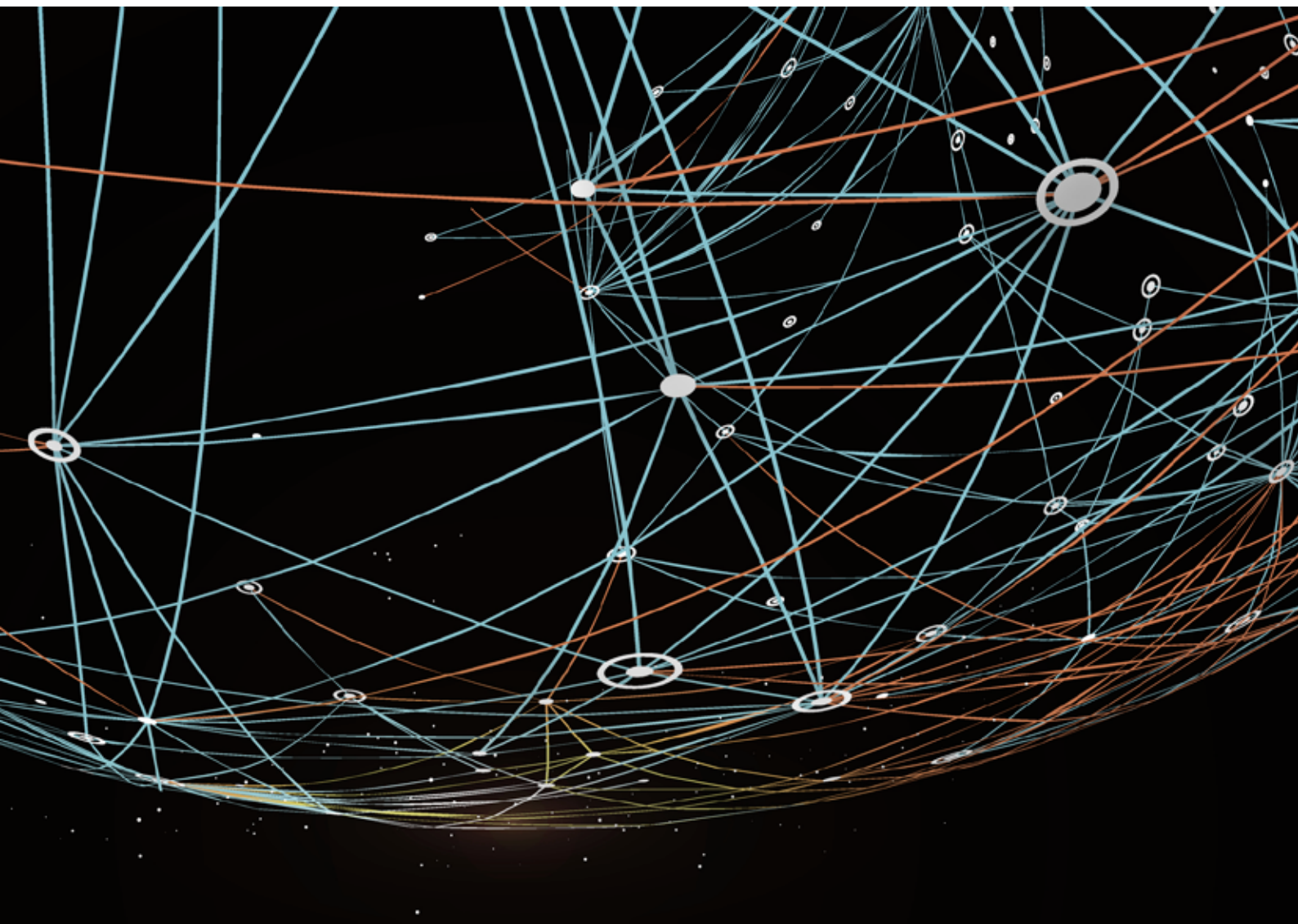


CAPCO

COVID-19 AND FINANCE: THE IMPACT AND LESSONS LEARNED FROM THE PANDEMIC SO FAR



INTRODUCTION

The COVID-19 pandemic has impacted the global economy on a scale unseen in modern times, with the Bank of England recently warning that the UK may be entering its [deepest recession since 1706](#).

While it is becoming increasingly clear that the pandemic's impact will be felt for many years to come, the short-term shock has created a need for financial services (FS) organizations to react at extraordinary speed to drastic changes in customer demand, ways of working and economic outlooks. CFOs have been at the heart of this, with every element of the finance operating model severely impacted.

Our discussions with clients have revealed common themes of impact across four key areas in finance:

- 1. Accounting Changes**
- 2. Ways of Working**
- 3. Business Decision-Making**
- 4. Technology.**

In each of these areas, key insights are already emerging about how CFOs can pivot their functions to cope with the lasting impact of the pandemic and to emerge stronger, more resilient, and better able to support their business partners.



