Deloitte.

Asia Insurance Internal Audit Benchmarking
2019 – Focus on Information Technology Audit and 'Audit 3.0' preparedness

Current state of affairs

Rapid advancements in technology are transforming the global insurance industry. Companies are said to be embracing the use of advanced and predictive analytics, robotic process automation (RPA), artificial intelligence (AI), and cognitive technologies in their quest to improve business operations.[1]

Internal Audit (IA) has been encouraged to adopt new tools and techniques and to develop capabilities needed to respond to today's challenges effectively. It is equally important for IA to develop a coherent vision for both their industry and the function. Such a vision is essential in order to drive needed change and prioritise initiatives for the function and the organisation as a whole.[2]

To describe this future state, Deloitte has coined the term Internal Audit 3.0, the next generation of IA, a function as attuned to the challenges of emerging risks, technologies, innovation and disruption as the organisation itself - a function fully able to assist with safeguarding processes and assets as management pursues new methods of creating and delivering value. [3]

What is driving IA in insurance businesses in Asia?
Asia is a vast geography with diverse jurisdictions and regulatory regimes, requiring Regional IA functions to spread their resources across a significant number of (often sub-scale) local entities. This poses a number of challenges for these teams, in terms of logistics, availability of expertise and costs, that need to be optimised.

This Benchmarking project aimed to understand organisational approaches and concepts employed by IA functions in insurance companies in Asia in order to deploy specialist IA knowledge (including IT-Audit) successfully. It further aimed to de-mystify the actual application state of 'emerging' technologies in Asia and IA's current level of maturity in auditing them, as well applying these technologies for its own internal use.

The benchmarking took the form of a survey in which the participants were a selection of IA functions across a range of insurers in Asia. Some of these insurers are the regional operations of global insurance companies while others are regional players in the sector.

"Until recently, the Internal Audit profession has not faced the need to innovate, let alone reinvent itself. We can trace the birth of modern Internal Auditing – "Internal Audit 1.0" – to the founding of the Institute of Internal Auditors (IIA) in 1941 – and trace "Internal Audit 2.0" to Sarbanes Oxley and its impact on the accounting profession. Now, however, as we approach the end of a decade of unsettling uncertainty, organisations face evolving strategic, reputational, operational, financial, regulatory, and cyber risks. And there is a need to constantly innovate in order to compete."

— Deloitte Audit 3.0 thought leadership publication

Asia insurance internal audit benchmarking

Key takeaways on organisational set-up and IT-audit approach

Specialist audit hubs are the leading practice

Most larger insurers have set up dedicated hubs for specialist auditors to support their operations across Asia. This generally includes IT-auditors, actuaries and investment audit specialists.

Smaller players generally totally rely on their global IT-audit (and other specialists) for audit coverage in Asia and therefore do not retain any IT-audit resources in the region.

Decentralised model not favoured

Very limited examples exist where insurers have opted for a decentralised or "hub-and spoke"-type model which places IT-Audit resources in-country. The apparent rationale for this is closer alignment with the business and increasing ease of audit coordination.

Locations for hubs

Hubs generally reside in the key business location of the insurer (i.e. Hong Kong and Singapore). In a few cases, efforts to locate specialists at 'low cost' locations (particularly, Malaysia or the Philippines) were observed.

Survey responses did NOT indicate any negative experience with this approach. This might represent an opportunity for re-thinking regarding the location of IA specialist hubs in the future.
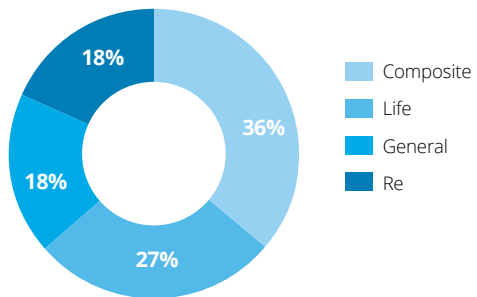
Efficient coverage of general-type controls

Local general auditors rarely (< 20% in most responses) cover IT-general controls. Therefore, it seems that there is a significant opportunity to do "more-with less" by training local general auditors to take up a larger share of this IT-general controls work. This would increase coverage, reduce costs and free up specialist auditors to concentrate on higher risk areas within their specialisms.

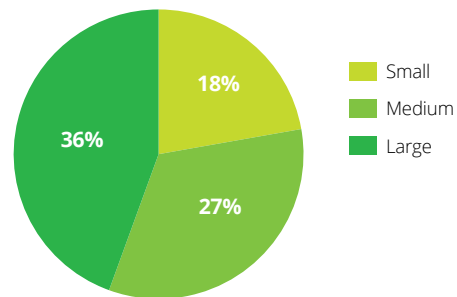# Benchmarking approach and participants

Asia-domiciled insurance companies participating in the survey consisted of Composite (Life and Property & Casualty (P&C)) Insurers, Life Insurers, P&C Insurers as well as Re-Insurers. To facilitate analysis and generate relevant insights, the participants were further categorised into large, medium and smaller players.

