

# Insurance

## EXECUTIVE BRIEF

Q2 – 2019

GLOBAL INSURANCE SERVICES

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# Global Insurance Services Continues Expansion of Governance, Risk & Compliance and Actuarial Practices



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Bill Mellon is a Senior Managing Director with more than 30 years of experience providing Governance, Risk & Compliance (GRC) services to insurance clients and a variety of organizations across industries including professional services, transportation, construction, pharma and financial services. His experience includes nearly 10 years with international accounting and consulting firms providing GRC services to client organizations.

Bill's services include external and internal audit; risk assessment and management; fraud risk assessment; enterprise risk management; forensic accounting; Sarbanes-Oxley compliance; information technology and security and ITGC review; and business process analysis and reengineering. He has designed tools and methods for these services and regularly assists clients in identifying key financial/operational control issues resulting in improvement to business processes and governance structures.

Bill has served as Chief Audit Executive for numerous clients and has worked with senior management and audit committees, and served on client risk committees assisting in risk identification and management. He has conducted fraud investigations to determine the genesis and extent of fraud, as well as providing internal control recommendations to reduce any reoccurrence. Prior to joining FTI Consulting, Bill was with a major accounting firm where he led the internal audit operations of two organizations, including an international organization.

Bill holds a Bachelor of Science Degree in Accounting from LaSalle University. He is a member of the American Institute of Certified Public Accountants, Institute of Internal Auditors and is a board member of the Society of Financial Management (SIFM). Bill is also Certified by the Institute of Internal Auditors to provide Risk Management Assurance services. He is a frequent presenter on internal audit, risk management and governance practices and procedures.



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Graham is a Managing Director of FTI Consulting, Global Insurance Services, and leads the Risk and Actuarial teams for EMEA. He has more than 25 years of experience as an actuary and risk consultant, advising insurers on financial, operational and strategic challenges in changing markets. He is a trusted advisor and collaborative contributor to the Board and Executive agenda

Graham is a Fellow of the Institute of Actuaries, and bridges technical actuarial capability and commercial execution. His experience includes implementing enterprise-wide risk management frameworks; evaluation and due diligence of major multi-national disposals and acquisitions; assisting clients with post-acquisition integration; building full model-office reporting and projection models; and assessing major outsourcing transactions as part of insurers' drive to operational efficiency.

Graham has supported broad and focused Insurtech projects and is on the Advisory Boards of Sherpa and MoneyHub in the UK.

Prior to joining FTI, he was a senior partner across EY's global insurance sector, running multiple cross-border service line teams and overseeing major MNC client relationships, predominantly across EMEA and Asia Pac.

Graham's specialist areas include:

- Technical actuarial input in the life sector in key areas of capital modelling and efficiency, product design and value assessment
- Development and implementation of enterprise risk management frameworks and associated policies and resource models
- Helping insurers realize the benefits of cost reduction and customer retention appropriately through the reported profit mechanism
- Actuarial and commercial due diligence
- Experience holding Controlled Function roles under FCA (CF1)
- Independent review and validation of publicly reported (balance sheet, profit and loss) financial results for complex multi-national insurers (local GAAP and IFRS)

# Global Insurance Services Continues Expansion of Governance, Risk & Compliance and Actuarial Practices



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Romy Comiter is a Managing Director at FTI Consulting, Global Insurance Services, EMEA. Romy has more than 30 years of experience in the Insurance sector in various senior management roles within professional services companies. She has helped senior management in developing and implementing strategic growth plans, providing technical expertise in financial analysis, computer modelling, data management and risk and compliance.

She will focus on providing advisory services in the general insurance market primarily related to claims, assisting clients in assessing, managing and mitigating liability. She will also work with multidisciplinary teams to develop and implement technology solutions to enable deep data analytics to support better management decisions, reduce risk and enhance productivity and operational efficiency.

Romy has also served as an expert witness in the U.S. and UK in a variety of matters involving the assessment and allocation of mass tort claims; the valuation and timing of insurers' potential liability; the impact that settlement agreements have on other carriers; and the completeness and accuracy of the underlying claims data.

Before joining FTI Consulting, Romy was a Partner at Mazars LLP in their Financial Services Consulting team. She led the insurance practice related to claims and was the liaison between the actuarial, audit and consulting teams. Prior to Mazars, Romy was the Director of Insurance Services at LECG (f/k/a SMART Business Consulting) based on London.

