Enabling your remote financial close - Insurance

Minds made for building financial services

April 2020

Building a better working world

Contents

1. Executive Summary

Financial and regulatory reporting come under strain as the current environment introduces significant risk

Financial close takes longer with a remote workforce:

- Operational continuity and resilience will be tested including identification of critical resources, technology and vendors.
- There will likely be capacity issues and knowledge gaps, and access to critical systems and data may be limited, putting strain on processes.
- Availability of third-party data from distribution partners and outsource providers may be reduced or delayed.
- Increased production time reduces management review time meaning close activities may need to be reviewed and re-sequenced.
- Deviation from usual processes require updated risk and control frameworks, with specific monitoring of critical controls and reinforced controls over journal entries.

Back office staff appear to be better prepared for working from home, but in some cases capacity issues mean they have to sacrifice their laptops to front office staff

The control environment can be strained and there is a need for increased focus on cash processes to manage heightened fraud risk

Increased demand and need for judgement adds pressure on finance teams:

- Market volatility will drive increased requirements and analyses, in particular around: solvency; premium adequacy tests; insurance contract liabilities; the most sensitive assets (goodwill, assets under IAS 39, deferred acquisition costs) and added tax matters.
- Business interruption combined with significant claims activity may result in incomplete information from upstream operational activity to support accounting judgments and earnings guidance.
- Reserve reviews become more complex as coverage and key assumptions will need to be carefully considered.
- Increased cyber and fraud risks need to be managed in the new environment.

Finance and actuarial teams are being asked for increasing levels of analysis and reporting as the situation evolves

Additional judgement and assumptions are required as we face a period of uncertainty

Revised regulatory guidelines and requirements impacts reporting:

- The European Insurance and Occupational Pensions Authority (EIOPA) has declared COVID-19 as a "*major development*"[1]. This requires impacts to be published at the same time as the Solvency and Financial Condition Report (SFCR).
- There is an opportunity to smart prioritize returns as regulators are extending regulatory reporting deadlines (e.g. by up to eight weeks for UK annual reporting, and up to four weeks for UK quarterly reporting[2]) or removing requirements (e.g. Regular Supervisory Reports (RSR) is not be required for 2019 year-end for UK firms and groups)
- Disclosures on subsequent events covering the impacts of COVID-19 need to be carefully thought through.
- Assessments of the Impact to governance and control landscapes are necessary.

For Q1 2020 regulatory reporting, determining solvency position will be complex and frequent updates will be required. Some insurers are already producing daily solvency position internal updates

Decisions about dividend distributions and variable remuneration need to be made in the context of recent communications from regulators, solvency considerations and honouring obligations to policyholders

1. Recommendations on supervisory flexibility regarding the deadline of supervisory reporting and public disclosure – Coronavirus / COVID-19, *EIOPA, BoS-20/236*, 20 March 2020, https://www.eiopa.europa.eu/content/eiopa-issues-recommendations-supervisory-flexibility-regarding-deadlines-supervisory_en
2. *"PRA COVID-19 regulatory reporting amendments"*, 23 March 2020, https://www.bankofengland.co.uk/prudential-regulation/publication/2020/covid19-regulatory-reporting-amendments

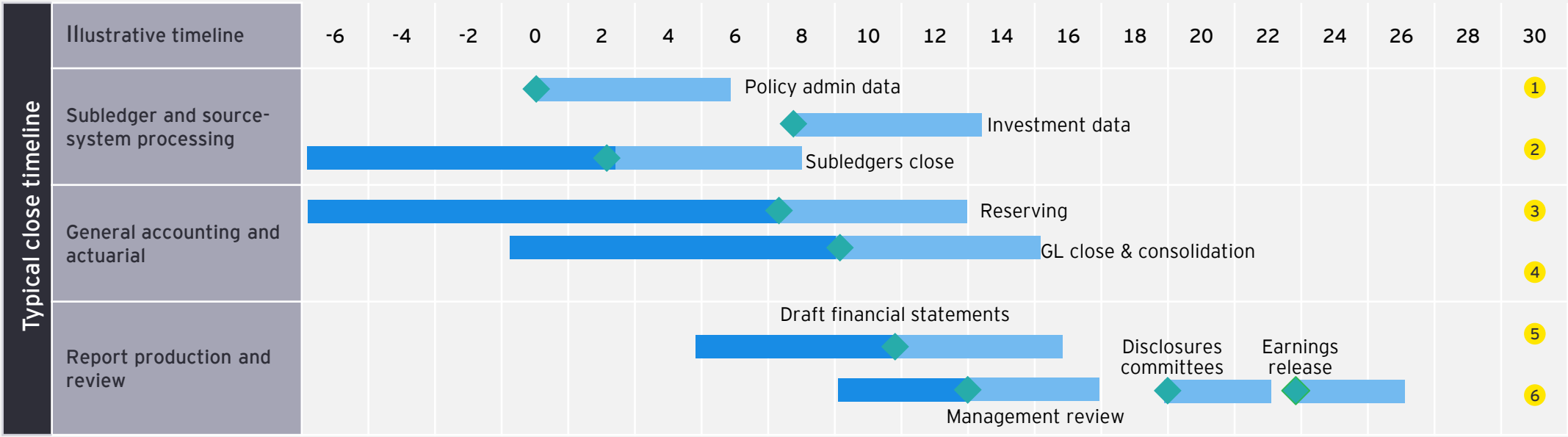
The financial close working day timetable will need to be revisited

Your finance operations and IT infrastructure will be tested by increased remote working and business interruption from a potentially reduced workforce. To de-risk your close, it is important that you prioritize the critical path and revisit the working day timetable.

