


Focusing on critical key performance indicators for your business*

Insurance Review
A Canadian publication • Spring 2008



*connectedthinking

PRICEWATERHOUSECOOPERS 

Contents

Improve business performance by selecting and managing the “right” KPIs	1
Putting Canadian insurance IFRS in motion	6
GST developments	8

Improve business performance by selecting and managing the “right” KPIs

Top performing insurance companies align and integrate their key performance indicators (KPIs) with their forward-thinking strategic and tactical decision making processes to enhance their bottom line and to give them a substantial edge over their competition.

Market leaders have adopted integrated frameworks, which align KPIs with critical business activities, internal accountability and employee compensation. Still, many insurers struggle to catch up and are handcuffed by poor information technology management infrastructure that cannot cope with the increasing volumes of financial and non-financial management information.

PricewaterhouseCoopers LLP (PwC) launched two finance-driven surveys¹ in 2006 and 2007, which were designed to better understand the challenges faced by insurance

company CFOs in corporate decision making and strategic planning, as well as to gauge how finance structures and processes compared to those of their peers.

Both studies drew the following similar conclusions:

- The highest performing insurance companies have an **integrated, companywide approach** to corporate performance management and associated KPIs.
 - Integrated systems provide companies with a framework for **aligning KPI metrics**, with financial and management reporting, roles, responsibilities, rewards and compensation.
 - Those companies, who have an integrated framework, often implemented this by virtue of **“trial and error,”** frequently adopting many “hybrid” models along the way.
- Organizations tend to use **too many KPIs**, which greatly impact their ability to successfully measure progress against strategic goals.
 - Many companies **lack integrated data systems**, which creates data aggregation and management reporting challenges. This, in turn, results in lengthy workarounds and detracts management from value-added decision related activities.
 - The **changing role of the CFO** has made management information more critical for corporate decision makers. At the same time, the quality of management information available (both financial and non-financial) in many insurance companies is not sufficiently organized to support the in-depth analysis that key company decision makers require.

¹ The Insurance Advisory practice and the Global Best Practices team at PwC launched their survey in 2007, which included 17 global life, health and medical, property and casualty company participants with revenues from \$1 billion to \$25 billion. The 2006 CFO study was prepared for PwC by CFO Europe Research Services (part of The Economist Intelligence Group) and was based on the survey results of 193 finance executives and CFOs at leading global insurance companies.

Understanding and responding to these challenges is vital to success in the increasingly competitive insurance industry. The good news is that companies can take a proactive approach in addressing these obstacles to achieve success.

Key performance indicators – getting the balance right

PwC’s survey results indicate the number of KPIs currently measured within many insurance companies is excessively high. On average, 28 operational KPIs and 22 financial KPIs were being captured.

Executives consistently highlighted the need to reduce data overload and eliminate information that does not track progress against strategic objectives. The sheer number of KPIs in use is indicative of a number of ongoing concerns, including:

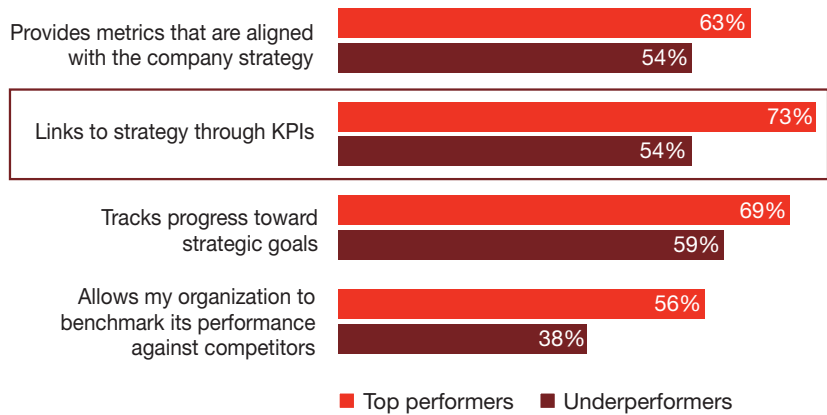
- difficulties in defining a **fundamental core set of KPIs** that drive critical business functions and steer long-term planning in accordance with strategic plans;
- inability to respond to critical business issues in “realtime” due to **inadequate or ineffective strategic KPIs**;

- limited utilization of external market information and production of useful and insightful **“predictive” analysis**; and
- additional workload and analysis at the line manager level, created by **inconsistency in KPI definitions**, roll-ups and linkages to management information.