The overall size of the organisation, the size of the Asia audit team and the number of countries covered by the Asian audit team have been chosen as the main criteria in defining these categories.
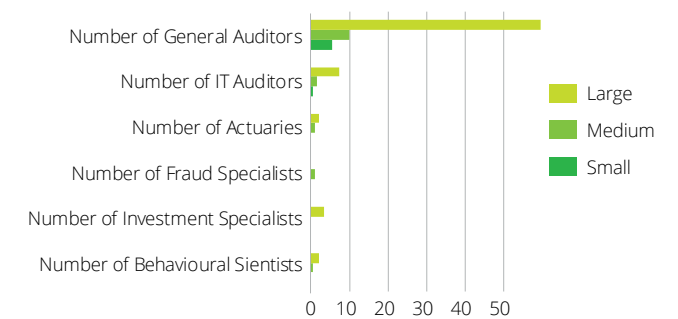
Survey Participants by Company Size

- Composite 36%
- Life 27%
- General 18%
- Re 18%

Survey Participants by Business Model

- Small 18%
- Medium 27%
- Large 36%

Countries Served

(bar chart: Small ~3.5, Medium ~7, Large ~15)

Number of Auditors

- Number of General Auditors
- Number of IT Auditors
- Number of Actuaries
- Number of Fraud Specialists
- Number of Investment Specialists
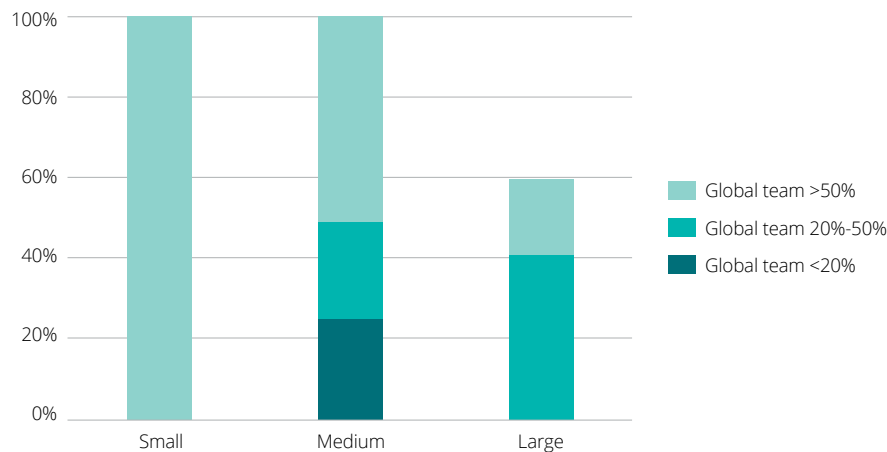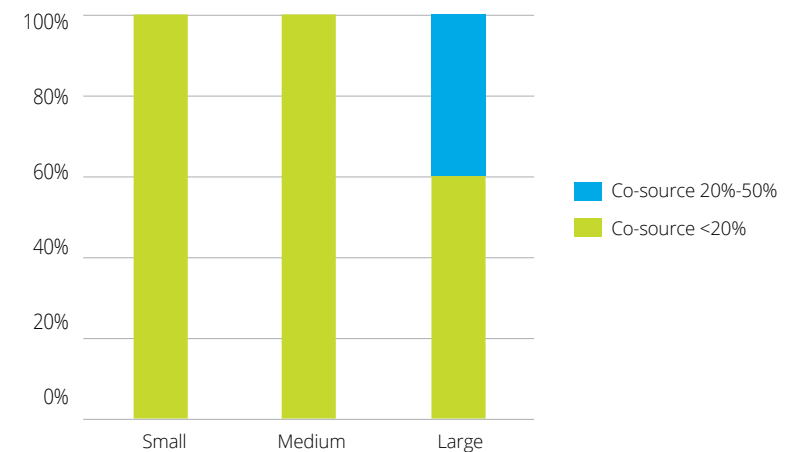- Number of Behavioural Sientists

Legend: Large, Medium, Small
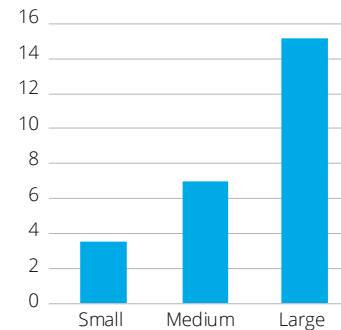
Most IA teams also rely on their global IT-Audit (and other specialists) for audit coverage in Asia as well as **co-sourcing for support from Subject Matter Experts** to some extent.

Reliance on global resources

Legend: Global team >50%, Global team 20%-50%, Global team <20%

Reliance on co-sourcing

Legend: Co-source 20%-50%, Co-source <20%

Specialist audit hubs are leading practice

Most larger Insurers have set-up **dedicated hubs for specialist auditors** to support their operations across Asia. These usually include IT-auditors, actuaries and investment audit specialists. Hubs generally reside in the key business location of the insurer i.e. Hong Kong and Singapore.

