

Turn unworkable reporting processes into unstoppable systems successes

A step-by-step guide

By Joyce Simmons and Richard Waller



Joyce Simmons specializes in life insurance consulting. Willis Towers Watson, Cologne



Richard Waller specializes in life insurance consulting. Willis Towers Watson, Reigate

In recent years, the burgeoning and sometimes contradictory information needs of regulators, rating agencies, analysts and other financial stakeholders have left many insurers fighting to deliver more from their already strained reporting processes. In Europe, for example, the Solvency II Directive has peppered insurers with myriad new reporting obligations, such as quarterly reporting templates and the annual Solvency and Financial Condition, and Regulatory Supervisory reports required for the first time in 2017.

IFRS 17 will only ramp up the pressure as companies around the world are forced to revisit their core reporting processes and underlying calculation engines in anticipation of the new global accounting standard's 2021 implementation date.

Short-term solutions

Many companies are keeping pace with daily reporting demands by opting for a patchwork solution. The result is often burdensome, with reporting that relies extensively on manually compiling inputs, performing a series of calculations and generating output reports in multiple formats.

What's largely taken a back seat are such underlying issues as time involved, resource inefficiency, overreliance on key individuals, lack of controls and governance, limited validation and rising costs. But with the amount of process work growing, and deadlines shrinking, companies may need to bring the situation under control – sooner rather than later.

This article consolidates a recent series of blog posts on Willis Towers Watson Wire – see <http://blog.willis.com/>.

Many insurers' existing reporting processes have become increasingly unworkable and unsustainable as stakeholder pressure has grown, a state that will only intensify with new IFRS 17 accounting regulations.

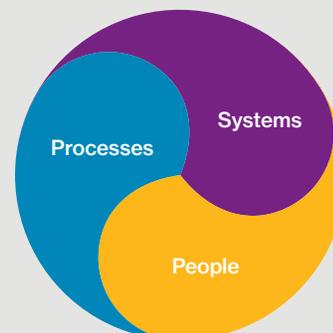
The road to transformation

Solutions are complicated by the notorious difficulty of transformation projects, not to mention the expense. Some bad market experiences have also undoubtedly caused hesitation.

Our experience and market observations have convinced us that successful transformation projects have three essential and overlapping elements: effective tools (systems), engaged people and a fit-for-purpose process. And a blend of all three is needed, whether at the beginning (to enhance the chance of success), during (to manage it effectively) or at the end (to ensure the good work continues) of a project (*Figure 1*).

We offer a series of tips to help frame and guide transformation projects that draws from our experience.

Figure 1. **Effective process transformation is likely to involve a combination of elements throughout well-defined project phases**



Source: Willis Towers Watson

The project's start

Tip 1 – Be clear on the objective

Projects can flounder because they lack a clear purpose at the outset. Transformational objectives may include accelerating the process, reducing cost of ownership or improving the quality of management information. Each of these is a valid objective that deserves individual, focused attention. For example, if the objective is to speed up the process, companies shouldn't be distracted by things that will change the numbers and expose them to unnecessary reconciliation activity. Such clarity is also important because transformation projects can become a magnet for wish lists of model improvements and pet projects.

Just as important is to avoid framing an objective based on the current way of doing things. Yet the industry default is to start mapping out current processes in great detail. Process mapping not only is time-consuming and potentially disruptive, but also anchors views and potential solutions on the current state. Further, if the objective is to construct a fundamentally different process that delivers results in 15 days instead of 50 days, then detailed process maps of the status quo are of limited value.

Tip 2 – Get the right people

Any process transformation involves a complex, multidisciplinary program. It needs a variety of skill sets: creativity, systems knowledge, people who understand the work methodologies and flows, and project management to name a few.

Some of those skills will exist within the business, but some won't – and will necessitate external partners. Equally, internal resources have to be used appropriately. For example, most internal finance teams are there to operate established processes and perform analyses; they are not usually process design or change experts. Therefore, putting them in project roles where they will need these skills may not be that useful, especially if they are going to revert later to being process operators and analysts.

Combining talent from different sources to get the right people in the right roles may mean a bit more management overhead, but it is definitely better for reducing project delivery risk.

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Tip 3 – Buy versus build?

When it comes to process transformation projects, companies may need to curb the desire to start building new systems and processes. Do-it-yourself building projects don't usually turn out that well; they nearly always create key person risk, and they are likely to offend the company's IT protocols.

