The State of Financial Services and Implications for Data Management for CDO’s and CDTO’s

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Agenda

- Regulator expectations - Canada
- Data management vs. message management
- Innovator’s dilemma in the life insurance space
Regulator Expectations: Risk Management

• Evolution of traditional compliance to risk-based management
  – Enterprise wide
  – Pervasive throughout organization

• Board responsibility – Tone at the Top
Embracing Risk

• Need to understand link to risk
  – Risk identification
  – Risk capacity appetite/limits
  – Aggregation of risks
  – Mitigation of risks
  – Measurement of performance

• Grounding in risk culture
  – Does “Tone at the Top” match “Echo from Bottom”?

• Data – operational risk guidelines
Data Management in Operational Risk

• Three lines of defense
  – Point of risk taking
  – CRO challenge
  – Internal audit

• CDO interface
  – Primarily at first line
  – Collaboration with CRO
  – Oversight by IA
Monetize Quality Data for Life Insurers

Poor data quality = higher risk

Currency of risk is capital

Greater the risk, higher the capital that must be deployed
Global Principles for (G-SIB’s) Banks (BASEL II/FSB)

• Arose out of view that financial crisis of 2007 showed banks’ IT and data architecture inadequate to support broad management of financial crisis

• Focus on risk data, data aggregation and risk reporting
  – Both banking group and solo basis

• Enhance infrastructure for reporting key information
  – Key internal risk management models (e.g. regulatory capital models)
Key Principles

• Overarching data governance and infrastructure
• Risk data aggregation capabilities
• Risk reporting practices
• Supervisory review
Overarching Data Governance and Architecture

• Governance
  – Board and senior management responsibility to identify, assess and manage data quality risks
    • Service level standards on risk data and related processes
  – Requirements for data aggregation capabilities and risk reporting practices
    • Understand any limitations to full data aggregation
  – Board responsible for identifying reporting requirements

• Architecture
  – Fully support data aggregation capabilities
  – Taxonomies, metadata, identifiers, naming conventions
Risk Data Aggregation Capabilities

• Accuracy and integrity
  – Single authoritative source for risk data per each type of risk
  – Appropriate balance between automated and manual systems

• Completeness
  – Capture and aggregate all risk data across banking group
  – Cover all material risk exposures (on and off balance sheet)

• Timeliness
  – Generate data aggregation in timely manner with accuracy and integrity
  – Liquidity risk

• Adaptability
  – Ability to generate risk data to meet broad range of on-demand, ad-hoc reports
Risk Reporting Practices

• Accuracy
• Comprehensiveness
  – Cover all material risk areas
• Clarity and usefulness
  – Facilitate informed decision making
  – Include qualitative explanations (open-ended)
• Frequency
  – Set by Board and senior management
  – Reflect needs of recipients
• Distribution
Supervisory Review

• Periodically review compliance with principles
  – Regular, ad-hoc (standardized stress testing), independent third party

• Remedial actions
  – Use of tools and resources for appropriate action

• Home/host cooperation
Role of CDO: Data Management vs. Message Management for Life Insurers
From the Risk Function to the Board

• Redefine the Topic – From the Black Box to the Board
  – Highly technical (perhaps secret) nature of work in Risk Function
  – Challenge/reluctance for some Board members
  – Necessity for straight-through processing in company’s decision-making ecosystem
  – Is it straight-through or a crooked path?
What Do We Know?

- History shows important information gaps
- Increasingly more technical content
- Multiple sources of truth
- Adequacy of Board skills/engagement of Board
- Redoubled focus on risk management
  - Regulators
  - Analysts
  - Shareholders
- Complex environment
One Perspective of Management

• “We have to give the Board information in snackable portions because they have the attention span of a teenager”

Insurance ERM Conference
New York
April 28, 2015
Straight-Through Messaging

Actuaries

CRO

CEO/CFO

Board

• Should CDO be a player or an enabler?
Is Disruption in Life Insurers’ Future?
If so, what are the implications for data management and CDO?
Disruptive Innovation: Background

• Smaller company with fewer resources is able to successfully challenge incumbent business
• Incumbents focus on product innovations to service profitable customers
• Entrants target overlooked (abandoned) segments
  – Deliver more suitable functionality – often at lower price
• Disruptive innovations originate in low-end or new-market foot holds
Disruption in Life Insurers’ Future?

• Evidence suggests there will be
• Classic low-end disruption unfolding
• Emergence of insurtech sector
  – Insurance technology start-ups more than tripled last year
• Legacy insurers investing significant dollars in digital technology to enhance existing offerings (e.g. Apps)
What Do We Know?

• Erosion of mass market to higher net worth segment

• Declining pool of independent agents
  – Disbanding of captive agent networks
  – Shift to third party distribution

• Carriers not as connected to customers

• New entrants focused on large, traditional market
  – Accelerating move to direct, digital selling
Path to Opportunity (http://www.amyradin.com)

• Protection as value proposition
• Clients at centre of strategy
• Innovation begins with a new answer to question “who is the customer”?
• Challenge to “insurance is sold, not bought”
  – Product may need to be pushed
• Digital first offering
  – Being discoverable
  – Application processing
  – Self servicing
  – Social, multi-channel experience
• Greater use of big data
CDO/Data Management Implications

• Entrant’s value proposition will depend in part on incumbent’s reaction to entrant’s move
• Overall, imperative for enhanced data quality and greater collaboration with CDO and CDTO
Possible Scenarios

• Entrant drives stronger bond with client through digitized platform and multi-channel social media
  – Data quality important but perhaps not as critical as for incumbents

• Incumbent ignores entrant and focuses on enhanced product innovation
  – Data quality critical as part of value proposition and regulator expectations
  – Imperative for convergence of efforts among CDO, CRO and CDTO

• Incumbent challenges entrant
  – Disruptor theory suggests this should be done in separate operating unit
  – Will likely still have enhanced data quality requirements
    • Risk data aggregation
  – Ultimately greater challenge/higher expectations of CDO