Investor requirements for more detailed and transparent information, including for new topical areas such as ESG
- Increasing market volatility and intensifying competition, which place a premium on decision-making
- Enhanced technology capabilities, particularly the additional granular collection of policy and cohort-level data required for new financial reporting standards

These forces help explain why senior business executives routinely turn to finance, actuarial and risk teams for customized ad hoc reporting. The regulatory requirements present a practical opportunity for insurers to make investments that actually benefit the business, in addition to achieving compliance.

That today’s FP&A functions struggle to provide enhanced reporting and analytics does not result from a lack of desire or effort. They are constrained by siloed data sources, manual processes, complex models and rigid legacy technologies. As a result, the scope of management information is often quite narrow — focusing on near-term earnings emergence under limited scenarios. Plan and forecast projections are commonly performed independently from projections used for other business purposes (e.g., capital management, stress testing, ESG metrics and customer satisfaction), which may cause duplication of work.

It's no wonder that significantly more time is spent on production of reports than on analysis and decision support activities. End-to-end processes are disconnected, manual and reliant on spreadsheets. Data hierarchy inconsistencies between actuals and projections limit comparability and analysis and change year by year, creating reconciliation challenges. Finally, the need to respond to ad hoc management questions places a major strain on finance and planning teams, who are sent scrambling to rerun production processes — resulting in resource fatigue, untimely answers, fewer questions asked by stakeholders and less partnering with business leaders.

Life and annuity insurance companies face a unique set of complexities. Insurers operate under multiple accounting frameworks, which not only are independent from one another but also include their own complex and product-dependent valuation rules. To satisfy these challenging financial reporting rules, insurance companies use actuarial modeling platforms for projections of liability cash flows and reserves. Similarly, asset modeling platforms are needed for projections of the various asset classes in which all types of insurers invest. The interaction of liability and asset cash flows and resulting impact on investment income add to the complexity. Forecasting based on capital frameworks (e.g., Solvency II, internal economic capital) requires advanced computational capabilities and carefully considered approximation methods.

Off-the-shelf planning tool capabilities are not designed with the life and annuity insurance industry in mind and can't model insurance liabilities, assets and capital to the degree insurers need. Thus, they must be modified to deliver the tools and capabilities insurers must have, including actuarial modeling, asset modeling, capital planning, and integrated and aggregated planning.

Transformational approaches employed in other industries include moving nearly all forecasting and planning models into a single, connected, cloud-based planning tool. Bottom-up models are built within the same platform and connected to one another in a manner that largely eliminates data handoffs and allows updates to various inputs and process steps to be immediately reflected throughout results.

2 A future model for effective planning and performance management

In the future, the leading planning and performance management teams will be notable for their:

- Ability to produce high-value business insights – at scale, repeatedly and in real time
- Efficient and flexible processes, powered by next-generation technology
- Integrated operating models with the right skills and talent organized in effective ways

Across the industry, management's ultimate objective is to enhance the trade-offs between risk and return, as they manage financial performance across multiple accounting frameworks and a range of uncertain scenarios.Business leaders make decisions every day about product mix, capital deployment, investment allocation, business investments, reinsurance and other matters. The vision for more effective planning and performance management starts with confirming that business leaders have the information they need to make these decisions confidently. Further, leading finance groups will use their planning capabilities as a mean to serve as business advisors that deliver continuous insights, robust analysis and timely decision support across the business.

The attributes of highly effective planning and performance management

Planning and performance management delivers what stakeholders need, including business insights that are:

- **Timely:** shorter and more frequent planning cycles to respond to business shifts; ability to perform continuous performance monitoring and reforecasting
- **Dynamic:** flexibility to drill into performance trends and business drivers, respond to questions and perform what-if analysis
- **Comprehensive:** covering a full range of consistently applied frameworks and KPIs that decision-makers manage
- **Integrated:** integrated financial projections across reporting frameworks that support multiple business uses
- **Multi-scenario:** forecasts across adverse and favorable economic and noneconomic scenarios
- **Transparent:** attribute impacts of forecast changes and drill into drivers
- **Inclusive of corporate and business unit views:** satisfying reporting and analytical needs of corporate and business unit stakeholders
- **Comparable:** forecast and actuals aligned to support comparability and explain drivers

The ability to produce high-value business insights

To empower stakeholders with insights for more informed decisions, the planning capability must be designed to produce dynamic analysis rather than static reports. Management reporting should be designed to deliver information across key business, finance, risk and actuarial functions — when and how those leaders need it.

