

Higher performance by design: A blueprint for change

2014 State of the Internal
Audit Profession Study
Insurance industry

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Overview

- 10th Annual State of the Internal Audit Profession Study
- Over 1900 respondents, including 1400 CAEs including IA managers, and more than 520 stakeholders (Board and Audit Committee Members, CFOs, CROs, CCOs, etc.)
- 185 respondents categorized as Insurance industry – 77% of which were CAEs and 67% indicated revenues greater than \$1B in revenue
- Conducted over 125 stakeholder and CAE interviews across North America, Europe, Australia, and Asia to gain further insights
- Interviewed certain key regulators across the globe to understand their expectations of internal audit
- Survey focused on:
 - Understanding what is expected from internal audit for the purpose of identifying potential alignment issues;
 - Understanding stakeholder perceptions related to the value of Internal Audit
 - Understanding internal audit performance related to key attributes



Heart of the matter

Higher performance by design: A blueprint for change

This year's findings

- Significant differences of opinion exist between stakeholders and CAEs on the nature of what is expected of internal audit (i.e. a miss-alignment)
- On average 53% Insurance stakeholders believe internal audit is performing well at delivering on expectations
- 39% of insurance stakeholders do not believe internal audit adds significant value

Leads to the following questions...

- Is your function aligned to the expectations of its key stakeholders? How do you know what capabilities to develop without clearly knowing what is expected of you?
- Are you aligned with respect to the critical risks?
- Are you expecting enough from your function? Our research shows that when more is expected, internal audit has the opportunity to generate more value to the organization
- Higher expectations require increased capabilities and investment

Internal audit must be aligned with the expectations of its stakeholders in order to strategically build the right capabilities and raise its performance and value.

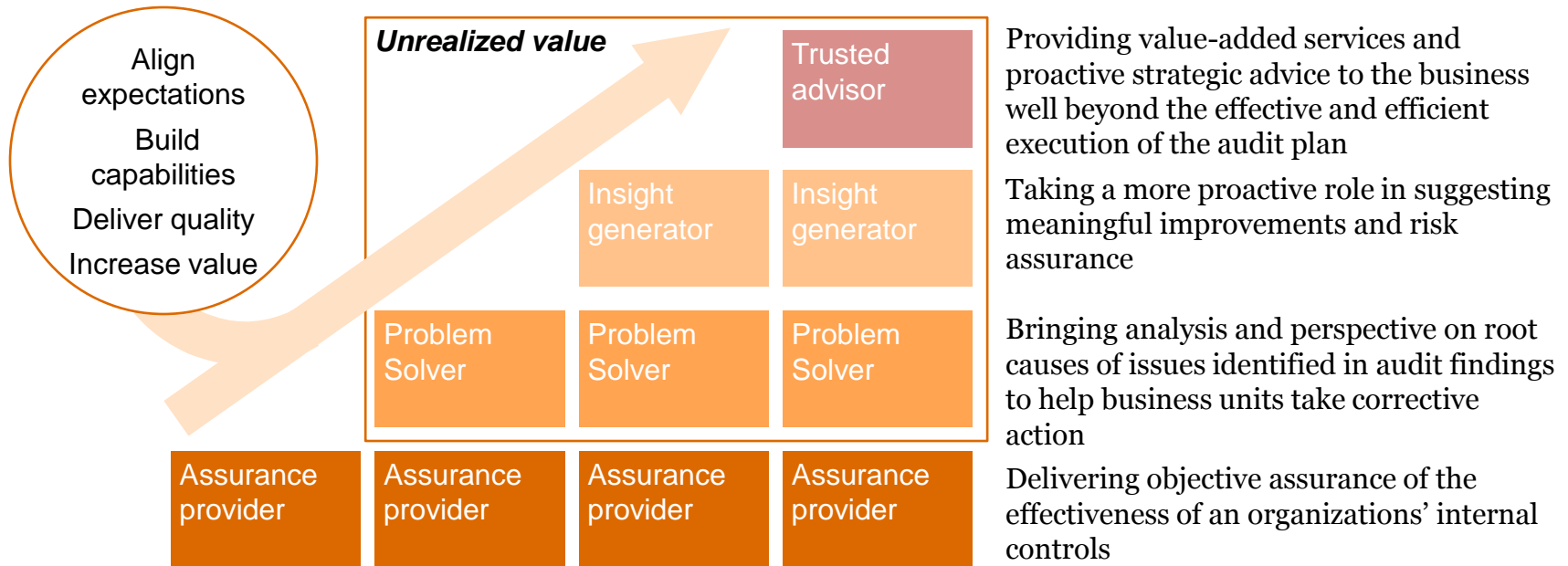
At a glance: Insurance industry responses