Romy started her career in New York at Grant Thornton where she trained and was promoted to the position of Senior Manager and Practice Leader of the Insurance area during her tenure. She holds a BSE in Electrical and Computer Engineering from the University of Pennsylvania, and a MBA from New York University.

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## TRENDS & QUICK

### TAKEAWAYS

#### Hardening Market Spawns Opportunities

Studies, surveys and company reporting indicate that insurers are taking steps to return to underwriting profitability across lines of business and geographies. All else being equal, increased rates should help company profitability. However, companies must find ways to continue an upward profitability trajectory.

Takeaway: One of the ways to continue that trajectory is to initiate programs that improve performance while simultaneously reducing cost. This may seem difficult, but it can be done using the right combination of people and technology.

#### Reputation Risk On The Rise

Several conditions are evolving that expose companies to greater reputation risk – consumer and political activism, scope and speed of social media, greater magnitudes of data used and retained, growth in cyber incidents, and an increase in proactive regulatory enforcement actions. Also, the incident-to-response time frame is narrowing and the associated media coverage is more opinionated.

Takeaway: When an incident occurs, companies must immediately get in front of the situation and control the narrative. This requires understanding exposures, worst-case impact scenarios and stakeholder interests. It also requires developing mitigation and recovery measures and action plans for delivering compelling communications. The stakes are too high to be unprepared. Our Governance, Risk & Compliance practice can help.

# In the News:

## Industry Leadership & Awards

### FTI Consulting Enters Into Strategic Partnership With UK's MoneySuperMarket

Kevin Hewitt, Chairman, FTI Consulting EMEA, and Piers Stobbs, Chief Data Officer, MoneySuperMarket, recently announced that the two companies have entered into a strategic partnership.

MoneySuperMarket is the UK's leading price comparison website, with 13 million active users. The company provides free, online tools to help people manage and save money by enabling them to compare and choose insurance, banking and home services products across 44 different channels.

FTI Consulting will use its digital and data science expertise to design, build and deploy a new state-of-the-art visualization portal through which all of MoneySuperMarket's insurer and broker partners can access critical intelligence and insight.



FTI Consulting's Global Insurance Services will bring its experience and skills in insurance product design, pricing and predictive analytics to assist MoneySuperMarket in upgrading their existing offerings and develop new analytical products and services across its vehicle and home insurance channels.

The partnership demonstrates how FTI Consulting can bring its expert resources to help companies advance their product offerings and improve performance and customer relationships.

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### FTI Consulting and Compass Lexecon Recognized as Leading Firms at the 2019 Who's Who Legal Awards Ceremony In London

FTI Consulting was recognized in the following categories: Arbitration Expert Firm of the Year, Consulting Firm of the Year, Insurance Expert Witnesses Firm of the Year, and Restructuring and Insolvency Advisers Firm of the Year. Compass Lexecon was recognized as Competition Economics Firm of the Year.

Paul Braithwaite, Senior Managing Director and Co-Leader of Global Insurance Services, and Ian Marshall, Managing Director, Global Insurance Services were named among the top insurance testifying experts.



FTI Consulting is the only firm to receive the Arbitration Expert Firm of the Year and Consulting Firm of the Year awards since they were introduced in 2015 and 2017, respectively. Compass Lexecon is the only firm to receive the Competition Economics Firm of the Year award since it debuted in 2015. The awards were given based on Who's Who Legal research and the firms' performance in jurisdictions around the world compared to peers.

# Special Advisory: Keys to Sustainable Cost Management for Insurance Organizations

By Rory O'Brien, Ian Duncan and Andrew Munzberg

You've assessed your strengths and weaknesses and your operating environment, and implemented strategies to build on core strengths, differentiate your organization and grow market share. Despite changes and improvements implemented, your expenses have continued to increase and erode profitability. What went wrong?

- Was there a clear strategy understood at all levels in the organization?
- Were cost reduction opportunities sufficient to deliver meaningful improvements?
- Were proposed benefits poorly qualified?
- Is there a culture of cost awareness, continuous improvement and accountability?
- Is there lack of communication and support from senior leaders?

*“Cost management is emerging as a major factor in driving competitive advantage.”*

In today's environment, most insurance organizations are challenged to become more agile and flexible, manage increasing magnitudes of data, adopt digital technology, meet changing customer needs, deal with significant regulatory overhead, satisfy a variety of stakeholders, and become more profitable.