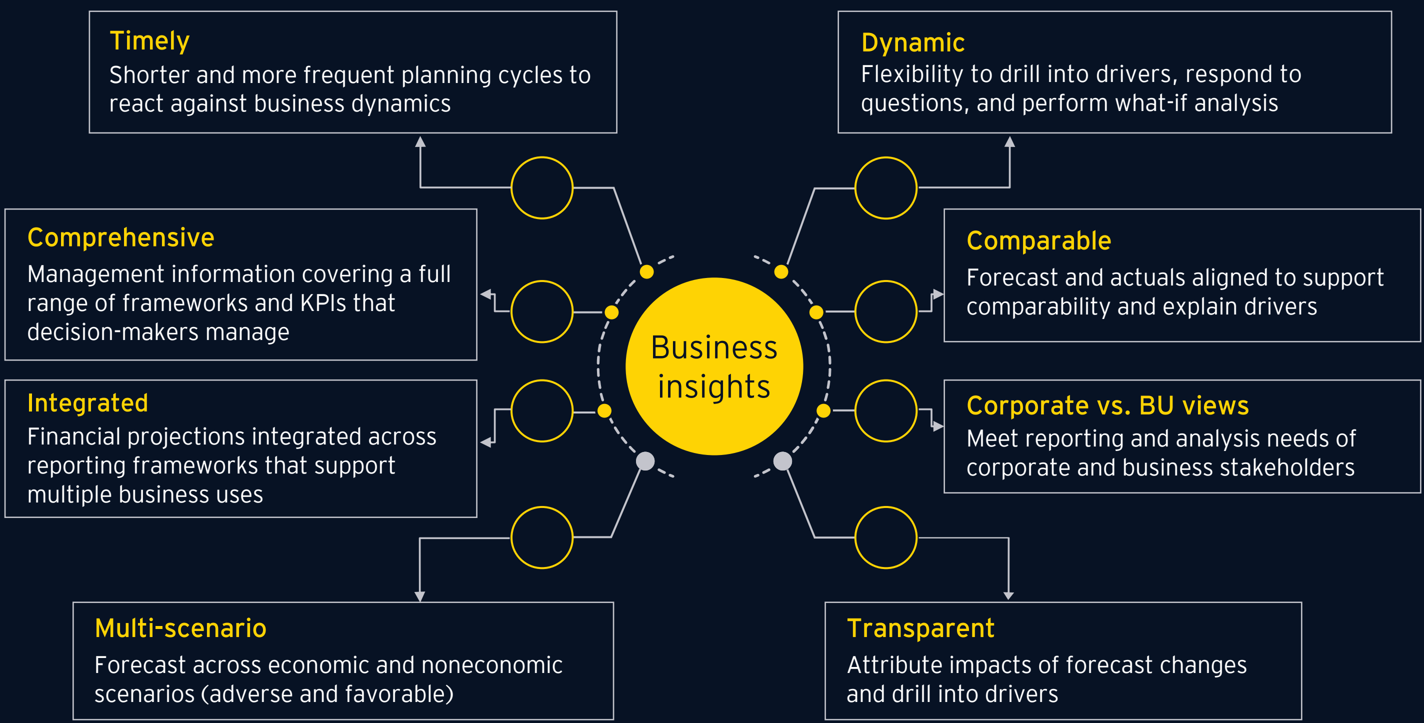
Although specific financial frameworks and KPIs will differ from company to company, there are many similar themes. Stakeholders need a prospective view across GAAP, IFRS, statutory, and internal financial reporting and capital. Although there will always be a "baseline" scenario, recent market events have illustrated the need to plan across multiple scenarios, including both favorable and adverse conditions.

