IERM/Aptitude Roundtable

The future of the finance function

Under the weight of regulatory demands, insurers' finance functions have struggled to deliver the insight that the business needs – and that they wish to produce. In this *InsuranceERM* / Aptitude Software roundtable, chief financial officers and controllers discuss the expanding role of the finance team and how technology can help reach their goals

Left to right: James Cooper, financial controller, Lockton; Ila Naieri, finance specialist, Aptitude Software; Chris O'Brien, CFO, Travelers Lloyd's Syndicate 5000; Anna Miskin, CFO, VitalityHealth UK; Christopher Cundy, managing editor, InsuranceERM and Insurance Asset Risk; Colin Charles, independent consultant to CFOs; Ross Chapman, marketing director, Aptitude Software

Chris Cundy: **What are the main challenges facing finance functions?**

Ross Chapman: I see a bit of a perfect storm. CFOs and their teams have run out of time. The finance function in many large enterprises is having a hard time serving all the backwards-looking statutory reporting requirements and doesn't find it easy to deliver forward-looking advice to the business.

Colin Charles: I know we have just climbed the mountain of Solvency II pillar 3 reporting, but I have seen so many businesses just looking backwards now, and it cannot be right.

My hope is that with all the pain that people have gone through with pillar 3, we can make use of the data in there. If you have good data analytics, then potentially finance can come out of this with lots of helpful information.

Anna Miskin: Management are craving insight, but regular reporting tasks take priority. Sometimes we don't have capacity or skill to interpret data and make good sense of it for management. The hope is that in the years to come, we will be able to almost fully outsource the mundane reporting duties to machines, and focus on transforming data into the forward-looking, decision-relevant information, but of course this is a big task.

Chris O'Brien: I suspect a lot of that data exists within the finance world and we are not sharing it.

Anna Miskin: ... or sharing with actuarial or pricing, and these functions are working in silos.

Chris O'Brien: That is why we have to break down silos and take the data and insights

we have to the CEO. We have to say, 'Hey, look, did you know this about what we have here?', because people appear to think, 'finance or the actuaries will get on with that and then we will do something better afterwards.'

James Cooper: There have been a lot of events this past year that have put the finance function under pressure. We have had to deal with Brexit, such as managing the currency fluctuations and putting in place hedges; we have had to deal with visits from the regulator because they have become more interested in having client money controls. At the same time, the business has an expectation about how finance can embrace technology and provide insight.

A BIGGER CONTRIBUTION

Chris Cundy: What would you be like to be doing more of?

Chris O'Brien: The real job satisfaction comes from contributing to the business. When we are stuck for large parts of the year filling in backward-looking returns, we do not have the time to do that forward-looking value-adding consulting. For many of my stakeholders, they thought the year-end was done by January and it was not!

Anna Miskin: If I had more time, I would spend it on forward-looking, what-if type analysis for the company at large. For example, the focus of product development in the actuarial function is on the profitability and value generation of the product itself. However, I also want to know what it is likely to do to my business mix, acquisition costs, liquidity, capital, competitive position and so on. Joining up information and knowledge from finance, pricing, actuarial capital management and risk would be a very good thing. Then we could get quick answers to simple commercial questions such as, 'So, what do you think I should pay to acquire this business?'

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James Cooper: We have been asked quite often this year to help with M&A. The business wants the finance view, but it is complex to understand a business, and what costs and revenue synergies there might be on integration.

It's incredibly time consuming, but on the positive side you work very closely with the business and deepen the relationship, which is part of how you move forwards with finance as a business partner.

Colin Charles: There is a danger that you are asked to do things and you cannot do it as well as you would like to because the regulatory returns have to be the number one priority. So you stop being asked. Finance professionals need to push those doors back open again and say, 'Yes, we can do this.'

Ross Chapman: This is why we're passionate about finance. I always view the CFO as having the keys to the kingdom. Many industries such as insurance, telecoms, banking and healthcare have become characterised by high volumes of business, with multi-national operations, serving customers with complex contracts, and finance is the only function within the business that can be a strategic advisor to the business, using its data to unlock value.

IDEAL CHARACTERISTICS

Chris Cundy: What characteristics should the finance function possess if it is going to be a business partner?

Chris O'Brien: You have to think like the

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business; you have to understand what they do, why they do it, but maintain your distance and not 'go native'. Be close to them, sit with them sometimes, go to their meetings and really learn what drives them and what they are interested in and connect that to what, as a finance person, we are seeing and what skills we can offer to them to solve the problems they have.

Anna Miskin: We have people almost 'seconded' to the business as finance business partners. They do not just go to some meetings, they are pretty much immersed in their partnering business area. There's always a bit of a risk that they go too 'native' and lose the ability to challenge, which I consider a significant part of a business partner's role. However, I am getting really good feedback from the business and believe that this is a genuine win-win partnership. We are business partnering with IT, services & operations and marketing, which are the biggest cost consumers in our business.

One thing I learned - you have to dedicate these people. Business partnering cannot be something like a contact centre, where a business comes and asks for help and whoever is available picks it up.