1 Internal business disruption causing delays in processes to close administration systems

2 Delays in external data driven by disruption in third-party operations e.g., investment data feeds

3 Changes in reserving assumptions and valuation uncertainty around investment requiring additional judgement and data granularity



4 Delays in close process through increasing complexity in financial control review and processing of manual adjustments

5 Increased review and iterations in statement production resulting from the need to provide additional analysis for management review

6 Longer time for management review to understand impacts and changes from prior periods

Key: Current close calendar | Expected adjustments this cycle | Key date or event

As well as tackling the current disruption, insurers can plan ahead for future closes to minimize potential disruption

Now	Next	Beyond
Set up a virtual command center and aligned team to deal with accounting, actuarial, treasury, tax, IT and investor issues in real-time	Review and refine service levels e.g., what stops in the event of constraint events which could affect the next reporting cycle	Increase data and technology capability across finance to increase visibility over evolving business and to support cost reduction
Prioritize critical path processes and controls over non-essential items and assess critical process resilience and tactical mitigation action	Re-plan close processes and build contingency plans based on scenarios (e.g., quarantine extension) to embed continuous improvement	Consider emerging technologies across areas such as claims automation and analytics, fraud management technology and disease and outbreak modelling
Scale up remote capacity through increasing connectivity, platform scaling, laptop builds and IT support and vendor support during critical close	Automate and leverage technology which can be deployed quickly to support production and analysis	Consider alternative models to provide stronger business continuity responses, such as a managed service for actuarial functions
Identify key persons to ensure immediate continuity and assess the options for third-party support to provide surge capacity	Assess business impact and how actuarial models can effectively monitor impacts to financial reporting e.g., with additional exposure data	Align investor relations messaging with the wider purpose of insurance

There is an evolving number of reporting requirements from a regulatory, financial reporting and investor standpoint

Regulators are being publicly and privately supportive and we are seeing various statements and guidance in response to COVID-19. A number of them have sent out data requests and it is expected that regular solvency monitoring will stay in place to help navigate these challenging times. Investors and rating agencies will seek additional information to help understand the impact on businesses and insurers need to think about this in light of solvency maintenance and share price volatility.

Business impacts of COVID-19

Market volatility impacting asset valuations, liabilities from insurance contracts and reinsurance recoveries

Potential significant impacts on revenue and capital generation, with a number of possible outcomes / time horizons

Fluctuations in share prices due to uncertainty and global macroeconomic outlook

Actions you can take now

Regulatory reporting

- Engage early with regulators
- Prepare disclosure on the impact of COVID-19 in the SCFR ("major development" disclosure)
- Assess solvency position and updated SCRs
- Re-submit key QRTs submitted pre SFCR in the case of errors identified

Financial reporting

- Prepare disclosures on the impact of COVID-19
- Give special attention to going concern assessment and related disclosure
- Document increased expert judgment on asset valuations and insurance liabilities
- Increase use of analysis of change and sensitivity analysis
- Implement a robust audit trail with evidenced controls, such as on the use of proxies

Investor relations

- Manage reputation and external messaging to the market
- Align the COVID-19 communication strategy and investor story with the wider purpose of insurance
- Agree top-down scenarios to help address questions on likely business impacts on product portfolio, capital, liquidity, right-sizing and cost

2. What can you change to support a virtual financial close?

2. What can you change to support a virtual financial close?

The scope, duration, and severity of the COVID-19 pandemic is, as yet, unknown. So too are the tools required to manage the resulting challenges and the learnings insurers can leverage to emerge with stronger operating models. Insurers must therefore be ready to shift plans and transition at pace as circumstances change. An effective response should focus on actions under four key pillars:

Close orchestration and regulatory engagement	Processes and controls	Technology and data management	Workforce management and new ways of working
Set up crisis teams and build operational structures to support delivery	De-risk processes and controls and focus effort on optimization	Build operational capability through technology and data to support Finance changes	Develop virtual teaming within the organization and work with partners effectively

Now	Next	Beyond
How do we **maintain financial operations** and close the books in a remote world, focusing on tactical changes to make this happen?	How do we **embed change and build resilience** in the medium term, and how can we use lessons learned to develop this?	Where do we want to **strategically change by transforming operations to build long-term resilience** through investments in the operating model?