Specialist Audit Hub Location
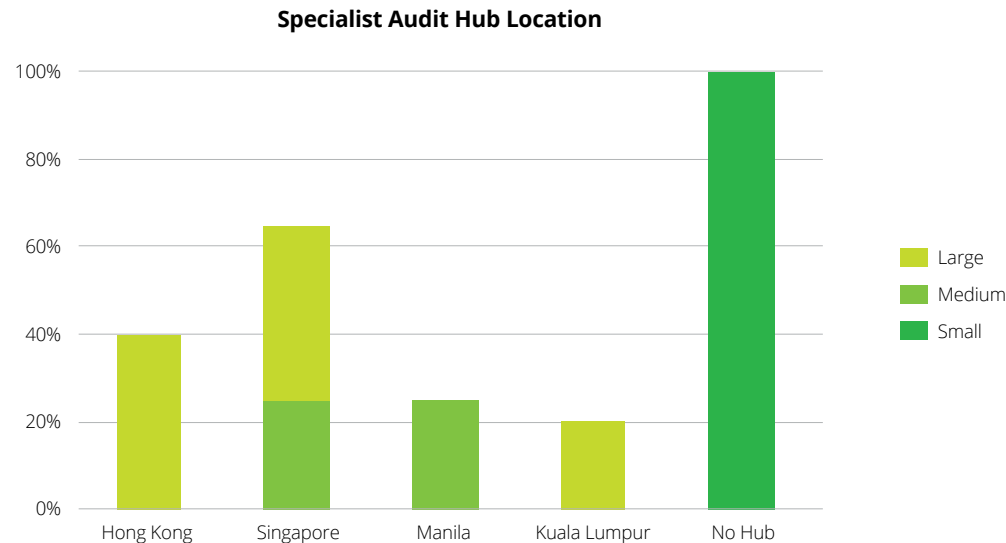
In a few cases, efforts to locate specialists in "low cost" locations (particularly, Malaysia and the Philippines) have been observed. Survey responses did NOT indicate any negative experience with this approach.

INSIGHT: This might represent an additional opportunity for re-thinking the location of existing specialist hubs, particularly as talent pools in these new locations improve over time.

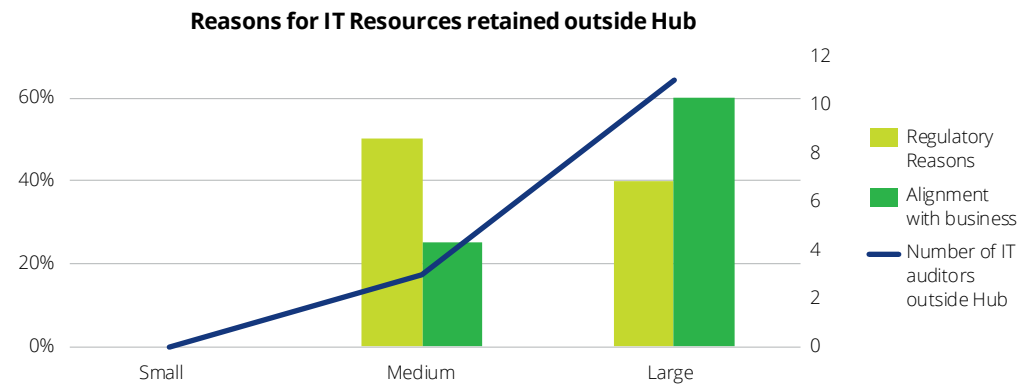## Key considerations in choosing IA hub locations

Apart from alignment with their organisations' business structures, the participants' main consideration when choosing a location for their IA hubs is often the expected depth of the local talent pool.

The first and foremost reason cited for retaining IT-resources outside a specialist audit hub is regulatory requirements.

INSIGHT: Most organisations appear to be able to deliver IA services which conform to regulatory requirements without any local IT-Audit presence.

Decentralised delivery model not favoured

There are very few examples of where insurers have opted for a decentralised or "hub-and spoke"-type models, with IT-audit resources being placed in-country. Centralised approaches for IA are preferred, apparently on the basis that these align more closely with the insurers' business models and facilitate the coordination of audits and make hiring easier.

Reasons for IT Resources retained outside Hub

Legend:
- Regulatory Reasons
- Alignment with business
- Number of IT auditors outside Hub

Responses suggest that the **expected benefits of a decentralized approach are NOT consistently achieved.** For instance, hiring and retaining top talent is reported as being more difficult outside hub locations.
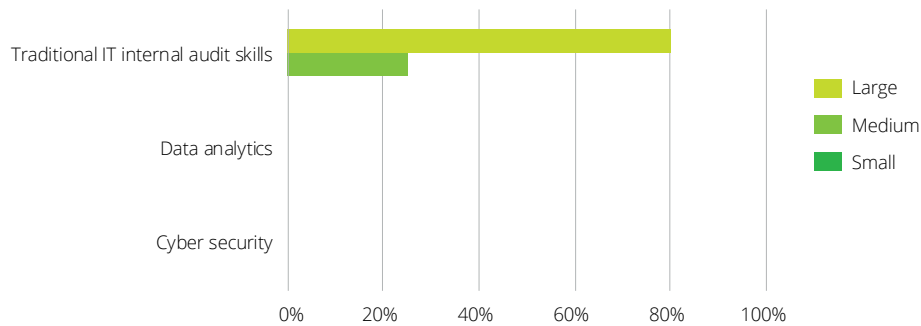
Selected participant comments on hub locations and hiring:

- The talent pools at our main hub locations are larger than in local countries.