**185 respondents from
Insurance industry**

**77% of respondents
from the Insurance
industry were CAEs**

**67% of Insurance
industry respondents
reported >\$1 billion in
revenue**

The journey to capture unrealized value



Case for change

Value

Stakeholders have significantly different views of internal audit value

Performance

Many functions are still challenged with respect to opinion of stakeholders on performance

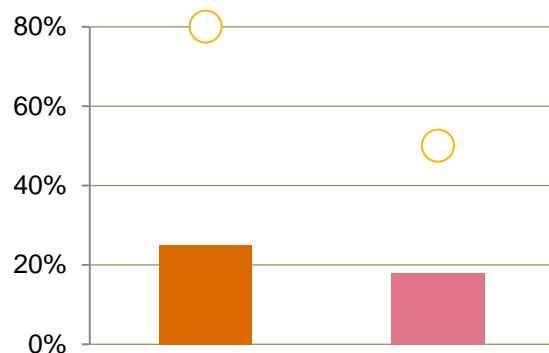
Critical Risks

Companies are doing a better job at managing critical risks

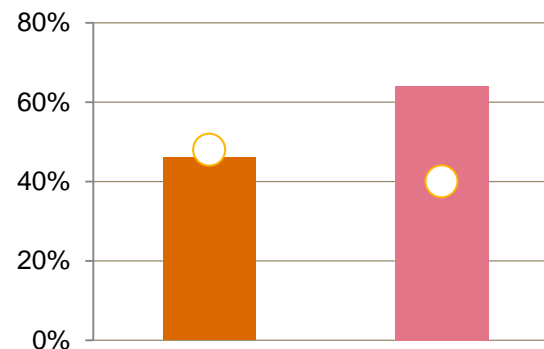
2013	63% of insurance industry stakeholders see significant value	74% of insurance industry stakeholders rank IA performance as strong	81% of insurance industry stakeholders believe risks are well managed
2014	62% of Insurance industry stakeholders see significant value.	53% of Insurance industry stakeholders rank IA performance as strong*	84% of Insurance industry stakeholders believe risks are well managed.

* Represents the average of the “performs well” ratings across 18 capabilities in 2014 versus 8 capabilities in 2013.

The case for change: Insurance industry



Engaging and managing a relationship with stakeholders



Leveraging technology effectively in the execution of audit services

CAEs' expectation

Stakeholders' expectation

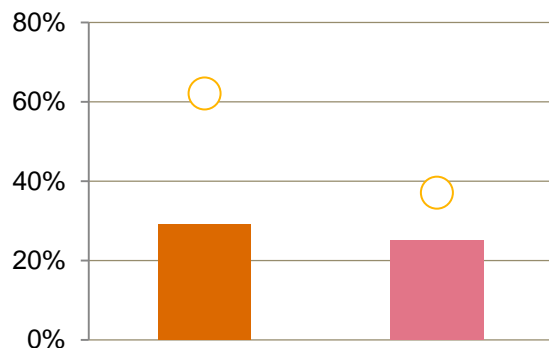
Performance

Expectation: % who expect this from internal audit; base = total survey responses