PwC’s research into corporate performance management has found that top performers

successfully align and evolve their KPIs to reflect ever-changing relationships between organizational goals, personal goals and reward/recognition systems. The diagram in Exhibit 1 illustrates key characteristics of top performing companies. These may include, for example, aligning KPIs with company strategy by drawing input from various organizational sources such as marketing, risk, planning and operations as well as finance.

Exhibit 1: Critical management information of top performers*



*Percentages are those answering “agree” or “strongly agree” to each statement.

Source: Insurance Advisory practice and the Global Best Practices Survey 2006/2007

Minimizing KPIs, maximizing organizational performance management

The first step in a successful KPI review process is the identification of the primary enterprisewide indicators. To effectively and regularly determine business performance and overall business health, these need to be continually monitored and adjusted. Top performing companies realize that this process is a “living” system and one that is impacted by changes in corporate strategy.

Once KPIs have been established, they should be cascaded to the relevant business units. This includes:

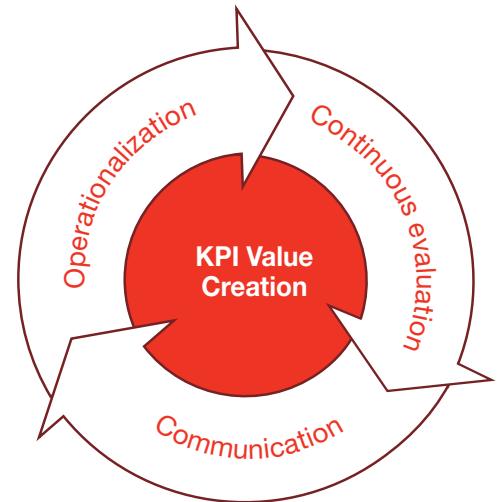
- defining **unique corporate and business unit KPIs** that act as internal company and external environmental “early warning indicators,” also known as predictive KPIs;
- leveraging the **benefits of the predictive KPIs** to develop and track potential change strategies/scenarios, respond to changes in the business environment, complete

impact assessments and core competency maps;

- incorporation of a **balanced scorecard approach**, including both financial and non-financial management reporting data;
- monitoring the frequency of KPI evaluation in a fiscal year and percentage of **unique company KPIs**;
- tracking the percentage of **employees who are aware of the organization’s KPIs**; and
- developing a company-specific **KPI-focused performance culture** through internally promoting and integrating effective processes for leveraging “top talent,” employee training and leadership development.

Management must also embark on a process of communicating, operationalizing, continuous monitoring and evaluating the KPIs by cascading them enterprisewide (Exhibit 2). Along with this process, the roles, responsibilities and accountabilities around these KPIs need to be established. Cultural change often is required to facilitate

Exhibit 2: The KPI value creation wheel



the alignment of behaviours and motivation toward an agreed set of enterprisewide objectives.

Coming to grips with effective KPI data governance

How well a company manages its technology infrastructure can make the difference between a successful, fluid and proactive company and one that is reactive and unresponsive to evolving external and internal conditions.

Over the years, advancements in technology have led to a rapid increase in the availability of financial and non-financial data, but more data does not necessarily equate to good quality management information and associated KPIs.

Our surveys highlighted a number of technology management challenges including the development of technology solutions to support management information in isolation from the business (viewing data as simply a technology issue) and the organizational complexity associated

