



# AVOIDING INFORMATION OVERLOAD - INSURANCE

## INFORMATION OVERLOAD

29 August 2019

In our 2019 report [Information overload: effective boards and committees in financial services](#) we outlined what executives, management and non-executives can do to make board meetings and board packs more effective.

This guide offers practical examples and checklists for those working in or with the insurance industry so that they can work toward getting the right information, at the right time to enable effective board meetings and strong governance.

This focuses on two issues, and two activities which were highlighted as areas for improvement in our report.

ISSUES	ACTIVITIES
Emerging risks	Getting out of the boardroom
KPIs – have you got the right ones?	Delivering effective feedback

### EMERGING RISKS

Strategy is the number one responsibility of the board, but often left until last on the agenda and neglected. In order to properly fulfil their collective responsibility boards must be able to discuss strategy, emerging risks and the wider environment. All subjects discussed by boards should have a forward-looking element.

Insurance company boards need to make time for the following topics in particular:

#### Climate change

The Prudential Regulation Authority (PRA) expects insurers to have their initial plan of managing the climate change related financial risks by 15 October 2019. They will also have to appoint a senior manager responsible for this function with clear statement of responsibilities – both management and boards need to be ready for this. The regulator only sets [high level expectations](#) for now but insurers will have to follow a strategic and long-term approach developing their own risk appetite.

The climate change related risks will have to be integrated into existing practices but they will need special consideration. For example, insurance companies are well versed on how they impact the liabilities on their balance sheet, but do boards have enough information on how it affects their investments?

Using the [PRA's framework for assessing the financial impacts of physical climate change](#) in the business can help management to manage physical risks and the [2019 regulatory stress](#) test will give an opportunity to consider transition risks too.






#### Operational resilience

The regulators have emphasised that operational resilience needs to be higher up the board agenda, and governance and culture have a key role in operational resilience. An FCA review found that a large number of boards can't coherently discuss topics like cyber-risk, leaving them even more at risk. For non-executives this means they must demand the right level of information at the right time, ask for teaching papers and education sessions when needed.

**Outsourcing** is not a new endeavour for insurers, but firms should expect increased scrutiny as the operational resilience agenda ramps up. Third party outsource providers are the second biggest root cause of operational outages,

following change management. Use of cloud providers is increasingly a real risk in terms of resilience, both due to security and concentration.

### QUESTIONS NEDs SHOULD BE ASKING

	What is the firm's <b>purpose</b> , and what does that require of us? For insurers the socially important functions of paying claims and pensions to consumers means resilience is vital. If these processes are part of an outsource supply chain, what's the additional risk?
	How is operational resilience built into training throughout the firm?
	How have individual and collective responsibilities been defined?
	Is reporting right? End-to-end reporting may be necessary to properly manage operational resilience, but that does not mean this is what the board needs.
	Are we being transparent enough with our customers and stakeholders?




### KPIs

#### Change – focus on IFRS 17 Insurance Contracts

Financial reporting for insurers is fundamentally changing with the introduction of *IFRS 17 Insurance Contracts*. As companies are preparing to implement the standard they will be making choices about how information is reported going forward. These choices may be wrapped up in software implementation and customisation decisions and the design of reporting and devolved across project teams rather than centrally controlled, creating risks for NEDs who need this information to effectively oversee and challenge management.

There is also a risk that some may wish to parallel run old KPIs alongside the new KPIs driven by the change in accounting standard. Whilst this may be necessary on transition, the increase in volume of information should not continue indefinitely.

### WHAT NEDs NEED TO BE ASKING

	<p>How are custom KPIs being formulated?</p> <p>To be effective, KPIs have to meet the following criteria:</p> <ul style="list-style-type: none"> <li>• Are non-financial</li> <li>• Can be measured frequently</li> <li>• Must be acted on by the CEO and other senior leaders</li> <li>• Clearly indicate what action is required by staff</li> <li>• Tie responsibility down to a team or group of connected teams</li> <li>• Have a significant impact, affecting more than one critical success factor</li> </ul> <p>Encourage appropriate action and only a small “dark side”</p>
	<p>What are off the shelf KPIs, and are they relevant to your business?</p> <p>KPIs most commonly fail because they are:</p> <ul style="list-style-type: none"> <li>• Too random</li> <li>• Prepared with little expertise</li> <li>• They signify nothing</li> <li>• Based on a mix of operational and governance measures</li> <li>• Not linked to critical success factors</li> </ul> <p>Too many, too late</p>
	What information does the board need to transition from the information they're traditionally used to?



