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What your peers are thinking

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Benchmark survey reveals insights into investment trends, challenges, and concerns.

As a global economy presents both challenges and opportunities for insurance companies, the ability to “see the forest for the trees” is becoming increasingly difficult. Internal benchmarking as a means of measuring performance can be limited, especially for those firms that lack the resources to assess and implement technologies that continually evolve.

Understanding industry trends, as well as the concerns and strategies of one’s peers offers actionable insights to boost performance, delivering best practice guidelines that can mean the difference between profit and loss on one’s balance sheet.

Earlier this year, Clearwater Analytics, a global provider of web-based investment accounting and reporting for insurance companies, conducted its 2015 Insurance

Investment Benchmark Survey, polling 444 senior-level investment and accounting professionals whose portfolios range from less than \$100 million to \$20 billion.

They published the survey results and accompanying analysis in The 2015 Insurance Investment Benchmark Survey Report, which provides compelling insights into what insurance investment and accounting teams think about the investment environment, upcoming regulatory changes, different investment strategies, and operational processes and systems.

“While many survey respondents indicated they were satisfied with their existing processes and systems, they still cited major problems with manual processes and difficulties in meeting deadlines,” said Emily Brawley, insurance solutions specialist at Clearwater Analytics. “Benchmarking provides them a unique opportunity to stop and evaluate their processes and systems and decide how they can better address the challenges introduced by the status quo.”

Challenges

Top concerns

Yield/return was the top concern for both CFOs and investment teams, though it was more significant for the former (50% vs. 34%). Interest rates was number two for both, while asset allocation was number three for CFOs, compared to regulatory issues for investment teams.

Interest rates

An overwhelming majority of respondents (96%) felt that interest rates will rise (an average of 1.06%) within the next 1-3 years as well as the next 5 years (an average of 1.75%).

Regulatory challenges

CFOs cited a number of significant regulatory challenges, including keeping up with regulatory accounting rules, reporting investments to the NAIC and regulators, implementing IFRS accounting guidance, dealing with multiple regulatory and rating authorities, and asset allocation in today's climate of financial and regulatory repression.

Investment strategies

Top asset class investment was limited partnerships, followed by private placements, REITs, mortgage loans, and options. The greatest barriers to investing include outside investment guidelines (47%), followed by lack of interest (30%), regulatory concerns (11%), and lack of expertise (10%).

Operational processes

Operational challenges

Efficiency is a driving factor in profitability, and CFOs have expressed a handful of key challenges that impact operations:

- Manual processes: 34.3%
- Timely data: 23.3%
- Capital restraints: 14.8%
- Disparate data: 13.9%

- Legacy systems: 13.7%

All of these impact average close day for “closing the books” — which as an industry average lagged two days behind the desired day. This is a day less than the desired-actual gap for CFOs and accounting professionals, which is three days.

Faster monthly closes are desirable for a number of reasons, including improving efficiency (31%), quicker decision making (21.1%), focusing on pertinent issues (18.7%), accessing better information (18.5%), and responding to stakeholders (10.7%).

What’s preventing a faster monthly close? For both CFOs and accounting professionals, manual processes topped the list (30%, 32%), followed by data availability (22%, 23%), delays from providers (15%, 12%), staffing (12%, 12%), current systems (12%, 12%), and complexity (9%, 8%).

Average time allocated

Report development is a fundamental process for the industry, with the average time spent on key deliverables as follows:

- Prepare year-end reports: 49.6 hours
- Prepare quarter-end reports: 20.6 hours
- Reconcile reports: 14.0 hours
- Prepare bond packages: 10.0 hours

Operational tools

When it comes to accounting systems, outsourced provider was the number one choice

(44%), outpacing installed software (34%), asset manager (7%), spreadsheet (6%), custodian (6%), and consultant (2%).

No fewer than 10 market data providers are used regularly by respondents, with Bloomberg accessed by two-thirds (66.7%), followed by Custodian Data (50.0%), NAIC/SVO (47.4%), S&P (38.5%), IDC (37.2%), and Moody's (28.2%).

Not all questions elicited a distinct 'yes' or 'no' answer; as such, gradations were offered on a scale of 1 (minimal) to 5 (maximum) to express conviction (averages in parentheses), with some eliciting sharp variations among top executives, accounting professionals, and investment teams:

- Is your investment accounting team adequately staffed: 3.64
- Is your investment accounting system fully automated: 3.48
- What's your satisfaction level with the customer service of your accounting solution?
 - Spreadsheet: 2.14
 - Custodian: 2.72
 - Installed: 3.35
 - Asset manager: 3.78
 - Outsourced/SaaS: 4.16
- Is your security master data accurate?
 - CFO response: 4.16
 - Accounting personnel response: 3.97
 - Investment teams response: 4.21
- Is your investment accounting data reliable?

- CFO response: 4.35
- Accounting personnel response: 3.96
- Investment teams response: 4.21
- Are you satisfied with your accounting detail?
 - CFO response: 4.20
 - Accounting personnel response: 3.81
 - Investment teams response: 3.87

Performance data

When it comes to performance systems, outsourced provider was cited number one (30%), followed by asset manager (22%), installed software (19%), spreadsheet (12%), consultant (9%), and custodian (7%). These produced a variety of responses related to performance data:

- Is your performance data timely? 3.95
- Are you satisfied with your performance data detail? 3.84
- Are you satisfied with your performance system's ROI? 3.33

Risk system

Respondents reported using a variety of risk systems, beginning with outsourced provider (33%), followed by installed software (19%), asset manager (18%), spreadsheet (15%), consultant (10%), and custodian (4%). When it comes to rating agencies, a vast majority of respondents use S&P (85.5%), followed by Moody's (79.0%), Fitch (54.0%), MAIC/SVO (52.6%), and A.M. Best (21.1%). Respondents addressed a variety of risk data issues:

- Is your risk data timely? 3.67

- Is your risk data reliable? 4.06
- Are you satisfied with your risk data detail? 3.74
- Are you satisfied with your risk system's ROI? 3.22

Compliance system

More than half of respondents reported using an outsourced provider (32%) or spreadsheet (28%) compliance system, followed by asset manager (18%), installed software (11%), custodian (7%), and consultant (5%). Respondents also addressed a variety of compliance data issues:

- Is your compliance data timely? 3.67
- Is your compliance data reliable? 3.81
- Are you satisfied with your compliance data detail? 3.79
- Are you satisfied with your compliance system's ROI? 3.27

Collectively, the feedback included a number of key takeaways, including:

- The yield and interest rate environment is the top concern for professionals at insurance organizations.
- The investment and regulatory environment is affecting the investment strategies of insurance companies.
- Institutional investors currently in less common vehicles are likely to increase their exposure in the coming year.
- Among CFOs, manual processes are the top barrier to more efficient investment accounting operations.
- CFOs and accounting teams agree that manual processes, data availability, and delays from providers are significant barriers to a faster monthly close.

“Investment and accounting professionals face many challenges, including low interest rates, ever-changing regulations, pressure to provide accurate and timely information, and more,” said Brawley. “Forward-thinking insurers are constantly seeking new and better ways to not only meet these challenges, but elevate performance and increase efficiency. Evaluations of peer best practices and industry benchmarking is a very important part of that improvement process.”



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