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THE ADVANTAGES OF A DIGITAL-FIRST APPROACH

MANAGE RISKS TO COMPLY WITH EVOLVING REGULATIONS

Introduction

Disrupted, uncertain, and complex business environments challenge the integrity of financial processes and underlying operations. A rapidly expanding remote workforce adds to complexity, amplifying existing vulnerabilities and introducing new ones. Insurance companies must pivot from a legacy approach to risk management – on that is task focused with disconnected risk, audit and compliance function – to a risk-based approach. In addition, the insurance industry faces the new financial reporting standard IFRS 17, which is the most significant change to insurance accounting requirements in over 20 years. IFRS 17 will be applicable for reporting periods on or after January 1, 2022. Its dynamics will not only have implications on the financial disclosures of insurers but will also have profound operational impacts on all aspects of these organizations.

As risk management continues to be a key differentiator for insurers, the ability to manage multiple risk types, comply with new regulations, and prepare for new ones is expected to make cloud-based risk management even more valuable to insurers.

Many insurers are facing the following challenges:

1. Aging business applications: Many insurance companies struggle to consolidate data from disparate, legacy applications that have been acquired over time from acquisitions and/or new businesses that, if not routinely updated, cannot be used to support financial management accounting or performance management. This ultimately leads to an extensive delay in financial insights, poor data quality, and information latency that can affect their ability to meet regulatory demands—and if not routinely upgraded, these systems become obsolete and costly to maintain, and insurers also lose an opportunity to lose the opportunity to modernize their business processes.

2. Outdated business processes: Traditional finance and operational processes are becoming outdated, as they can't quickly deliver the level of data and insight that insurance companies need to operate competitively. These outdated processes are often lengthy and manual, are disconnected across people and functions, lack data granularity, and lack purpose-built scenario planning tools to model potential future outcomes

3. Expanded regulations: Insurance companies are having to adhere to new GAAP / IFRS reporting standards which represent the most significant change to insurance accounting requirements in over 20 years. Insurance companies that let critical data slip through the cracks face costly fines, increased scrutiny, and reputational risk.

4. Lack of adoption of advanced technologies: Many outdated systems lack artificial intelligence (AI) and machine learning (ML) capabilities, hindering innovation and agility by placing a heavier emphasis on manual processes that could be automated. AI and other advanced technologies can help insurers arm them with better, faster decision-making and insights – enabling them to become a provider that is more intelligent, agile and integral to their customers' lives.

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How insurers can turn change into opportunity
Manage risks to comply with evolving regulations

With the incredible pressure for insurers to manage a complex, costly regulatory environment, it has become vital for insurers to align finance, IT, operations, and audit teams around to manage the most critical business risk as well as maintain consistent accounting for all insurance contracts as required by IFRS 17. Traditional, task-focused risk management and regulatory reporting can be tough on finance teams. While working long hours to meet month-, quarter-, and year-end reporting deadlines and juggling other projects in tandem, finance teams also need to assess new risks, and ensure compliance with regulations such as IFRS 17 and LDTI. The rapidly expanding remote workforce has added to the complexity, amplifying existing vulnerabilities and introducing new ones.

IFRS 17 requirements for insurers include:

1. Consistent accounting for all insurance contracts.
2. Multinational insurers must measure insurance contracts consistently within the group, making it easier to compare results by product and geographical area.
3. Revenue reflects the insurance coverage provided, excluding deposit components, as it would in any other industry.

Cloud-based risk management is becoming even more valuable to insurance companies because it provides the ability to manage multiple risk types while preparing for new regulations and complying with current ones. And, for forward-thinking insurers, cloud solutions have the potential to be key contributors to the bottom line. A 2021 McKinsey research report reveals that companies that include risk management best practices right at the start of their digital transformations can reduce their risk remediation costs by around 10%, while companies that embed risk management in technology delivery can reduce defects by 50%.

The Risk Management solution helps Oracle Cloud ERP customers ensure secure and audit-ready ERP, SCM, and HCM processes. Finance leaders can use Oracle Cloud ERP's built-in Risk Management solution to automate many routines, labor-intensive risk tasks—especially those involving assurance, compliance, security, and fraud. It reduces audit expenses, improves financial controls, and stops cash leaks Focus on business initiatives: By using Oracle's data management and regulatory prowess, management can focus on the business needs of policyholders and create efficiency in the back office around compliance needs.

Success Spotlight: A large pan-African financial services group

A pan-African financial services group, with a long history and strong presence in Africa, faced challenges due to an aging on-premises ERP solution and new IFRS17 reporting requirements. To achieve financial transparency, the insurer launched a multi-year ERP modernization project to modernize its on-premises financial accounting and reporting platform, meet the new accounting standard, and define a new finance operating model to improve efficiency and compliance while adopting the latest cloud innovations. This transformation would ultimately enhance the customer and employee experience.

The financial services industry has undergone rapid evolution, and companies have leveraged technology to deliver better customer experiences while optimizing their internal processes. However, companies with a long history often face challenges due to disparate legacy systems, making it difficult to adapt and innovate. In this case, the insurer's commitment to financial transparency was the catalyst for transformation, and the ERP modernization project aimed to overcome these challenges by streamlining financial reporting, improving compliance and efficiency, and ultimately enhancing the customer and employee experience.
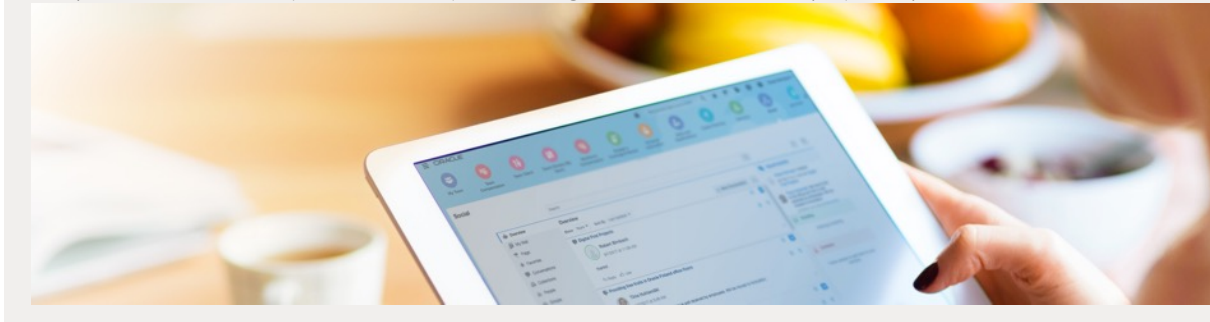
Lead your business forward with confidence

The time for a digital-first approach is now, and with the right tools in place, your finance team can better manage risk, reduce cost of compliance, and navigate the changing regulatory landscape.

Learn more about how Oracle is helping insurers break through and move their institutions forward

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