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Reporting for duty

Moving to more efficient financial
reporting

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Agenda

- The pressure to move to more efficient reporting
- Where do you start?
- Where does it get tricky (in our experience)?
- How can financial reporting teams add value as a consequence?
- Cultural challenges



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The pressure to move towards more efficient reporting



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What's the rush?

- **Time** – regulatory pressure means reporting teams have more to do than ever before. The pace of emerging developments is relentless
- **Cost** – companies are reducing headcount, under pressure to remain competitive in the tough economic climate
- **Adding value** – pressure on reporting teams from the business to add value and insight beyond just “producing numbers”
- **Boundaries are blurring** – many companies have moved away from considering actuarial, accounting and tax in silos
- **Employee needs** – many employees are asking for a more sustainable work life balance



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Where do you start?



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Decompose a “year in the life” of the reporting function

Consider what you do, and challenge yourself as to:

- Why you do it
- When you do it
- How you do it

For all the finance functions (accounting, actuarial, tax, investments), map out exactly what happens and when.

In particular, focus on the **handovers** between teams and generate a realistic view of what activities are undertaken and when.

Aim to find the **critical path** and **dependencies**. This critical path should be the foundation of your project plan for the reporting period.



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Why do you do it?

Understand why you are producing the reports, and how additional value can be created at each stage.

Analyse the reporting requirements

Understand the customer

Agree the format

Harmonise activities

Ensure accuracy through controls



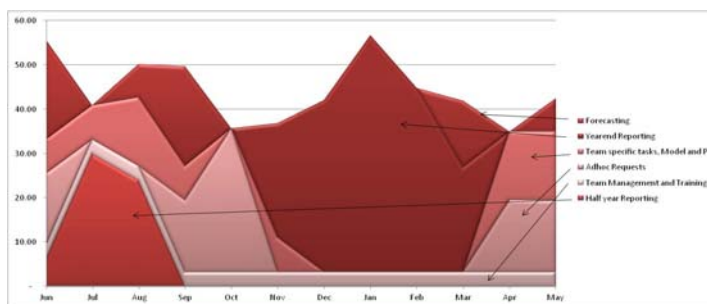
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When do you do it?

What tasks can you move out of the busiest times of the year?

Analysis of resource demands over the year can help smooth out seasonal work and provide capacity for ad-hoc requests.

Think about how frequently you perform each task; regular tasks will be more familiar and better “bedded in”, but will consume resources at multiple points in the year.



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How do you want do it?

Set some principles and articulate clearly what you believe in as an organisation

Efficient process

Controls

Roll forwards?

Materiality calls?

Approximations

Manual vs modelled

Clear timeline

Late adjustments

Multi-disciplinary team

Communication



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Develop a project plan

“A goal without a plan is just a wish”

In our experience, it is key to treat every reporting cycle with the robustness of a project and produce an robust plan, shaped around the critical path, that:

- Is comprehensive: one plan to cover all teams (accounting, actuarial, tax, modelling, investments etc)
- Is understood and shared, and bought into by all the stakeholders
- Shows handovers between teams
- Performs tasks in parallel where appropriate
- Talks a common language
- Has a contingency and allows time for reviews and sign off
- Builds in time for the auditors and interaction with them
- Recognises your auditor's approach



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Where does it get tricky (in our experience)?



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Common pitfalls

- Handovers
- Closing down models
- Manual calculations (spreadsheets)
- Tax calculations
- Investment yields and data
- Late adjustments and posting changes
- Stakeholder management and sign off
- Controls of systems
- Analysis of results (spreading the load, work as a team)



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Handovers

Handovers between teams must be smooth and have a “no surprises” approach. It is important to agree:

Timing

- Be specific on when items get passed between teams – not just the day, but also the time (morning, evening etc)
- Agree when deliverables are passed to the auditor

Content and Format

- Prepare the data in a format that allows immediate processing by the receiver
- Be clear on the content and interpretation (e.g. are yields expressed as an absolute, relative or ratio)

Work as one team

- An appreciation by the team of how deliverables link to deliver the end reports helps the error management and ensures the right priority call is made to quickly resolve issues.



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Closing down models

Models (including spreadsheets) should be worked on off the “critical path” and be ready prior to year end reporting:

Timing

- Lock down models early. You don't want to be making changes live in a year end. This includes spreadsheets.

Understand

- Quantify, understand, justify and review the impact of model changes well ahead of final year-end runs. This frees up model capacity.

Parameters

- Think about when to set assumptions.
- There is more flexibility in long-term assumptions (demographic) in terms of setting the basis early.



