

The pace of change: Coping in today's economic, regulatory and reporting environment

The last several years have been a period of intense change and challenge for Canadian and global insurers. In addition to dealing with the consequences of the worst financial crisis in decades, insurers have had to cope with fundamental changes in the accounting for and taxation of investments, increased regulatory focus, uncertainty over the future of capital management and executing business strategies in a softening market.

In addition, there is no immediate likelihood that this pace of change will lessen. 2011 will see the introduction of International Financial Reporting Standards (IFRS) for Canadian insurers, which will result in significant changes in the preparation of their financial statements and regulatory filings. Canadian reporting continues to change as we move towards IFRS – recent changes that apply to 2009 are highlighted in the next section of our newsletter.

As of January 1, 2010, foreign insurers, and cedants to such entities, also will be required to implement the amended Part XIII requirements of the Insurance Companies Act. Harmonized Sales Taxes will become effective in Ontario and British Columbia in 2010, and other provinces may soon follow. Regulators are taking a keen interest in insurers' investment holdings and strategies, as well as requiring semi-annual reporting on their progress in respect of IFRS transition and quarterly reporting on Part XIII implementation. To add to this, soft market conditions show no immediate signs of hardening. The list goes on...

Companies that tackle these issues head-on and find innovative solutions first will likely emerge as winners in the industry. However, implementing change is not easy. It requires a well thought-out

plan that addresses people, processes and culture. The following principles provide a framework insurers can use to begin the change management process:

1. Establish a clear vision for change at the outset. Maintain credibility by establishing the right tone at the top and setting up an appropriate governance structure and clear decision-making powers.

Regardless of an organization's size, it is vital to obtain buy-in from key stakeholders at the onset of a change management initiative. In addition, it is crucial to ensure up-front that the right management structure is in place. The CEO, CFO, senior executives and the Board all need to deliver consistent messages to the people who execute the projects, as well as to the organization as a whole.

2. Understand the implications of change to the entire business

Change does not occur in isolation, but affects the entire business. In order to avoid nasty surprises in unexpected places later on, it is vital to recognize that the implications of any initiative may be pervasive throughout the organization.

For example, IFRS is not just an issue for accountants, and the implementation of these new standards will have implications beyond just the finance department. New systems developments may be necessary to cope with increased information demands. Phase II of the Insurance Contracts project, which could fundamentally change the measurement of insurers' actuarial liabilities, will significantly effect actuaries, as well as management/ stakeholder perception of the profitability of business written. Existing contracts may need to be revised to ensure insurance accounting can still be applied under IFRS, which could impact the insurers' customer and broker relationships, as well as their current product offerings.

3. Ensure the right resources are in place and that you can develop them internally

Adequate resources (both monetary and personnel) are vital to the success of any change-related project or initiative, although keep in mind that they likely will be scarce in some areas. It is critical to determine in advance the resources you will need during the transition period, as well as when developing knowledge within the organization. If you use external advisors to support project implementation, make sure that their knowledge is transferred to the employees who will be responsible for the project after the implementation phase. Resource needs may change as the project develops, so be flexible enough to react to changes in demands.



4. Develop a robust conversion plan that takes into account your peaks and valleys of activity

Make sure that any detailed project plan takes into account competing demands, includes room for contingencies, and establishes clear accountability for actions and deliverables. Milestones should be clearly articulated but also be realistic: there is no point in setting numerous deadlines on an unachievable timeline.

5. Determine a communication strategy that takes into account all key stakeholders

It is crucial to develop and execute a communication strategy early in the planning process. This will provide the necessary time to communicate significant impacts and areas of possible volatility and risk to stakeholders.

Recognize that stakeholders are both internal and external. Think of the impacts of change on your customer base, broker network, suppliers, regulators and tax authorities. Identifying who needs to know what, and when, is critical to the success of any project.

For example, Part XIII requirements are not solely an issue for foreign insurers. Any purchaser of significant reinsurance contracts from a foreign insurance branch will need to carefully consider the implications for their own compliance with regulatory requirements, as well as on capital deposits/security. This may be a significant concern for foreign branches, which will need to fully consider their customers' needs and satisfaction with their actions.

6. Embrace the opportunity to make changes now and take the chance to make other project efficiencies

In a time of change take advantage of opportunities to update legacy systems and other processes that need improvement. Resistance to change will lessen when you deal with a number of issues under one banner.

In conclusion, while there is no magic formula or precise scientific approach which can be applied to guarantee successful change management, the above principles provide a framework that can help insurers cope, and hopefully produce successful results, in this period of unprecedented change.

Good luck!

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