

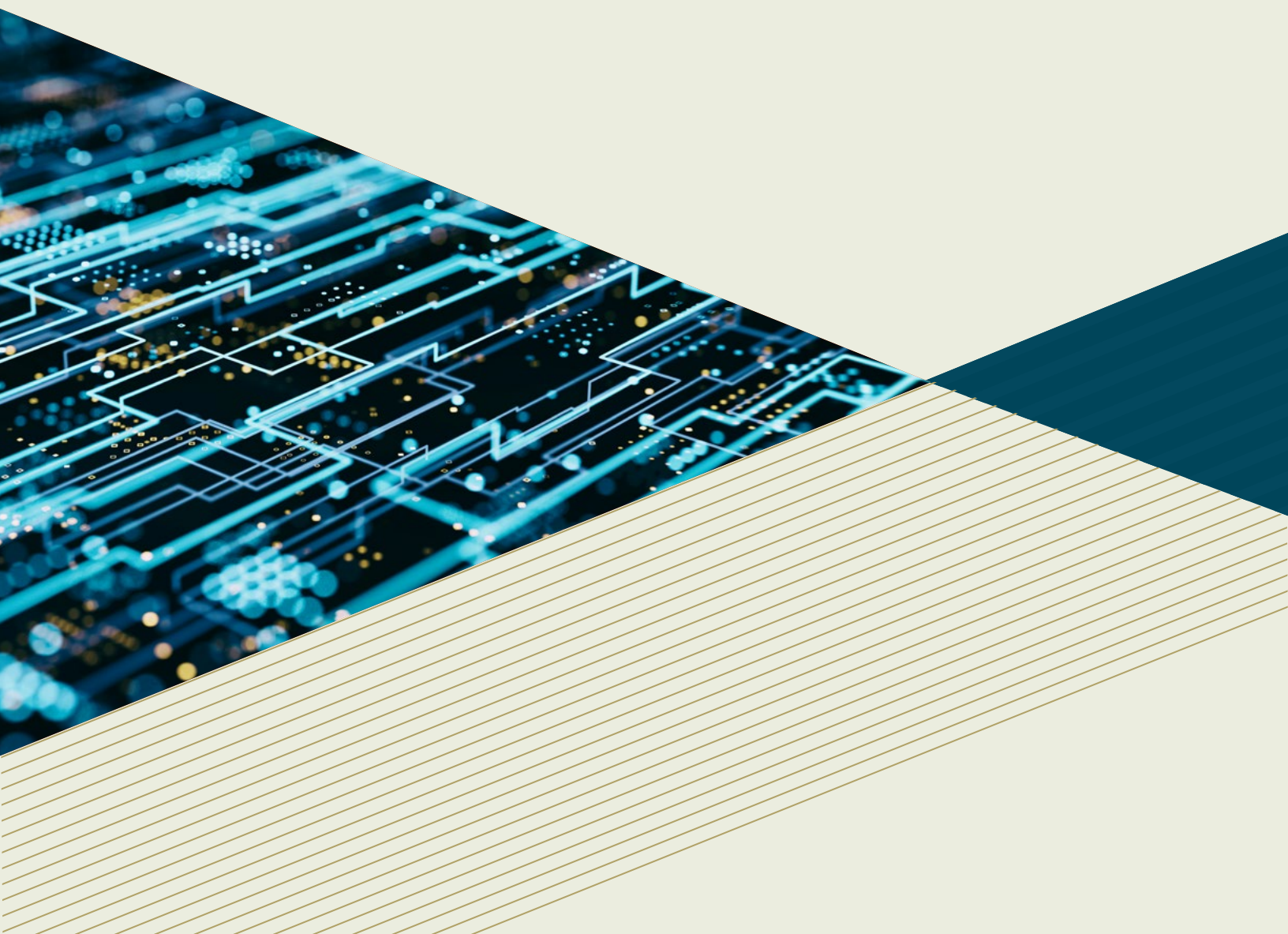
CIBC MELLON

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Canadian Insurance Firms: Reimagining the Operating Model Amid Turbulent Times