2.1 Close orchestration and regulatory engagement

Impact area	Now	Next and Beyond
Virtual command centre	▸ Set up a virtual command centre to support operations and coordination across functions ▸ Identify an end-to-end process owner for reporting and develop a clear ownership structure to support coordination ▸ Set up and align teams to deal with accounting, reserving, capital, liquidity, Tax, IT, investor, board and issues in real-time ▸ Create leadership capacity to make this possible ▸ Start daily meetings to improve communications and escalate and resolve issues in a timely manner	▸ Extend the virtual command centre to other key processes, e.g., annual planning, forecasting and scenario generation (including capital and liquidity), cash management and operationalizing any new products ▸ Build contingency plans based on scenarios (e.g., short term vs longer term recessionary environment) and continuously monitor and refine them
Process orchestration	▸ Set up a process runbook that covers the end-to-end process to support coordination and assess areas of risks ▸ Develop a contingency plan in case of disruption to key roles ▸ Set out a supporting governance and reporting structure to identify progress on a daily basis	▸ Refine and review runbook based on lessons learned from the first cycle ▸ Document procedures for dealing with critical issues e.g., IT outages or resource capacity issues ▸ Consider workflow management tools to help orchestration, review and control and to provide insight into bottlenecks or automation opportunities
Service levels and capacity	▸ Understand the level of completeness of information from upstream operational activity / impact of accounting estimates and earnings ▸ Review and assess critical services, such as financial accounting and claims processing ▸ Review finance services to understand what can stop in the short-term or have a reduced level of support to free up capacity ▸ Communicate any changes to the wider business	▸ Review and refine service levels looking towards the next reporting cycle, such as what to stop in the event of constraints and consider ways to better support the business (e.g., increased capital forecasting
Stakeholder engagement	▸ Anticipate deep dive requirements driven by the board, Audit Committee, regulators or investors to get ahead and provide clarity ▸ Monitor government, regulatory and standard setter developments as releases are being provided on a daily basis ▸ Coordinate with auditors closely to manage expectations and prepare for interim audit processes to be completed virtually ▸ Agree top-down scenarios to help address questions on likely business impacts including reserving, capital, liquidity and cost, across a range of potential timeframes	▸ Develop a clear communication strategy for policy holders, investors and analysts, with flexibility to be respond to changing circumstances ▸ Align a COVID-19 communication strategy and investor story with the wider purpose of insurance and broader sustainable finance objectives ▸ Develop reporting to support added requirements for external engagement and to provide clear information ▸ Embed additional reporting this into the reporting cycle ▸ Set up process for monitoring and addressing significant external changes (e.g., macroeconomic changes)

2.2 Processes and controls (1/2)

Impact area	Now	Next	Beyond
Process execution	▸ Assess and prioritize the critical path for reporting processes and controls over non-essential processes (e.g., detailed cost reporting and analysis) ▸ Assess critical process resilience against resource and technology disruption ▸ Implement tactical mitigation actions to provide contingency within the current process and identify what can be changed quickly such as resources or scheduling	▸ Review manual processes and ensure that documentation is in place in the event of resource issues, in addition begin to understand how these can be automated in the long-term ▸ Assess where quick improvements can be achieved and delivered within finance with minimal investment ▸ Smooth the financial close and revisit the working day time table ▸ Re-plan internal audit programme to prioritize desktop reviews in the short-term	▸ Set out optimization opportunities against longer-term investments e.g., technology changes in order to build contingency in to the process ▸ Consider moving finance further into the cloud for current systems to provide scale and optimize cost ▸ Move into continuous improvement programme to deliver process optimization within business as usual
Reporting	▸ Prioritize reports critical to the financial close and regulatory requests and delay non-critical reports	▸ Review finance reporting to eliminate some reports or reduce their frequency to create capacity ▸ Develop reporting catalogue and process to support future change	▸ Consider self-service tools to reduce the volume of production activities required ▸ Consider data visualization tools with drill-down capability
Insight and analysis	▸ Increase the level of analysis on business impacts and performance with close alignment between finance and actuarial on both actuals and forecasts ▸ Develop different scenarios given the level of uncertainty and potential impacts ▸ Increase time to review results for financial control and business performance purposes given the complexity of the current situation	▸ Set reporting requirements and implement changes to support analysis, e.g., granular investment reports, focussing on the areas of volatility ▸ Set up clear business event tracking (e.g., changes in claims or renewals) and communication channels to support finance and flow through to financial results	▸ Consider data and analytics solutions to support, such as claims analytics and enhanced financial planning and analysis (FP&A) technology

2.2 Processes and controls (2/2)

Impact area	Now	Next	Beyond
Methodology	▸ Assess and document changes in key assumptions to technical provisions driven by the current situation, and gain consensus across the organisation ▸ Develop understanding of current methodologies and the implications on process and materiality e.g., quarterly reserving, and the flexibility going forward ▸ Ensure sensitivity analysis are made available	▸ Implement changes in methodologies to take processes off-cycle (e.g., roll-forward methodologies, reserving change materiality) – these changes will need to be carefully thought through with the necessary governance given the increased uncertainty on the balance sheet ▸ Develop trigger framework for future changes to key assumptions to support off-cycle revisions to models	▸ Consider disease and outbreak modelling to support underwriting, exposure monitoring and risk management ▸ Automate tracking of assumption changes against the trigger framework through reporting tools utilising internal and external information
Governance and controls	▸ Increase focus on control documentation around expert judgment, especially with regards to asset valuations (such as investment assets, goodwill, value of in-force, value of distribution agreements (VDA) and possible deferred participation reserve (if in an asset position), differed tax assets (DTA), insurance recoveries) as well as liabilities from insurance contracts ▸ Simplify governance for non-critical profit or loss (Profit and Loss) items (e.g., Time and Expenses accruals) ▸ Consider estimates and materiality threshold and increase to expedite where possible	▸ Embed additional controls where risks are identified via remote working (e.g.,payments processing, journal entries)	▸ Digitise and / or automate controls, such as manual reconciliations, and explore related technology solutions (e.g., BlackLine, robotic process automation RPA) ▸ Consider workflow management tools ▸ Consider fraud management technology