Stakeholders require the ability to identify performance drivers (e.g., sources of profits) and to drill into business details (e.g., product segment views). Finally, they need the ability to perform what-if analysis to understand outcomes across scenarios and quantify the impact of a range of available management actions, including capital and financing, new business sales, reinsurance, investment strategies, etc.

To deliver this information, reporting data must be accessible across frameworks and scenarios and at a granular level, with alignment of budget, actuals and projections data. This foundational data, paired with a flexible reporting layer, empowers users to access information, answer questions and gain deeper insight into performance and provides leadership with a single source of the truth.

Exhibit A

Business insights — desired attributes



Efficient and flexible processes, powered by next-generation technology

To deliver timely business insights, reporting and analytical processes must be efficient and flexible. The complexities of insurance products, financial reporting frameworks, capital frameworks and asset classes require an integrated architecture that connects actuarial, capital and asset projection systems with next-generation planning technology. By replacing spreadsheet-based processes, advanced planning tools can help insurance organizations unlock the inherent complexities of insurance company financials.

Specifically, next-generation planning tools can transform key capabilities by:

- Managing the process: a central command center for planning and performance management tracks workflow, supports concurrent updates and enables control through permissions and auditing changes.
- Modeling the business: most non-actuarial and investment modeling activities can be handled within planning tools, including bottom-up modeling (e.g., expenses) and corporate models requiring aggregated data (e.g., capital management).
- Organizing data: multidimensional hierarchies and cloud storage allow business users to drill into various dimensions and see results from different perspectives in real time.
- Producing analysis and reporting: interactive dashboards empower business users with visualization tools, reporting and analytics. Information can be easily flexed by business users to enable what-if analysis.

These technology-enabled capabilities pay off when the full integrated process is required to run scenarios affecting asset and liability cash flows and balance sheet projections. To allow efficient scenario modeling, actuarial, investment and planning models — and the underlying data integrations across them — must be highly automated.

Many critical types of what-if scenarios (e.g., capital actions, budget scenarios) can be processed in real time within the planning tool. Similarly, based on some bottom-up scenario modeling, top-down approximations can be integrated into planning models to allow for more on-demand, what-if analysis of scenarios rather than performing a full re-evaluation.

The optimal technology and process architecture for delivering timely business insights

The complexities of the insurance business require an integrated architecture that connects multiple systems, including next-generation planning technology.

1. Input data and assumptions:

- Automated extraction and transformation from multiple sources with increased transparency and traceability
- Application of consistent reference data and attributes that facilitate a flexible and reliable segmentation of data based on lowest granularity
- Data management framework that clearly defines accountability and control points

2. Models:

- Integrated architecture that utilizes the strengths of actuarial, asset and planning model platforms
- Integrated actuarial and asset models capable of projecting assets and liabilities across scenarios and reporting frameworks
- Next-generation planning technology used to consolidate data, including actuarial and asset projection data, and directly model certain components, including:
  - Calculations using aggregated data
  - Models that may otherwise exist in spreadsheets
  - What-if scenarios

3. Reporting and analysis:

- All stakeholders involved in planning dynamically interacting with information through interactive dashboards
- Standard reports automatically populated for use in management reporting decks