To meet these challenges, organizations are compelled to make key structural changes. In doing so, the differentiator among organizations is often how cost-effectively these structural changes are defined, delivered and sustained. Accordingly, cost management is emerging as a major factor in driving differentiation and maintaining a competitive advantage.

## THE FTI CONSULTING EXPERIENCE: LESSONS LEARNED

FTI Consulting is a leader in assisting insurers in overcoming complex business challenges and in taking advantage of opportunities. In many situations, we are asked to help companies make course corrections to achieve financial performance improvement targets.

In these situations, we often find that organizations have taken a short-term view by dealing with cost reduction in isolation and failing to address entrenched inefficiencies. We also have seen efforts stymied by an undisciplined approach or a lack of organizational commitment, or both.

As a consequence, this type of cost reduction initiative is unsustainable, and even may act as an impediment to real progress as cost savings are lost or not leveraged in more value-enhancing ways.

## Getting the Fundamentals Right

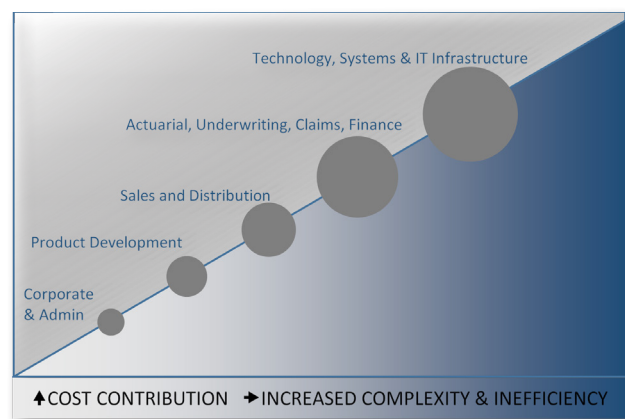
Our experience has shown that cost reduction success is based on six fundamental principles:

1. Understanding the primary drivers of cost and the corollary levers for cost reduction.
2. Overcoming constraints to enterprise-level cost reduction initiatives.
3. Conducting a thorough cost reduction opportunity diagnostic.
4. Adhering to a disciplined program management methodology and governance framework
5. Achieving organizational commitment and stakeholder communication.
6. Relentless dedication to performance improvement execution.

### PRINCIPLE 1 – UNDERSTANDING PRIMARY COST DRIVERS AND COST REDUCTION LEVERS

The primary drivers of cost within P&C insurance organizations are typically associated with operations such as underwriting and claims, as well as information technology systems and infrastructure (IT). In addition, enterprise business complexity and poorly structured business models increase costs across the entire enterprise, and thus are also prime targets for cost reduction initiatives.

### CHART 1 - PRIMARY ENTERPRISE COST DRIVERS



# Keys to Sustainable Cost Management for Insurance Organizations... continued

## EXAMPLE

### \$500 MILLION COST REDUCTION FOR GLOBAL INSURANCE COMPANY: REDUCING COSTS BY APPLYING COST REDUCTION PRINCIPLES



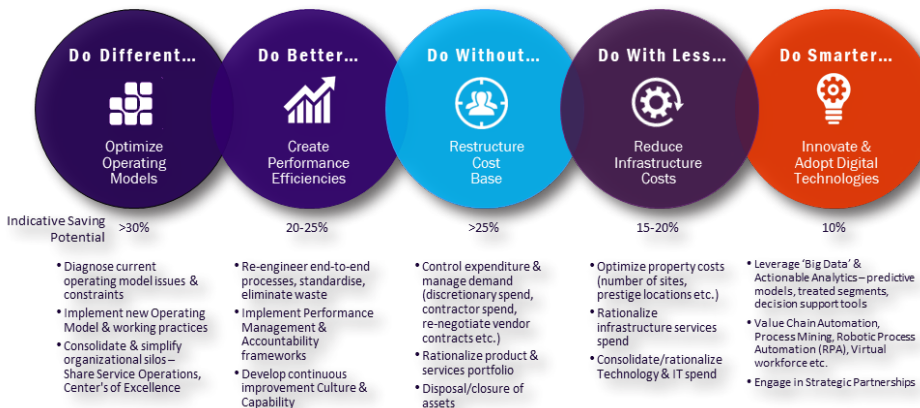
FTI Consulting developed the global blueprint and the transition strategy to consolidate in-country IT services into regional shared service centers, thereby reducing infrastructure cost by \$500 million. Various high-to-low resource cost mixes were modeled and a 30/70 percent resource allocation ratio was chosen. During the execution

phase, FTI Consulting was responsible for global program management and the validation and tracking of the portfolio of cost reduction initiatives and savings. The program was underpinned by a rigorous governance and reporting process to achieve the required rate of savings.