It's nearly always much more efficient to buy into vendor solutions and focus efforts on how to implement those within the business. The vendor community offers a range of solutions across the end-to-end reporting process and can spread the necessary maintenance and development costs across its entire client base.

Mid-process

Once the objective is clear, the right mix of people is on board and there's a defined systems approach, attention can move on to making the transformation work for the business.

Tip 4 – Leverage technology

Whatever the predetermined transformational objective, operational efficiency will be an overarching theme – if it is not the primary goal itself. The target process must be quick, stable, repeatable and tightly controlled while delivering the right information to the appropriate people. Achieving the desired efficiency will rely on two fundamental tasks – process acceleration and process improvement – with the mix and order tailored to meet the objective. Power and automation are essential to achieving both.

Computing power is needed, with options available, including grid computing and pay-as-you-go capacity on the cloud. The automation is provided by workflow management technology and is essential to building in controls and to limiting the manual interventions that are frequently at the root of growing reporting pressures.

True reporting transformation without good and adequate technology is next to impossible.



Tip 5 — Take your people on the journey

Companies in transition underestimate the people element of reporting process transformation at their peril. It's not all about systems and technology; the main impact will be on people and their way of working. Most people are naturally resistant to change, and as a designed change, the transformation program must take this into consideration.

Elements within the “people work stream” will include: new organizational design, revised job descriptions, training plans, redeployment guidelines, key person risk planning, and impacts on performance targets and rewards.

Tip 6 — Manage interactions with other corporate initiatives

As important as a transformation project may be, it won't be the only strategic program in which the company is engaged. So it is critical that it dovetails with other related business initiatives.

Although there may be multiple and different stakeholders across these initiatives, consider implementing the following elements to gain the best outcome: one lead stakeholder to

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oversee consistent project governance, combined success targets where appropriate and aligned remuneration. Knitting together the related business initiatives as closely as possible will be key to overall success and lessens the risk of one project running off track.

The project's end

Companies that have invested the money, time and effort to implement a reporting process transformation project with a well-defined objective want to be certain that they enjoy lasting benefits.

Tip 7 — Ensure you realize the benefits

Keep these two points in mind:

How are new parts of the process introduced? Typically, a transformation project's core objective is to reduce manual tasks. Toward this end, the new process needs to be introduced into the live environment in stages of sufficient scale to drive head count reduction and free highly skilled staff for reassignment to more productive activities. It also reinforces the message that what is taking place is truly different and will make a difference.

At the same time, implementation must be manageable for those expected to deliver change in a timely fashion. And the reporting team needs to be able to absorb and master (and perhaps further improve) the new process, including incorporating any new tools and technologies. This should happen in stages rather than presenting an overwhelming set of process components to comprehend and act upon in one fell swoop.

When is a project finished? Experience shows that it's best to consider a project completed when the old process is fully decommissioned, so that all pet spreadsheets and workarounds that might gradually creep back in and degrade the new process are eliminated. Only when a company has stopped using old, redundant tools; terminated surplus software licenses; and eliminated inefficient, outmoded processes should the project be considered closed.

Figure 2. The nine tips summarized



Source: Willis Towers Watson

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Tip 8 – Preserve the investment

Hard-earned time and cost savings can wither on the vine without appropriate ongoing investment in the new process.

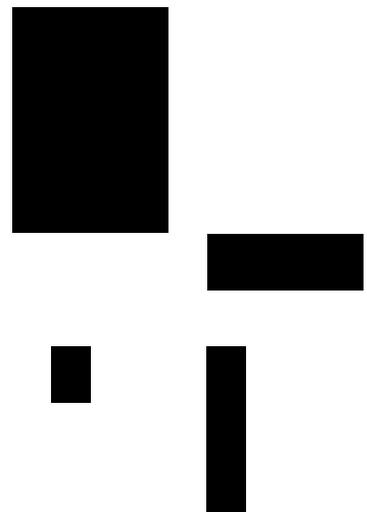
Companies need to train the reporting team to operate the new process and technology efficiently, and to think about whether the organization structure, role profiles, skills mix and rewards support their longer-term needs. Periodic health checks of the new process, including reviews with vendors, are also an important part of establishing a control and continuous improvement cycle.