Colin Charles: I totally agree: it has to be a formal structure. And it is an expensive way of doing things, but it is the only way that you are really going to get under the skin and demonstrate the value of the finance team.

James Cooper: We have an entrepreneurial culture at Lockton and we see the business partners as being an important analytical resource for good decision-making. There is a lot of empowerment at various levels throughout the organisation, so it is about making sure that there is some consistency in the way decisions are taken that is aligned with our strategy.

Chris Cundy: Does it happen the other way around at all, where people are seconded into the finance function?

Anna Miskin: I wish it were happening more often because, for example, in my organisation finance is very data driven and reliant on actuarial support. I could do with more data analytics, actuarial and clinical risk resources seconded in.

Chris O'Brien: It is not something in my experience but I can see benefits of doing it. I can see it being difficult, though, because we need certain skills in the department. But more crossover can only be good.

Ross Chapman: Are things like IFRS 17 and Solvency II driving the actuarial function and finance closer together, and improving the ability to better understand and serve the business with linked-up data tied to business performance?

Chris O'Brien: I think so. We have always had a good relationship with the actuaries because we are interdependent, we share data, we input and peer review each other's work, but I think Solvency II has made that essential.

Anna Miskin: In my team, anything which is related to actuarial reporting and capital is within my remit. So I manage a team of actuaries alongside a team of accountants; that is probably because I am not just an accountant, I am also an actuary. This has proved to be a good partnership because pretty much every management decision which has financial consequences has a capital impact as well, so you cannot manage them separately.

PRODUCT DEVELOPMENT

Chris Cundy: How do you get involved with product development? Will someone come to you and say, 'We have this great idea,' or will the finance team generate ideas?

Chris O'Brien: I would like to think it was the latter, but in my own experience it is more the former. People come to us and say there is an opportunity and we would work with actuaries, capital modellers, we would model what the opportunity could look like into the future, what its capital requirements would be, how it would sit in our reinsurance programme, what the costs of acquiring the individuals to do that business would be, the acquisition costs and so on.

Colin Charles: The only time that changes is when a business has a pool of cash looking to make acquisitions or organic development. A finance function can have its own M&A or research centre, whatever you call it, and be proactive. Generally, 'we had better ask finance to see what they think' is third or fourth down the list, whereas it can be a prime driver.

James Cooper: With the very soft market across virtually all lines, it may explain why there is more pressure now on finance's work. More people want to understand what is going on in their business and how they can lift their margin.

Chris O'Brien: And it is not just about adding product; it could be about withdrawing from product, or scaling back because conditions are very tough in some areas.

GRANULAR INFORMATION

Chris Cundy: Do you crave more granular information? Or maybe you have the information you need, and it is just a question of organising it?

Colin Charles: More granular analysis of the technical account can only be a good thing. So, if you can get data by territory or by whatever attribute you have and you can cut and dice it on that basis to derive a loss ratio, you can achieve some valuable insight. I am not at all a believer in allocating fixed/indirect cost; it does not particularly help the equation, all you do is get the underwriters fighting over who should get which cost allocated where.

Chris O'Brien: If it is reliable data, I do not think it can ever be a bad thing. What we have to be careful of is that we use it appropriately. Sometimes granular data will be good to answer one particular question, but for other questions you may not need it.

Anna Miskin: The danger with granularity is that a uniform approach to analysis of all granular blocks of data (eg an intersection of market, channel, product, underwriting types etc) makes the process time-consuming and not efficient. In the monthly performance packs, you have to be smart to not report pages and pages of analysis at the same level of detail, month-on-month, but zoom into the areas that are of genuine importance to substantial depth – and these areas may change every month.

FINANCIAL ANALYSIS CHANGING

Chris Cundy: How is your delivery of financial analysis changing? Have you got mobile and iPad apps that your executives can use to view the business and drill down into data?

Colin Charles: The only app-based data I have ever seen is sales-led. Maybe that's not the best way for an insurance business in the current climate to work, but it provides faster feedback on premium income generation.

James Cooper: Our EPM [enterprise performance management] project is all about giving people more ability to self-serve and extract the information and then come to us, maybe, for more intelligence on what is behind it.

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Literally every COO and every business lead and some of their key people beneath them will have access to financial information. A lot of the regular requests, which can sometimes inundate finance and distract you from doing more interesting analysis, should go away with an EPM system which allows the business to access financial information more directly, thereby freeing up finance to add more value.

STAFF CHANGES

Chris Cundy: **Looking forward five years, do you think you will have the same number of staff, more or fewer, and what might be the drivers for that change?**

Colin Charles: The ideal would be the same number, but doing more value-added work.

Chris Cundy: Is the driver for that the automation of the more mundane work?

Colin Charles: Yes. In those surveys of AI [artificial intelligence] accountants are one of the more likely groups to be replaced by AI, and you can see why. Having said that, we have been trying to do accounts payable on an automated basis for 20 years, too, and that is still manual!

Anna Miskin: I certainly dream of a world where the word 'reconciliation' disappears from the vocabulary.