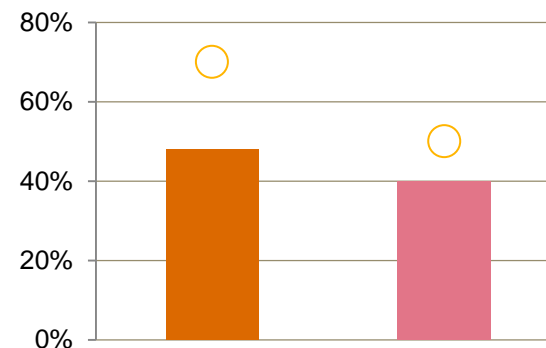
Performance: % who believe internal audit performs this well

When it comes to managing relationships with stakeholders, CAEs believe they are doing a better job than perceived by stakeholders.

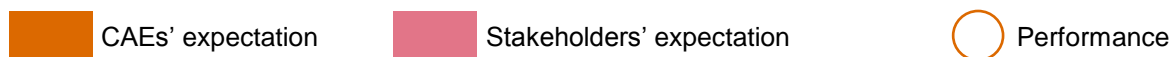
The case for change: Insurance industry



Identifying thematic issues the organization is facing



Promoting quality improvement and innovation

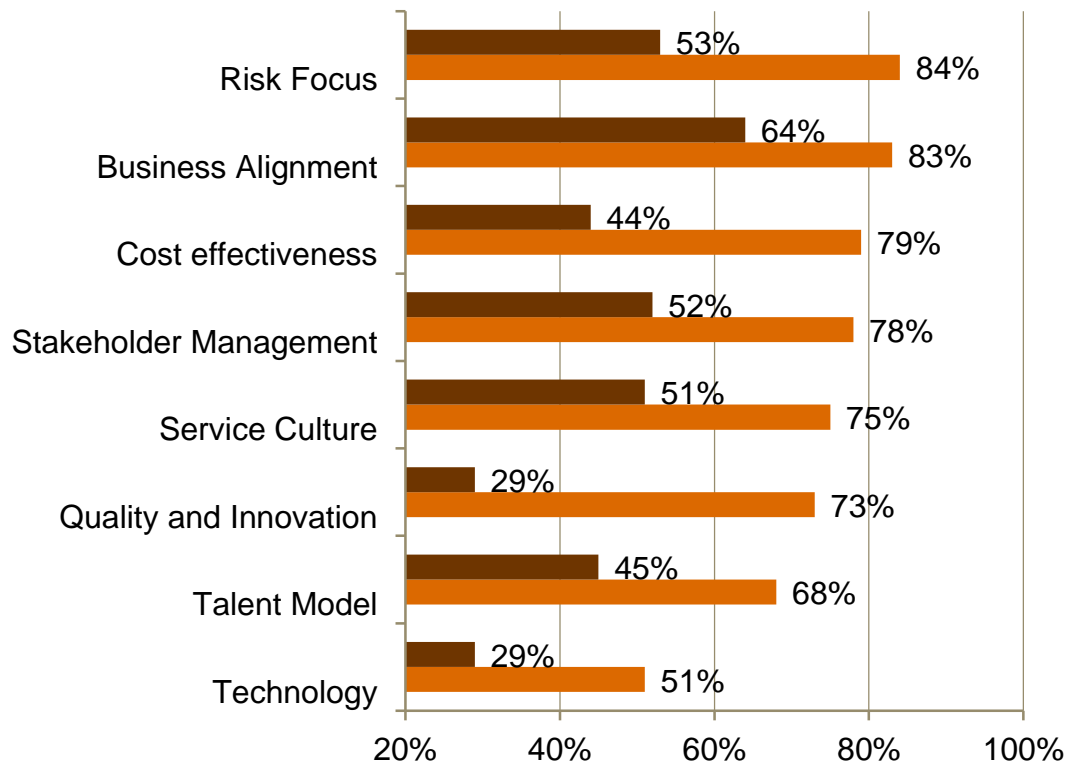


Expectation: % who expect this from internal audit; base = total survey responses

Performance: % who believe internal audit performs this well

Internal Auditors in the insurance sector are outperforming expectations –a gap exists between how well CAEs believe they are performing versus their stakeholders.

