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1.1 ROUNDTABLE DEBATE

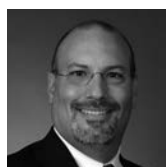
Becoming a digital insurer in the age of disruption

Moderator



David Grana,
Head of North
American Media,
Clear Path Analysis

Panelists



Serge Boccassini,
Senior Vice President,
Global Product
Management,
Northern Trust



Hugh Anderson,
Senior Principal,
Insurance Industry, SAP



Sudheendra "SG" Galgali,
Assistant Vice President,
Innovation and Digital,
American Modern
Insurance Group

POINTS OF DISCUSSION

- *Insurers must adapt to users gaining access with different devices*
- *They must address issues such as cybersecurity and user experience*
- *Financial firms and technology providers are adapting their product offering for insurers going through a digital transformation*
- *Roles within insurance organizations are changing to meet the demands of new technology*
- *Financial firms are seeking hires from companies such as Google and Amazon to fill new roles*

David Grana: What impact has the increase in endpoints accessing data had on systems and infrastructure?

Hugh Anderson: Enterprise systems and infrastructure must accommodate different device endpoints, as well as new and different stakeholders, from inside and outside of the organization on a 24/7 basis. Any and all data has to be readily accessible for consumption, and the only way to do this is by managing the organization's data as one virtual end-to-end platform that provides a single view into the business. It is no longer possible to succeed by creating multiple, disparate data warehouses that are only pulled together by ETLs, require continuous reconciliation, and are prone to inaccuracy. It is also important to support an open API cloud platform, as more and more end points are coming from outside the enterprise.

Serge Boccassini: I would agree and would add that one of the major challenges that we have seen is cybersecurity. Claim submission and policy information requests are no longer done primarily via mail or in person, but rather through mobile devices and computers. All of this data can potentially be breached without proper safeguards. Regulators are demanding more security and data protection from financial service firms who deal with both the retail and institutional markets. While mobile/virtual access is absolutely critical to grow market share from the millennial and Gen X demographics, it also could increase your risk and cost to manage.

Sudheendra "SG" Galgali: In addition to the security piece, which is huge, user and customer experience expectations are driving a lot of change on our side as well. We have customers who span the spectrum from a demographic standpoint, from millennials to baby boomers. This is also true from an economic standpoint. We see people having different needs with respect to how they access information, how they expect us to interact with them and how they interact with us. This is primarily driven by technology and the various endpoints that they are using. From our standpoint, we have had to revamp our customer experience strategy. We undertook a big

digital transformation initiative three years ago, and a big driver of this was the needs of our customers. The legacy platforms, systems and infrastructure that we had in place couldn't support these kinds of needs. We had to revamp, invest and focus on changing our approach to delivering information to our customers, based primarily on how they were expecting to interact with us.

David: What are some of the changes that you are seeing on the horizon that you are going to need to address throughout this evolution?

SG: This is just the beginning of our journey. We have spent the past three years implementing and revamping our infrastructure to integrate the platform of the future. The expectations are that we will build on that platform, with the primary driver of it being digitization and standardization to enable digital access to our stakeholders, including policyholders, agents and partners. We are in the personal lines space primarily, and we see that the proliferation of IoT devices, like smart home devices, telematics and autonomous vehicles, are going to create a need for interaction with those devices. Our goal is to determine how we ingest the data that is coming from these devices, what information we can gain, and figuring out how we can use it. In addition, the whole concept of personalization that comes with these devices and how we use the data to provide personalized services to our customers is another driver.

David: As a service provider, have you been able to step up to the challenge of meeting these requirements and changes that insurers are expecting?

Hugh: Absolutely. We have introduced SAP Leonardo, an end-to-end system of engagement model for the digital world. Leonardo connects the power of system of innovation technologies with a design thinking process for ideation of business use cases for delivery. In order to embrace disruption, insurers need to corral the potential of machine learning, artificial intelligence, IoT data and advanced analytics to produce innovative business outcomes. Best practice, really, is to address this in a programmatic, business-centric way, versus engaging in tactical evaluation of multiple technology tools. The real power of these technologies is to be able to go beyond short-term analysis into changing the way you manage and measure risk, the way you price and underwrite, the way you engage customers, and even the way you define products. And it's not just within traditional industry boundaries. Our insurance customers are collaborating more and more across industries (e.g. automotive, manufacturing) to find new and better business models and ways of engaging with their customers. We've had great success co-innovating with our customers by leveraging our innovation centers in Palo Alto and New York City.

David: How do financial services firms address these challenges?

Serge: We are looking at using the same technology, but in a much more controlled environment. For example, instead of using a public cloud for sharing data, we enable a private cloud. Only our clients

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or their authorized third-party vendors have access to their own proprietary data. Another example is the security mechanism in place to constantly screen individuals or programs attempting to access the data. Every millisecond of the day, we are looking at who is trying to access Northern Trust and our data. Using private clouds allows our institutional users the advantage of new virtual-access technology in a more secure environment.

