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Improving Management Reporting in the Insurance Industry

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With countless innovations in the technology and analytics fields, more data are more accessible each day. The ability to process large masses of business data to make more accurate calculations has become one of the most sought-after goals for leaders across all industries, including insurance. In fact, insurance CEOs consider efforts to become more data driven a top-three and growing priority, according to a recent KPMG survey of more than 100 global insurance CEOs.[1]

Management reporting in particular leverages data analytics to allow business leaders to take a top-down look at their organization's financial results and key performance indicators (KPI) in order to make strategic decisions. Leaders look for management reports to be delivered in a meaningfully summarized form, with the functionality that allows them to drill down into the results and explore additional economic details and commentary behind the numbers on an ad hoc basis. The demand for this type of flexible reporting and analysis is only expected to increase as new accounting bases requiring additional disclosures are introduced, and the insurance industry meets capital markets' demands for greater transparency.

Management reporting stands in contrast to required regulatory reporting, which is typically a rigid, aggregated (based on fixed hierarchies), periodic, rules-based set of financial statements. Yet a number of insurance organizations are still using external regulatory reports for internal strategic business purposes.

Effective management reporting has defining characteristics and objectives that make it better for strategic decision-making than financial and other types of reports. Here we explore how to evaluate the effectiveness of management-reporting structures, explore drivers of change to improve them, and propose steps toward producing management reporting in which insurance leaders can have confidence.

MANAGEMENT REPORTING VERSUS TRADITIONAL FINANCE-ORIENTED REPORTS

In the insurance industry today, many companies repurpose their periodic regulatory reports to guide financial decisions. Since regulatory reports are already produced regularly for external reporting purposes, they are consistent from one period to the next and readily available for management to leverage.

However, it has become increasingly clear to many organizations that regulatory reports may not be sufficient for strategic decision-making, and they are looking for more dynamic, economic-focused, real-time solutions to provide insurance leaders with the information they need to make decisions. Sixty-nine percent of insurance CEOs say they plan to invest in the digital infrastructure necessary to support such solutions over the next three years, according to the survey.[2]

Management reporting is an internal reporting structure generated by management to support leaders in their business decision-making process. The internal nature of management reporting allows the generated reports to be flexible in overall structure, granularity and type of data sources, application and use.

Regulatory and financial reports are no substitute for management reporting when it comes to guiding business decisions. Key elements in the structure, assumptions and nature of management reports drive their use for decision-making. Figure 1 highlights the main differences between financial and management reports.