4. Governance:

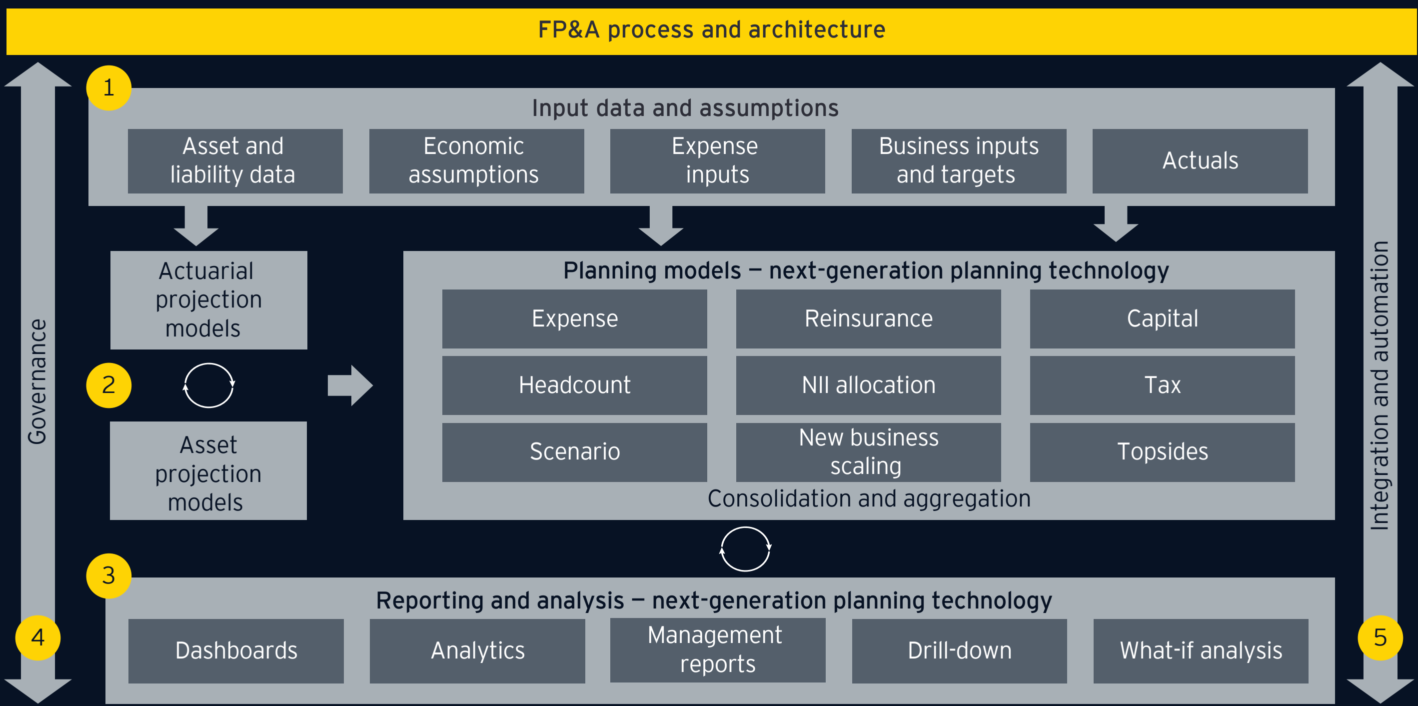
- Attestation framework enabling overall process compliance, integrated review and challenge processes, and sign-off
- Workflow and process management framework enabling process design, approvals and notifications

5. Integration and automation:

- Automated data extraction and movement between systems, including resubmission capabilities
- Integrated data checks and controls, including built-in automated data reconciliation

Exhibit B

How to approach integrated planning



3 What highly effective planning and performance management looks like

For most insurers, the biggest efficiency gains will come from moving calculations and process steps from spreadsheets and older planning tools to next-generation planning technology. Process steps and users are connected within a common platform, enabling people to work together collaboratively and productively to generate business insights. An agile implementation approach can deliver incremental value as new features are added and new capabilities established.

Integrated operating model with the right skills and talent

An integrated operating model and new talent are key components of effective planning and performance management. Key resources are focused on analytical tasks, rather than production work, to confirm that the business has the insights it needs.

Traditionally, functional specialists have responsibility for specific areas of planning and budgeting, often working independently with limited communication within the team. Another challenge is that many finance and planning professionals view their role as a "data provider" without true ownership. Leading firms have professionals who can story tell and use data to provide management insights.

In the future, the planning and performance management capability should strive to break down these silos and create cross-functional teams to drive collaboration throughout the planning process. This collaboration can be achieved through an integrated planning approach that drives action through connected data, connected people and connected plans across the enterprise, utilizing consistent data sets and dynamic assumption management.

A common process and technology architecture to produce forward-looking financial views is needed to support many business processes (e.g., forecasting, budgeting, planning, stress testing, capital management) and enable groups to work collaboratively.

Planning and performance management, like other functions within finance, provides a service used by business leaders. Offering them the most value requires a combination of deep knowledge of the company's businesses and advanced and specialized skills in actuarial, investments, finance, and data and analytics. These high-impact resources should spend their time performing analysis and engaging with the business.