SEPTEMBER 2021



By now, the global investment and insurance industry has become well acquainted with how the COVID-19 pandemic has drastically changed the way the world conducts business. From the rapid shift to remote working capabilities, shifting demands as markets investors and regulators reacted to disruption, insurers are confronting new demands from stakeholders across the spectrum, and a rising array of opportunities and challenges as organizations contemplate their operational stances in a post-pandemic world. Insurers also face new challenges, pressures and uncertainty looking into 2022. In this environment, perhaps the only consistent prediction is that the pressure will continue to rise. Insurance companies are increasingly recognizing that longstanding approaches to investment operations may not deliver necessary efficiency, capabilities and scalability to meet the needs of tomorrow.



MICHAEL GARNEAU

**Vice President,
Relationship Management**

Michael is Vice President, Relationship Management and Co-Head of the Insurance Segment for CIBC Mellon. Michael is responsible for overseeing strategic client relationships for CIBC Mellon with a focus on insurance companies. He focuses on managing key client relationships and enhancing client satisfaction.



AMANDA COONES

**Vice President,
Investor and Plan Member Services**

Amanda is Vice President of Investor and Plan Member Services at CIBC Mellon. Amanda is primarily responsible for leading a high performing operations team, ensuring strong services to our clients' underlying stakeholders, including pension plan members and investment unitholders as part of our pension benefit services and investment fund recordkeeping offerings.



NICK PETRUCELLI

**Executive Director,
Business Development**

Nick is Executive Director, Business Development and Co-Head of the Insurance Segment for CIBC Mellon. Nick is also responsible for driving revenue growth and expanding CIBC Mellon's market presence across Global Financial Institutions, Insurance, Asset Managers and Asset Owners. He is focused on delivering asset servicing and outsourcing solutions to strategic clients across industry verticals.

The push to change the operating model is, for many, a matter of accelerating initiatives and trends that have been building for many years. Similar to many Canadian institutional asset management organizations, insurers are looking to modernize their investment operations to better capture and integrate data to support better decision-making across their organizations, achieve efficiencies and streamline their operating models as they focus on how they deliver core values. From revisiting legacy platforms to transitioning non-core operations to providers, and even lifting out teams, the transformational decisions facing Canadian insurance companies will impact their businesses, operations and competitive positions for years or even decades to come. Insurers have a long history of building in-house to meet their needs, at times resulting in complex operations, large operational teams, and multiple technology platforms requiring substantial reconciliation efforts. Moreover, the cost of development on technology platforms to meet regulatory requirements and Fundserv Standards compliance has become cost prohibitive. Segregated fund product complexity and differentiation requires material product development costs on legacy systems and results in delayed time to market with new products. With complexity and disruption also comes opportunity for positive change, many players increasingly see an opportunity to gain strategic advantage and enhance competitiveness in Canada and across the global stage.

As needs continue to change, three themes are emerging: building data-centric operations, simplifying the operating model and managing growth.

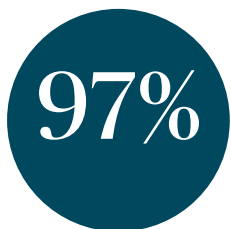
BUILDING DATA-CENTRIC OPERATIONS: MANAGING DATA, ENSURING QUALITY

These factors are at the forefront of considerations for insurance companies and institutional investors as they receive varied demands from management teams, regulators, agents, investment arms, teams, compliance officers, actuaries and risk managers, as well as the operational requirements of portfolio management, trade processing and insurance accounting systems. In addition, new challenges are emerging, such as rising data volumes and the need to manage unstructured data sources as well as incorporate nonfinancial information.

