COVID-19: LESSONS LEARNED BY INSURANCE CFOs

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 predictions. Chief financial officers (CFOs) have been at the heart of this change, with every element of the finance operating model being severely impacted.

Our discussions with clients on the impact, have revealed common themes 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 emerging around how CFOs can pivot their functions to cope with the lasting effects of COVID-19, to emerge stronger, more resilient, and better capable of supporting their business partners.

01 ACCOUNTING CHANGES

Most FS clients have an accounting year-end of 31st December. This means that 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 businesses with detailed supplementary information on the specific impact of COVID-19, 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 – all of which is vital information for investors and other users of financial statements.

Perhaps the biggest accounting impact on insurers in the short term, is that they have gained an extra year until they are required to apply IFRS 17 (by the International Accounting Standards Board (IASB)), with the effective date moving to annual reporting periods beginning on or after 1 January 2023. This extension has been welcomed by insurers, given the amount of preparation still required by most firms and the technological challenges they face. Despite the delay, a rapid and effective approach to delivering IFRS17 remains essential. The final version of IFRS 17 is expected to be issued in June 2020, which will allow insurers to use this extra time to improve data issues, test their solutions and prepare prepare for the new go-live date with more certainty.

In the meantime, the impact on insurance liabilities measured under IFRS 4 have varied greatly, depending on the specific types of coverage provided and the accounting policies applied. All insurers are having to assess the short-term impact on liabilities, alongside any subsequent effects on market or demographic assumptions used to model future claims.

Government actions may also impact assumptions about premiums and claims and will need to be carefully monitored given the variation in national responses to the pandemic.

Enhanced disclosures on key assumptions used for estimation will be required due to the increased uncertainty surrounding the global markets. This will include explaining the impact of COVID-19 risks on the business and how credit, liquidity and market risks are being managed.

In addition, whilst most insurance companies continue to be exempt from the application of IFRS 9, with the application of IFRS 9 deferred until the same date as IFRS17, insurers need to assess whether impairment losses should be recognized for investments, that are not classified as at fair value through profit or loss under IAS 39. Here, life insurers have been most significantly impacted by the further decline in interest rates and the downturn in financial markets.

02 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 an emerging trend - insurers already had policies encouraging one or more days of remote working per week and are used to a significant proportion of meetings being video conferences. There are obvious benefits to be gained from this - lower premises costs; increased workforce diversity; and an ability to recruit from a wider talent pool. Nearly three out of four finance leaders surveyed 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 collaboration. Maintaining this dialogue across remote teams will be critical in demonstrating finance to be a value-add function, as opposed to just reporting and control.

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 USD222 billion 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. This could include using remote working to free up employees from lengthy commutes in the largest Indian cities.

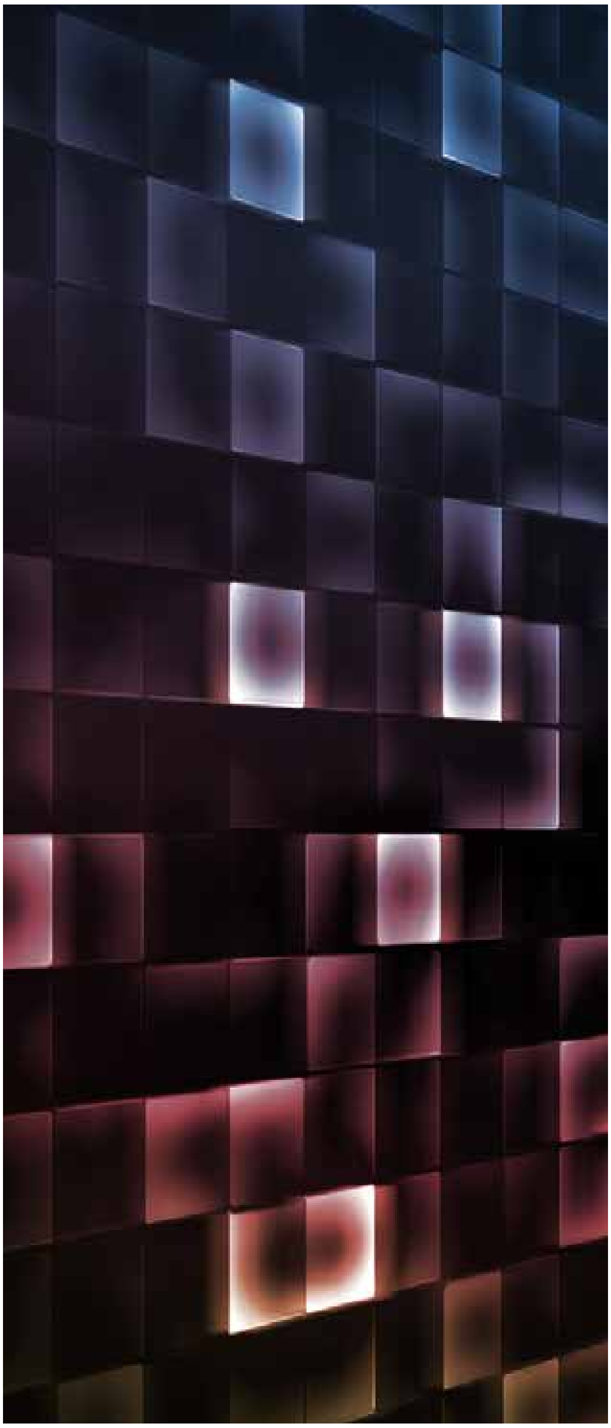
03 BUSINESS DECISION-MAKING

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 has put pressure on CFOs and wider leadership to make quick decisions and to provide the right information to the right people.

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 an 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 these unprecedented 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 disruptive times.

Organizations should focus on getting the basic, actionable MI to their leadership teams quickly before moving on to the more complex analytics projects. Automation is the key to increasing both 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.



04 TECHNOLOGY

The pandemic has shed light on the importance of having finance and accounting functions via the cloud, so that teams can work uninterrupted remotely. This has now switched from being a convenience to a necessity and will result in the acceleration of 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 considered as a long term solution in a world where remote working is likely to become the norm.

Before COVID-19, many of our clients were already looking into 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 help to 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 judgement-based activities such as analysis relating to solvency, premium adequacy and insurance contract liabilities, demand for which will increase given the market volatility. As with cloud-adoption, we see the investment in automation is moving from convenience to necessity, especially given widespread hiring freezes and cost reduction initiatives are likely to increase the pressure on CFOs to deliver more for less.

WHAT DOES THE FUTURE LOOK LIKE?

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

For more information please reach out to our insurance team.

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