## Cost Reduction Levers

Within each category of primary cost driver there are a wide range of tactical and strategic cost reduction levers that can be applied to deliver material benefits. Chart 2 illustrates representative cost reduction approaches, along with insights and savings potential indicative for each. The choice of lever depends on the current situation and client objectives, such as size of benefit, delivery timescale, sustainability target and complexity of implementation.

### CHART 2 - COST REDUCTION LEVERS

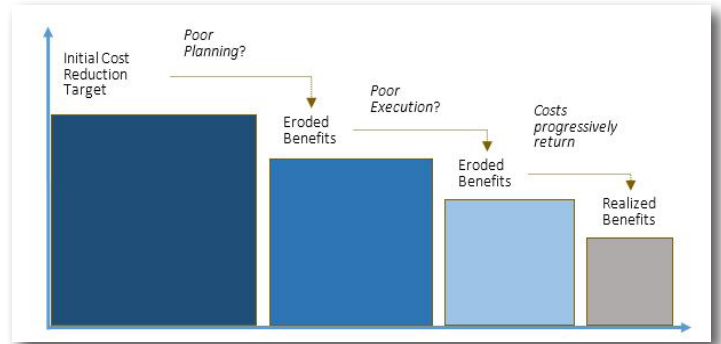


## PRINCIPLE 2 - OVERCOMING CONSTRAINTS TO ENTERPRISE-LEVEL COST REDUCTION INITIATIVES

Achieving significant cost reductions can be difficult. These initiatives are often constrained by the existence of isolated business silos and cultural issues; a lack of focus, support and commitment; limited resources; and poor planning and execution.

If not addressed and corrected, these constraints can erode the value of targeted cost reductions and can even degrade enterprise performance

### CHART 3 - COST REDUCTION BENEFIT EROSION



## Typical Constraints

**Insufficient Horsepower** – Implementation requires experience, energy and senior-level sponsorship and commitment. In addition, to go beyond incremental reductions and generate meaningful benefits, cross-functional expertise is required to challenge internal staff, who often split their time and focus with their normal duties.

**Lack of Structure** – Success is often predicated on a simple but structured approach, clear accountabilities, coordination of specialist skills and the rigorous identification, tracking and monitoring of benefits delivered.

**Focusing on the Wrong Costs** – Businesses have “value-adding” costs which build capability, support innovation and drive competitive differentiation and innovation, and “non-value-adding” costs. Poorly conceived Initiatives repeatedly focus on quick wins or the most visible costs, rather than on restructuring the underlying cost base.

**'Closed minds'** – It's easy to get stuck in a particular mode of thinking and make erroneous assumptions or

overlook cost reduction opportunities. Required are methods that encourage people to think outside the box in examining improvement opportunities and cost drivers.

**Failure to 'make it stick'** – Sustainable benefits come from developing a continuous improvement culture to drive effective improvements and embed behavioral changes in relation to cost containment and control.



# Keys to Sustainable Cost Management for Insurance Organizations... continued

## PRINCIPLE 3 – CONDUCTING A THOROUGH COST REDUCTION OPPORTUNITY DIAGNOSTIC

A diagnostic is required to uncover and measure opportunities, assess constraints and develop a cost reduction approach. Initiating a diagnostic and following through on the findings requires initial direction from the C-suite, preferably the CEO.

### EXAMPLE: DIAGNOSTIC OF UNDERPERFORMING DIVISION



The CEO of a Global PLC engaged FTI Consulting to assess an underperforming Division. An initial review indicated that operating units such as sales, distribution, supply chain, and servicing, while extremely busy, were not achieving desired results. Our team identified a number of critical constraints and performed a diagnostic to identify “siloeed” behaviors, poor performing practices and ineffective processes. We implemented changes to management practices, changes in key personnel, and improvements in accountability. The division has improved results and is now undergoing a digital transformation.