Organizations are investing time, money, and energy in ensuring the quality, accessibility and security of their data as they work toward achieving a data-centric operating model. This has increased the need for a robust governance framework and enhanced strategic management of their data. It may also in turn mean a team dedicated to supporting the data needs across the organization - and gathering the requirements of who needs what data and what rules must be applied - to ensure the data is fit for purpose. Technology - especially AI-based tools - can play a significant role to help ensure processes to validate data are exception-based and have minimal resource overhead. If there are too many manual interventions required the process will not be sustainable.

The industry continues to emphasize the need for access to meaningful data to drive business models forward. Insurance companies and other institutional investors are likewise evolving their data management strategies, their philosophies on how they approach insourcing, outsourcing or managing data, and their strategies on how they access, engage with and share both data and insights.

[BNY Mellon global research](#) shows near-universal concern among asset management organizations regarding their data management infrastructures, with 97% considering outsourcing their data management infrastructure. Many Canadian insurers are likewise recognizing that data can indeed determine destiny – and looking to modernize their own operations.



97% of asset management organizations considering outsourcing their data management infrastructure

The transformational decisions facing Canadian insurance companies will impact their businesses, operations and competitive positions for years or even decades to come.

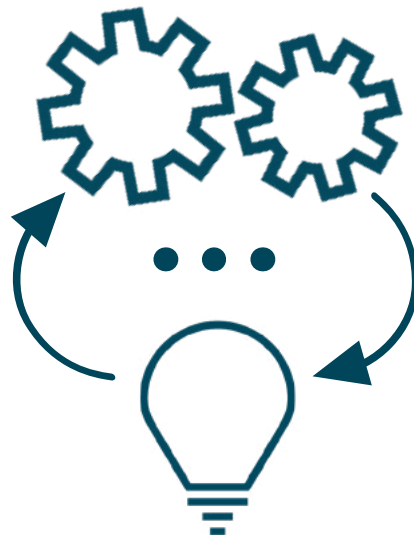
SIMPLIFYING THE OPERATING MODEL: MOVING AWAY FROM LEGACY SYSTEMS

One of the biggest industry developments facing investment industry professionals across the front, middle and back office in Canada is the ongoing transition away from legacy systems. For long-tenured professionals who have been utilizing the same systems their entire career this can appear overwhelming. While change and transition can mean a learning curve when moving away from familiar platforms, technology upgrades also present opportunities to improve processes, adopt more efficient operational workflows (for example, eliminate processes running in batch for self-service extracts and tailored reporting to improve the quality and accessibility of client data) and even reconsider outdated systems and structures that have replicated inefficiencies from past processes or requirements.

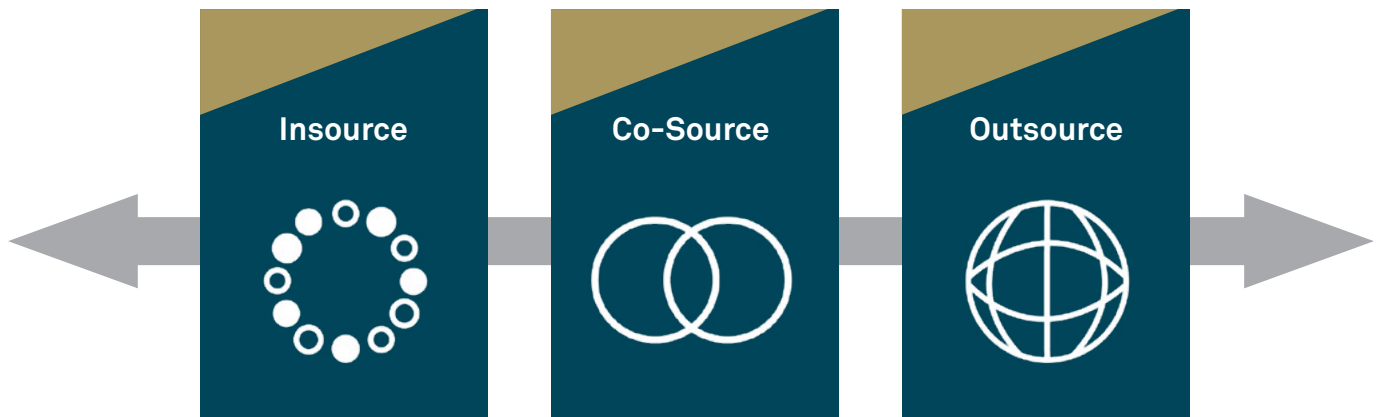
The near-term impact of unwinding a legacy platform is that organizations still dependent on the system will have to gain a better understanding of what manual or custom solutions they have developed over the years, and what suboptimal outsourcing models are currently moving these inefficiencies along the value chain. The long-term impact, though, is that these organizations will become more efficient, less exposed to operational risk, and better prepared for a landscape in which their data strategy can facilitate growth.