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Manual calculations

Spreadsheet calculations are not necessarily a bad thing if used proportionally, but they must be treated with rigour.

Control

- Make sure you know what each spreadsheet does and why it does it
- Lock it down so it can't be corrupted

Materiality/ accuracy

- Consider the materiality level to validate the need for a manual adjustments
- Be proportionate to get a fair balance between accuracy and process efficiency

Aggregation

- Ensure there is a robust control over the aggregation process to show that manual results are properly added to modelled results



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Tax calculations

Life tax calculations can be complex and the data sources are not always readily available from the systems for the reporting team.

Format

- Ensure that definitions are clarified, agree the data sources and approximations for any systems gaps
- Agree the format of the inputs and outputs

Analysis of results

- The tax team should be part of the analysis of results.
- Investment should be made to understand the drivers of the tax movements.

Clarity and application of impacts

- Understand the drivers of the tax balances
- Know how sensitive results are to tax



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Investment yields and data

In our experience, this is a common source of delays.

Timing

- The close of the investment data is an early milestone in the critical path. Any delay can affect the entire timeline.
- Make sure the plan is realistic and the controls effective.

Content and Format

- Be specific on format and agree any change ahead of the close. Work on the 'no surprises' for the receiving team.
- Work effectively and regularly with any third party providers of data to anticipate and control any change.

Sensitivity

- Understand in advance how sensitive actuarial liabilities are to the yield data, and consider adding prudence if data is unreliable.



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Late adjustments and posting changes

Inevitably, there will be late adjustments and changes. A good project plan will allow you to take these in your stride.

Timing

- Have windows set aside to bring in late changes, and load them in batches.

Change control

- Have a robust process for tracking what changes were brought in, including why and when, between successive draft results.
- Hold debrief reviews post the close period to target areas where data and process improvements are required.

Talk

- Ensure good communication between the multi disciplinary reporting team so that late changes can be understood and evaluated with materiality in mind



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How can financial reporting teams add value?



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Adding value through the reporting team

“No surprises” approach to published numbers

An efficient reporting function ensures numbers are reported accurately and in a timely manner.

“Reputational risk is without doubt the key area that will threaten the insurance industry in the foreseeable future.”

*General Manager of Australian Insurer,
Insurance Banana Skins Survey 2011*

In the current climate, restatements are heavily scrutinised and immediately attract negative press.

“Insights into the business”

Strong analysis of the company's financial position means management:

- Know where the progression of the business is at any particular time
- Can make considered decisions (e.g. about which products to sell, which markets to target)
- Can secure a better return on capital



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Adding value through the reporting team

Clear communication with the markets

The more clearly you can articulate your strategy and financial position to the markets, the better the support offered for the share price.

This becomes increasingly important when investors and analysts need to reconcile and understand the relationship between IFRS, emerging SII, regulatory reporting etc.

Meet the pace of regulatory change

"The biggest risk is the sheer level of regulatory change that is converging at the same time – a change programme no sane company director would take on in that period through choice"

CEO, Partnership UK
Insurance Banana Skins Survey 2011

An efficient reporting team means that there is more time to invest in meeting the pace of regulatory change.



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Cultural Challenges



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Cultural challenges

Team structure

- Working together as a multi disciplinary team helps the efficiency of the reporting.
- Consider the merits of forming a 'virtual reporting team' under common governance and management to break down barriers between the finance disciplines.
- Keep the reporting teams close together.

Education

- Making people aware of what happens in the entire reporting process increases collaboration, prevents tension and assists greatly in error handling.
- This can be achieved through appropriate training and education.

Communication

- Probably the most important part of any reporting process.
- Keep an open dialogue between key individuals and teams.
- Aim to smooth the transitions between reporting teams.



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Cultural challenges

Updates

- Track progress against plan. Some companies have benefitted from daily "war rooms" in key periods, with key persons from each team meeting together.
- Address issues effectively, make priority calls and keep the process moving

Cross training

- Consider cross training between individuals and teams. It reduces key man risk, and gives individuals a better appreciation for walking a mile in their colleague's shoes!

Reward success

- The motivation of the team will significantly impact the effectiveness of the reporting process.
- A system which celebrates and rewards success will act as an incentive for individuals to perform at the highest level.



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Summary

- Not rocket science, but easy to overlook
- Consider the basics: what, when, how and why
- Work collaboratively and get people engaged
- Find the critical path, smooth the handovers and manage the dependencies
- Build a credible plan and track against it
- Leverage your knowledge of the business to avoid pitfalls
- Recognise and celebrate your own success



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Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



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