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Effectively managing change

in a challenging economic and regulatory environment

Like other insurance markets throughout the world, Canada has recently seen a great deal of change in a short period of time. In order to respond to this change and anticipate what may happen in the future, insurers have had to rethink business as usual and determine how to succeed in the short, medium and long term. Although each insurer that does business in Canada – and elsewhere – faces its own unique issues and circumstances, there are certain principles on managing change that are relevant to all of them and, if applied properly, can mean the difference between an initiative's success or failure.

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Challenges and Uncertainty

The last several years have been a period of intense change and challenge for Canadian and global insurers. In addition to dealing with the consequences of the worst financial crisis in decades, insurers have had to cope with fundamental changes in the accounting for and taxation of investments, increased regulatory focus, uncertainty over the future of capital management and executing business strategies in a softening market.

In addition, there is no immediate likelihood that this pace of change will lessen. 2011 will see the introduction of International Financial Reporting Standards (IFRS) for Canadian insurers, which will result in significant changes in the preparation of their financial statements and regulatory filings. As of January 1, 2010, foreign insurers, and cedants to such entities, also will be required to implement the amended Part XIII requirements of the Insurance Companies Act. Harmonized sales taxes will come into effect in Ontario and British Columbia in 2010, and other provinces may soon follow their lead. Regulators are taking a keen interest in insurers' investment holdings and strategies, as well as requiring semi-annual reporting on their progress in respect of IFRS and Part XIII implementation. To add to this, soft market conditions show no immediate signs of hardening. The list goes on…

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Companies that tackle these issues head-on and find innovative solutions first likely will emerge as winners in the industry. However, implementing change is not easy. It requires a well thought-out plan that addresses people, processes and culture. The following principles provide a framework insurers can use to begin the change management process:

1. **Establish a clear vision for managing change at the outset. Maintain credibility by establishing the right tone at the top and setting up an appropriate governance structure and clear decision-making powers.**

Regardless of an organization's size, it is vital to obtain buy-in from key stakeholders at the onset of a change management initiative.

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In addition, it is crucial to ensure up-front that the right management structure is in place. The CEO, CFO, senior executives and the Board all need to deliver consistent messages to the people who execute the projects, as well as to the organization as a whole.

What this management structure will look like, who the key stakeholders are, and the messages to be delivered will be different for each organization and for each project that includes change. However, a failure to define a vision at the outset will seriously impair any project's chances of success. Inconsistent messaging and a lack of clarity in the decision-making chain will result in confusion among those involved directly in the project execution and can threaten the overall projects' credibility throughout the entire organization.

2. Understand the implications of change to the entire business.

Change does not occur in a vacuum; it affects the entire business. In order to avoid nasty surprises in unexpected places, it is vital to recognize that the implications of any initiative may be pervasive throughout the organization. The project team's decisions can have far-reaching implications to the business, and can actually cause further issues or undermine other business activities if they do not take into account how the overall organization will be effected. What may seem like a minor change or decision to one group could be much more significant to another.

For example, IFRS is not just an issue for accountants, and the implementation of these new standards will have implications beyond just the finance department. New systems developments may be necessary to cope with increased information demands. Phase II of the Insurance Contracts project, which could fundamentally change the measurement of insurers' actuarial liabilities, will significantly effect actuaries, as well as management/ stakeholder perception of the profitability of business written. Existing contracts may need to be revised to ensure insurance accounting can still be applied under IFRS, which could impact the insurers' customer and broker relationships, as well as their current product offerings.

3. Ensure the right resources are in place and that you can develop them internally

Adequate resources (both monetary and personnel) are vital to the success of any change-related project or initiative, although they likely will be scarce in some areas.

It is critical to determine in advance the resources needed during the transition period, as well as when developing knowledge within the organization. If external advisors support project implementation,their knowledge will need to be transferred to the employees who will be responsible for the project after the implementation phase. Resource needs may change as the project develops, so the ability to react to changing demands is vital.

In the current financial environment, the identification and funding of the appropriate resources for any change-management project has become an even more critical consideration than in the past. The cost-benefit equation is top-of-mind to most organizations, and a number of them are reassessing their ongoing and proposed initiatives.

If future benefits do not clearly appear to outweigh current resourcing costs, then a project probably will not even commence.

However, some projects are truly necessary and must be effectively implemented despite current fiscal pressures. Ensuring adequate resourcing will be difficult for most businesses, but a failure to find a proper balance because of short-term cost constraints could jeopardize an organization's long-term success.

4. Develop a robust conversion plan that takes into account your peaks and valleys of activity

A detailed project plan not only provides clarity and accountability to the project team, but also provides for clear measures of success. Without a detailed plan to underpin the overall project vision and objectives, actual implementation and measurements of effectiveness become difficult and open to subjectivity.

Any detailed project plan should take into account competing demands, includes room for contingencies, and establishes clear accountability for actions and deliverables. Milestones should be clearly articulated but also be realistic: There is no point in setting numerous deadlines on an unachievable timeline.

In addition, the plan should take into account the functional levels of the business and take into account specific needs or concerns of those lines of business. For example, the impact of change to the claims department could be very different to the underwriting business.

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5. Determine a communication strategy that takes into account all key stakeholders

It is crucial to develop and execute a communication strategy early in the planning process. This will provide the necessary time to communicate significant impacts and areas of possible volatility and risk to stakeholders.

Staying on message is critical. Communications should be tailored to individual stakeholders to ensure they receive enough detail about their specific concerns. Moreover, the organization should be careful to ensure that it does not deliver inconsistent messages to different audiences. The entire project team should be appropriately updated if the communication strategy changes.

Keep in mind that stakeholders are both internal and external. Organizations should consider the impact of change on customers, their broker network, suppliers, regulators and tax authorities. Identifying who needs to know what, and when, is critical to the success of any project. For example, Part XIII requirements are not solely an issue for foreign insurers. Any purchaser of significant reinsurance contracts from a foreign insurance branch will need to carefully consider the implications for their own compliance with regulatory requirements, as well as on capital deposits/security. This may be a significant concern for foreign branches, which will need to fully consider their customers' needs and satisfaction with their actions.

6. Embrace the opportunity to make changes now and take the chance to make other project efficiencies

It is human nature to resist change, and selling several different initiatives at once to a business and its stakeholders is a difficult proposition in the best of times. Accordingly - and especially in a time like the present when change is omnipresent - organizations should take the opportunity to deal with several issues under a single banner. This will help them to address the changes that have to be made in the short-term, as well as the ones that have been under serious consideration in the past.

Moreover, despite the concern change often brings, it does not have to be threatening. An effective and systematic change effort can promote a team effort to address organization-wide issues that clearly need rectifying. For example, updating legacy systems and other processes that need improvement constitute significant change, but this is change that will be easy to sell because it benefits everyone.

In conclusion, while there is no magic formula or precise scientific approach that can be applied to guarantee successful change management, the above principles provide a sound framework that can help insurers cope, and hopefully produce successful results, in this period of unprecedented change.