2019 PwC Insurance Risk and Compliance Benchmarking Survey

A spotlight on how risk and compliance functions are helping insurance organisations respond to heightened regulatory and consumer expectations

October 2019

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Table of contents

1. About the survey

Welcome to our second annual Risk and Compliance Benchmarking Survey of Australia’s Insurers. The survey aims to give leaders of Risk and Compliance teams a view of how their peers manage risk and compliance functions, and how they are responding to heightened regulatory and consumer expectations.

We received responses to our survey from executives of **35** different insurers across general, life and private health insurance, with gross premium ranging from below **$200m** to over **$3b**.

We express our sincere thanks to those who participated in the survey.

We hope you find the information and insights in the Risk and Compliance Benchmarking Survey to be helpful as you look to respond to the challenges, and take advantage of the opportunities, that lie ahead.

Who participated in the survey

General Insurance

16

Private Health Insurance

10

Life Insurance

9

Size of participants by gross premium

Less than $200m	$201m - $500m	$501m - $1b	$1b - $3b	$3b+
8	5	7	12	3

2. Executive summary

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (''Royal Commission'') and APRA self-assessments into governance, culture and accountability have clearly set the path ahead for insurers for the foreseeable future. There has been a significant shift in prioritisation that is expected to be given to customer outcomes. This, in turn, is expected to be supported by enhanced Board oversight, a clearly defined and understood culture, and by an uplift in processes, systems, and controls impacting all three lines of defence. Expectations of regulators have increased, and this is driving the impetus for change.

In our experience, most organisations have been stretched over the past year, with responses to regulatory requests and a period of reflection and self-assessment. The real challenge lies ahead and a number of tough decisions and committed actions are needed to truly enhance culture, technology and processes that meet the needs of consumers and regulators.

Against this broader backdrop, there are also specific regulatory changes related to the themes of culture, conduct and accountability that are going to help focus the response. The Product Design and Distribution Obligations regime is going to challenge insurers on how well they truly know their customers, and how they are responding to their needs; it is likely that elements of the Life and General Codes of Practice will become enforceable; and the proposed new Prudential Standard on remuneration will push insurers to more closely align remuneration practices with good conduct. Whilst the expected roll-out of the Accountability Regime to insurers will also deliver another 'compliance' challenge, we see the benefits of enhanced accountability supporting the broader organisational and cultural changes.

For Private Health Insurers, whilst some of the above regulatory changes may not directly apply in the immediate future, the underlying themes are absolutely relevant. Many insurers are already starting to use recent product reform as an opportunity to reassess governance and controls over product design and distribution, whilst the industry also responds to the regulator's specific focus on resilience in light of continued margin pressures.

Now more than ever, insurers need quality Chief Risk Officers and Heads of Compliance armed with the right technology and appropriate resources, giving clear guidance on how to safely navigate the challenges and risks ahead.

Our survey indicates that

- Culture is increasingly front of mind for both management and the Board, however organisations continue to grapple with how to effectively assess and measure culture.
- There remains an opportunity for a number of organisations to perform an APRA self-assessment and a Royal Commission impact assessment. These activities have the potential to add significant value if performed rigorously and objectively.
- Insurers are starting to invest in second line resourcing, however this has yet to translate into a noticeable lift in core risk management processes and controls.

What are insurers' top three risk management challenges?

2019

#1 Regulation
2018 - Regulation

#2 Culture
2018 - Cyber

#3 Technology
2018 - Culture

Our perspectives

- Unsurprisingly, regulation remains in the top spot, reflecting both planned and expected changes in regulations, as well as increased expectations on regulators themselves.
- The findings of the Royal Commission, in particular, are forcing insurers to take a harder look at their culture and how that manifests itself in customer outcomes, and how they measure progress towards a target state.
- Technology too has seen an increased focus according to our survey. It is clear that more advanced technology, supporting deeper analysis and real-time monitoring, will be a key toolkit of Risk and Compliance teams of the future in helping insurers navigate ever-increasing complexity.
- Interestingly, the top three challenges were consistent across life, general and health insurance, reflecting the consistent backdrop of consumer expectations and the fact that health insurers are now also under the supervisory remit of APRA.

3. Trends in risk management and compliance functions

What are the priority initiatives of insurers following the APRA CBA report and Royal Commission?

Following the release of the APRA CBA report and the Royal Commission, the regulatory landscape continues to evolve as institutions, investors and regulators all begin to react to the findings. Following the conclusion of the hearings, we have seen that the trust deficit between financial institutions and the Australian public has never been more pronounced. Similarly, the expectations the community, and the regulators, have of swift and appropriate action to acknowledge misconduct, take accountability, and begin the journey of rebuilding trust is more apparent than ever before.

The **top five priority** initiatives for insurers that participated in the survey align closely to the key emerging themes arising from the Royal Commission and the APRA CBA inquiry.

From what we have seen, organisations that have performed a self-assessment against the APRA CBA report and an impact assessment of the Royal Commission report have benefited from identifying issues of a similar nature and deriving deep insights for implementation of strategic, not just compliance, initiatives to address those issues.

However, it is also important for organisations to consider the level of detail at which these assessments are performed, and whether the results and strategic action plans are clearly articulated, appropriately communicated to the risk owners, and embedded within the organisational culture.

54% of respondents have indicated strengthening of accountability as a priority initiative. Continuous focus and investment in this area will proactively prepare insurers for compliance with the Accountability Regime when it is rolled out to cover insurance entities in the future.