1) ACCOUNTING CHANGES

FS clients predominantly have an accounting year-end of 31st December. Therefore, by the time the coronavirus was taking hold (the World Health Organization declared a Public Health Emergency of International Concern on [30th January 2020](#)), they had already completed their 2019 financial statements and annual reports. However, the impact on our clients' financial reports will be much more far-reaching than a footnote to the 2019 accounts.

Organizations should be prepared to provide detailed supplementary information on the specific impact of COVID-19 on the business within their 2020 interims. This will be the first time these impacts will have been reflected in the measurement of income, expenses, assets, and liabilities, so investors and other users of the financial statements will demand this.

For companies reporting under IFRS, expected credit losses (ECLs) as a result of the pandemic must be assessed. This

has obviously been particularly strongly felt by our banking clients, where provisions for bad debt have increased by up to 50 percent in some cases. IFRS states that companies must use "[*reasonable and supportable information*](#)" about past events, current conditions and the forecast of future economic conditions when determining ECLs. This presents a huge challenge for our clients; the outlook for the next month, let alone the next few years is extremely uncertain, and depends on scientific factors which have not yet been validated.

However, a company cannot assert that reasonable and supportable information about a matter is unavailable simply because modelling its effects appears difficult. FS organizations should be considering how changes in customer behavior as a result of COVID-19 will impact expected credit losses, whether additional economic scenarios are required, the impact of government interventions / guarantees, and the impact of specific actions (e.g. mortgage holidays, limit increases).

Further, detailed information on IFRS 9 and the coronavirus impact can be found on the IFRS website [here](#).

Other accounting impacts will be felt across insurance recoveries, fair value measurement, revenue recognition and disclosures. For the wider accounting impact, ESMA recently published guidance on the accounting implication of COVID-19 [here](#).

2) WAYS OF WORKING

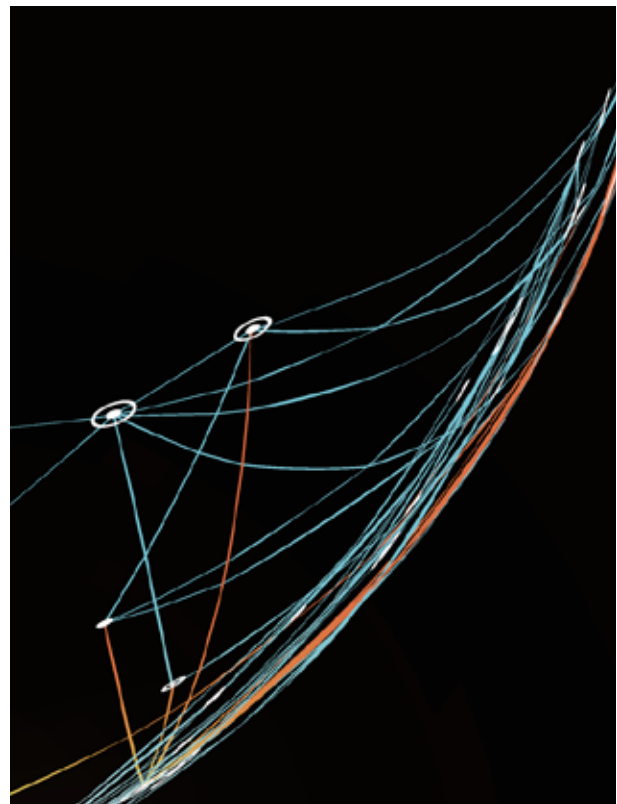
The pandemic and subsequent worldwide lockdown has forced a shift to remote working on a scale never seen before. In some cases, this shift has had to happen literally overnight. While larger, global FS organizations, with their globally dispersed finance teams, were already comfortable with remote working, for smaller firms, where finance operations, reporting and FP&A teams are typically co-located in HQ offices, the impact has been felt much more acutely.

Many of our clients have just been through their first completely virtual month-end and quarter-end close processes, highlighting gaps in tooling, processes, governance and documentation which will need to be addressed quickly.

This has rapidly accelerated and embedded what was already an emerging trend - many banks already had policies encouraging one or more days of remote working per week and are used to a significant proportion meetings being video conferences. There are obvious benefits to be gained from this including: lower premises costs; increased workforce diversity; and an ability to recruit from a wider talent pool. Nearly three out of four finance leaders surveyed in by [Gartner in April](#), said they plan to move at least 5 percent of their workforce that had previously reported to an office to a full-time, remote schedule, and 20 percent of CFOs said they are cutting their on-premise technology spending.

The challenge, as we move from the initial shock towards the 'new normal' will be for finance leaders to embed these working practices sustainably, while maintaining the knowledge sharing, morale, and other less tangible benefits of co-location in an office. For many of our clients, finance teams are located alongside other corporate functions or business teams, promoting business partnership and idea-sharing. Maintaining this dialogue across remote finance and business teams will be critical to demonstrating finance to be a value-add function as opposed to a mere reporting and control function.