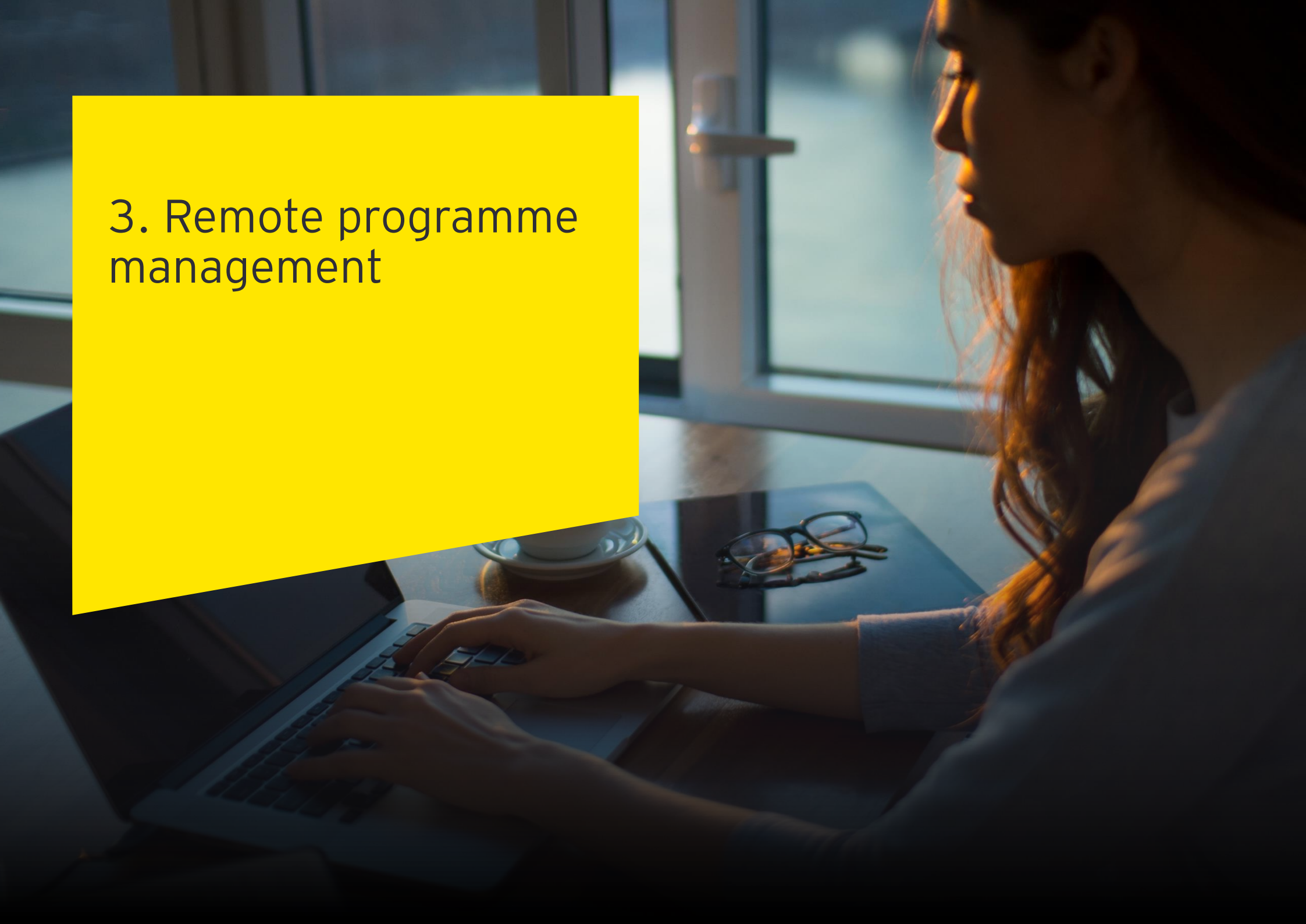
2.3 Technology and data management

Impact area	Now	Next	Beyond
Support remote working	▸ Scale up remote capacity through increasing connectivity, platform scaling and laptop builds, pprioritizing where needed if you are limited in the short-term ▸ Develop view of critical finance close and reporting systems and assess the implications of remote working (e.g., desktop-based applications vs. server based) ▸ Adjust IT support model to cope with increases in incidents and help-desk requests related to remote working and critical systems at critical points in the process ▸ Consider additional remote working tools such as Video Conference (VC) if not already in place ▸ Scale vendor support up during critical close period if required to maintain operations where known issues exist	▸ Consider additional remote working tools ▸ Assess through lessons learned where to scale system capacity or infrastructure and how to do this effectively ▸ Understand where cloud applications could provide a longer-term solution, given additional flexibility and scaling ▸ Raise technology service level agreements for critical areas e.g., VPN access, and prioritise users that are supporting critical services	▸ Consider new communications channels with customer of finance for repeatable requests, such as chat, service requests and chatbots ▸ Consider cloud solutions for current systems to provide scale and improve virtual management ▸ Consider Managed Service propositions as an extension of the current model and a way to increase capacity
Inbound data	▸ Assess inbound data feeds that support financial processing, reserving and reporting, develop view of areas of critical importance that will need to be actively managed ▸ Liaise with third party data providers to assess potential impacts to regular feeds	▸ Implement early close process to shift some activity off-cycle building in contingency into the critical path	▸ Consider intelligent automation opportunities for data management and data controls
Cyber security	▸ Set clear guidance to staff on how to minimise cyber security and data breaches	▸ Review key areas of risk such as digital payments processing	▸ Enhance cyber data security and information security technology (infosec) to address risks from remote working, in conjunction with central IT functions ▸ Consider fraud management technology

2.4 Workforce management and new ways of working

Impact area	Now	Next and Beyond