Figure 1
Differences Between Financial and Management Reporting

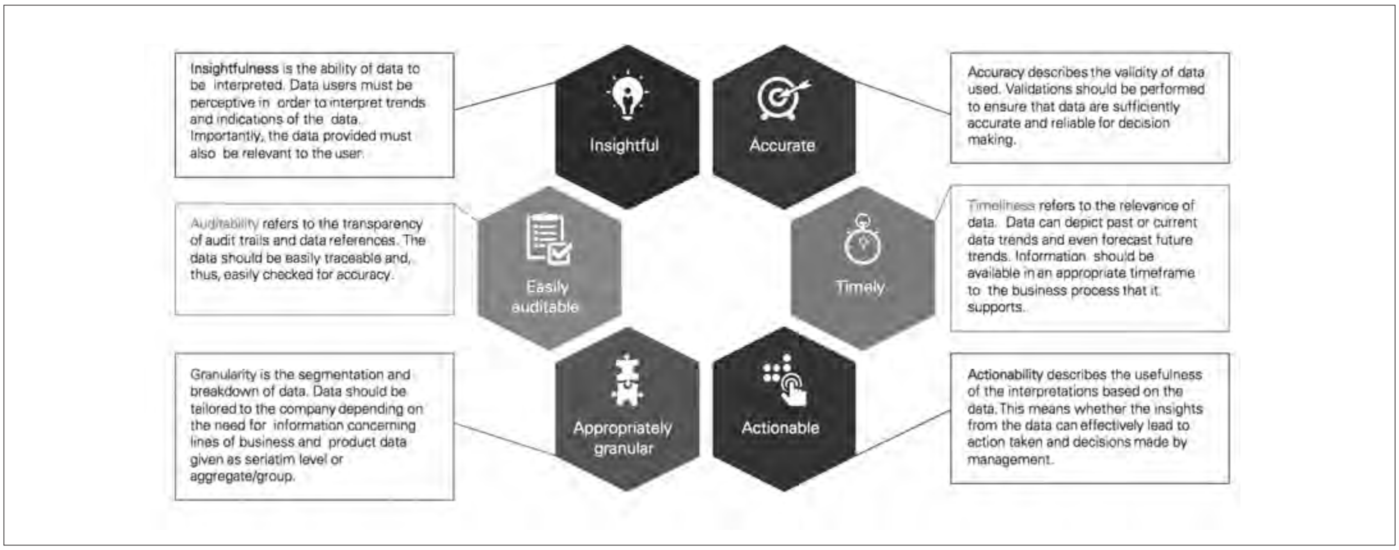
	Regulatory/Financial Reports	Management Reports
Structure	The regulatory reporting structure is rigid and subject to regulatory changes varying by jurisdiction.	Management reports tend to be dynamic and customizable. As management needs a value-based way of looking at its businesses, these reports are usually constructed to produce exactly what decision-makers in the company need in a unified, consistent way across jurisdictions.
Internal vs. External Nature	Regulatory reports are built to provide insight to regulators and investors whose focus is seeing the bottom line, prioritizing financial stability, meeting market standards and adhering to regulatory requirements.	The internal nature of management reporting is less rules-based and more economic-based. These reports are produced solely for internal use and can provide management with more actionable insight as to the economic status of the company, involving a more fit-for-purpose representation of results, as well as more focus on particular business KPIs.
Time Frame Relevance	Regulatory reporting uses monthly/quarterly/annually aggregated data to summarize a company's performance.	Management reporting can be generated as frequently as desired and include actual and projected results to provide the leadership team with a complete picture.
Level of Granularity of Results	Regulatory reports are often produced to provide financial results at an aggregated level based on fixed hierarchies.	Management reporting allows for dynamic segmentation of financial results on an ad hoc basis. Granularity of information will be aligned with the level required to steer the business and promote understanding. There is a consistent view of the business, unlike the potentially different segmentations that organizations experience when reporting under multiple accounting bases.
Assumptions Used	The results in regulatory reports are developed using mostly prescribed assumptions, with little room to reflect best estimate or company-specific experience.	Management reports are developed using a company's own view of its assumptions and reflects its current experience. For example, a decrease in expenses in future years can be appropriately reflected in the results of a management report.
Controls and Deadlines	Regulatory reporting is required to adhere to a high level of controls but must be completed within a relatively quick timeline to meet external submission deadlines.	As management reports are used solely for internal purposes, they are not necessarily constrained by strict timelines. However, as these results are used by management to make business decisions, a high level of accuracy in the numbers is desired.
Data Visualization	The format of regulatory statements, being predetermined by regulatory entities, is hardcoded, black-and-white numerical exhibits.	Advanced analytics and data visualization tools can be used to generate management reports. This allows data to be interpreted and manipulated better to depict trends and movements in data through graphs and charts.

WHAT DOES EFFECTIVE MANAGEMENT REPORTING LOOK LIKE?

Management reporting should do the following:

- Be dynamic and allow for real-time drill-down capabilities into aggregate results
- Allow for trend and volatility analysis on an ad hoc basis
- Offer data segmentation using a range of product, policyholder and market variables
- Have the flexibility to produce results at a desired frequency and for any time period
- Produce dynamic data visualization dashboards and allow for "what if" analysis
- Focus on the KPIs in which management is most interested

Figure 2
Key Characteristics of Quality Data



And it all starts with data. A strong characteristic of management reports is their ability to showcase relevant KPIs to business management. To do so, quality data and supplemental information is required to support the reporting process. Figure 2 shows six characteristics that summarize and define data reliability and relevance.

WHAT ARE THE ISSUES WITH MANAGEMENT REPORTING, AND WHERE DOES THE MARKET STAND TODAY?

Management reporting proves to be superior to regulatory reporting and other static types of reports, and it is flexible to management's needs. However, it is not immune to certain issues that insurance companies are facing.

The speed of production for management reports is a challenge mainly due to the use of inefficient and/or outdated software, leading to slow and limited production times. These generally slow data processes lead to rushed analysis and ineffective review.

