Life and Annuity Insurance: Step up or be sidelined
The CFO's roles in a challenging marketplace
The life insurance and annuity carrier ("L&A") industry is amidst a barrage of pressures on multiple fronts. Since the 2008 financial crisis, scrutiny of the financial industry is at a historical high. Stricter regulations surrounding financial disclosure and reporting, risk assessment, and capital management threaten substantial compliance risks. Insurance companies, specifically, face an uncertain regulatory environment. Three-quarters of CFOs polled cite industry-specific regulation as a chief impediment to growth.

Life insurance ownership is at a 50-year low. Yet 50 million American households report a complete lack of life insurance or need for more coverage. Underpenetrated segments such as Generation X, 70 million strong, express a desire to purchase life insurance, worth $3.6 trillion over a single 12-month period. However, buyer expectations have evolved, particularly amongst Gen X, Gen Y, and Millennials.

The L&A industry has fallen short of US GDP for the past several decades due to prolonged low interest rates, capital intensive annuities, and healthcare reform’s rising costs. While these obstacles are considered relatively short-term hazards, significant long-term industry threats loom. For consumers in need of insurance, including life, disability, and long-term care, current delivery models prove restrictive. Accustomed to social networks and mobile devices, users demand more flexibility and connectivity from distribution models and customer interactions. Buyers seem quite at ease with conducting complex transactions online. Nearly three-quarters of customers would consider buying insurance products from non-insurer companies, including 23% who would purchase from online providers, such as Google and Amazon. As power shifts to the consumer, L&A insurance companies struggle to remain relevant.

Further internal issues plague the industry. Severe talent gaps abound. Existing, traditional skills alone are no longer enough. These capabilities differ fundamentally from in-demand skills such as business partnering, outsourcing, shared services models, centers of excellence, actuarial, and analytics. Further, the interaction lifecycle is riddled with costly operational disruptions from anemic efficiency and productivity plays and poor talent recruitment and development. A pattern of underinvestment in legacy platforms compounds the problem by impeding data management. Legacy systems lack the agility to accommodate fast-paced distribution, underwriting, and advanced analytics needs.
Driving change

Beneath the veneer of challenges lies opportunities. To thrive in a complex ecosystem, leaders must galvanize the organization. Enterprises that balance financial viability with the consumer value proposition can stimulate growth and triage risk. Insurers must seek alternative risk transfer sources and prepare for the reality of a dual-regulatory environment while establishing internal solvency risk management frameworks. Broaden the platform through which carriers engage consumers, including wider distribution, enhanced customer insights, and optimized customer relationship management capabilities.

The evolution of web, mobile, and social media technologies provides ripe opportunities to glean insight about customer behavior, identify trends, and improve decision-making. Invest in state-of-the-art technology to leverage data as a strategic asset and revitalize siloed systems. Modernization of front-end technology can also enhance quoting, streamline underwriting, and introduce new market offerings. Smarter technology enables implementation of new products, expansion into diverse channels, and enhancement of the customer experience. Retool core operating models to become more nimble and cost-effective. Enrich performance management and compensation systems in order to retain seasoned top performers.

L&A insurance carriers that modernize their business, operating, and distribution models can reverse the tide of external and internal pressures. CFOs must assume more multifaceted roles as strategist, catalyst, operator, and steward. They must also invest in the Finance talent strategy in order to enrich the Finance function itself. Inorganic growth is also a notable priority. Twenty percent of financial services CFOs cite mergers or acquisitions as likely or very likely; as such, the existing infrastructure must support smooth integration of acquired companies.
Navigating the new terrain

Growth and capital allocation
CFOs help shape the approach to grow the core and allocate capital. A Deloitte CFO Survey™ indicates that growth is top of mind, affirmed by 64% of respondents. In the next year, corporations will allocate 42% of capital investments to growth opportunities. CFOs must bring sound objectivity and analytical rigor to capital allocation decisions. Uniquely qualified to be a catalyst and strategist for enterprise-wide value creation, it is equally critical for the CFO to be steward, safeguarding the business from problematic strategy shifts, dilutive M&A activity, and competitor threats. CFOs need to balance the interests of shareholders, practitioners, policyholders, regulators, and the board.

A capital allocation framework aligned to the overarching business strategy and equipped with analytical capabilities allows leaders to assess the investment value and determine where to allot scarce dollars. The architecture must analyze potential outcomes, benefits, costs, risks, and impact. At the same time, it must include a communication structure to engage stakeholders to cultivate support for the overall plan. Ultimately, the framework pinpoints where to invest funds to grow the core business while balancing new trends. Exploring various segments is imperative, even if it fails to generate revenue; it will inevitably reveal insight to better inform the next round of investments.

