ASNY Annual Meeting

Integrated financial planning for life insurers

November 2017
Agenda

1. What is forecasting now in the industry (current state)
2. Vision and expectations (future state)
3. Current challenges (gaps)
4. How to make it better (integrated forecasting framework/road map)

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1. Forecasting in the industry

Current state

- **Single scenario**: Forecasting process is used to produce the financial plan by looking at a single management defined scenario. Financial plans are quite detailed and used for management compensation and investor guidance.

- **Short-time horizon**: The forecast projection horizon is typically one to three years with limited capability for longer time horizons.

- **Limited metrics**: Focus is mainly on earnings and one accounting basis (typically GAAP orientated).

- **Process takes few months**: End-to-end forecasting process takes two to four months, involving multiple stakeholders and handoffs.

Current forecasting processes in the industry are typically limited to running a single scenario for financial planning purposes with limited projection horizon, metrics and timeliness.
2. Vision and expectations

Future state

Insurers are operating in an increasingly uncertain environment that is requiring quicker decisions to stay competitive. Forward-looking projections have gained increased importance at life insurers, driven by increased demands from a range of business purposes.

A well-functioning forecasting process with the following key capabilities will help as follows:

- **Multiple scenarios and uses**
  - Management will be able to evaluate the impact of strategic decisions across multiple metrics and scenarios, with enhanced financial management reporting.

- **Longer time horizon**
  - Management will be able to evaluate strategic decisions with both short- and long-term focus and communicate appropriately.

- **Multiple bases and metrics**
  - Management will be able to understand how multiple accounting bases and metrics are impacted by the same set of assumptions/scenarios to understand trade-offs and interdependencies.

- **Timeliness**
  - Quicker turnaround time means management will be able to use results to directly inform decisions while they are being considered.
3. Current challenges and gaps

Common observed challenges of forecasting can be categorized into three main categories:

Process
► Multiple stakeholders and functions (e.g., finance, treasury, actuarial, tax, investments)
► Multiple spreadsheets and manual handoffs
► Lack of an end-to-end process
► Resubmissions
► Sequential (rather than parallel) production of multiple accounting bases

Methodology/modeling approach
► Complexity of calculations involving interaction of assets and liabilities
► Interdependencies between various components (e.g., asset purchases/sales driven by tax and capital cash flows and vice versa)

Cultural challenges
► Stakeholders and functions operating in silos
► Focus on getting things 100% perfect
4. Integrated forecasting process

Illustrative framework/road map

The illustration below outlines a framework for integrated forecasting and stress testing

*Additional components if stress testing capabilities are included in the process
4. Integrated forecasting process
Three pillars of success

Forecasting process should integrate all components of strategic, operational and financial planning using key business drivers that link to strategy and are supported by fact-based historical and market analytics.

All three pillars are important to achieve effectiveness and efficiency while providing management with a world-class decision support solution.

1. Improve planning processes
   - Determine the appropriate planning cycle, calendar and detail
   - Design to meet varied needs (corp. vs. BU)
   - Optimize use of actuarial, investment and finance tools
   - Consider rolling forecasts
   - Align/integrate financial and operational plans
   - Decide on which planning methodologies to implement
     - Driver-based planning
     - Zero-based budgeting
     - Activity-based budgeting, etc.

2. Optimize enabling technology
   - Implement a common, leading-practice planning application
   - Provide for specific BU needs and unique requirements, but standardize where possible
   - Directly link component tools, including actuarial and investment projection tools, to finance tools
   - Create a robust and interactive reporting layer suited for executives and power users
   - Ensure efficient data integration
   - Create web-based training materials and instructions

3. Design an efficient FP&A organization
   - Cost effective and lean FP&A organization
     - Retained FPA: only for material, complex and volatile BUs
     - Centers of excellence: corp. group with members from key BUs; create standards/policies, produce top-down plans; review consolidated plan
     - Global operations: reporting, data integration and first level analysis
     - Consider separating compensation from plan performance to avoid gaming
     - Design training programs for FP&A personnel to allow for career growth and mobility across finance and business units

Operate effectively

Change the work

Gain efficiencies

Project and change management

Efficiency/cost savings
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