46% of respondents have indicated investment into their risk and compliance functions as a priority initiative and this is reflected in the increase in average team size noted in the following section of this report.

In our prior survey, we highlighted that APRA's remuneration review revealed that most organisations' remuneration policies and frameworks met minimum requirements, but fell short of strong governance. This sentiment is very much aligned with industry action with only **38%** of respondents indicating changes to remuneration structure as a priority initiative. This suggests that very little has changed in this area in the past 12 months.

81% of respondents have performed an impact assessment of the Royal Commission report and/or a self-assessment against the APRA CBA report

have not performed either assessment **19%**

Insurance organisations' top 5 priority initiatives following the APRA CBA report and Royal Commission

73% | Impact assessment of the Royal Commission report

65% | Self-assessment against the APRA CBA report

54% | Strengthening of accountability

46% | Investment into risk and compliance functions

38% | Changes to remuneration structure

Team size, capability and skillsets

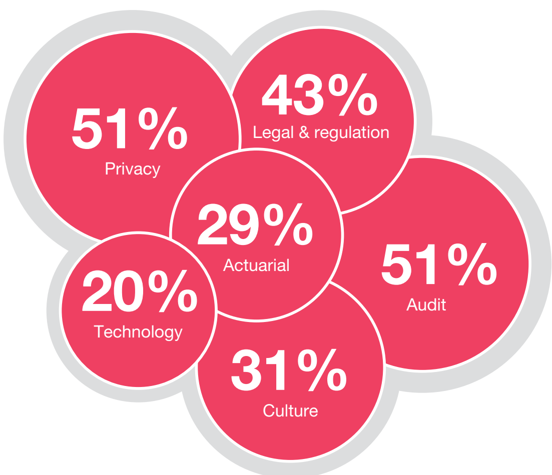
As the insurance industry looks to rebuild trust, there is a general expectation for insurers to increase the capacity and capability within their risk and compliance functions. Our survey results show the risk and compliance team size of the insurers that participated in the survey growing from **9.6** to **11.3** in the current year.

Average size of Risk and Compliance team

11.3	**9.6**
2019	2018

Despite this **18%** growth, our general observations from engaging with senior risk and compliance professionals in the industry are that teams have been occupied in tactically managing the current demands and expectations from regulators and customers, as opposed to building capacity and capabilities to focus on more strategic risk and compliance initiatives. As insurers, look to develop more long term solutions, we expect risk and compliance functions to more strategically reassess the appropriateness of their skill sets and capability levels.

Percentage of risk and compliance teams with specialist skills



In our prior report, given the public and regulatory scrutiny around customer expectation, product design and cyber risk, we anticipated that there may be an increased demand for employees with expertise in the areas of culture, actuarial and IT. However, the specialist skills within teams have remained more or less consistent. Where second line skill sets are lowest typically aligns with the top three risk management challenges identified by participants. This highlights that companies are finding it difficult to secure the right expertise in these areas as the demand is far greater than the supply.

With management of non-financial risks being at the heart of the Royal Commission findings, and culture being an area of challenge that is not particularly well understood, we expect organisations to keep striving to build their teams with these specialist skill sets. Additionally, creating teams with the right mindset is perhaps as important as possessing the right technical skills.

With the expected roll out of the Accountability Regime to insurance entities and accountabilities for each line becoming clearer, we expect more insurers to move towards a model of having more staff with risk expertise in Line 1, helping to create more awareness among employees around risk management.

Average number of Line 1 staff performing Line 1 risk & compliance partnering roles	**3**

> **“Many companies we interviewed acknowledged they were operating outside appetite for an extensive period, returning a company to within its risk appetite can be resource-intensive. Several companies noted that the main barrier was finding the right expertise in the market to address the issues. Boards must adapt to their operating environment – where there is a shortage of necessary expertise, they must consider whether current operations should change in light of the heightened risk.”**
>
> *ASIC’s report on director and officer oversight of non-financial risk*

Rigour of processes and controls

APRA's information paper on self-assessment of governance, accountability and culture identified that organisations have had challenges in establishing clarity and roles around accountability and end-to-end ownership of processes.

With management of non-financial risks in the spotlight, it is critical for insurers to appropriately map their obligations to controls and have them routinely tested and monitored to mitigate the risk of non-compliance.

The average rating of the extent to which insurers have their obligations robustly documented and mapped to controls is

2.6 out of 5

(with 5 being fully mapped and tested).