Even before the pandemic put pressure on institutional investors to streamline their data, we moved many legacy teams, originally performing back or middle office operations for asset managers, to our organization. Those individuals were able to transition to an organization whose core business is the operational side, opening up new career opportunities along with the ability to streamline their operating model and in some cases, even rationalize their office footprint.

When it comes down to facilitating a transition or moving on from a legacy system, a key factor in an organization's success is their people. While up-to-date technology and products, a solid risk culture, and a great client service model are key foundations of the business, people are central. Employees' ability to listen to clients, champion client initiatives and understand client priorities, in the framework of the market and industry trends, is critical.



FINDING THE RIGHT OPERATING MODEL – INSOURCE, CO-SOURCE OR OUTSOURCE



While insurance firms and other institutional investors often have parallel or overlapping needs, challenges and goals, each client has their own nuances. To this end, for many, technology might be better considered as a continuum of solutions and expertise rather than a monolithic choice imposed by a vendor. An open architecture provides the flexibility to choose best-in-class systems for their investment activities and capture insights from a wide variety of data sources. To define an end-state operating model, institutional investors should consider what functions they want to perform in-house, and what they want outsourced. Where clients are performing activities in-house, they are looking at how the technology, information or service providers can empower those teams to help make them more efficient. In outsourcing, clients are looking to third party providers to fill gaps and are exploring possibilities to outsource more; so that they can focus on their core business. Gaps, efficiencies, risk, and core capabilities are all considerations that clients are exploring within their own operations.

Moving to a fully outsourced model where teams and technology are operated by a provider allows clients to leverage a standardized service that can be integrated into their existing operations. For many clients, this is an ideal choice as it reduces the need to recruit, retain and motivate talent resources, shifts the complexities of technology maintenance outside the organization, and perhaps most importantly delivers a more predictable cost structure with access to greater industry scale. However, some clients may want to be able to provide their internal stakeholders with highly tailored analytics or seek the ability to integrate their own data with the information from their asset service partner. In this scenario, a technology-only model where a provider delivers the platform while the manager provides the process expertise remains a viable operating model.

Identifying and eliminating manual processes is a key focus area. Automation, scalability and efficiencies are relevant not only the interaction between clients and service providers, but also with underlying investors as well.

With changing data demands, we also see some considering hybrid models, and we are increasingly turning to open architecture solutions that enable easier integration of emerging tools. Industry participants want to be able to integrate a wider range of data sets, focus resources on complex analysis but also be prepared to allocate operations functions to their asset servicing providers based on their investment operations models. This has provided many clients with the best of both worlds minimizing inhouse operational activities while continuing to leverage technology to better meet their information delivery strategic objectives. An open architecture model can even pave the way for a gradual transition over time as an insurance company continues to evolve its operational model.

MANAGING GROWTH

Canada is home to a wide array of insurance companies and other institutional investors at varying places along a continuum of complexity. Institutional investors face common challenges around capturing, measuring and reporting investment information sourced from and delivered to a multitude of systems and people across borders. They are also faced with a new world of integrated platforms, transparency and technology that has evolved the technological landscape. Many managers are reaching the limits of complexity that their current operations can absorb. They are identifying opportunities to replace an interconnected web of augmented and customized legacy components with a more systematic solution to managing investment information. To deliver what's needed requires taking a different approach from the past, as well as a digital- and data-driven mindset and skillset.