The volume of data that reaches users can sometimes feel like it is sprayed from a firehose. While you can react to certain pieces of the

data, many times, it is too much and a lot is left unused. We feel that we have a good, solid data strategy, whereby, we partner with our clients to understand what they want and need and what they plan to do with their information. For example, it may be trade, asset or counter-party information that will help them make decisions about their investments in the marketplace. In addition to storing and scrubbing the data, we look at the way we provide it. We want to virtualize it in a way that makes it easier for clients to use.

SG: We have a focused data strategy initiative that looks at issues at a high level. For instance, we are looking at the types of data we receive, how we get it, and how we clean it. The next question is what the data can be used for and what value it can bring. Another issue we are exploring is regulation, with regard to the data we are collecting. One of the challenges that the industry will face is communicating with the regulatory bodies to ensure they understand how data is being used with consumer safety and protection in mind. We know that these new technologies need to be used and have to be leveraged, but we need to also bridge the regulatory gap. I don't feel that this issue has been solved yet, but it is one that we certainly will need to manage as we go forward.

David: Is this something that the software companies are trying to address?

Hugh: Yes. The insurance enterprise still consists of the front office of sales and distribution, the middle office of policywriting and investment origination, and the back office world of finance and risk management. Traditionally, these have been managed as separate silos, with many disparate data sources and connections. This is an unsustainable model today. Insurers have to respond to the digital world by spending less to keep the lights on and more to truly innovate. And this is further complicated by evolving regulatory demands. IFRS and Solvency are great examples of regulations that demand visibility into the performance of the business at the most granular possible level. Best practice is to leverage a connected enterprise that ties finance directly back to the front office. Because of this, you're seeing a lot more focus on a modern data platform to provide that connection, a true data hub, as opposed to legacy warehousing.

David: How are the roles within the organization changing as a result of evolution as a result of IoT and the introduction of new technology?

SG: We are going through a digital transformation; technology is a big component of it and it is really changing roles within our business. For instance, traditionally, we have had legacy platforms with many manual activities. Paper turnaround times were measured in days and weeks, rather than minutes or real time. There were individuals responsible for daily reports, such as on earnings or losses. This would be a 30 to 90 day cycle to execute. With digital transformation, we have shifted to a self-service model. Now, everyone in the business needs to understand how to query, how to use COGNOS, and how to

look at the data instead of relying on an individual to develop a daily report. This is just one example of how technology is changing roles.

David: How are financial companies making it easier for clients to be able to adapt to this shift?

Serge: We share commonality in the sense that we are a large financial service firm with a lot of data, just like an insurance company. We have legacy processing platforms that do a lot of data churning. At the same time, we are adding newer technologies that move faster, are more nimble and deliver data in a virtual environment to the new market demographic. One of the challenges that both types of organizations have is that you have to maintain your legacy platforms while transforming processes into the newer technologies of the future.

Today, we are hiring people from very different places with different skill sets. We look for people who may have previously worked at Google, Amazon or places that employ a very different type of technical capability. These people work together with our current staff, who understand our existing technology and how we may need to transform ourselves. We often host sessions with our clients to discuss and address the direction in which we are taking the company with our technology. We also introduce clients to technology partners like SAP, who have helped us move in this more technology-forward direction.

Hugh: Almost every insurer these days has a chief digital officer (CDO) or, perhaps, a chief innovation officer (CIO). It may mean different things, depending on your business and the size of your company, but it is very real. These are critical roles, as is the chief data officer, since many customers that we work with have decades of both data and business processing systems to modernize. These disparate platforms have to be cleaned up for digital analytics to work, and today that is not just to produce reports, but to power interactive executive dashboards, and make them accessible from anywhere, anytime. And actuaries are more critical than ever, though they are now empowered to readily leverage shared enterprise data, as opposed to relying on spreadsheets and desktop modeling.

With the increase in IoT and machine learning, underwriters can rethink how they identify and measure risk. In marketing and sales, the key is digitizing the customer experience, to unify traditional agency distribution channels with personalized customer journeys, beginning with online research and shopping. Putting the customer at the center means it is no longer an either/or proposition for direct sales versus agency, but rather, insurance buyers are demanding a true omni-channel experience.

David: Thank you all for sharing your views on this topic.

2.2 INTERVIEW

The growing need for transparency in foreign exchange

Interviewer



David Grana,
Head of North
American Media,
Clear Path Analysis

Interviewee



John B. Turney,
Senior Vice President,
Global Foreign Exchange,
Northern Trust

SUMMARY

- *Search for yield is a motivator for insurers' interest in FX*
- *Investor information requirements have become more sophisticated in recent years*
- *Transparency around transaction costs are key factors for investors*
- *The importance of technology in the FX space is growing*

David Grana: How important is foreign exchange (FX) to insurers?