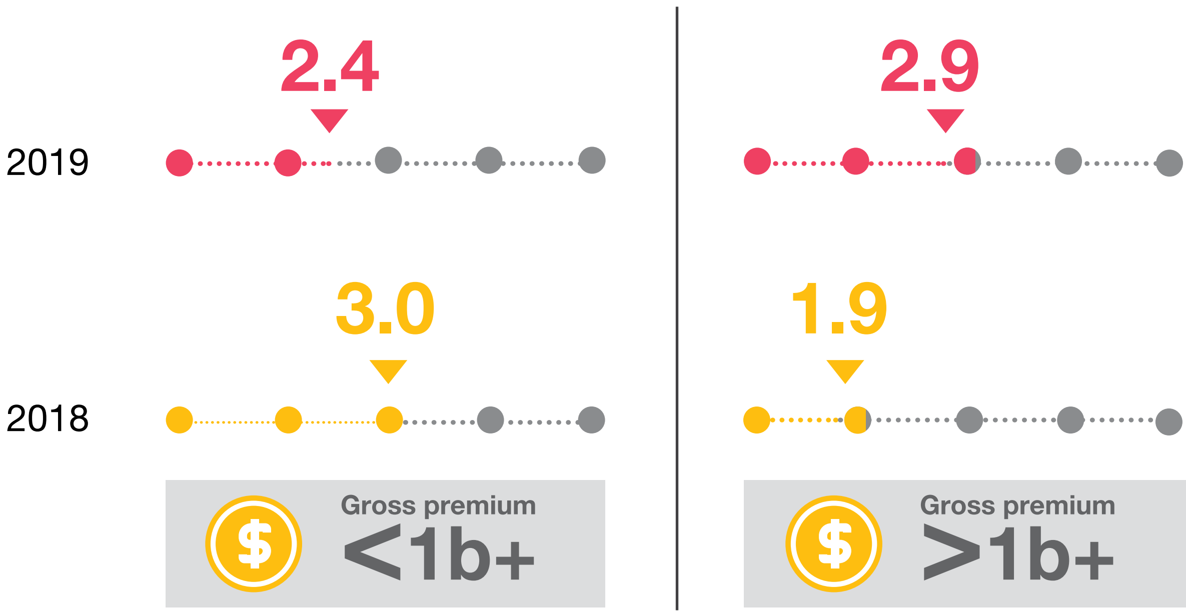
This has not moved from last year, and suggests that, surprisingly, the industry overall has not made much progress despite the heightened scrutiny over the past year.

> Whilst the larger companies (over $1b+ gross premium) feel they have improved in this area, the smaller companies have showed less confidence compared to last year.

This could be attributed to the bar being set higher following the Royal Commission and the resource and skill set constraints faced by insurers as highlighted in the previous section.

> **"The board should ensure processes and practices are implemented so that the organisation operates within the board's strategic goals and stated risk appetite. Officers should give their boards all information they have that is material to the board's decision making. Equally, the board needs to ensure it is receiving adequate information to make informed decisions."**
>
> *ASIC's report on director and officer oversight of non-financial risk*

Extent to which risk and compliance obligations are mapped to controls and tested (by company size)



Responsibility for testing and monitoring of controls

The responsibility for testing and monitoring of controls within insurers has remained broadly consistent with prior year results.

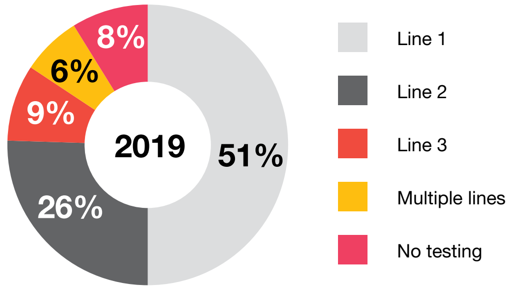
9% of respondents indicated the responsibility for testing of controls is assigned to Line 3. Whilst this testing brings the benefit of independence, it does not necessarily promote faster risk-event recovery, or stronger risk cultures.

The survey results show that, on average, there are 3 staff members who perform Line 1 risk and compliance partnering roles. In the current climate, where responsibility and expectations on Line 1 is increasing, insurers will need to assess if the balance of resourcing between Lines 1 and 2 remains appropriate, and take action on the capacity and capability within Line 1 to adequately fulfill its responsibilities.

Whilst **97%** of the insurers surveyed have indicated attestations are used in the business for risk and compliance, only **42%** of them are verified through testing performed by Lines 2 or 3.

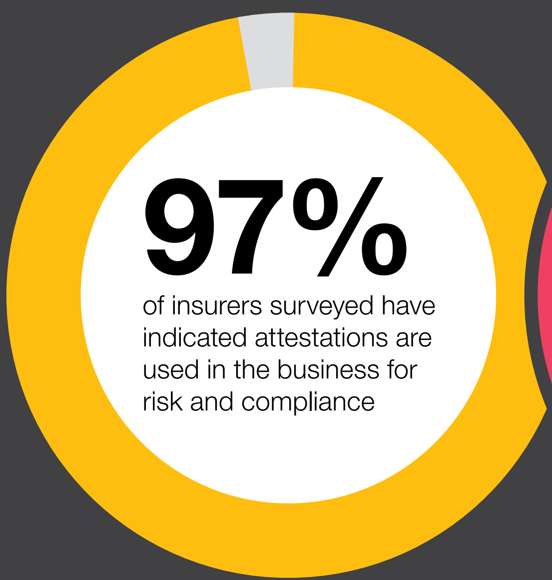
An appropriate level of testing of business attestations promotes accountability at all levels, and helps avoid attestations becoming a mere documentation exercise.