What is the transitional time frame for moving to new KPIs?



How sensitive is the business to external changes that they can't influence? Annuitant mortality and the change to the Ogden rate can have a large effect. Even if board members don't always understand precisely why, they need to understand the outcome changes.

Where reporting becomes more complex for particular products, boards need to be assured management is getting the right information and that they have the right cut of the that information for oversight. In some cases the most important information is lies in the assumption and sensitivities used for arriving to particular decisions.

## VIEW FROM THE BOARD – COMPLEX PRODUCTS

Complex products like equity release mortgages come with prudential and conduct challenges. NEDs need to ensure they're able to see both sides of these issues and how the business plan for these products takes those into consideration.

NEDs we spoke to were also acutely aware of how the social and governmental pressures around later life products in particular can influence the strategy and give rise to additional risk in future years. Their role is in part to help companies take the long-term view of how these products evolve and ensure they can be explained simply and clearly. If the board can't fully understand, how will customers? A mix of financial and non-financial KPIs may be relevant for the board to assess and understand these products.

The FCA's 2019 [discussion paper on intergenerational differences](#) highlights some of the challenges presented by products which are not widely well understood but have a potential social benefit.

## OUTSIDE THE BOARDROOM

Some of the most important parts of the job are done outside of the boardroom, walking the floor and doing deep dives into relevant areas. This might be looking at customer experiences or outsourced relationships.

## VIEW FROM THE BOARD – COMPLAINTS








Poor customer outcomes in general insurance are a key area of concern for the Financial Conduct Authority and they set out their expectations in a [Dear CEO Letter](#) in April 2019. One of the ways in which poor outcomes can be measured is through complaints. Extensive amounts of data are available on volume of complaints and whether they're being dealt with in the prescribed timelines, but these metrics don't tell the whole story.

One non-executive director in a large insurance company talked about the value of listening in on customer calls to understand more about the nature of complaints and the experience of a complainant rather than simply the number. The company changed the way their call centre staff were trained to become more customer focussed.

## FEEDBACK

Our earlier report emphasised that feedback should be encouraged by the chair. It is important for boards to provide clear and strong feedback and reject papers which are not improved as a key mechanism for change. Tenacity in pursuing change is also important. One NED interviewed noted that it took three years before feedback was properly reflected in the information provided.

## HOW CAN EXECUTIVES AND MANAGEMENT HELP?

ACTIONS	
	Filter and tailor management information before it is distributed to the board
	Keep papers specific to the relevant boards and committees, avoid reuse simply because the subject matter is the same
	Restrict technical and complex papers to lengths that can be digested and meaningfully taken in by the board in the time allowed
	Prompt board members to ask questions when papers have been sent out
	Ensure that preparers of board papers understand the board's perspective and how their part fit into the overall information pack
	Provide training to preparers so they perform at the required level
	Stick to rules and deadlines; they are helpful in concentrating efforts on all sides

© ICAEW 2019

All rights reserved.

If you want to reproduce or redistribute any of the material in this publication, you should first get ICAEW's permission in writing.

ICAEW will not be liable for any reliance you place on the information in this material.

You should seek independent advice.

ICAEW is a world leading professional membership organisation that promotes, develops and supports over 150,000 chartered accountants worldwide. We provide qualifications and professional development, share our knowledge, insight and technical expertise, and protect the quality and integrity of the accountancy and finance profession.

As leaders in accountancy, finance and business our members have the knowledge, skills and commitment to maintain the highest professional standards and integrity. Together we contribute to the success of individuals, organisations, communities and economies around the world.

Because of us, people can do business with confidence.

ICAEW is a founder member of Chartered Accountants Worldwide and the Global Accounting Alliance.

[www.charteredaccountantsworldwide.com](http://www.charteredaccountantsworldwide.com)

[www.globalaccountingalliance.com](http://www.globalaccountingalliance.com).

Chartered Accountants' Hall  
Moorgate Place, London  
icaew.com

T +44 (0)20 7920 8100  
E [generalenquiries@icaew.com](mailto:generalenquiries@icaew.com)