Providers must have the foresight, the talent (and talent strategy), the infrastructure and the technology to scale up. They must be able to grow with client needs, expanding beyond the traditional role of supporting operations to empower client strategies and new requirements across front, middle and back office functions. They look to data for competitive advantage — to help gather assets, improve investment performance, access liquidity pools and other imperatives.

IFRS

With the International Financial Reporting Standards (IFRS) on the horizon, firms should be prepared for the effects of how this will alter the face of accounting. Insurance companies will be required to report in greater depth on how insurance contracts affect their financial position, while regulation demands greater detail in financial analysis and increased co-operation between actuarial and accounting departments.

We have seen this emerge as a top strategic priority for insurance companies, with many anticipating the changes and preparing early. From evolving legislation and regulations to the costs and issues inherent in processing claims and collecting premiums.

INSURANCE SOLUTIONS

CIBC Mellon is collaborating with global and domestic insurance industry stakeholders in order to evaluate potential asset servicing, insurance operations and investment outsourcing operations solutions to support clients' evolving needs in this segment.



MANAGING CHANGE: IMPORTANCE OF A STRONG CLIENT ONBOARDING APPROACH

Insurance companies face complex risk pressures such as complying with new regulations, managing transparency concerns and mitigating investment risks across diverse asset classes. Regardless of external circumstances, we have continued to work toward a seamless onboarding experience for our clients. Our team aims to support clients as they build scale and serve their stakeholders.

Clients are looking for implementation principles that are designed to minimize risk and operational disruption through delivery and execution.

WHAT TO LOOK FOR WHEN CONSIDERING AN OUTSOURCING PARTNER:

- 1. Dedicated Team Focused On Client Implementation** - In addition to having a project lead assigned to each client account, clients should seek designated on-boarding resources embedded within the various operational teams which means that subject matter experts work directly with clients during the onboarding process. It also means the early engagement of business-as-usual resources.
- 2. Consultative Approach** - A transition is more than a conversion of client data. It is a chance to work collaboratively with clients to review processes, discuss best practices, understand their needs and build strategic plans to drive and solidify trusted partnership.

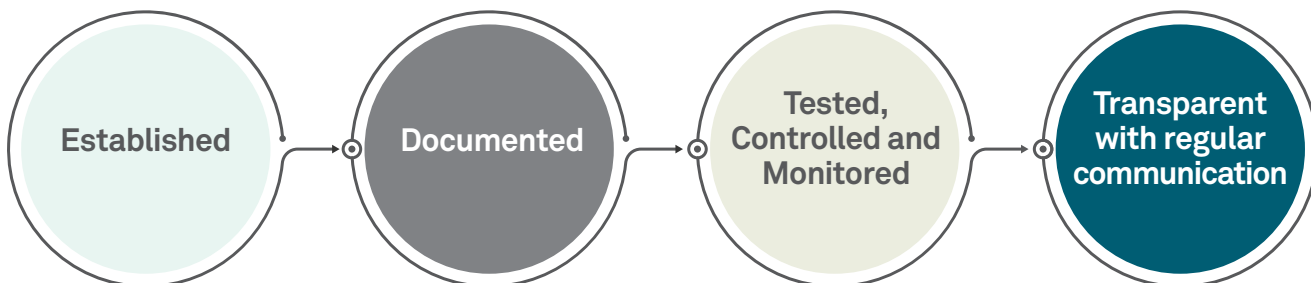
Clients are looking for help to scale for new business, new asset types, analysis, new volumes and frequency and demand from many more stakeholders requiring information to do their work. Given the breadth, perspective and scale of asset servicing providers in helping clients shape their operations, the growing data and analytics practice within the business is a logical evolution for longstanding relationships built in some cases over decades of trust.