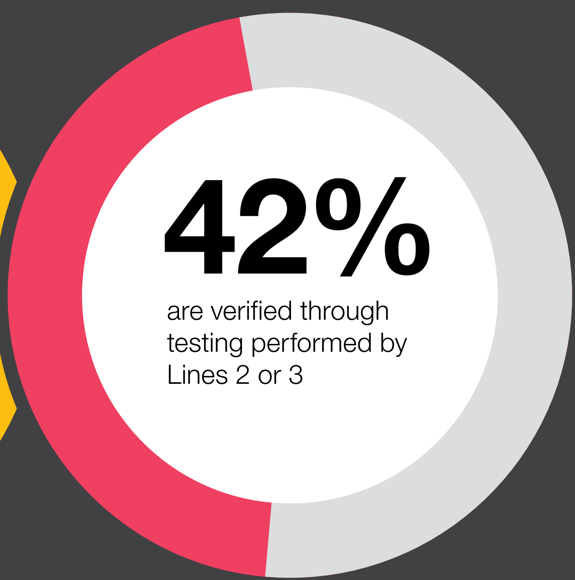
Responsibility for the majority of testing and monitoring of controls in relation to risk and compliance



Calls to action

Is your organisation considering using the Accountability Regime as an opportunity to set the foundation to identify key risks, map obligations to controls, clearly articulate who is accountable for risks and controls, and who is responsible for testing and monitoring?





Governance over non-financial risks

Topics reported to Risk Committees		Movement from prior year
79%	Complaints	10%
79%	Risk Culture	10%
93%	Updates to key risks	-4%
93%	Regulatory changes	7%
97%	Breaches	3%
97%	Results of Line 2 & 3 reviews	6%

Our survey suggests that breaches, results of reviews performed by Lines 2 and 3, updates to key risks and regulatory changes continue to be the areas most reported to Risk Committees.

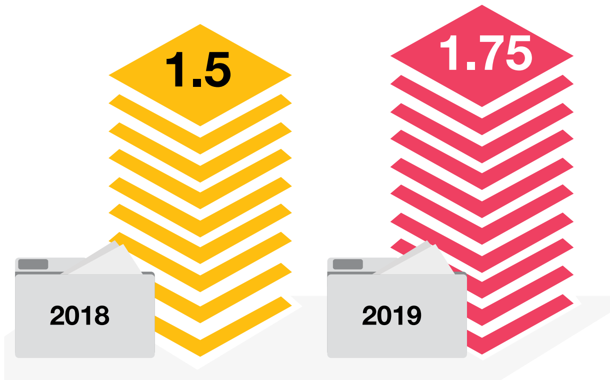
We see that reporting relating to culture, complaints and regulatory changes have improved compared to the prior year, most likely as a consequence of these areas being directly impacted post the Royal Commission. That said, complaints and culture still remain the least reported of all areas, suggesting that reporting on key non-financial risks could still be considered to lag behind regulatory expectations.

Insurers that do not report both complaints and culture to risk committees

Approximately **34%**

Breaches

The average number of reportable breaches of those surveyed increased to **1.75** from **1.5** in the prior year. In the current climate of heightened scrutiny, more organisations are adopting a conservative approach and assessing breaches as reportable when in doubt.



In our experience, there remains inconsistency within organisations of the expectations, and definitions, regarding incidents and breaches. To overcome these challenges, risk and compliance teams should continue to educate the front line to embed a consistent understanding of reporting obligations.

Calls to action

Is your organisation continuing to properly educate the front line to embed a consistent understanding of reporting obligations?

> **"Financial services entities must now accept that financial risks are not the only risks that matter. The prudent management of non-financial risks is equally important. Financial services entities must give sufficient attention, and devote sufficient resources, to the effective management of non-financial risks."**
>
> *Royal Commission report*

78% of respondents are performing breach trend analysis (2018: 76%), with the majority of respondents analysing root cause and breach volume. Pleasingly, there has been an increase in respondents performing analyses of the nature of breaches, and the timeliness of resolution.

Our expectations are that with the broadening responsibilities and accountabilities of the three lines of defence, organisations will continue to push for further trend analysis in order to set up plans for earlier identification of breaches, and therefore reduce reoccurence of similar incidents.

Complaints

376
2018 **Avg. number of complaints**

755
2019 **Avg. number of complaints**

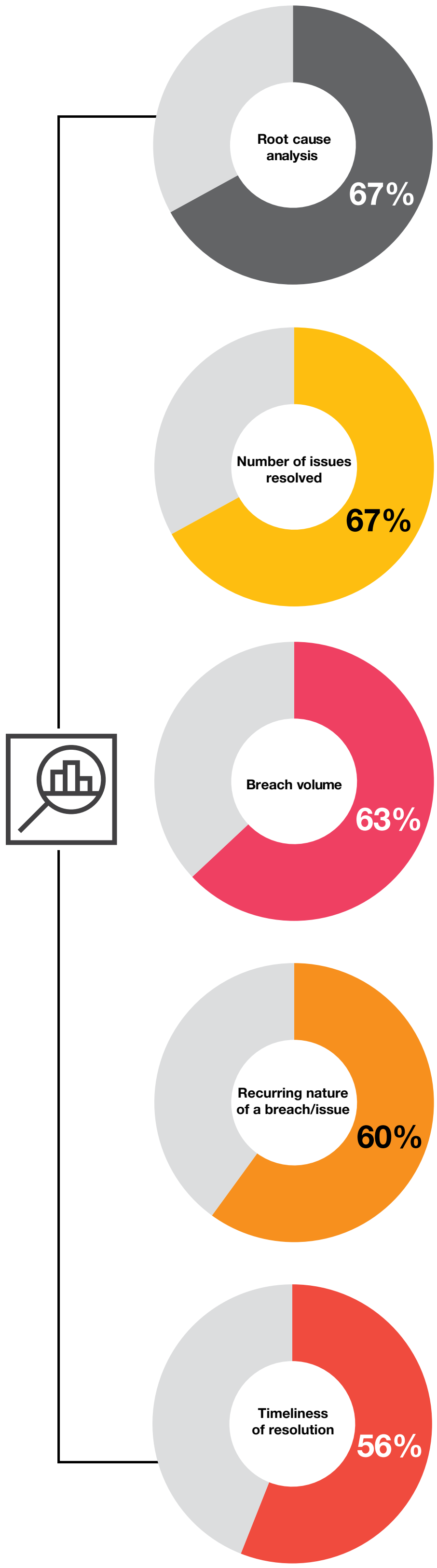
The heightened public scrutiny on the industry has promoted more awareness among consumers which, in turn, has resulted in insurers receiving more complaints. On average, **755** complaints were received by the surveyed insurers, which is more than double the prior year average.