Distribution model transformation
Amidst a highly digital landscape, consumer demands shifted from traditional models to digital-centric ones. Modernized distribution models have a wider yet more targeted reach. The most pronounced change model is the retail industry. It moved from single-channel to multi-channel to omni-channel. Traditional storefronts gave way to customers using storefronts to touch and feel the product, but buy the merchandise later online. The current trend includes many options, including purchases on mobile devices with in-store pickup and delivery options. Digital-forward industries transformed consumer expectations, impacting expectations across other industries. It is critical for insurance carriers to understand this consumer behavior shift.

While transforming the existing distribution model may be costly, selling the same product through myriad channels offers a competitive dimension to meet shifting market dynamics. It is the task of Finance to provide financial and strategic guidance throughout the decision-making process. Collaboration is essential. Finance should partner with the operations team to assess the current and new distribution and service delivery models. Working in tandem, Finance can provide a prudent evaluation of the competition, new technologies, and benefits versus costs and risks. Then design a model to evaluate funding requests to deploy new models of selling, underwriting, and servicing to promote consistent, fact-based decisions. Also, develop performance management structures to assess operating model changes with accuracy. Accurate assessment of the cost and benefits is fundamental to steering the organization on the path towards growth.
Regulatory and compliance obligations

The L&A landscape is steeped in regulatory uncertainty, from capital reserves regulations to governance to consumer protection risks. Along with uncertainty comes rising compliance costs. Since the economic slump, insurance regulation standards have become more globalized. Globalization means that increasingly the terrain shifts from known issues to unknown ones. Circumstances in one part of the world can impact regulatory guidelines well beyond its borders, particularly for large, global insurance companies.

Insurers require a forward-looking compliance strategy agile enough to support, predict, and adjust to the shifting environment. Such a model can bolster existing corporate governance and mitigates the impact of upcoming regulatory changes. While often the role of CFOs in compliance matters may not be direct, they are well positioned to weigh in heavily as advisors. CFOs also optimize financial performance and reporting with various geography-based regulatory obligations, including U.S. GAAP, IFRS, and MCEV, a critical feature for companies that operate worldwide.

Compliance investments are inescapable. The value gained by the enterprise typically offsets the cost because the reality is violations are costly and can devastate reputations. When risk and Finance are tightly woven together, such pitfalls can be mitigated. Benefits are pervasive. The company can achieve proper oversight and transparency for regulatory approval and compliance. It also gains the ability to proactively address key issues and risks with current business practices. Moreover, when a business assesses and adjusts foundational systems and processes, it fosters flexibility for ongoing risk, regulatory, and reporting changes. The capacity to conduct readiness evaluations and prepare for NAIC’s Own Risk and Solvency Assessment is an additional advantage.

Analytical insight and value creation

Industry practice leaders leverage analytics to gain sharp-edge understanding of key business drivers. It can further improve the ability to steer decisions and assess growth options. A traditional analytics platform based upon source of earnings, trends, and controls serves as the foundation. When augmented with predictive analytics, the technology uses an omniscient, progressive lens—hindsight, insight, and foresight—to create value across the entire insurance policy lifecycle.

By employing analytics, leaders can develop insight for product and service innovation, reduce customer attrition, improve pricing, produce tangible leads, and deliver sophisticated performance analysis. Moreover, an analytics based approach helps evaluate the impact of potentially disruptive scenarios before they occur. Proactive intervention instead of reactionary moves go much further in creating value. Control is always better than chaos.

CFOs advocate analytics initiatives to gain buy-in, expounding on its benefits. Finance owns stewardship of data and must facilitate one true version of information. Focus the data integration on financial data, security master data, and gaps since the minority of data represents the majority of assimilation challenges. Once an integrated model is established, the infrastructure must be championed throughout the organization from top down. Simply investing in data warehousing is not enough. Effective informational analytics efforts mine cross-boundary information (assets and liabilities) and serve to boost the bottom line and predictability of business results.
Business change portfolio
CFOs should develop governance capabilities within Finance that clearly articulate business outcomes and benefits. It is also necessary to evaluate unrealistic estimates and develop success metrics to track outcomes; metrics must link to the overall business strategy to promote transparency and consistency. Leaders should hone existing portfolio management and funding processes (e.g., implementing consistent business cases, funding criteria and prioritization, and milestone reevaluations).