- Recruitment cycles at IA hub locations are within our normal cycle of two to three months. We have tried hiring in local countries but, overall, this is not easy. Depending on the country, positions have stayed open for six to twelve months.

- Competition for talent can be higher at hub locations, but having a good brand name helps to overcome hiring challenges.

- In-country, we see a lack of technical (e.g. security, cyber, etc.) and English skills, as well as business understanding. Normally, local candidates do not come from an insurance background and thus have limited industry knowledge.

- Depth of local market knowledge can be an advantage for local candidates, but these applicants often lack an international mindset and are not familiar with best practice.
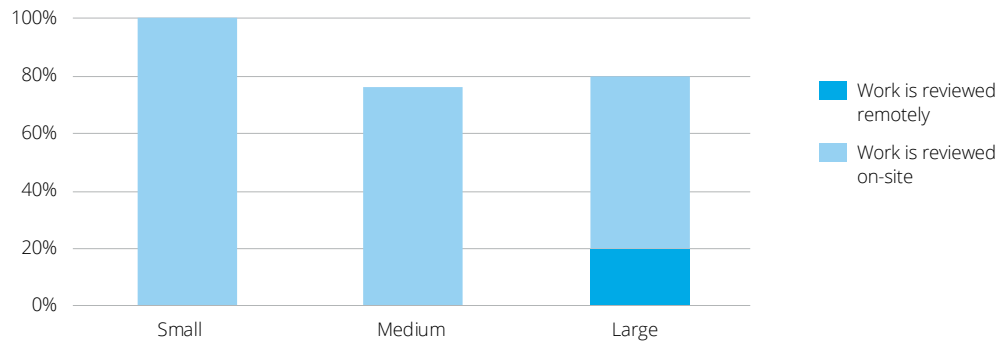
IT-audit delivery

IT audits are generally delivered by a specialist audit hub. Where local IT auditors are retained (under a decentralised delivery model or as an addition to the centralised IT-audit hub), they generally only have "traditional" IT-audit skills. Specialist auditors therefore need to travel to oversee local work on the ground.
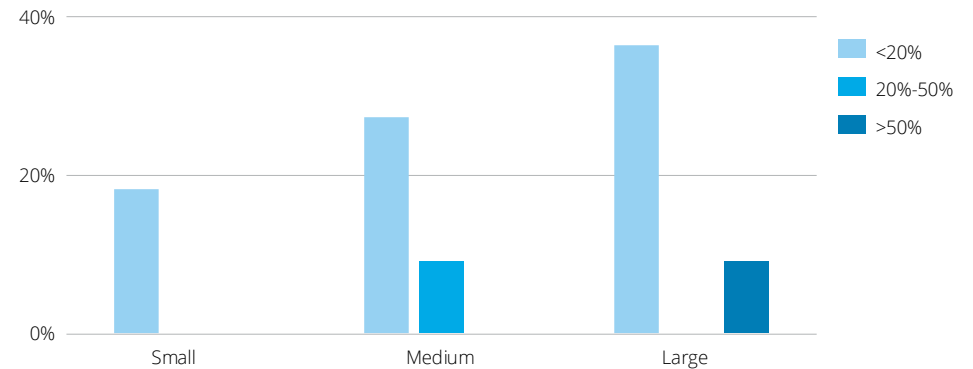
Local general auditors are rarely (< 20% in most responses) seen to be covering IT-general controls.

Skills of local IT Auditors

Review location of local IT-audit work

Business Auditors ability to cover IT-General Controls

INSIGHT: This seems to represent a significant opportunity to do "more with less" by training local general auditors to take up a larger share of general IT-controls work. This could help to increase audit coverage, reduce costs and free up specialist auditors to concentrate on higher risk areas within their specialisms.

Asia insurance internal audit benchmarking

Key takeaways on Asia insurance audit's 'Audit 3.0 preparedness'

Insurance businesses in Asia (whether or not as part of global insurance firms) have not taken up emerging technologies to the extent that insurers have done so in other regions, as suggested by global surveys on this subject. This could indicate that insurers' global technology pilots are mainly focused on their developed markets. Where efforts have been made in Asia, these largely relate to moving key systems to Cloud, creating Data Lakes and, to a lesser extent, RPA.

Digital Roadmaps generally exist in the business, but IA functions do not generally have them. Interestingly, it is IA functions at medium-sized insurers that seem to be leading the way in terms of defining their digital approach and in the adoption of emerging technologies.

An opportunity remains for most IA teams to define their approach to digital innovation, in terms of both auditing digital innovation in the business and how to it should be used as an IA tool.

Data Analytics and getting access to Data Lakes seem to be the main current innovations in IA audit technology. Related technologies or tools, such as Data Visualisation and Continuous Auditing, are expected to grow strongly in the next two years.

A significant opportunity appears to exist in relation to deploying RPA to increase the efficiency of the audit function (i.e. automation of audit follow-up).

The benefits associated with new audit technologies are largely seen as being aspirational at this point. Responses to the survey do not indicate any significant successes in achieving such benefits.

Participants are expecting benefits to materialise within the next two years.