- 3. Disciplined Project Management Approach** - Using a disciplined project management approach enables quick decision making and accountability. One master project plan is used to document and track all aspects of the program.

Clearly defined program management roles are used to drive accountability and deliver a consistent experience.

- 4. Mitigate Implementation Risk** - The stakes continue to grow and the data challenges are gaining focus for many firms given the increasing number of internal and external stakeholders depending on data – boards, investment management teams, compliance teams, regulators and more - clients are looking to their providers to create a data management process that simply gathers the loose data spread across locations, systems, and teams, and makes it readily available for when they need it.

TO MITIGATE RISK, WE ADHERE TO A STANDARD CONVERSION PROCESS.



OPERATIONAL CONTINUITY THROUGH THE PANDEMIC AND BEYOND

Even with unprecedented disruption through 2020 and the ongoing pandemic, CIBC Mellon has remained fully operational, showing our capacity to support our key stakeholders and clients when they need us most. We were pleased to be recognized by Global Finance as #1 in the world for treasury operations amid the COVID-19 pandemic.

We prioritized the health and safety of our team. We moved rapidly to remote working, helping protect and able to continue performing their job safely. From an internal perspective, we had solutions to help get employees up and running quickly. Employees have noted that the ability to work from home has led to lower stress levels and more time to engage with their family, developing a stronger work-life balance.

From an external perspective, we continue to see clients grappling with the implications of rapid swings in liquidity. Amid the March-April period of market dislocation, we were able to utilize client feedback and engage with colleagues and peers on a global basis to help provide clients with relevant perspectives – with timely updates, relevant insights and key risk perspectives.

We know clients are looking for more than a third party vendor, they want to find and build strategic relationships with trusted partners; service providers that help to envision opportunities, drive strategic plans and make it easier for clients to achieve their business goals.

Consolidating service providers has also been a trend, as leading providers show themselves as capable of driving success and reducing complexity. Where strategic providers emerge as trusted parties with a track record of success, market players across the spectrum see opportunities to hone in on areas where they have the scale, expertise and focus to drive value – turning to strategic providers for the rest. Others are keen on an open-architecture model that better enables them to integrate best-of-breed approaches across an array of providers. It's not a binary choice, rather it's about finding scale at the right place for each organization and indeed orchestrating the right operational model and providers.





Considerations for clients moving forward

1. Have you created a data governance structure or team that has oversight for data across the investment process?
2. Do you have too many separated platforms and need to look at data centralization?
3. How does my in-house and provider talent pool align to the needs of my asset management, technology and operations activities? Do I have the talent pipeline in place to meet future needs?
4. What does it take to transform aspects of the business to succeed in a new digital reality?
5. As the volume and scope of data continues to grow, is the business equipped to handle it?
6. What are my regulatory development costs?
7. What are my product development costs and product time to market? Am I losing market share by not offering newest product features?



Closing thoughts

For decades, asset servicing has been in the business of bringing scale and efficiency to clients, and the pandemic has accelerated these themes. Institutional investors have significant questions about their business, offerings and operations. CIBC Mellon's expanding offerings for insurance companies in Canada are built from a long pedigree of service to asset managers, and designed in collaboration with some of the largest players in the market.



A man with short brown hair and glasses, wearing a dark suit jacket and a white shirt with a patterned tie, is shown in profile from the side, looking at a laptop. The laptop screen displays a dashboard with various data visualizations, including a pie chart, a bar chart, and several tables of data. The background is softly blurred, suggesting an office environment. A dark teal semi-transparent box is overlaid at the bottom of the image, containing white text.

CIBC Mellon is collaborating with global and domestic insurance industry stakeholders in order to evaluate potential asset servicing, insurance operations and investment outsourcing operations solutions to support clients' evolving needs in this segment.

For more information

For more information on CIBC Mellon's Insurance Solutions, contact your Relationship Manager or visit www.cibcmellon.com

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