Moreover, the technology on which reporting processes rely will inevitably change. Historically, insurers have faced spikes in technology costs when systems are refreshed or new business requirements trigger expensive IT projects. Pay-as-you-go cloud computing options, software-as-a-service delivery models, and the new analytics capabilities coming on stream from artificial intelligence and machine learning can change this for reporting or any other function.

Tip 9 – Celebrate success

Successful reporting process transformation isn't easy; hard work should be celebrated when it pays off (Figure 2).

For comments or questions, call or email Joyce Simmons at +49 151 4468 4114, joyce.simmons@willistowerswatson.com; or Richard Waller at +44 7904 390928, richard.waller@willistowerswatson.com.



SIDEBAR

Bring words to life

One major European insurer faced the threat of being unable to meet the fast-approaching reporting deadlines set for the Solvency II working day timetable ahead of full implementation in 2019. This possibility drove efforts to transform its reporting process. However, as is common in these kinds of projects, the company also wanted to target other improvements, such as cost control and higher-quality output.

Acceleration versus improvement

The transformation process initially combined acceleration tasks (typically using technology for speed, without changing the underlying function) and improvement tasks (changing the way something works and, potentially, the results). Three key acceleration tasks that were critical to meeting the Solvency II working day timetable were left until the project's end because of sequencing. As a result, there was significant and largely avoidable project delivery risk.

The plan was changed to first focus on acceleration. It started with a four-week design phase where core principles of the revised process were also established, so that it would be event-driven, not user-driven, and that more importantly, spreadsheets would only be used as a display tool, such as to facilitate results validation.

Implementation took place over six weeks and involved reengineering both the end-to-end actuarial process and the stochastic model execution runs that generate the regulatory numbers. Notably, although some modeling processes had been identified as prime targets for improvement, the initial focus remained on accelerating them.

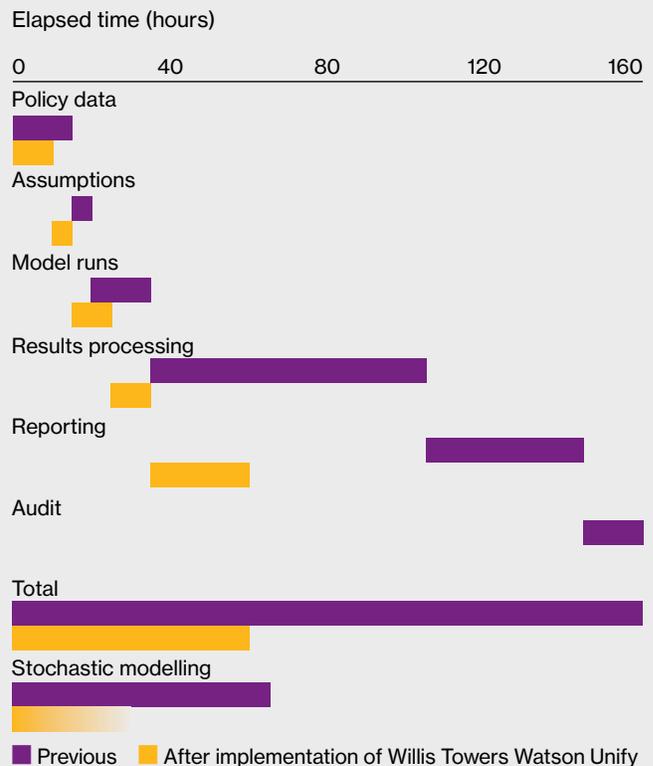
Outcome

The early introduction of new technology not only improved speed but also enabled greater system agility and clarified where subsequent process improvements could have the most impact. It also freed up analyst time for value-adding activity and embedded the technology early so that employees could more easily adapt to and shape the overall process transformation.

This “technology first” approach had a huge impact. The elapsed time for the end-to-end actuarial process dropped by more than 50% (*Figure 3*). The duration of stochastic modeling runs was also halved. In both cases, the human input into the model runs was reduced to deciding what actual runs to do.

The attention paid to having a fit-for-purpose process and keeping the people on board with the changes was also critical to ensure gains don't subsequently drop off. This insurer is now well placed to meet the ongoing demands of the Solvency II working day timetable. And the freed-up employee time can now be redeployed on more value-adding activities, such as achieving its wider process transformation objectives, as well as preparing for new requirements such as IFRS 17.

Figure 3. **Before and after comparison of the end-to-end Solvency II reporting process**



Source: Willis Towers Watson