Similar to breaches, the majority of the respondents **(80%)** have performed a trend analysis of complaints. Whilst this is a move in the right direction, there are still a number of insurers not performing any analysis. Continued investment in processes and resources will need to be made in Lines 1 and 2 to further analyse root causes and address shortcomings in the handling of consumer complaints highlighted by the Royal Commission.

The proposed updates to the Internal Dispute Resolution Regulatory Guide (RG 165) will further mandate how data derived from complaints is used by insurers in ultimately improving consumer outcomes.

> **"...difficulty identifying broad, systemic issues in its businesses, including by linking sources of risk data across the institution and through analysis of customer complaints. In addition, there has been difficulty resolving identified issues as a result of organisational complacency, low senior-level oversight, and weak project execution capabilities."**
>
> *APRA CBA report*

Type of breach trend analysis performed



Codes of Practice

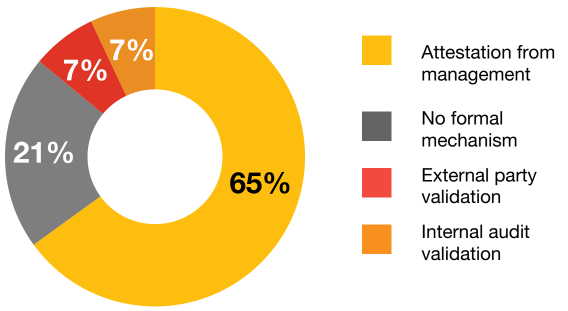
The Royal Commission called for industry codes to include 'enforceable code provisions', and recommended that Claims Servicing and Claims Handling be captured by the Corporations Act. These changes involve amending the Code of Practice (CoP) to empower relevant committees to impose sanctions on a subscriber that has breached the code. Insurers will need to start making changes now to be in compliance by 30 June 2021.

55% of the survey respondents have already subscribed to the current CoP.

28% of the respondents said it is not applicable as they fall outside the scope of the current CoP (i.e. Private Health Insurers, etc).

10%
of the respondents have undergone a review or inquiry from the Code Governance Committee.

How Boards obtain assurance on compliance with Codes of Practice



With an increased focus on CoP expected, Boards should consider whether they are receiving sufficient assurance from existing processes and reviews.

Confidence levels in compliance with the Code of Practice

59% of the survey respondents were confident in being compliant with the code when aspects become enforceable in the future. The others have concerns relating to:

1. Incidents and breaches management processes and strengthening of training;
2. Resilience of the operating model;
3. The breach reporting time frame and approach to breaches from a significance perspective;
4. Compliance obligations being mapped to controls and testing;
5. Compliance with mandatory obligations; and
6. Ambiguity of obligation and variation in interpretation.

With a number of regulatory changes expected to roll out in the near to long term, risk and compliance functions will need to reassess their approach to managing compliance, monitoring and governance over conduct and the relevant CoP, including creating awareness and providing the right level of training and support within Line 1.

Calls to action

Is your organisation proactively improving the processes and control effectiveness in relation to the CoP, and providing the right level of training to teams? Has your Board been provided sufficient assurance on compliance with the CoP and has this been independently validated by internal audit or an external party?

Remuneration

Remuneration frameworks and the outcomes they produce are important drivers of an organisation's risk culture and conduct.

APRA is demanding that Boards focus on delivering remuneration outcomes that are good for shareholders, customers and society, and are taking steps to address perceptions that shareholders have become the dominant stakeholder. One of the next steps is the expected release of a new Prudential Standard CPS 511 on remuneration.

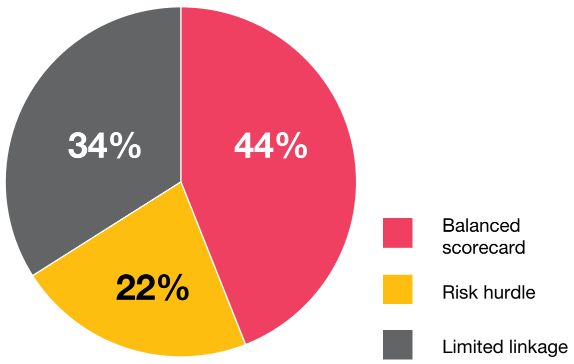
44% of respondents to the survey have incorporated risk as one of the performance measures in determining overall bonuses through a balanced scorecard approach. The average weighting given to risk management related metrics among these insurers was **16%**.

22% of respondents adopted a "gateway" approach where a hurdle is created for risk metrics which must be met for a performance bonus to be awarded.

These metrics are largely consistent with the results of our 2018 survey, suggesting that organisations have not yet increased their focus on remuneration to the extent expected by the regulator.