John Turney: A lot of it depends on the distribution structure of their business, such as how broadly they are looking to source clients in and out of their base or operating currency. Certainly, one avenue and driver of interest in FX that we see with insurers is search for yield on the portfolio. Insurance operators who may be in a home market with a very low nominal yield might be looking for a bit of a higher return, which may drive them to take on some FX exposure. As a result, they may be looking for tools to manage the related FX risk that they are taking on as they look to pick up yield.

David: How does your role fit into this?

John: The foreign exchange business complements the asset servicing function we offer within our Corporate and Institutional Services business unit. We serve insurance pools, asset owners, pension funds, investment managers and clients with similar profiles in our core, historical global custody business, as well as fund administration, and hedge fund services. The foreign exchange business for us is designed to service the FX requirements of those investors and market participants across various segments. This can include disciplines such as direct dealing by active investment managers through our dealing desks in Singapore, London and Chicago on any of our numerous electronic platforms.

We have a currency hedging service that we call PASCO (Passive Currency Overlay), which is a service where we have insurance clients who are hedging their currency exposure. We have an outsourced FX platform that we call Complete FX, which includes servicing capabilities for non-custody assets, custody assets, income repatriation, and corporate actions.

And this is sort of a flexible framework within which clients can pick and choose FX services, depending on the structure of their portfolio requirements and the overall fit of their underlying investments. On the risk transfer piece, the bank, as a global custodian, has a fairly significant reach and broad coverage of emerging markets. We do a lot with clients in the deliverable onshore currency space, with currencies like the Korean won and Brazilian real, amongst others.

David: How have investors' information needs changed over the last few years?

John: In recent years, we have been engaged with investors around information in two ways: in terms of raw data provision and providing an analytical overlay on that information. Of course, investors' needs for data are not strictly limited to their curiosity or for use in their internal analytical programs. In some jurisdictions, regulatory requirements have prompted investors and service providers to manage and report transaction data in a timely and standard manner. We have worked with our clients to design and deliver data management workflows and products, allowing them to continue

to run their businesses and meet their regulatory obligations. The second area where investors have looked to us for help is transforming information into insights. We have invested – and will continue to do so – significant resources in our reporting and analytical capabilities. We have more work to do, but we have rolled out a number of tools to help clients use their FX data and information to understand and improve their FX program. This is actually a pretty exciting space in the business, and one where we think we can continue to leverage our scale, technology and data management expertise to help clients make the most of their information. The last thing I'll mention is around information privacy and security; it is an area of obvious concern to investors and the bank. Within our FX business we are able to rely on the corporation's experts and leading edge tools to meet these challenges.

David: Why is transparency important for the FX business today and what tools do you provide to your clients?

John: The FX business is, of course, a trading business involving transaction costs that impact clients. Clients need to understand their costs and not just the headline number. As we have just discussed, they need information to dig into the numbers and

David: What differentiates you from your competition in the FX space?

John: At Northern Trust, we have a very client-oriented culture. We focus a lot on service within our FX business and have a very proud legacy on our private banking side, which filters through into our institutional business. We place a lot of focus on working quite closely with our clients to customize solutions, rather than have them sit into a perfectly defined box. Another element that really resonates with clients is the safety of their exposure in the FX market place. We are highly regarded, based on our credit profile, credit rating and reputation in the market place.

David: How significant is your technology infrastructure in your ability to deliver services to your clients?

John: The technology piece is a significant one in the FX space. There are approximately \$5 trillion dollars per day turning over in the market. In order to participate in such an immense marketplace, electronic tools are critical to our ability to scale our services appropriately and deliver them to our clients with an appropriate level of control.

“ We have built seamless and safe data transmission mechanisms to remove friction for our clients and to support timely data delivery, enabling timely analysis ”

decompose the drivers of cost, some of which might not be readily apparent. Different benchmarks can provide different insights on the composition of costs. The data we collect varies depending on the type of FX service we provide, but we might simply supply raw data directly to a client, or to a third party firm for analysis, as directed. We have built seamless and safe data transmission mechanisms to remove friction for our clients and to support timely data delivery, enabling timely analysis. Our reporting and analytical tools I previously mentioned are designed specifically to address transparency requirements, but they are also designed to enable a deeper level of analysis beyond the headline figures.

David: Does your FX operations service large asset pools typical of insurance mandates, as well as cater to clients with smaller asset pools?

John: We are designed to scale across clients of all sizes. We have some products and services that will carry a minimum fee, which is usually nominal. We are able to offer services quite readily for currency hedging tools. We can scale down to \$100 million or less, as well as service substantially larger mandates.

This is true across our simple custody FX offerings through algorithmic execution and currency overlay. The bank has been working with, and partnered with, a firm called BEx, LLC in Chicago. They have been working on our electronic scaling, price and liquidity aggregation, as well as our distribution. We have invested heavily in our ability to provide reporting to clients and to support their needs for transparency around their executions. This is a bit of a moving target, but it is something where we feel we are well positioned as a service provider to offer clients scale.

David: Thank you for sharing your views on this topic.

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