Insurers in Asia not yet embracing emerging technologies

Insurance businesses in Asia (whether or not as part of global insurance firms) have not taken up emerging technologies to the extent that insurers have done so in other regions, as suggested by global surveys on this subject. This could indicate that insurers' global technology pilots are mainly focused on their developed markets. Likewise IA's coverage in its audits of the use of emerging technologies by the business is still limited.

New technology currently...
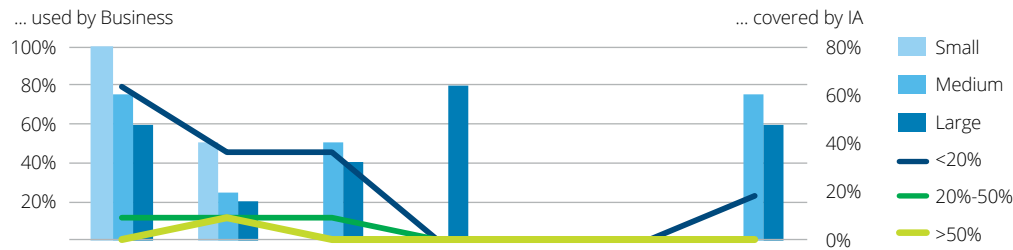
Whilst an increase in the use of emerging technologies is expected by both insurers and their IA functions, it is interesting that, across both of these populations, medium-sized organisations seem to be the most innovative.

New technology expected in 2 years...

Audit's application of electronic work-papers and data analytics tools

TeamMate (electronic work-papers) as well as Excel and Power BI (Data Analytics) are the main tools currently used. Organisations with more advanced Data Analytics approaches indicate that they are using more specialised applications such as "Click" or "Python".
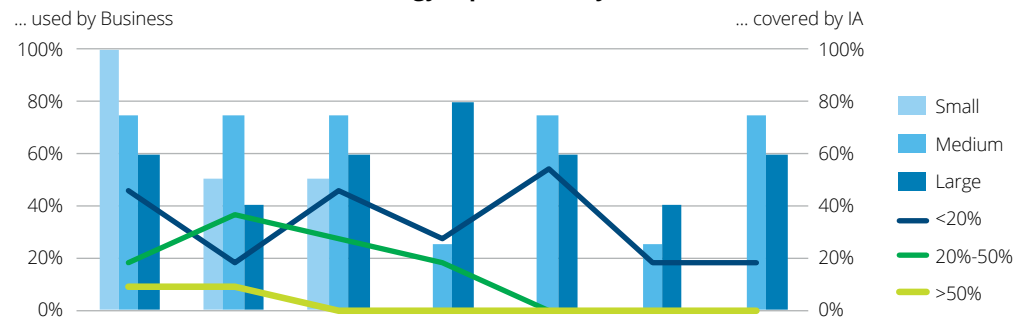
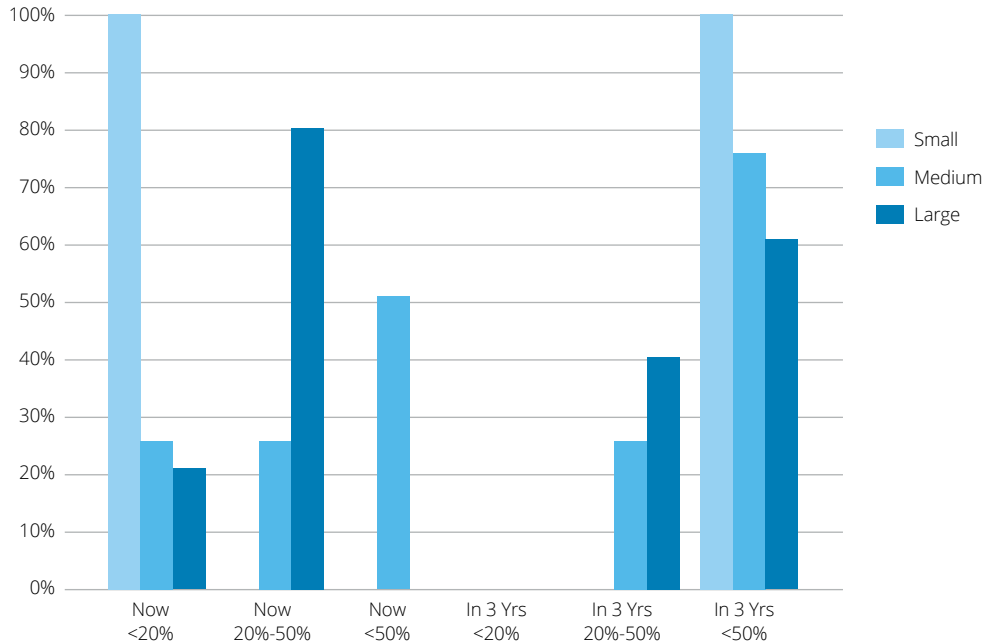**Electronic workpaper solution used**
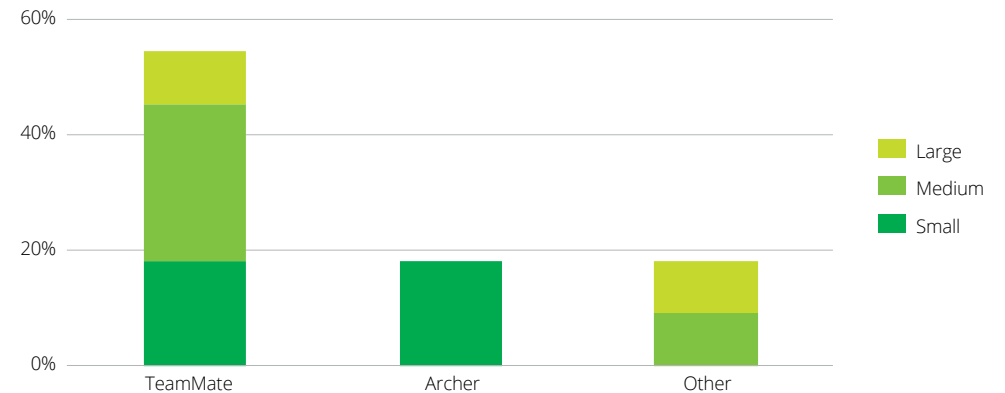
Data analytics tools used
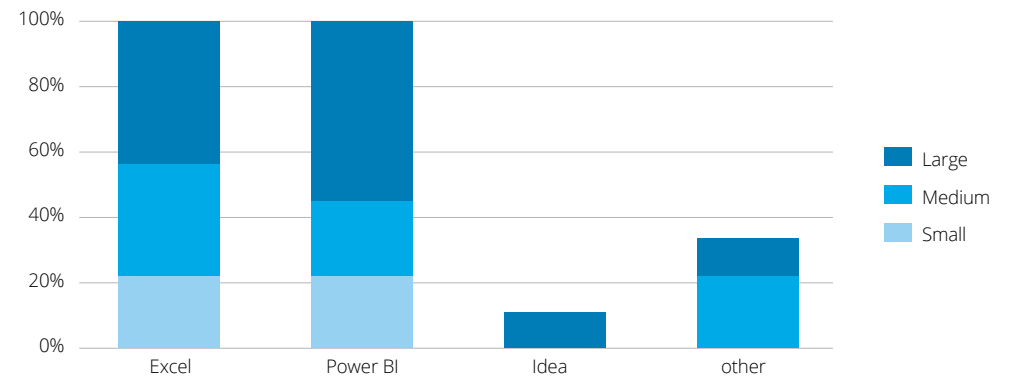
Use of data analytics