Virtual teaming	▸ Make adjustments to enable the workforce to perform, incorporating occupational health considerations ▸ Promote virtual teaming and adaptive ways of working using tools such as video conferencing	▸ Roll out targeted training, such as on the use of collaborative tools, mental health ▸ Develop, with HR, policies to further support virtual teaming ▸ Survey workforce to understand remote working experience and prioritise changes, with primary focus on technology and communications impacts/disruptions
Communication	▸ Overcommunicate, in a "hypercare" mode ▸ Engage the workforce at the leadership level, setting a clear guidance and steer through uncertainty ▸ Set up communication channels to the wider business and executive providing updates on the operational changes and financial impacts ▸ Establish a regular cycle to support employee engagement and wellbeing	▸ Maintain communication and enhance where needed based on lessons learned ▸ Align the internal COVID-19 communication strategy with the wider purpose of insurance
Resource management	▸ Develop resource models by team or sub-function, understand the implications from remote working e.g. reduction in efficiency or adjustment in working hours and patterns ▸ Redeploy resources from internal audit, finance business partners, FP&A and non-critical projects to provide burst capacity to finance close, payments, cash management and scenario planning	▸ Based on experience from first cycle, adjust resource management where needed ▸ Develop contingency plans in the event of workforce disruption to key services and key projects ▸ Create resource forecasts with a 12-week view, assess on a regular basis to highlight risks and forward plan
Key person risk management	▸ Identify and assess key persons risk, ensuring immediate continuity to processes and services	▸ Remediate key person dependencies through cross-skilling and training ▸ Improve process documentation to support the above
Third party and Business Process Outsourcing (BPO) services	▸ Assess third-party BPO response to the situation and the impacts on your business, working closely with these providers to stabilise operations and support business continuity ▸ Move critical activities back onshore to ensure continuity in the near term or in the case of immediate disruption	▸ Work with existing BPOs to ensure that they are able to continue at the same capacity ▸ Assess the options for third party support to provide burst capacity in the event of critical impacts to onshore resources ▸ Assess where automation can be used to reduce the reliance on resource driven processes

3. Remote programme management



3. Remote program management

Large projects, such as IFRS 17 and other finance and actuarial transformation programs, will need to continue. Current market conditions may stress design principles:

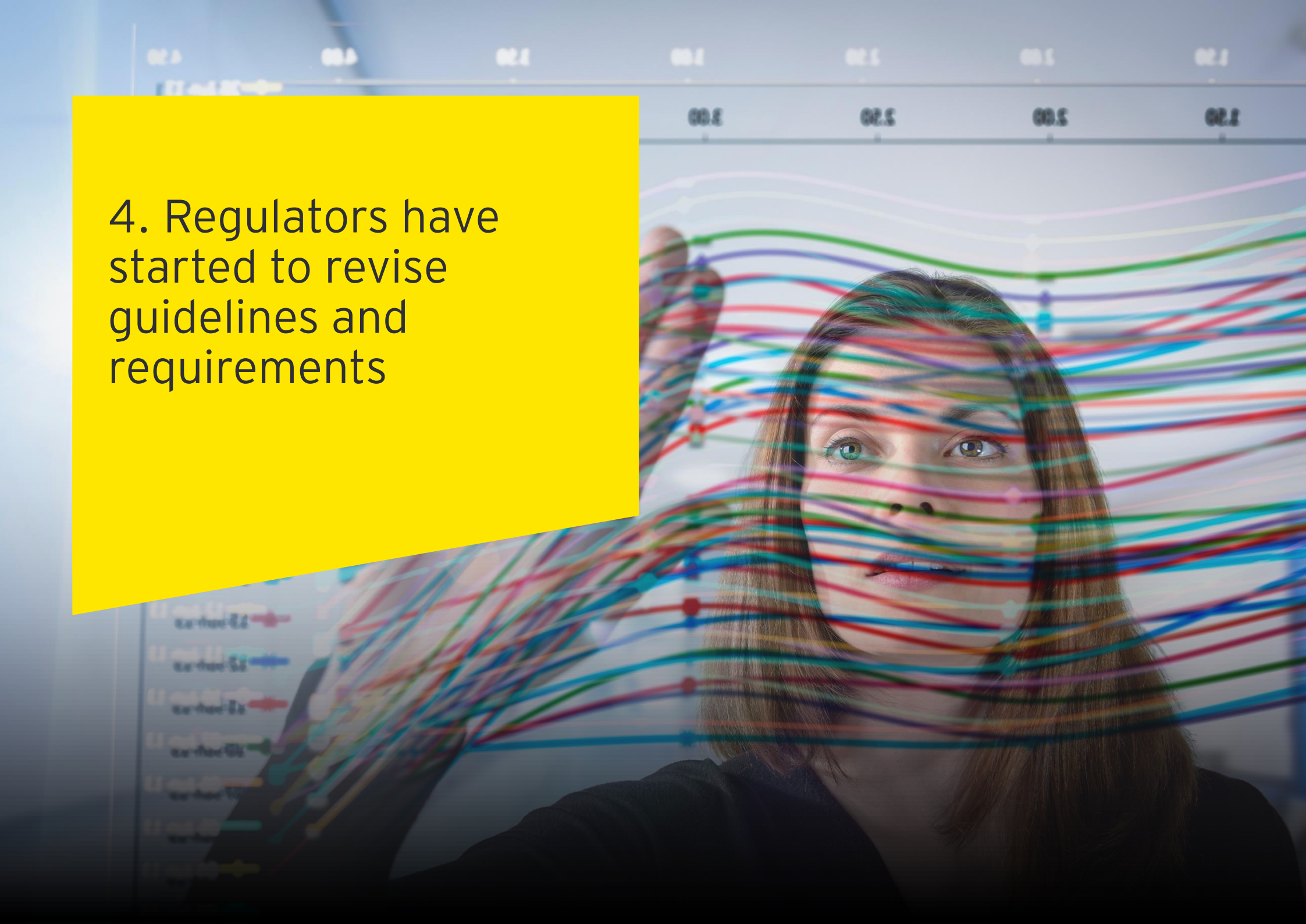
- Despite the delay in IFRS 17 adoption, many programs required the additional time.
- Many insurers have been less focused on metrics and business steering to date. This will become doubly important as existing metrics are reappraised, as a result of COVID-19, and earnings guidance is withdrawn or amended.
- Opportunities to accelerate finance transformation, benefitting from COVID-19 driven culture and working model shifts.
- Further opportunities to streamline process and reduce the book of work, as quick fixes become tested and embedded.

Large projects continue, and deadlines need to be met

Grasp the opportunities from resource scarcity to eliminate, redefine or automate processes

Impact area	Now
IT infrastructure	▸ Perform assessment of your IT capacity, i.e. capacity your systems can handle on remote working and for how long
Workforce management	▸ Prepare back up for teams involved, e.g. form 'buddies' to back up key roles in the program in case of sickness
Virtual teaming	▸ Define virtual working communication and meeting protocols to lead effectively virtual meetings and create a remote team environment
Vendor management	▸ Inquire and stay connected what and how your vendors are doing ▸ Understand the implications on your program and plan accordingly
Portfolio approach	▸ Review your change portfolio and prioritise programs/parts of programs based on an informed view of the implications
Critical path	▸ Understand and protect your critical path
Contingency plan	▸ Proactively create a plan B based on a number of assumptions (such as redirecting 20% of project/IT resources to BAU ▸ Exploring alternative capacity sources as needed to support the critical path, e.g. third party support on testing and program management, and have the right conversations to support this
Plan for remote working	▸ Establish greater discipline ▸ Over-communicate, especially in the near term ▸ Create leadership capacity in the near term as orchestration, people engagement and issue resolution will take longer ▸ Check in with your teams and consider mental health risk
Risk assessment	▸ Update your risks, challenges and interdependencies
Communication	▸ Communicate the implications to key stakeholders/sponsors with regular checkpoint

4. Regulators have started to revise guidelines and requirements



4.1 EIOPA statement on actions to mitigate the impact of COVID-19

The global regulatory response is to treat the virus as an event external to the financial markets, and to which existing risk assessments and emergency measures must be applied. Companies should continue to review regulatory guidelines and requirements and plan around these. This will be an evolving picture. Below outlines a number of EIOPA updates as of 13 April 2020.

Jurisdiction	Body	Description	Date published
European Union	EIOPA	Statement on actions to mitigate the impact of COVID-19 on the EU insurance sector[1] **Business continuity** ▸ Insurers and reinsurers should be ready to implement necessary measures to retain business continuity. ▸ National supervisors should be flexible regarding year end 2019 supervisory and public reporting. ▸ Deadline for reporting on the "Holistic Impact Assessment" for the "Solvency II 2020 Review" is delayed by two months to 1 June 2020. **Solvency and capital position** ▸ EIOPA notes that recent stress tests have shown that insurance sector is well capitalized and able to withstand severe but plausible shocks to the system. ▸ EIOPA is monitoring the situation including the possibility of extending the recovery period for affected insurers following breach of the Solvency Capital Requirement (SCR) - currently six months, maximum possible extension of seven years. ▸ Insurers and reinsurers should take measures to preserve their capital position in balance with the protection of the insured, following prudent dividend and other distribution policies, including variable remuneration. **Implications for (re)insurers and (re)insurance groups** ▸ EIOPA and national supervisors will monitor the situation and take further action as the situation develops. ▸ There could be delays in implementing the Solvency II 2020 review.	17 March 2020