The new proposed Prudential Standard seeks to better align remuneration practices with non-financial risks and conduct - very much aligned with industry expectations following the Royal Commission, and a number of regulatory reviews into incentives within the financial services sector. The new requirements will be a significant change and insurers will need to assess early, and adopt an approach to comply.

Extent to which remuneration is linked to risk objectives and metrics



4. Risk culture

Culture in the spotlight

Culture has been in the spotlight in the Australian market over recent years and this has further been heightened following APRA's Prudential Inquiry into CBA and the Royal Commission, where we saw that poor behaviour was a root cause of some of the most significant issues that came to light.

> **"...as often as reasonably possible take proper steps to:**
>
> - **Assess the entity's culture and its governance;**
> - **Identify any problems with that culture and governance;**
> - **Deal with those problems; and**
> - **Determine whether the changes it has made have been effective."**
>
> *Royal Commission Report*

Regulatory authorities, customers and the community are demanding that Financial Services organisations need an improved 'risk culture'. APRA's Information Paper on companies' self-assessments reported the culture component as the 'weakest', 'poorly executed', and that culture was a 'root-cause' of risk issues.

There is a growing expectation for insurers to assess, and understand, their culture – a concept that a number of organisations have struggled with over many years. Culture is often seen as 'fluffy', 'intangible' and therefore 'too hard' to assess and measure.

It can be done – culture can be assessed and measured using a combination of techniques to provide robust evidence and insights.

What is risk culture?

There is a misconception that there is a need for a 'different' culture when it comes to managing risk. The concept or term 'risk culture' has created an illusion amongst some that it is something entirely separate or different from organisational culture.

Risk culture refers to the norms of behaviour for individuals and groups that shape the ability to identify, understand, assess, escalate and act on the risks the insurer confronts, and the risks it takes. It is not separate to organisational culture but, rather, reflects the influence of organisational culture on how risks are managed.

So how does organisational culture reinforce sound risk taking, risk managing and risk decision making?

The impact of risk culture

Risk culture is about how the people in a workforce behave with regard to risk. Organisations need to define and signal the right behavioural expectations and reinforce a strong risk culture which values decisions, behaviours and activities that align with the organisation's strategy and risk appetite.

All organisations need to take risks to achieve their strategy and objectives. The question is, how do employees go about doing this, and is this in line with risk appetite? The prevailing risk culture within an insurer will significantly affect its ability to manage the risks it faces.

A strong risk culture is a unique asset for insurers. It is an enabler to achieving strategy and competitive advantage. It has the power to restore trust and confidence in the organisation.

Increasing Board expectations

With the recent Royal Commission and APRA's Prudential Inquiry into CBA, risk culture is on all Board agendas (including those of non-financial services organisations). Board members are increasingly wanting to understand if their desired risk culture is aligned to the actual risk culture - the culture that exists in practice, day-to-day, and as a result are asking management for more.

68% of respondents indicated their Board's expectations have changed in the past year regarding information received on risk culture.

The most prevalent changes in these expectations include:

- Heightened awareness and discussion of risk culture;
- More formal risk culture reporting;
- Endorsement of the risk culture framework; and
- Increased use of surveys and deep dives.

Under CPS 220 *Risk Management*, Boards are required to "form a view of the risk culture in the institution and the extent to which that culture supports the ability of the institution to operate consistently within its risk appetite, identify any desirable changes to the risk culture and ensure the institution takes steps to address those changes".

We see significant opportunities for insurers to enhance risk culture reporting to their Boards. Reporting is sometimes limited to the inclusion of a few risk culture questions in the employee engagement survey. We believe this is not enough and prevents the Board from understanding or getting a complete picture of the risk culture in the organisation.

Organisations need to take a more proactive approach to managing risk culture and ensuring that culture is front of mind for Boards.

Has the Board formally set expectations regarding the desired culture for the organisation?

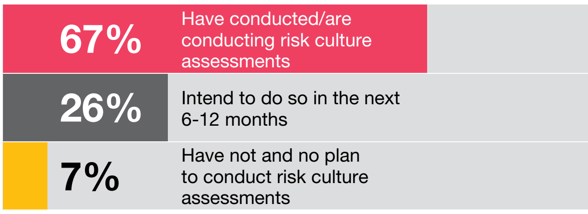
Yes 75% | **No** but **25%** plan to in next 6-12 months

Assessing risk culture

A robust risk culture assessment will provide clarity on what practices are working, what cultural levers are driving success, and where there may be blind spots of misalignment with the organisation's strategic imperatives and risk appetite.

It can give a current state view of the risk culture within the organisation and insights into the alignment between the intended versus actual risk culture.

How are insurers currently assessing risk culture?



The most popular techniques for performing a risk culture assessment are through the use of surveys (with **70%** of respondents conducting a specific risk culture survey and **67%** including risk culture questions in existing employee surveys).