There is a clear expectation for Data Analytics to grow strongly in the next two years. Current efforts are being led by the larger organisations, with small and medium-sized firms expecting the biggest progress in the next two years.

Audit's application of new technology

Data analytics and gaining access to Data Lakes seem to be the main current innovations taking place with IA audit technology. Technologies or tools such as Data Visualisation and Continuous Auditing are expected to feature strongly in the next two years.

Audits using Data Analytics

New Technology usage within Internal Audit
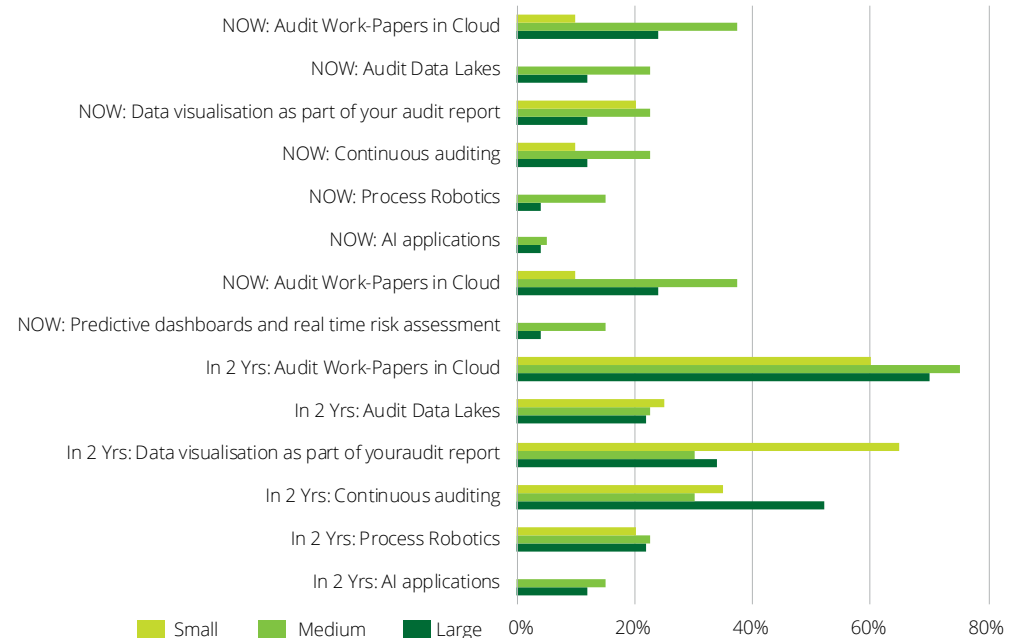
INSIGHT: Again, it seems that medium-sized organisations will drive innovation in the near future. A significant opportunity for increasing efficiency of the IA function appears to relate to deploying RPA i.e. automation of audit follow-up.