Outside of HQs, many of our clients' offshore finance shared service centers (SSCs) were severely impacted during March and April, particularly by the lockdown in India, which was announced [with only four hours' warning](#). This hit finance operations teams hard, and in some cases, processes were almost shut down completely. While contingency plans were in place for floods or other disasters, they had not prepared for a country-wide lockdown. The global business process outsourcing (BPO) industry, which totals almost [USD222bn annually](#) has been quick to react. Throughout March and April, companies were quickly sending laptops to their workers' homes, expanding virtual private networks (VPNs) and rolling out improved broadband. Here, the challenge will be to prepare for a second spike in the future, while looking to realize benefits from this new remote working capability, for example using remote working to free up employees from lengthy commutes in the largest Indian cities.



3) BUSINESS DECISION-MAKING



The pandemic has demanded an agility of business decision-making rarely seen in modern times. Sudden, drastic changes in customer demand, supply chains, distribution channels and credit outlooks have led to a requirement for decisive leadership action despite a very uncertain outlook. This has put huge pressure on CFOs to be able to provide the right information to the right people quickly to enable critical decisions to be made.

The ability to monitor revenue, costs and cash flow on a weekly, sometimes even daily, basis has been critical to navigating organizations through these choppy waters, with the pandemic's effects on liquidity, and capital resources of particular short-term concern. The Financial Reporting Council (FRC) recently published the [infographic](#) on the key information for investors during the crisis starting with cash flow, liquidity and variable costs and quickly switching to business viability and protecting assets and value drivers.

Unfortunately, the pandemic has in many cases highlighted reporting processes which are rigid, slow, and arduous, making it a significant challenge for CFOs to generate actionable insights or, even worse, leading to decisions being made on inaccurate or out-of-date information. As we move through hugely uncertain times, CFOs need to invest in the right reporting processes and tooling to ensure accurate, timely data can be provided to leadership throughout and beyond the crisis. The organizations that can react decisively and get things right first time have an opportunity to gain competitive advantage in these truly disruptive times.

Organizations should focus on getting the basic, actionable MI to their leadership teams quickly before moving on to the more glamorous analytics projects. Automation can help to both increase the speed and accuracy of this reporting. Where the stress testing of this crisis has highlighted clear reporting process gaps, these should be addressed as a high priority.

4) TECHNOLOGY

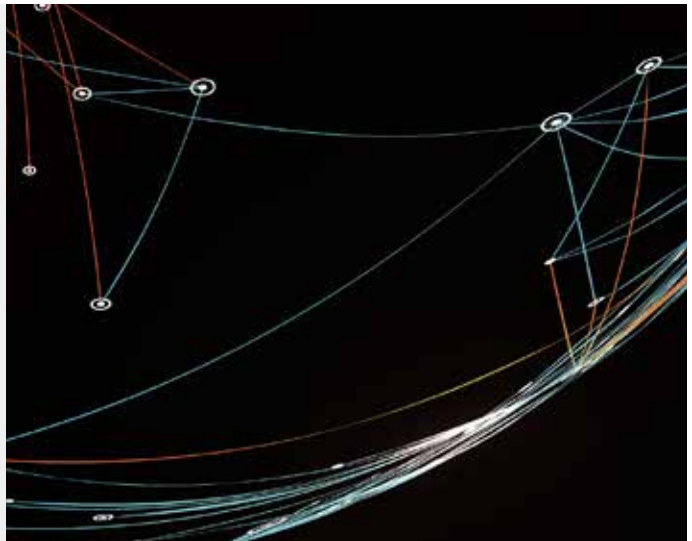
The pandemic has shone a spotlight on the importance of having finance and accounting functions on the cloud, so that teams can work uninterrupted remotely. This has now switched from being a convenience to a necessity and will result in requirement to accelerate cloud migration programs for critical functions.

In addition to migration of core finance systems to the cloud, use-cases for new collaboration tooling within finance functions have strengthened. While most firms have struggled through the crisis so far with existing toolsets or using largely email-based communication, emerging platforms which support greater collaboration within a 'virtual close' should be assessed for the potential value-add in a world where remote working is likely to become the norm.

Before COVID-19, many of our clients were already dipping their toes in the water with finance process automation to reduce costs, increase accuracy, and free up capacity within their finance teams. While automation adds value in normal times, during a crisis it can also help ensure business continuity. Replacing repetitive tasks such as data collection and validation, transaction matching or account reconciliations with value-add analysis and insight will enable finance teams to focus on business problem-solving as discussed in section two. As with cloud-adoption, we see the investment in automation is moving from convenience to necessity, especially given widespread hiring freezes are likely to increase the pressure on CFOs to deliver more for less.

CONCLUSION

The current COVID-19 pandemic gripping the world presents some unique and intimidating challenges for the finance functions across the FS industry. However, through targeted and deliberate action and investment in technology, reporting and new ways of working, finance functions can turn the crisis in to an opportunity to build a future-proof finance function and support their businesses in gaining market share from competitors.



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