NextGen insurance FP&A capability
Investing in a competitive advantage and stronger future

This brief covers why life and annuity providers should act now to develop NextGen financial planning & analysis (FP&A), what it means to be NextGen, the five Pillars that can make it a reality, and a glimpse of what's possible.

Old Challenges, New Environment

Life & annuity insurers continue to face challenges on many fronts, from macro-economic factors and demographic shifts affecting top line growth, to a persistent low interest rate environment eroding returns and creating pressures on the bottom line. At the same time, regulatory and accounting changes are increasing the complexity of KPIs management uses to manage business performance, while market conditions are driving a need to more quickly explain results. Historical lack of investment in finance and actuarial functions has further exacerbated this issue, and insurance trais other financial services sectors in agility and analytical capabilities to explain and forecast more quickly.

There are three drivers creating an immediate opportunity for insurers to enhance their FP&A capabilities:

The hood is already open	LDTI & IFRS 17 focus more on value	Transformative technologies
Significant operating model changes are already underway at insurers as they execute their LDTI and IFRS 17 implementations. Insurers must seize this investment opportunity and enhance FP&A capabilities.	LDTI and IFRS 17 will result in greater focus from investors on the value underlying insurance business. With this higher level of scrutiny, FP&A must be ready to support the business with strong insights that convey a coherent value driven story.	Market leaders are creating a competitive advantage by deploying modern, Cloud-based technologies in finance and actuarial functions. FP&A can build on this to automate, compute faster, and deploy AI-driven analytics to deliver greater insights.

What are NextGen insurance FP&A capabilities?

They're a combination of the following critical attributes and behaviors that elevate the FP&A function from being a primarily a steward of financial information to:

- Driving competitive strategy and decision making,
- Being agile enough, thanks to technology, to lead with decision ready information in real-time,
- Advising and partnering with business on achieving targets, managing risks, and finding new opportunities.
- Driving continuous forecasts with greater accuracy.
- Flexing cross-functional skills and aggregating insights from finance, actuarial, risk, operations, pricing, underwriting, distribution and customers.

NextGen insurance FP&A will help shine a light on new insights....

.... to chart a stronger path forward.

pwc

Leading finance functions are creating a competitive advantage within FP&A by having 45% more people collaborating, spending 20% more time on data analysis vs. data stewardship, and paying 25% more to insight professionals*

Source: PwC's Global Finance Effectiveness Benchmarking Database

Building **NextGen insurance FP&A capabilities** is vital to acquiring a competitive advantage for the enterprise. We recommend the following five pillars as a development guide.

1. Enterprise strategy and value-driven decision making
A model that puts FP&A as a driver of strategy, advising the business on navigating complexity and change. This requires:
- An enterprise vision where FP&A is positioned to drive strategy and value across the enterprise,
- Clearly defined KPIs and metrics that direct business strategy and support decision making.

2. Dynamic planning and profitability analysis
A multi-dimensional continuous planning and forecasting capability, with the ability to quickly produce "what-if" analysis. This requires:
- On-the-fly what-if scenario modeling capabilities (integrated asset/liability projection systems with automated assumption and scenario feeds, and embedded management decision rules engine),
- Advanced actual vs. expected source of earnings analysis.

3. Data strategy and management
A data strategy to govern internal and external data sources and provide real-time availability of information to support KPIs and metrics. This requires:
- Clear data grain and lineage for KPIs and value drivers, including strong data governance,
- FP&A data architecture and model, supported by a single source of the truth.
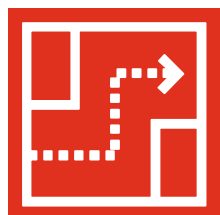
4. Digital enablement for speed and accuracy
End-to-end architecture enabled by Cloud technology and data automation, including AI/ML techniques, to deliver real-time and advanced analytics and scenario modeling. This requires:
- Investment in new technologies to drive automation throughout the organization,
- Deploying innovative techniques to speed up production cycles.

5. Talent and delivery model for quality and efficiency
A digitally fit workforce focused on business partnering across finance, actuarial, risk and IT that utilizes centers of excellence and shared services for efficient delivery. This requires:
- Reimagining the operating model, including creating the structure to drive business partnering,
- Building a digitally fit and analytical workforce with the right skills and business acumen.

NextGen FP&A promotes digitization across the FP&A value chain

Automated Data Management → **AI Driven Baseline** → **Dynamic Planning and Forecasting** → **Analytics & Visualization**

With digitization, NextGen FP&A brings together the key building blocks of an insurance business model.

Critical building blocks of a life and annuity insurance company's expense allocations, KPIs, financial plan and forecast need to connect seamlessly in order to support continuous planning and real time "what-if" scenario analysis capability. Common building blocks include:

1. New and in-force business performance,
2. Investment portfolio performance including reinvestment strategies,
3. Liabilities, assets, capital metrics backing policyholder obligations,
4. Commissions and distribution expenses,
5. IT expenses, project spend, and capitalization,
6. Corporate overhead and expense allocations,
7. Capital and other management metrics,
8. Management decision rules,
9. Workforce planning.

Maturity curve

AI-enhanced

- Cognitive analysis
- Continuous forecasts
- AI/ ML applications
- Natural language generation
- Automated "Intelligent Drivers" create forecasts
- Full IF/NB multi-scenario reprojection
- Real-time feedback
- Self-service & on-demand reporting

Leading

- Predictive analysis
- Dynamic forecasts
- Driver based projections
- Rolling forecasts
- Desired granularity
- Pre-calculated sensitivities
- Complex scenario modelling
- 'What-if' analysis
- Multi-dimensional profitability
- Bespoke planning tools
- Cloud-enabled automation
- Visualizations

Rudimentary

- Descriptive analysis
- Static forecasts
- Factor based projections
- Limited dimensionality
- Excel driven platform

Evolving

- Diagnostic analysis
- Static forecasts
- Driver based projections
- Inconsistent granularity
- Cube driven platform

See more about PwC's AI enabled continuous planning on p. 4.
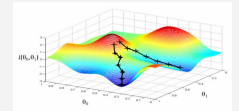
An integrated FP&A architecture is the backbone of a NextGen capability. The architecture leverages information from source systems, actuals from the general ledger, and projections from actuarial models to create detailed plans and forecasts for management reporting & analysis.