1. EIOPA statement on actions to mitigate the Impact of Coronavirus / COVID-19 on the EU Insurance sector, *EIOPA, 20-137, 17 March 2020, https://www.eiopa.europa.eu/content/eiopa-statement-actions-mitigate-impact-coronaviruscovid-19-eu-insurance-sector_en*

4.2 EIOPA recommendations on supervisory flexibility

Jurisdiction	Body	Description	Date published
European Union	EIOPA	Recommendations on supervisory flexibility regarding the deadline of supervisory reporting and public disclosure – Coronavirus/COVID-19[1] EIOPA recommends that national supervisors provide extensions to annual and quarterly Solvency II reporting deadlines and recommends the treatment of COVID-19 in the annual public Solvency and Financial Condition Report (SFCR). **Annual supervisory reporting and public disclosure (31 December 2019 year-end or a year-end after that date but before 1 April 2020)** ▸ Annual reporting deadlines for Quantitative Reporting Templates (QRTs), the public SFCR and the Regular Supervisory Report (RSR) have been extended by up to eight weeks with the exception of certain key QRTs-relating to the balance sheet, own funds, SCR, long term guarantee measures, life cashflow projections and undertakings in the scope of the group for which there is only a two week extension. National supervisors should take similar flexible approaches to any national specific reporting or additional requirements (e.g. ORSA, audit requirements). ▸ (Re)insurers should consider COVID-19 as a "**major development**" as referred to in article 54(1) in the Solvency II Directive. This obliges undertakings to publish appropriate information on the effect of the COVID-19 outbreak in the SFCR for the 31 December 2019 or later year-end. The additional information should be published at the same time as the SFCR. EIOPA does not provide however any guidance on the type of information and the level of detail it expect. **Quarterly supervisory reporting (Q4 2019 and Q1 2020)** ▸ EIOPA recommends that national supervisors consider requesting undertakings with Q4 2019 reporting exemptions to additionally report the following solo QRTs: List of assets (S.06.02), Look through information (S.06.03), Technical provisions life (S.12.01) and technical provisions (non-life) two weeks later than the Q4 2019 reporting deadline. ▸ EIOPA recommends a one week extension in the Q1 2020 reporting deadline for all QRTs except S.08.02 (Derivative Transactions) for which the deadline is extended by up to four weeks. ▸ EIOPA notes that insurance and reinsurance undertakings are expected to report an estimate of the Solvency Capital Requirement (SCR) in the Own Funds template (S.23.01) as at Q1 2020 and not the previous SCR calculated. **Implications for (re)insurers and (re)insurance groups** ▸ The quantification of the impact on solvency since 31 December 2019 will be difficult given the current uncertainty. ▸ The recommendations with respect to extensions to reporting deadlines (solo and group) aim to offer operational relief and support, however insurers and reinsurers may still opt for submitting the full reporting package at any time before the shortest delay indicated. This option may be chosen if the proposals result in any unintended burden, for example the need to split reporting packages into two sets. ▸ The Q1-2020 reporting to national supervisors will be of high importance for insurers, reinsurers and their supervisors. EIOPA encourages early submissions and suggests a proportionate approach to less material aspects of the calculations.	20 March 2020

1. Recommendations on supervisory flexibility regarding the deadline of supervisory reporting and public disclosure – Coronavirus / COVID-19, *EIOPA, BoS-20/236*, 20 March 2020, https://www.eiopa.europa.eu/content/eiopa-issues-recommendations-supervisory-flexibility-regarding-deadlines-supervisory_en

4.3 EIOPA statement on dividends distribution and variable remuneration policies

Jurisdiction	Body	Description	Date published
European Union	EIOPA	Statement on dividends distribution and variable remuneration policies[1] The statement covers the following: ▸ Assessment of the overall solvency needs to be forward-looking, taking due account of the current level of uncertainty on the depth, magnitude and duration of the impacts of COVID-19 in financial markets and on the economy and the repercussions of that uncertainty to solvency and financial position. ▸ EIOPA urges insurers and reinsurers to temporarily suspend all discretionary dividend distributions and share buy backs aimed at remunerating shareholders. This suspension should be reviewed as the financial and economic impact of the COVID-19 starts to become clearer. ▸ Insurance and re-insurance groups should apply a prudent approach whenever distributions or similar transactions may materially influence the solvency or liquidity position of the group or of one of the undertakings involved. ▸ Variable part of remuneration should be set at a conservative level and be considered for postponement. ▸ Insurers and reinsurers that consider themselves legally obliged to pay out dividends or large amounts of variable remuneration should explain the underlying reasons to their national supervisor. **Implications for (re)insurers and (re)insurance groups** ▸ EIOPA's comments about suspension of distributions to shareholders and variable remuneration apply at both solo and group level and apply both to amounts that have already been declared and subsequent declarations. There is however no reference to clawback of remuneration amounts that have already been paid. ▸ As of 13 April, it is possible that the PRA will now strengthen its message to UK insurers and reinsurers set out in its letter dated 31 March 2020, in the light of EIOPA's comments. ▸ EIOPA's comments regarding legal obligation to pay dividends should not affect UK firms and groups as they are required by PRA Supervisory Statement 2/15 (Solvency II: Own Funds)[2] to ensure that their Articles do not preclude cancellation. However, this may still be an issue where listed companies or groups are already trading ex-div, or where a commitment has already been made to pay out variable remuneration.	2 April 2020