Trusted advisors have higher performance on 8 foundational attributes

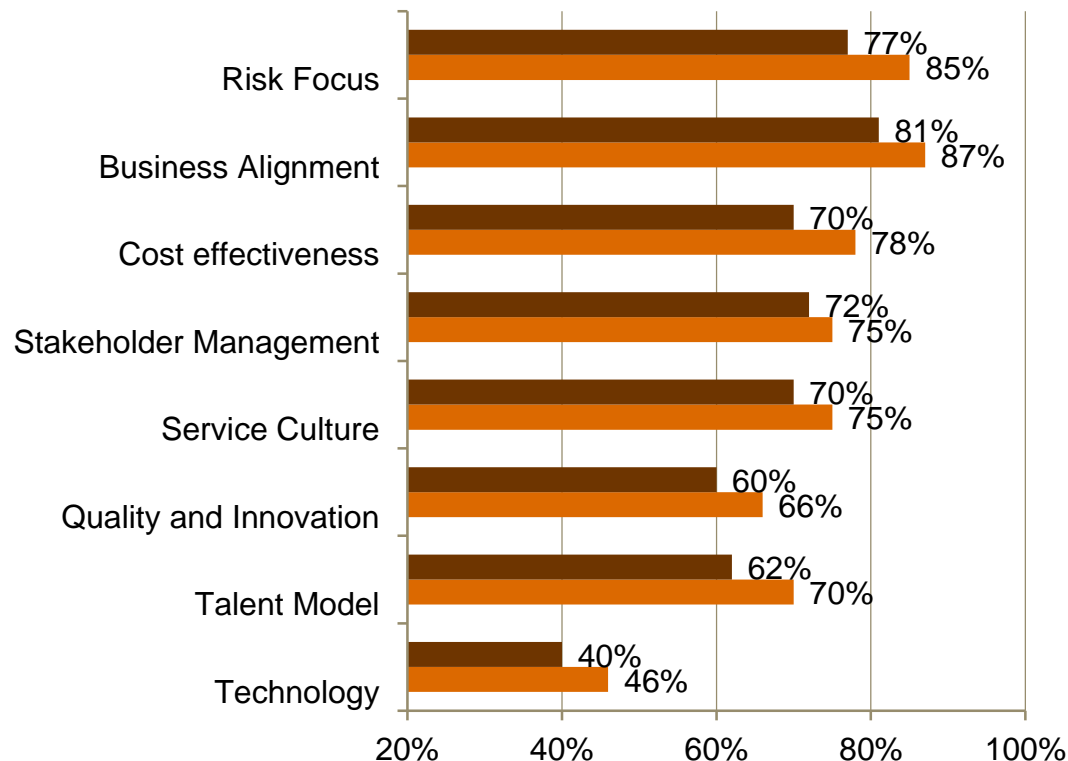


Percent of respondents indicating internal audit was performing well

■ Assurance providers ■ Trusted advisors

Expanded expectations and alignment of stakeholder expectations creates an opportunity for Internal Audit to raise its performance and provide added value to the organization.

The industry is performing well and outperforming other sectors... but opportunities remain