Source Systems and Data

Actuarial Systems → Actuarial liabilities plan and forecast

Admin Systems → New and in force claims, policy and sales information

Investment Systems → Investment and portfolio performance

Risk Systems → Risk aggregation for plan and forecast

External sources → Live feeds from market data sources

Centralized Data Stores

Reference Data Management
- FP&A reporting hierarchies/dimensions (e.g., account, entity, product, etc.)

General Ledger
- Financial actuals

Data Lake/Cloud Platforms
- Actuarial system results
- Admin system details
- Investment details
- Cost and profitability modeling

Costing and Profitability
- Product costing and profitability
- Expense allocations including budget & actuals
- Cost and profitability modeling
- Investment allocations

Reporting and Analytics

Forecasting and Planning Engine

Strategic Planning
- Multi-year long term plan
- "What if" analysis

Forecasting and Planning
- Comparison to actuals
- Corporate level aggregated model of plans and forecasts
- Monthly, quarterly, rolling forecast
- Capital expense planning
- Workforce planning
- AI/ML enabled forecasting and analytics

Management Reporting
- Multidimensional profitability
- Scorecard and dashboard based performance reporting

FP&A must be ready to support the business with strong insights that tell a coherent story. These sample NextGen FP&A dashboards and a preview of PwC's AI enabled continuous planning illustrate the level of analysis FP&A should provide on-demand to deliver insights on a variety of value based questions.

Dynamic Source of Earnings and Profitability Analysis

- What portion of earnings is driven by investment vs. underwriting margins?
- How do I expect the earnings to evolve over time?
- How do changes in rates impact my total income?
- How sensitive are earnings and capital positions to mortality/lapse experience?
- How do different expense attribution scenarios impact the profitability across dimensions?

Dynamic Sensitivity Analysis and Income Impact
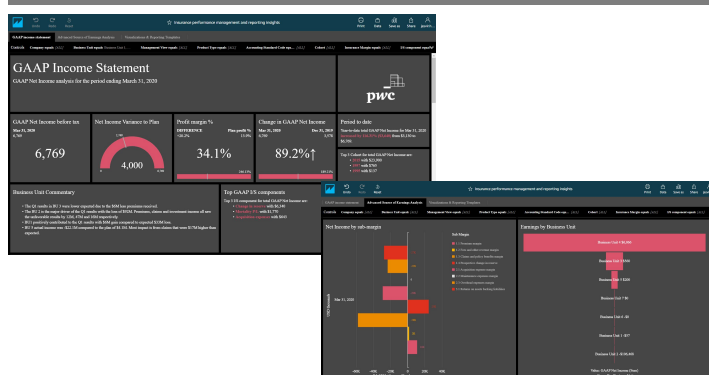
- What products are most impacted by market movements, mortality and lapse assumption changes?
- How does the in-force population change over time if persistency falls?
- What adverse scenarios lead to losses and what are potential safeguards?
- How are key KPIs impacted by core sensitivities?

Aggregated and Cohort Level Roll forwards
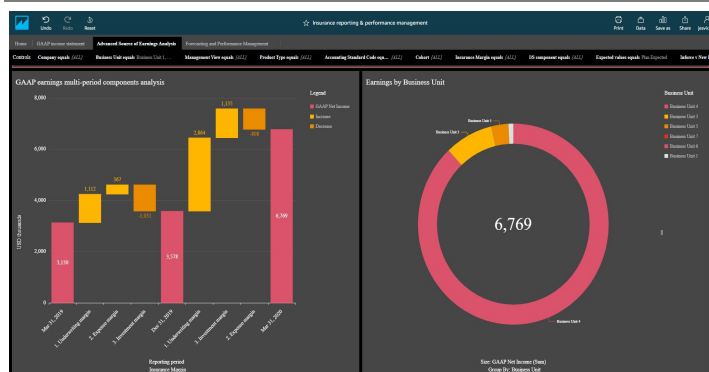
- Which assumptions are driving the most volatility in my future policyholder benefits?
- Which products and cohorts show the greatest variance between expected performance vs. actual?
- Which cohorts are driving gains and losses?

AI Enabled Continuous Planning

Use of neural network proxy models to accelerate planning process
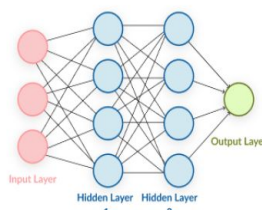
PV of Claims

| Actual: | 128,923,579 |
| Proxy: | 128,895,559 |

PV of Fees

| Actual: | 265,026,048 |
| Proxy: | 265,221,912 |

- Which combination of future economic / demographic scenarios is most likely to drive projected losses?
- How will policyholder persistency change should new money rates spike, and what market value losses will this trigger?

NextGen Insurance FP&A Contacts:
Brett Maher, Principal – brett.r.maher@pwc.com
Rich de Haan, Principal – richard.dehaan@pwc.com

Rob Elliott, Partner – robert.c.elliott@pwc.com
David Honour, Principal – david.honour@pwc.com

Interested in AI enabled FP&A? Find out more.
PwC's NextGen Insurance AI Enabled FP&A