Data quality is also a challenge for a number of insurers. This includes the inability to get granular data due to some companies still reserving large blocks of business on an aggregate level, as well as poor data quality, such as missing data and inconsistent or inaccurate values. Fifty-one percent of insurance CEOs surveyed by KPMG say they are concerned about the integrity of their management data.[3]

The process supporting the production of management reporting is often inefficient. A lack of materiality thresholds and a tendency to go into unwarranted levels of detail/accuracy results in production delays. Furthermore, actuarial analysis is typically left until the end of periodic production runs, minimizing the time for advanced analysis of actuarial results; this lack of time to critically review results and explore additional dimensions or perspectives leads companies to prioritize meeting minimum requirements to appease auditors.

Conservative approaches to innovation and force of habit prevent many organizations from taking full advantage of their available data and tools to produce meaningful management reports. Fostering innovation is a top and growing priority for global insurance CEOs, according to the survey, and 48 percent plan to increase investment in this area over the next three years.[4]

HOW DO INSURERS CLOSE THE EFFECTIVENESS GAP FOR IMPROVED MANAGEMENT REPORTING?

To develop a robust management reporting structure, organizations need to come up with a comprehensive action plan to address the gaps in their current structures. Here we outline some of the action items to consider as part of that plan.

- **Decide on the design of the reports.** Data visualization functionality needs to be consistent to present results in a format that is familiar to management but also flexible to allow leaders to explore additional details on an ad hoc basis. Some organizations have adopted a structure that includes a set of agreed-upon graphs and charts while allowing for a "sandbox area" for further investigation. In addition, a collective agreement on the frequency, speed and accuracy of the reports is essential. Finally, granularity and richness of data is key to creating meaningful visualization results.

- **Define the process and controls around management reporting.** Defining an end-to-end process and overall architecture is the first step in designing the management reporting structure. This needs to be detailed enough for the different stakeholders to understand their roles in the process. It is also important to define the controls and governance framework at an early stage and to treat management reporting as a separate process from other reporting bases.

- **Fix the data.** As discussed previously, comprehensive reporting functionality requires high-integrity, granular data. Setting up data warehouses to contain the "single source of truth" data, with extended data marts for each functional area feeding granular data into the reporting system, can help streamline and automate the reporting structure.

- **Decide on a suite of software to support processes.** A thorough system selection process can help stakeholders agree on the suite of platforms that satisfy most of the requirements from various functional areas. Business intelligence systems allow for easy consolidation of results, which many organizations take advantage of to report their actuarial, finance, sales, underwriting, claims and other results in a single set of comprehensive dashboards.

- **Get stakeholder buy-in.** Just like with any operational transformation program, stakeholder buy-in is part of a successful implementation of a sophisticated management reporting structure. In addition to upper management buy-in, functional leads should understand the importance of the task at hand and support the effort by allocating time and resources to it.

- **Improve the culture.** An organization's overarching approach to management reporting will play a key role establishing how successful the program is. Organizations need to think creatively and innovate in order to be successful at this task.

Once the gaps have been identified and a plan has been put in place to ensure the development of an effective structure, the journey to management reporting transformation can begin. While transformation programs typically take years to complete, it is important to continue challenging the relevance and appropriateness of the management reporting process and making revisions as needed.

CONCLUSION

While financial reports provide regulators with a single lens through which to analyze results across different insurance companies, management reports provide the flexibility that can fully reflect an organization's unique characteristics.

An effective management report is dynamic and allows for drill-down capabilities and unconstrained segmentation, helping business leaders fully understand the details behind the results. But this is only possible with access to accurate, auditable and timely data to back these reports. In addition, a well-defined process, people with the right skill sets and the appropriate systems are critical for making the effort even more effective.

Organizations currently face issues due to poor data quality, the use of outdated technology and conservative approaches to innovation. But with recent trends driving a need for advanced analytics and explanations, increased frequency and tighter controls around reporting, an organization needs to produce robust management reports that can be used to analyze results. When paired with insightful and actionable results backed by accurate data, management reporting can be the driving force that leads a business toward sound strategic decisions. ■

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ENDNOTES

1 *KPMG International Cooperative. 2017. "Preparing to Disrupt and Grow: Insurance CEOs Pick Up the Pace." KPMG, https://assets.kpmg/content/dam/kpmg/ch/pdf/preparing-to-disrupt.pdf.*

2 Ibid.

3 Ibid.

4 Ibid.