Digital roadmap

Digital Roadmaps generally exist in the business, but IA functions do not generally have them. Interestingly, it is IA functions in medium-sized IA insurers that seem to be leading the way in terms of defining their digital approach and in the adoption of emerging technologies.

Digital Roadmap
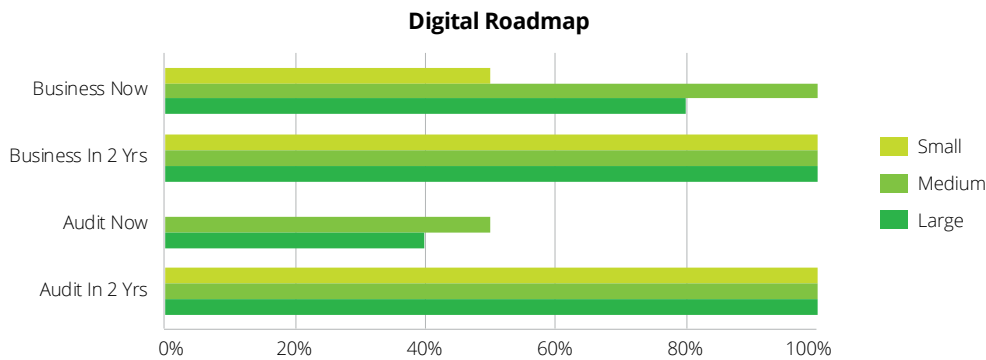
INSIGHT: An opportunity remains for most IA teams to define their approach to digital innovation, in terms of both auditing digital innovation in the business and how it should be used as an IA tool.

Agile

"Agile" transformation seems to be well underway in most insurers' IA teams in Asia. However, many practitioners remain sceptical as to whether Agile is really a new concept or simply a new term to describe IA's ability to act flexibly and in a risk-based manner.

Adoption of Agile Auditing
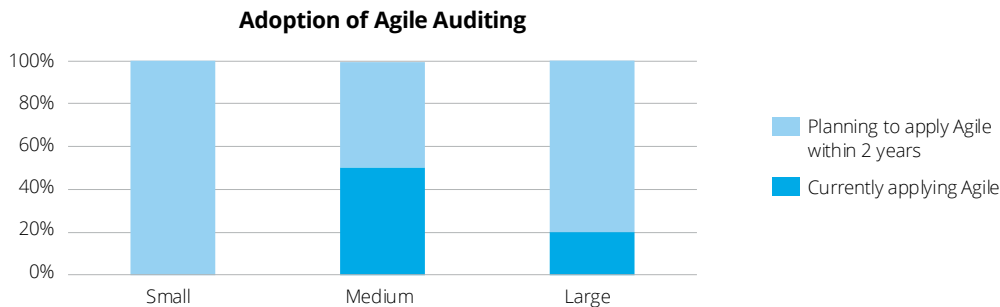
Benefit realisation for Internal Audit

The benefits associated with new audit technologies are largely seen as being aspirational at this point. Responses to the survey do not indicate any significant successes in achieving such benefits.

Participants are expecting benefits to materialise within the next two years.

Benefit Realisation
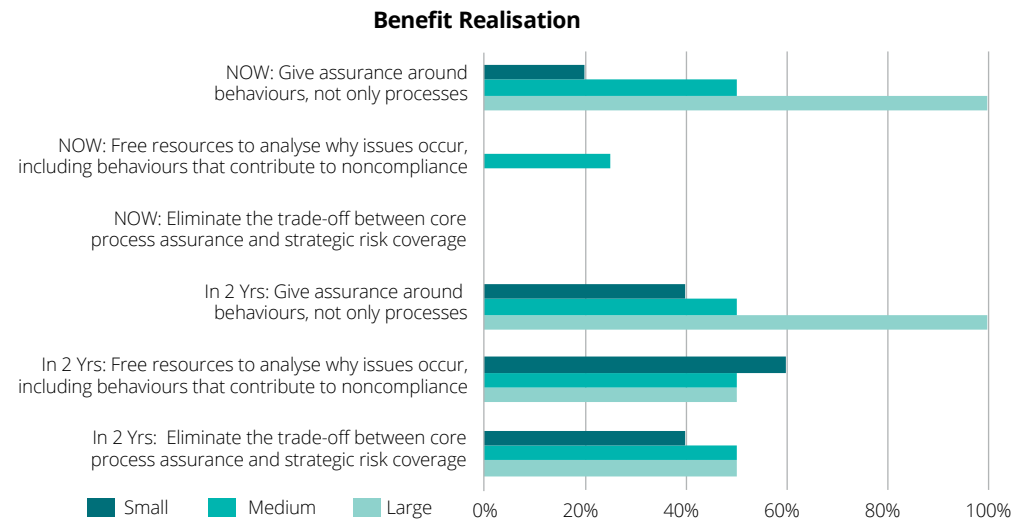
The road ahead for insurance internal audit practitioners in Asia

How and where to invest?

Most insurance companies planning to use technology to modernise their IA functions are proceeding with caution as they consider how and where to invest in technology to achieve optimum value. Asia does not yet seem to be at the forefront of the application of "emerging technology". Nevertheless, IA executives in the Region need to be ready to support their businesses as expectations from IA stakeholders regarding technology adoption are likely to increase rapidly. Thus, IA functions should:

- Have the required know-how in their teams and should therefore invest in training at their specialist hubs, where they already have critical mass.