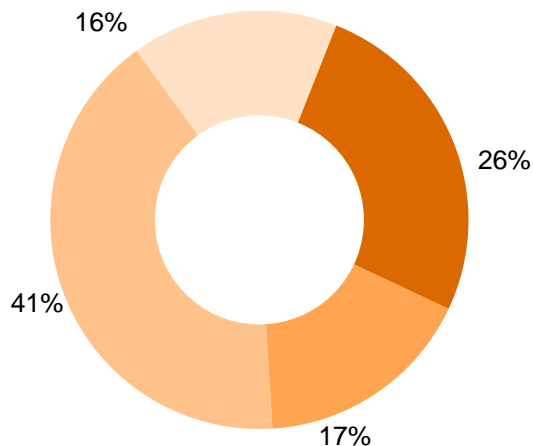


Percent of respondents indicating internal audit was performing well

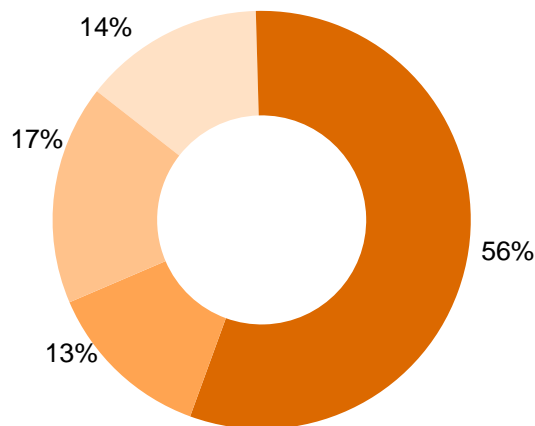
■ Overall ■ Insurance Industry

Expanding the expectation set

Stakeholder perceptions of internal audit departments with Assurance Provider expectations



Stakeholders perceptions of internal audit departments with Trusted Advisor expectations



Internal Audit adds significant value and performs well

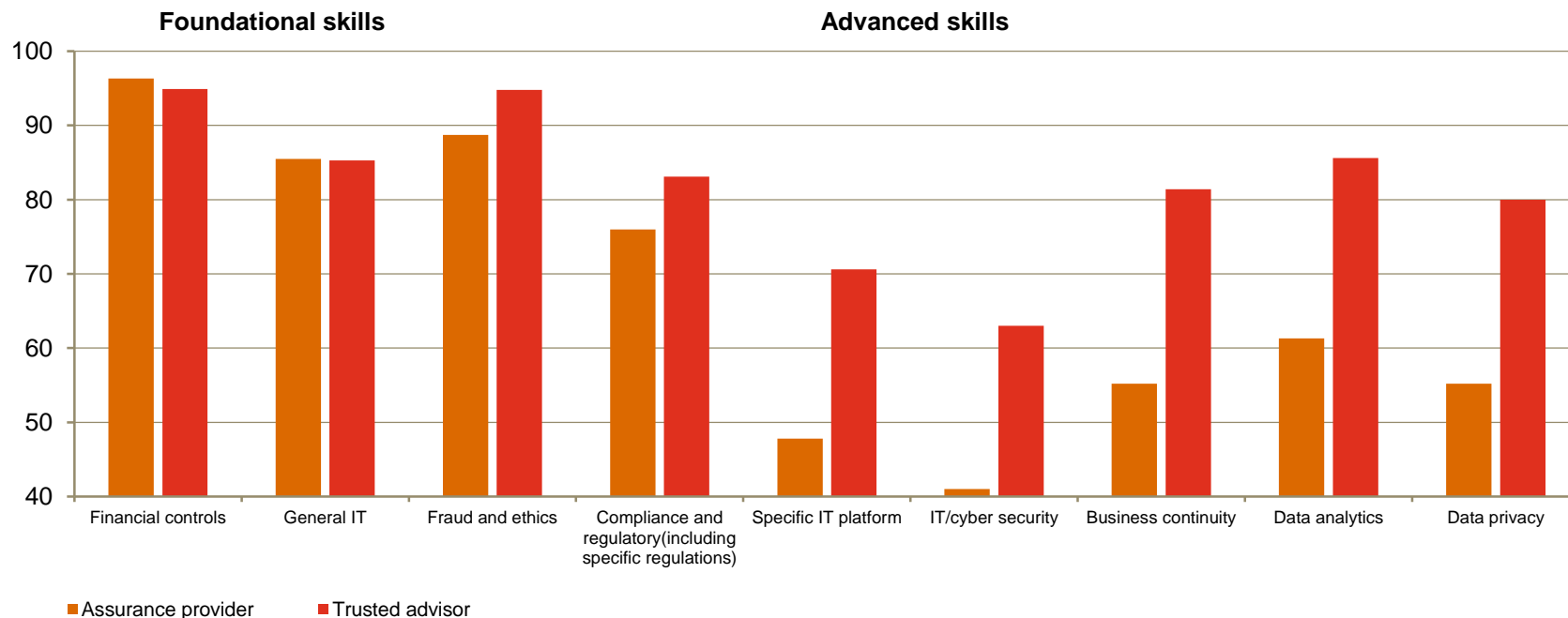
Internal Audit adds some value and performs well

Internal Audit adds value but performs poorly

Internal Audit adds little value or don't know

Internal Audit has the opportunity to drive greater value to the organization by expanding capabilities and skill sets, regardless of expectations/role.