As valued advisors on all significant financial decisions, CFOs are central to enterprise transformation efforts. Responsibility falls square on their shoulders to evaluate the implications of funding decisions, keep the project on track beyond expenses, and manage post-implementation measurements to strong outcomes. Finance chiefs oversee the complete portfolio of initiatives across the enterprise, including balancing potential benefits, costs, and risks. Their role expands beyond day-to-day financial reporting and risk management to include shaping the strategic and operational trade-offs with the portfolio, as well as delivering work streams in a timely, effective, and cost-effective manner.

Finance operating model
One of the surest ways for Finance chiefs to earn a seat at the table is to fulfill their primary role as governor of the business’s operations. Since Finance also owns the metrics to measure performance and operational efficiency, CFOs are the natural leaders to champion operating model transformation efforts. When considering shared utility, shared services center, and center of excellence, Finance’s operating model must align to the overall organization’s model. Define a concrete, achievable vision and rouse stakeholders around its merits. Establish the link between the project, Finance’s vision, and business priorities. Then, create transparent communication mechanisms to promote understanding of implications throughout the change journey. Leverage actuarial capabilities to increase the effectiveness of the insurance value chain. Successful implementation depends on early engagement of HR in order to gauge the organization’s change appetite, calibrate scale and pace of initiative, and fuse with the company’s culture.

The Insurance Value Chain – Finance Business Partnering Scope

- Which new markets and corresponding products should we target and how should we price?
- How will decisions affect us in the longer term?
- What are the customer preferences for distribution and corresponding affects on profitability?
- How do we best provide insightful customer reporting?
- Which customers are most profitable?
Business partnering

What are our short- and long-term economic growth goals? How will these evolve? Is the appropriate blend of products in place to deliver the stock market’s earnings expectations? How can we introduce market offerings with agility? How do we mitigate evolving risk?

Today’s complex business issues require innovative solutions. Business partnering can improve decision-making by delivering strategic input across the insurance value chain. Effective business partnering supports every decision with a comprehensive perspective of hindsight, insight, and foresight. CFOs are poised for the task, as 83% of Finance leaders surveyed want to increase business partnering and Finance’s role in evaluating and capitalizing on strategic growth options.¹

Business partnering is equal parts talent, technological capabilities, and trusted data. Data-driven insight, such as product profitability assessment and regulatory stress tests, removes subjectivity and gut instincts as the primary basis for decisions. Finance chiefs should develop a holistic, high priority business partnering approach. Collaborate with other leaders to identify ideal skills, behaviors, and mindsets. Map present Finance partnering skill sets against prioritized needs across the value chain, embedding both corporate and business unit perspectives. Such an exercise will help establish a culture of cooperation and habit of enhanced decision-making.

Finance talent

A vital connection exists between an enterprise’s strategy and the people necessary to execute it. The insurance segment has a record of struggling to attract talent, and failure to secure proper human resources can compromise even the finest initiatives. With evolving demands from the Finance function, a strong talent pipeline with new competencies and skills is imperative. So, how do you build a talent model that supports Finance careers?

A human capital strategy done well spans the full lifecycle of talent attraction, development, retention, and succession. Identify top talent and future hiring needs in Finance, Actuarial, and Accounting. Tailor talent attraction and retention programs to meet expectations of unique workforce segments (e.g., generational, gender, and global). Brand Finance as an attractive career destination. Customize development programs, building key skill sets and career paths based on distinct preferences and aspirations. Develop succession plans and formalize the roadmap to develop existing talent to fill chief leadership positions.

The path forward

Within the L&A insurance industry, companies want to attain firm footing amidst shifting sands. One of the surest paths to persistent growth is transformation. Now more than ever, CFOs must increase the function’s strategic contributions by balancing dual roles as Finance chief and enterprise advisor. For these leaders, the footpath to success comprises cross-functional advisory actions surrounding distribution model transformation, growth and capital allocation, regulatory obligations, and value creation through analytical insight. Within Finance, decisive steps impact talent, business partnering, finance operating model, and business change portfolio. Prudent, far-sighted investment in these focus areas can pave a more secure, sustainable path forward.

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¹ Top regulatory trends for 2014 in insurance, Deloitte Center for Regulatory Strategies
³ The Digital Insurer, Accenture 2013 Consumer-Driven Innovation Survey
⁴ Deloitte CFO Survey: chart includes only Financial Services CFO responses
⁵ Deloitte 2013 Global Business Partnering Survey
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