Some companies have created centers of excellence or shared services centers to focus on efficient production, leveraging common processes and technologies across lines of business and aligning activities to specific skills.

4 Shortening the path to the future

Because most insurers' FP&A groups today play a tactical, budget-keeping role, they must mature their capabilities before they can become trusted business advisors that help inform the company's strategic direction and enhance decision-making in pursuit of key objectives. Along the journey, companies should set achievable interim goals for the value they will provide to stakeholders.

An initial step is to provide enhanced analysis to stakeholders based on improved processes and coordination and to deploy foundational technology that enables multidimensional reporting. Once that foundation is in place, business partners can begin to receive new insights based on new metrics and what-if analysis.

Many CFOs have been scarred by costly finance transformation initiatives that took years to deliver and only produced incremental value. Implementations of cloud planning tools can be different. For instance, agile approaches can deliver tangible benefits (e.g., reduced cycle times, better information) early by prioritizing high-value use cases and adding features in future sprints.

The momentum from such early wins is a hallmark of successful transformation programs. Strong buy-in and ongoing support from senior leadership are also critical to build on strong beginnings and complete the journey to a compelling future vision.

Broadening planning and performance management capabilities does not need to be a disruptive exercise. Capabilities can be built and delivered through a phased, agile approach, with tangible benefits and solid RO realized along the way.

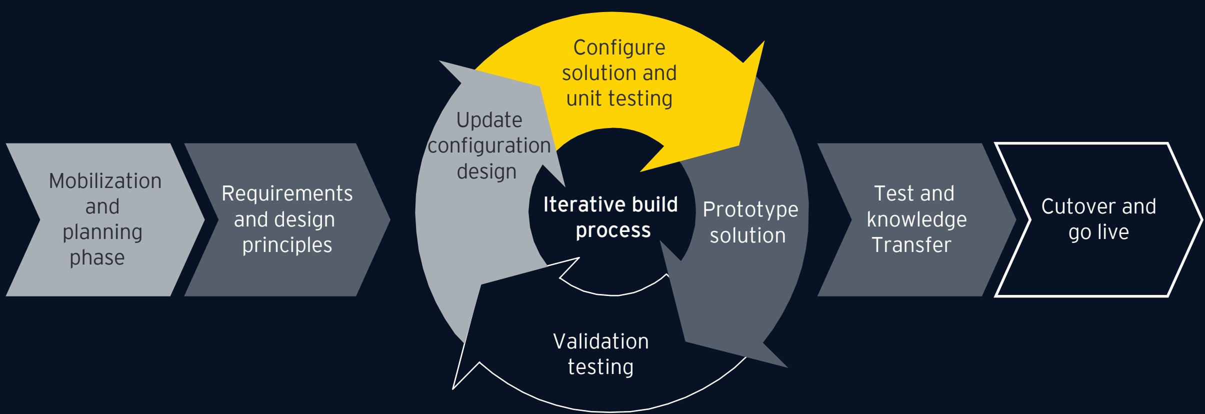
The key steps include:

- Defining the vision: reimagine planning processes and outputs in alignment with the finance vision and design a delivery model to achieve service and cost objectives
- Assessing the gaps: identify gaps in current capabilities and offerings, then prioritize those that, when addressed, will offer the most potential value to the organization, and respond to others iteratively

- Shaping sustainable solutions: determine the best solutions for addressing capability gaps, confirming that they incorporate the organizational operating model relative to the business, actuarial and finance
- Implementing with agility: develop a phased journey of continuous improvement in addressing gaps (including actuarial and investment projection models) and deliver through iterative releases, with continuous assessments of priority capabilities

Exhibit D

How to approach integrated planning



Looking ahead: more dynamic planning and performance management for a more dynamic sector

As the insurance marketplace becomes more dynamic, top insurers recognize the need for new capabilities in finance. Planning and performance management is a particularly important area for transformation because it can produce critical business outcomes in the form of more informed and confident decision-making. Just as the business rethinks and transforms its product offerings for the future, today's finance function must seek new ways to support stronger performance, rather than merely reporting the numbers. Stronger planning and performance management capabilities are how it can deliver that support.

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