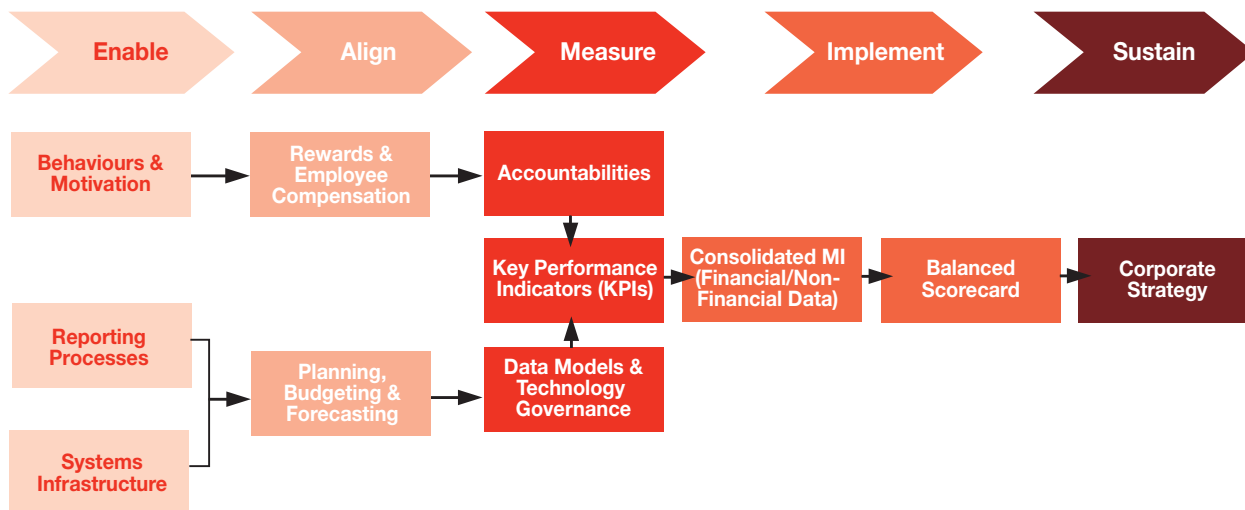
with a high proportion of unlinked key management reports. The latter can result in multiple perspectives on the same reported data leading to management confusion. Best practice guidelines can be useful to reduce technological complexity and establish effective controls.

Leveraging integrated systems and data models has the potential to reduce time spent gathering and validating management information and increases time available for value-added management activities that contribute to the bottom line.

Conquering the challenges

A “holistic” corporate performance management (CPM) framework—an integrated approach that can be applied across the entire company to support KPI development and management—has been developed by PwC (Exhibit 3). This framework provides a useful starting point to assist organizations in linking their corporate objectives with the management of KPIs and employee rewards to drive change and achieve goals.

Exhibit 3: PwC’s performance management framework



While the implementation of an integrated management performance framework provides a solid foundation for future enhanced performance, the resources and management time required to develop, execute and continually manage a program can be extensive. To be successful, it requires a high degree of commitment and management buy-in from the outset.

At the end of the day, designing a high-performing management culture based on the strategic use of KPIs is going to be an endeavour unique to each individual organization and its particular needs.

Selecting the most appropriate and pertinent KPIs, including the supporting management and technology framework, is a time-consuming and challenging, but critical, step toward becoming a proactive and adaptable organization. KPIs based on more reliable management data and reflecting relevant performance results can help insurance companies develop greater capabilities in strategic decision making, contributing to increased market value and enhanced external reputation.

Authors

*Allan Buitendag
Vice President, Advisory Services
416 815 5239
allan.c.buitendag@ca.pwc.com*

*Matt Morrison
Manager, Advisory Services
416 941 8407
matthew.j.morrison@ca.pwc.com*

Putting Canadian insurance IFRS in motion

While the move to International Financial Reporting Standards (IFRS) is expected to significantly impact the Canadian insurance sector, exactly how remains unclear. The complexity of accounting for insurance contracts resulted in the International Accounting Standards Board (IASB) taking a two-phase approach. The first phase was the issuance of *IFRS 4: Insurance Contracts* in 2005, which was limited in scope but, for the first time, provided insurers with a universal definition of an insurance contract. However, it did not address the measurement and recognition of insurance contracts and left in place the valuation methodology currently followed under the various local GAAPs.

In May 2007, the IASB published a discussion paper setting out draft proposals for the measurement of insurance contracts (Phase II). This standard is not expected to come into force until after Canadian insurers move to IFRS in 2011. The Phase II standard redefines how insurance liabilities will be valued and attempts to provide a more economically relevant valuation that will allow for consistency and comparability across borders.

Despite uncertainty around the valuation model and the extended time horizon for implementation, companies cannot afford to ignore the proposals. The direction that the IASB would like to follow is clear and the implications to the industry could be significant.

Key differences between Canadian GAAP and IFRS

Phase I, IFRS 4, while not a fundamental overhaul for the industry, could still have significant implications on the financial reporting for insurance companies. Some products currently sold by an insurance company may not meet the IFRS insurance contract definition. In this scenario, there will be a shift from reporting the issuance of these products as revenue to a financial liability on the balance sheet that will require accounting in accordance with the financial instruments standards.

