

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

Jim Gilligan

Retired President & CEO

Blue Cross Life Insurance Company of Canada

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