- Stay closely aligned with their businesses' digital initiatives in order to be able to advise on these developments and to prepare themselves for the challenge of auditing the resulting revised processes and practices in business operations.

- Consider becoming early adaptor of new technology, to build the necessary expertise to be able to advise the business on its adoption of technology.

Similarly, due to their relatively smaller size, IA teams in Asia are well-placed to spearhead and pilot the application of "emerging technology" for subsequent global application. Asia audit executives can ask themselves:

- How do we create the RegTech business case to drive greater executive and organisational buy-in for technology?

- How do we stay abreast of the ways that regulators and peer companies are deploying advanced technologies and data analytics so that we do not fall behind?

- What expertise and skills do we currently have that can be used on pilot applications?

- What would be a "quick-win" pilot using new technology that could showcase the benefits of technology?

"Assure, advise, and anticipate form the core value proposition of Internal Audit 3.0, covering the basics while advancing into activities that will deliver new value to the organisation."

— Deloitte Audit 3.0 thought leadership publication
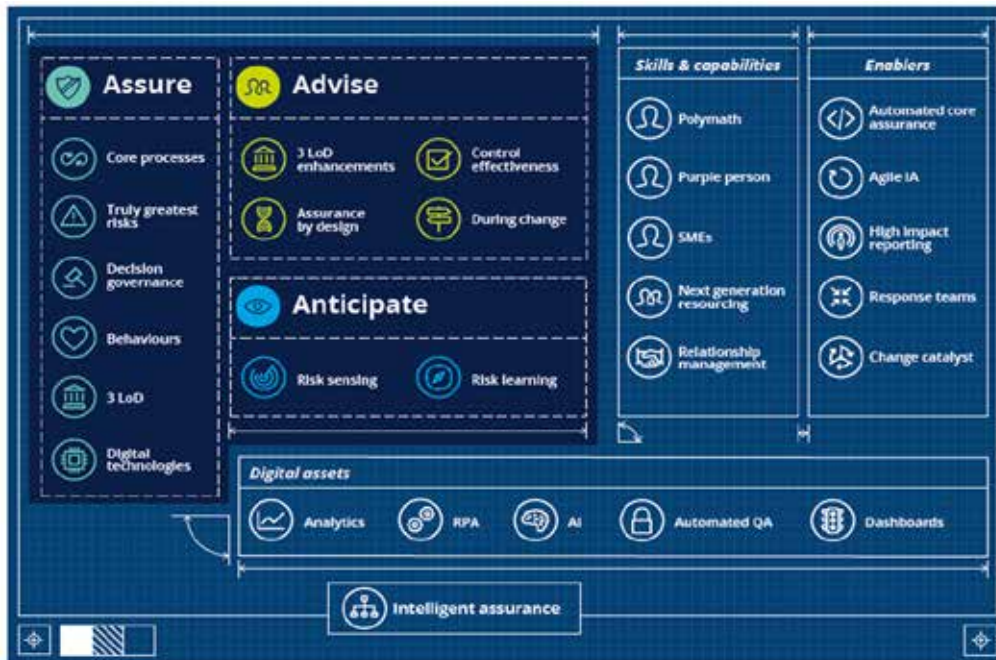
What's next?

Insurance companies' IA functions have an opportunity to align themselves more effectively with the business strategies of their organisations in a drive towards increasing the efficiency and effectiveness of their work. Audit teams in Asia should consider the somewhat slower adoption rates observed in their organizations' local businesses as an opportunity to get ready to provide new value. When implementation gains traction, they will be able to support and advise their businesses proactively.

At the same time, IA executives in Asia can benefit from their often smaller footprint within their global insurance organisations. This is on the basis that they can spearhead and pilot the use of emerging technology for subsequent global implementation with only limited investment and with lower execution risk.

The assure, advise, anticipate value proposition is enabled through:

- Digital assets, which have already begun to transform Internal Audit work, and are about to revolutionize it

- Skills and capabilities, which position Internal Audit to improve the interface with stakeholders and better meet their needs

- Enablers, which engage the system to deliver new value in desirable ways

Endnotes and Assumptions

1. "Modernizing compliance: Enabling and moving with the speed of business"; Deloitte, 2017.
2. "Internal Audit 3.0: The future of Internal Audit is now"; Deloitte, April 2018.
3. "Auditing the risk of disruptive technologies – Internal Audit in the age of digitalitsation"; Deloitte, 2018.

Limitations and constraints:

- Self-reported information: The Project required respondents to report their own information. This information has not been independently verified or audited. Analysis and any implications stated in this report were derived from information collected directly from respondents. Any bias in their responses could affect the objectivity of the information presented. In addition, respondents might not have responded accurately. Therefore, the Project results may not be entirely accurate.

- Time effect: The results of the Project are constrained by the defined timeframe. Over time, information contained in this report may become less valuable as a benchmark or referencing tool due to changes in the macro-environment and other circumstances.

- Sampling and selection error: Respondents chose whether or not to participate in the Project survey, which may result in sampling error.

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