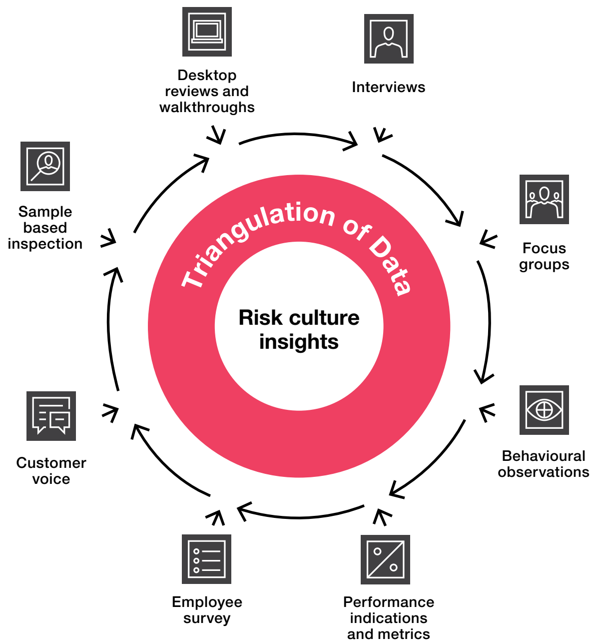
Interesting, only approximately **33%** are using focus groups and interviews. To gain a proper understanding of the risk culture in an organisation, there is a real need to speak to people (e.g. Board members, executives and employees) to understand the survey data, allow you to gather stories and examples, and to really dig below the surface.

Of our respondents who are already underway with conducting risk culture assessments, the below diagram provides an indication of the uptake by types of risk culture assessments.

Risk culture survey	70%
Inclusion of risk culture questions in existing employee survey	67%
KPI's and metrics	52%
Behaviorial observations	44%
Focus groups and interviews	33%
Other	22%

To gain a holistic, reliable and representative view of the insurer's risk culture, there is a need to gather and triangulate a variety of evidence. By combining both qualitative and quantitative data capture techniques, organisations are able to produce a robust data set on which to base an evidence driven, measurable, and fact-based assessment of their current state risk culture.

Examples of data capturing techniques



If sources of evidence are considered in isolation, this could paint a very different picture. For example – an individual may interpret no whistle-blowing or major escalation of incidents in a given period as a positive outcome. However, when undertaking interviews / focus groups to speak with employees (qualitative data) this may reveal that employees are unaware of how to utilise these channels, do not feel comfortable to raise concerns for fear of reprisal, or are not confident any action will result in a radically different insight.

It is therefore important to supplement the use of quantitative with qualitative techniques to provide a basis for triangulation and reveal the root-cause of a cultural or systemic behavioural problem.

Risk culture measurement

Once an organisation has performed an assessment to understand the current state, risk culture measurement enables the organisation to monitor how employee behaviour is evolving towards the desired risk culture over time. It is also used to understand the effectiveness of risk culture initiatives designed to drive this.

An evolving approach

The approach to risk culture assessment and measurement is evolving. To date, risk culture assessment and measurement has predominantly been focused on the outcomes, or aftermath – and therefore providing lag indicators or insights on what has already happened.

Some organisations are taking a more proactive approach through the use of predictive-analytics, lead indicators and artificial intelligence. This can highlight potential behavioural or people risks and issues that may result in conduct failures and allow management to intervene before they occur.

Tips for risk culture measurement

- Develop a framework to determine what you are measuring against. This is often best done following a deep-dive assessment as set out on the previous page.
- One size does not fit all. Measures need to be fit for purpose and tailored for each organisation's needs.
- Measure inputs, actual behaviours, and results.
- Use a combination of quantitative and qualitative measures.
- Ensure there is a balance between positive/negative and predictive/lagging measures.
- Less is more. Apply a small number of meaningful measures that are central to the organisation's risk culture.
- Apply tolerances and thresholds to identify variations from expectations, so that you know when to act.
- Create user-friendly reporting including demographic splits.
- Establish governance and reporting rhythm (e.g. bi-annual risk culture reporting to the Board).

Calls to action

Regulatory expectations

Is your organisation clear on the regulatory expectations in terms of risk culture, and does it understand what are the key roles, responsibilities and accountabilities in managing risk culture?

Alignment to strategy, vision and values

Is your organisation's desired culture aligned to the strategy, purpose, vision, values, and risk appetite statement? Has your organisation identified and articulated what behaviours reinforce this cultural aspiration? What mechanisms are in place to monitor and reinforce behaviours?

Triangulation of data

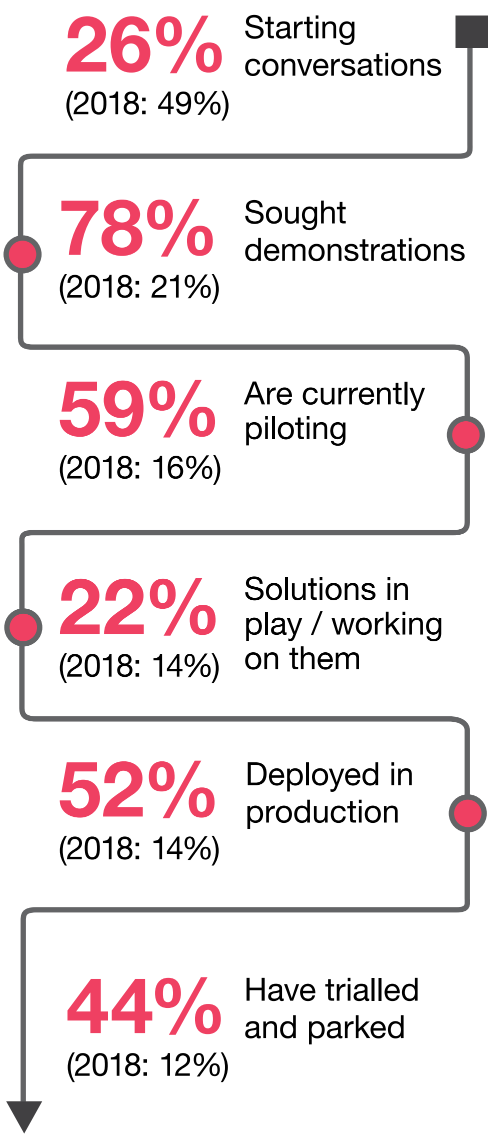
What techniques is your organisation using to perform a risk culture assessment? Are you triangulating qualitative and quantitative data to provide meaningful risk culture insights to the Board?