## PRINCIPLE 4 – ADHERING TO DISCIPLINED PROGRAM MANAGEMENT AND GOVERNANCE

FTI Consulting has refined its program management methodology over a significant number of engagements. Our methodology revolves around an experienced program manager who is accountable for resource allocation, schedules, execution, problem resolution and reporting. We adhere to a four-phased approach: sound planning and preparation; program governance; efficient, high quality execution; and sustainment of cost reduction and performance improvement benefits.

### PHASE ONE: ESTABLISHING THE PLATFORM – PLANNING AND PREPARATION

In collaboration with client resources, we develop a clear statement of the cost reduction program goals, priorities and objectives; set a positive, “can do” tone with the team; outline program tasks, deliverables and schedules; and establish problem resolution and reporting procedures.

Our emphasis is to ensure that program objectives, timelines and deliverables are in line with client expectations, and that the client’s senior leaders are committed to supporting program initiatives over the required time period. In addition, financial planning includes ensuring that the program’s benefits are sufficient to cover program costs.

## PHASE TWO: PROGRAM GOVERNANCE

Governance involves the executive authorization, commitment and oversight required to ensure that the cost reduction program will be conducted in line with senior executive expectations. Governance addresses matters such as:

- **Scope:** Is this meant to be an enterprise-wide initiative or is it to be focused on a single division or function? Is the footprint national, regional or local? Increased geographic separation and need for enterprise-wide cooperation will heighten complexity.
- **Reporting:** What are the reporting requirements to varying stakeholder groups (e.g., board, leadership committees, investors)? The need to keep various stakeholder groups apprised of activity and results requires a centralized and sufficiently detailed view of progress, with a common way to report results.
- **Change Readiness:** Capabilities to drive a cost reduction program will vary and will be significantly influenced by the existing cost culture. The lower the sophistication, the greater the need for formal coordination by the business to channel efforts in the right direction.
- **Change Capability and Impact:** The level of change being contemplated with initial targets can largely influence the need for a dedicated program management office (PMO). Also, in many cases, not enough attention is given to corollary impacts. A PMO will address and mitigate unintended consequences.
- **Benefit Delivery:** A critical timeline to drive results (next month, next quarter or next year) will influence the PMO’s nature and role. A PMO can help bring and sustain a heightened sense of urgency to achieving results.

## PRINCIPLE 5 AND PHASE THREE: DRIVING EXECUTION

Execution is driven by people; not technology. The Achilles heel of cost reduction programs is often a lack of sustained organizational commitment and/or staff motivation. To be effective, cost reduction programs require a combination of the right expertise, ownership and accountability; unwavering executive commitment; and relentless energy.

Our execution regimen includes a rigorous focus on performance measurement to ensure that team members remain motivated, and that milestones and deliverables are met. It also requires that stakeholders are informed of progress, including any problems or roadblocks, and are responsive to resolution measures.



# Keys to Sustainable Cost Management for Insurance Organizations... continued

## PRINCIPLE 6 AND PHASE FOUR: SUSTAINING THE BENEFITS

Sustaining benefits is a continuation of execution. In this phase, the focus is on ensuring that there is a cultural shift toward continuous cost management and performance improvement. To achieve this, we collaborate with client resources to build internal capability across all activities and instill a continuous improvement culture that not only maintains the benefits, but just as important, improves operational effectiveness to drive differentiation.

## SUMMARY



Cost reduction programs not only can pay for themselves, they also can drive competitive advantage and provide the stimulus to change business strategies and operating models.

But if the benefits far outweigh the costs, why do so many of these projects wind up disappointing the organization?

Why do they often generate negative attitudes such as:

- Management believing not enough has been done
- Staff members feeling criticized and victimized
- Shareholders thinking their business is in recession

The reason is simple! Not enough time and effort have been spent on scoping, planning, understanding, resourcing and linking the program to the strategic objectives of the company. Adhering to the six principles outlined in the article will greatly improve chances for success. Above all, the human factor in driving execution success, in terms of resource allocation, commitment, positive energy and constant communication, cannot be neglected.

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As a leading independent advisor and consultancy to the insurance industry, Global Insurance Services helps clients identify opportunities and define strategies to manage risk, improve operational and financial performance, and drive growth.

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## About FTI Consulting

FTI Consulting, Inc. is an independent global business advisory firm, dedicated to helping organizations manage change and mitigate risk: financial, legal, operational, political & regulatory, reputational and transactional. FTI Consulting professionals, located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges and opportunities. Connect with us on [Twitter](#) (@FTI\_FLC), [Facebook](#) and [LinkedIn](#).

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