Building the capabilities to deliver on expectations



Trusted advisors are performing at a significantly higher level because of the purposeful plan to obtain skill sets most valued by the organization.

Developing an aligned set of expectations

- Align and agree on the critical risks the organization faces (fundamental)
- Establish detailed expectations aligned to the eight foundational attributes
- In developing these detailed expectations, consider:
 - Future needs and emerging issues and risks
 - Regulatory expectations
 - The first and second lines of defense
- CAE should drive the discussion
- Proactively share your expectations, but do so with open lines of communication across the key stakeholder group

Achieving alignment on the breadth of expectations and critical risks is a significant step toward internal audit's improving its relevance and value to the business.

Internal audit's communication strategy

	Overall	Insurance industry
Specific communication with audit committee chair and board on internal audit mandate	73%	82%
At least an annual discussion with key stakeholders to ensure internal audit's role is aligned with expectations	72%	79%
Hold a meeting between internal audit, management and board members to agree on expectations	67%	76%
Top-down communication with internal audit team members on expectations	61%	66%
Specific communication with internal audit members on expectations	63%	66%
Regular survey of stakeholders on internal audit's performance and adherences to stakeholder expectations	40%	50%
Hold a meeting with external stakeholders such as regulators and external auditors to discuss expectations	43%	51%
Post internal audit expectations on company's internal website	29%	29%

'Regular survey of stakeholders on internal audit's performance' was the tactic with the biggest difference from the overall. With 50% in the insurance industry feeling it was important compared to 40% of the overall.

Communicating performance and value

Advanced metrics being used to measure internal audit performance:

- Involvement and value provided in all key initiatives and emerging risk including new systems, acquisitions, dispositions, new products, new regulations, etc.
- Ability of internal audit to provide macro/horizontal views on key issues and areas of critical risk to the organization
- Ability of internal audit to be a “change agent” in the organization, that is, is the overall control environment improving year over year because of internal audit’s influence
- Annual “voice of the customer survey”
- How well internal audit is able to answer questions from the Board and Management
- Value of recommendations provided
- Cost savings and revenue enhancement based on internal audit recommendations and findings

Trusted advisors are focused on communicating the value they bring to the organization through the recommendations they provide and their involvement in emerging issues rather than classic value measures such as successful completion of the audit plan.

Successfully making the journey

Each stakeholder plays a role in enhancing the value internal audit can deliver

Chief audit executives

Lead the design and the communication plan

- Develop a point of view on what stakeholders expect of internal audit and how you are fulfilling those expectations
- Use an aligned set of expectations to assess needed skill sets against your current capabilities and to develop an action plan, including milestones and metrics to address any capability gaps
- Create a communication plan to purposefully gain alignment on the suggested inventory of expectations

Management

Support the design

- Involve internal audit in nontraditional areas, and value the new perspectives and feedback the function can bring
- Support efforts to align skill sets with business risks and the aligned expectation set
- Support internal audit's efforts to develop metrics that align with expectations, and expect more than the typical report on controls

Board members

Provide proactive input and approve the design

- Provide input on expectations, with an understanding of leading practices and the value internal audit could deliver if expectations, supported by capabilities, are more strategic in nature and better aligned with the most critical risks of the organization
- Provide input on the performance that internal audit is expected to achieve through its short- and long-term strategic plans, including the need to invest in skill sets and processes that will deliver on expectations
- Provide input on when and how the CAE should communicate with the board and how and when the board prefers internal audit to report progress against expectations

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