This standard also includes significant disclosure requirements, with the objective of enabling the users of the financial statements to

On February 13, 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to use International Financial Reporting Standards in interim and annual financial statements for fiscal years beginning on or after January 1, 2011.

evaluate the nature and extent of risks arising from the insurance contracts. Such disclosures would include sensitivity analyses to changes in assumptions as well as claims development tables.

Other differences that will require consideration:

- Financial instruments— recognition and measurement, disclosures
- Deferred acquisition costs
- Segregated funds
- Insurance contracts/policy liabilities, including unearned premium reserves

PricewaterhouseCoopers will be publishing a brochure discussing implementation, regulatory and transition issues of insurers moving to IFRS.

For further information, contact:

*Alodie Brew
Partner, Audit and Assurance Group
416 947 8957
alodie.brew@ca.pwc.com*

*Leigh Chalmers
Partner, Audit and Assurance Group
416 869 2359
leigh.chalmers@ca.pwc.com*

*Philippe Thieren
Partner, Audit and Assurance Group
514 205 5377
philippe.thieren@ca.pwc.com*

GST developments

In the Summer 2007 issue of Insurance Review, we outlined a number of important and imminent GST legislative developments for financial institutions. The new rules:

- broaden the scope of expenses outside Canada, which are subject to GST self-assessment; and
- limit the ability of financial institutions to claim input tax credits.

In addition, an onerous Annual Information Return is required to be filed on June 30, 2008 by most financial institutions. Please contact Mike Firth at 416 869 8718 or at michael.p.firth@ca.pwc.com for more details.

For more information

Audit and Assurance Group

Greater Toronto Area

Bill Bawden	416 947 8970
Bob Bosshard	416 947 8996
Alodie Brew	416 947 8957
Leigh Chalmers	416 869 2359
Peter Eccleton	416 869 2363
Bill McFarland	416 869 2859
Jonathan Simmons	416 869 2460
Diane Woodruff	416 365 8201

Calgary

Robert Hawley	403 509 7546
---------------	--------------

Edmonton

Barry James	780 441 6838
Gordon Keiller	780 441 6840

Kitchener

Michael Johnston	519 570 5707
------------------	--------------

Montreal

Lyne Dufresne	514 205 5298
Alain Dugal	514 205 5091
Kenneth Hotton	514 205 5292
Philippe Thieren	514 205 5377

Quebec City

Raynald Lafrance	418 691 2440
------------------	--------------

St. John's

Charlie Follett	709 722 3141
-----------------	--------------

Vancouver

Len Boggio	604 806 7016
Jane Butterfield	604 806 7519
Paul Challinor	604 806 7218

Winnipeg

Tony Catanese	204 926 2414
Chris Couture	204 926 2418

Actuarial Services

Dan Doyle	416 941 8377
Richard Gauthier	416 941 8341
Neville Henderson	416 941 8437

Tax

Fred Borgmann	416 869 2373
Barbara Bryden	416 869 2668
Wallace Conway	416 365 2710
Martin Kern	519 570 5711
Yves Magnan	514 205 5194
Dan Torbiak	204 926 2453
Alfred Yau	416 947 8917

Commodity Tax

Michael Firth	416 869 8718
Mario Seyer	514 205 5285

Transfer Pricing

Saul Plener	905 949 7310
-------------	--------------

Advisory

Corporate Advisory and Restructuring

Rick Pettit	416 941 8246
Greg Watson	416 815 5090

Corporate Finance

Debbie Chalkley	416 869 2470
Keith Mosley	416 941 8307

Performance Improvement

Rob Belsey	416 814 5894
Allan Buitendag	416 815 5239
Arturo Lopez	416 941 8219
George Sheen	416 815 5060

Risk and Regulatory

Diana Chant	416 365 8207
Dorothy Sanford	416 869 2353

Transaction Support

Tony Gibbons	416 941 8241
--------------	--------------

Valuations

Helen Mallovy-Hicks	416 814 5739
---------------------	--------------

Insurance Claims Services

Leonard Boon	780 441 6716
Jim Forbes	905 972 4105
Alan Martin	780 441 6718
Kas Rehman	613 755 4328
Bruce Webster	416 815 5250

Insurance Services Director and Insurance Review Editor

Irma Freese	416 365 8829
-------------	--------------

If there are names you would like us to add to our Insurance Services Group mailing list, or if you would like additional copies of this newsletter, please contact Judy Perle via fax at 416 814 3220 or email at judy.f.perle@ca.pwc.com

The newsletter can also be viewed on our website, at www.pwc.com/ca