Chris O'Brien: There is a risk sometimes with automation that you lose the understanding. It becomes a black box and it says, 'The answer is this.' If someone challenges that, you may not know what has gone on. We have to embrace automation, but we need to make sure we do not lose the ability to provide the basic essential check at the end: does that look right?

James Cooper: Accounting is about judgement, after all.

Chris O'Brien: An essential function of the finance team is to provide 'quality assurance' and for us to be able to stand in front of our stakeholders and say, 'Actually this number is right. You might not like it, it might not make sense, but it is right,' and we cannot lose that ability; the business needs it.

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> Colin Charles, independent consultant

ARTIFICIAL INTELLIGENCE

Chris Cundy: **Have any of you investigated what AI might help you do?**

James Cooper: Not many AI systems yet are at the level where they are going to add value, but you can see within a generation that will be a different story. Look at the way it is already catching on in the investment management world: AI systems help them make better decisions on when to enter and exit markets and things like that.

Chris Cundy: **Are there any particular aspects of the finance function where AI could make a real big impact?**

James Cooper: One is the analytics. When you have enough data, it can help you identify what products are profitable and where you should concentrate your efforts as a business, and can eventually help you formulate strategies. It will identify things that you did not know about your business, like why is a particular team so successful? It will start showing out in numbers you have not currently got anyone looking at.

Anna Miskin: It will certainly help us to get rid of reporting – or make it occupy just 10% of our time – and help us to concentrate on the value-added tasks. However, there will be a long period when we will still have to be extremely clever and quick in interpreting what the machine is telling us, because all the machine will be doing is finding correlations between masses of different parameters, and we may end up with very spurious correlations..

James Cooper: A number of insurers are

starting big data projects, using algorithms to try and find relationships, and the data they collect for that will become even more valuable when AI is developed. Good quality data over a long period of time is what you need.

Colin Charles: Thanks to all the regulation, we are producing financial data more accurately than ever. But it is then the ancillary data - what does not end up in PeopleSoft or your general ledger - that can suddenly become a key decision factor in this AI world, and there's a big risk that it was entered wrongly in the first place.

Anna Miskin: Also consider the continuity and consistency of accumulation of this data across time. We are making changes in the way we sell, price or target our customers in response to market moves. This will confuse correlations unless there is a precise mapping of old into new.

NEW SKILLSETS

Chris Cundy: **Are there any particular skillsets that you think you will need more of, in the near term?**

Colin Charles: I would like to see more accountants who can translate financial data into 'business speak' and develop good relationships with others in the business – particularly underwriters and sales/marketing.

Anna Miskin: My first priority is communication and presentation skills; second is probably data.

Chris O'Brien: You need the ability to mine the data, and slice and dice it, but you also need that accounting discipline of control: making sure you are comfortable with the data.

James Cooper: There is an underlying core acumen of financial understanding, accounting knowledge, etc. but more valuable is becoming the stuff which is not necessarily a traditional trait or learned as part of your qualification, i.e. people skills, relationship building and the ability to influence.

Colin Charles: That is not to say that everyone needs to be like that - there is definitely space for the tax specialist or whatever it might be. However, I think that the inward-looking accountant seems to have become more important over the last few years, whereas I'd like to see more outward, forward-looking individuals, still with the rigour of an accounting training, getting the upper hand.

"Brexit is one of the biggest changes over the next few years and there are a lot of unknowns. You need to work on contingency plans and look at different scenarios and what possible impacts that it might have"
James Cooper, Lockton

LONG-TERM STRATEGY

Chris Cundy: **How can finance help develop long-term value-generating strategies?**

Chris O'Brien: Finance is good at pulling things together from different sources, distilling it and presenting it coherently. In the question you have the word 'help', and we have to recognise we are part of a bigger team and we should never try to do too much of this on our own.

But we can define what added-value would be, how we measure success, and then create a coherent and logical programme of how you would get there.

James Cooper: How do we know we are delivering on strategy? How do we monitor we are on track? Those KPIs are something that finance can calculate and forecast on, and outline to the business what actions may help in reaching strategic goals.

Chris O'Brien: You always have to challenge strategy as well. There are different people within the business who will want to serve different stakeholders, so you have to play devil's advocate, in terms of making sure we have considered a whole community of stakeholders and not just the sales manager's or the CEO's preferred one.

REGULATORY HEADACHES

Chris Cundy: **Which regulations are causing you the biggest headache?**

James Cooper: Brexit is one of the biggest changes over the next few years and there are a lot of unknowns. You need to work on contingency plans and look at different scenarios and what possible impacts that it might have.

Chris O'Brien: It is a problem we would prefer not to have. It will not be easy, but it can be dealt with as more of an operational, rather than strategic, issue.

Anna Miskin: Solvency II is still a bit of a pain, in the sense of how do we create value out of it. As for IFRS 17, let us see what that brings. The third one is probably GDPR [the General Data Protection Regulation]. Finance is not the biggest part of it, but it is a big European-wide project that will undoubtedly impact the way we accumulate and process information.