Measurement

How will your organisation determine the progress it has made in terms of driving the desired risk culture? What trends will be observed, what timeframes are realistic, and how will it be benchmarked within your own organisation?

5. RegTech

RegTech (Regulatory Technology) helps companies solve regulatory challenges, with leading organisations already using RegTech as part of a wider digitisation strategy. The current year survey results highlight a trend where companies are moving out of the conversation phase by seeking demonstrations or progressing to pilot phases. We have also seen an increase in the number of embedded solutions. Clarity on strategy and overall readiness appear to be key factors as to why organisations may have trialled and parked RegTech initiatives.

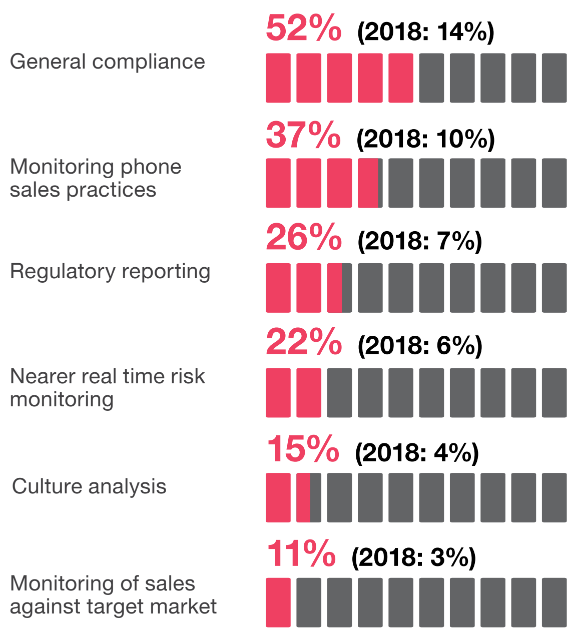


In PwC's 2019 Global CEO Survey, 71% of Australian CEOs stated operational efficiencies were key to revenue growth. Deployed effectively, RegTech can support this goal and also address two of the top three risk management challenges facing insurers - regulation and technology. Additional operational and compliance benefits can be gained through RegTech, including:

- Increased capacity within Lines 1 and 2 compliance teams to support the complex and judgemental compliance needs of the business and the services delivered to end customers.
- More precise information with greater breadth and coverage that can support the strategic objectives of the enterprise.

It is important to recognise regulators are positive towards the use of technology. RegTech is an opportunity to enhance organisational capability to meet regulatory obligations and customer expectations. The question of RegTech is fast becoming if not, why not?

The diagram below shows the areas that insurers are exploring within RegTech; General compliance and the monitoring of phones sales are leading the way.



Governance, Risk and Compliance ("GRC")

General compliance solutions are becoming increasingly popular, often replacing the use of spreadsheets. The number of respondents managing risk and compliance through spreadsheets has reduced:

26% 2018 → **11%** 2019

GRC technology and integrated risk management across multiple risk data domains is increasingly being seen as a more effective approach than specialist tools as it offers an agile platform which can adapt easily to changing requirements and dynamic risk profiles.
There are an increasing number of options available which offer powerful integration and automation. The consolidation of all risk related data is increasingly providing the opportunity to leverage Machine Learning / Artificial Intelligence to respond to new regulations, triage and categorise incidents and recommend mitigating controls.

In the last 2-3 years we have seen Australian insurance companies invest and rapidly adopt GRC technology to help digitise and manage the regulatory change, obligations and risk management (internal, external, and contractual). This is supported by continuous investment and increased success by large financial institutions, insurers, and wealth management over the last 10 years in GRC solutions.

Key drivers are:

- Automation of control testing and increasing adoption of smart controls;
- Increasing efficiency through 'redirecting the humans'; and
- Improving visibility and collaboration across risk, compliance and assistance functions.

Calls to action:

1. How do you currently manage risk, compliance obligations and regulatory developments? Have you considered how technology can help simplify, remove manual activities, and increase visibility of the priority items?
2. Do you have up-to-date visibility of performance in your key risk areas? Have you considered how GRC technology can consolidate, aggregate and centralise your data to provide real time insights and reporting against metrics?

Phone monitoring

One of the top areas being explored by organisations is the monitoring of phone sales. The adoption of voice technology can address a myriad of regulatory requirements. Using voice analytics and alerts to monitor all voice transactions, insurers can develop a deeper end-to-end understanding of risks from operations through to claims.

While regulatory compliance might be a primary driver for voice technology, leading insurers are considering how the customer and employee experience can be improved from insights gathered.

When exploring RegTech and GRC Tech solutions consider

Can the solution be used to improve culture and training?

Can the analytic easily adapt to your changing requirement?

Can the solution be used for real time quality assurance?

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