1. EIOPA statement on dividends distribution and variable remuneration policies in the context of COVID-19, *EIOPA – 2 April 2020*, https://www.eiopa.europa.eu/content/eiopa-statement-dividends-distribution-and-variable-remuneration-policies-context-covid-19_en
2. Supervisory Statement 2/15 – Solvency II: Own Funds, *PRA, 20 March 2015 (latest update 30 September 2019)*, *https://www.bankofengland.co.uk/prudential-regulation/publication/2015/solvency2-own-funds-ss*

5. Financial reporting: what can you do now?

5.1 Events after the balance sheet date

Report	Accounting topic	COVID-19 accounting impacts	Reporting considerations
Annual reports (year ended on 31 December 2019) **Interim reports**	IAS 10 and IAS 34.16A.(h) specify the accounting treatment to be adopted and disclosures to be provided for events occurring between the balance sheet date and the date when the financial statements are released. IAS 34 also requires disclosure of events after the interim period that have not been reflected in the financial statements for the interim period. There are two types of events after the balance sheet date that should be considered: 1) **Adjusting events** – those that provide evidence of conditions that existed at the balance sheet date for which the entity shall adjust the amounts recognized in its financial statements or recognise items that were not previously recognized. 2) **Non-adjusting events** – those that are indicative of conditions that arose after the balance sheet date for which the entity does not adjust the amounts recognized in its financial statements.	Insurers and insurance-related businesses should consider the impacts of COVID-19 in the financial statements – including the annual reports as of 31 December 2019. Although COVID-19 is most likely a **non-adjusting event** (i.e., will not change figures already presented by the entity) for financial statements as of 31 December 2019, it is likely that the impact will be material for the entity, and its disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, transparency at this point in time is crucial to keep stakeholders and investors aware of the impacts and the plans in place for remediation where relevant. Additionally, COVID-19 is most likely to give rise to adjusting events for financial reports with a reporting date during 2020, e.g. 29 February 2020.	With increasing consensus on COVID-19 being a non-adjusting event for technical provision measurement as of 31/12/19, entities will need obtain relevant approvals internally and agree final position with external auditors. The following disclosures should be considered in financial reports where COVID-19 is considered a non-adjusting event: (a) The detailed nature of the event and how it relates to the entity's business and operations (b) An estimate of its financial effect (when known), or a statement that such an estimate cannot be made at this point in time (c) An overview of contingency plans in place, where applicable – it is important to demonstrate that the entity is getting ahead of the events rather than reacting to them In addition, companies should also consider COVID-19 related disclosures for interim reports released after 31 December 2019 (see page 20).

5.2 Nature and extent of risks arising from financial instruments and insurance contracts

Report	Accounting topic	COVID-19 accounting impacts	Reporting considerations
Annual reports (year ended after 1 Jan 2020)	Entities shall disclose information that enables users of its financial statements to evaluate: i. The nature and extent of risks to which the entity is exposed ii. Nature, amount, timing and uncertainty of future cash flows that arise from insurance contracts Risk disclosures should include, at a minimum: a) The exposures to risks and how they arise b) The entity's objectives, policies and processes for managing the risks and the methods used to measure the risks c) Any changes from the previous periods Risk disclosures typically include, but are not limited to, the following risks: credit, liquidity, market and insurance.	There will be significant alterations on how risks are perceived by companies and potential reassessment in how these risks are managed, changes in entities' appetite for risk in the future, as well as risk concentrations that would become acceptable in the new economic scenario. Similarly, key investors and stakeholders will be interested in understanding how entities respond to financial risks (including insurance risks) in light of COVID-19 and more importantly, how these measures, wherever possible, reduce exposures in the financial statements going forward.	Companies should consider specific impacts arising from COVID-19 while assessing financial and insurance risks. Specific disclosures should address potential impacts to reported figures going forward. Example of disclosures that may have a direct impact include: a) A review of the maximum exposure to credit risk from investments versus collateral assets held in the period b) Any relevant changes to the credit rating policy c) Changes in credit risk concentration which may be particularly relevant for entities affected by currency exchange and interest rate exposures d) Increases to impairment losses, including potential changes in expected credit loss (ECL) modelling (when an entity already applies IFRS 9) e) Review of the asset-liability management program f) Review of maturity analysis, especially on long-term contracts such as annuities and saving products

5.3 Sensitivity analysis on financial instruments and insurance contracts

Report	Accounting topic	COVID-19 accounting impacts	Reporting considerations
Annual reports (year ended after 1 Jan 2020)	Entities shall disclose a sensitivity analysis for each type of financial risk and non-financial risk to which it is exposed at the end of the reporting period – showing how P&L and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date. Sensitivity analysis should include, but may not be limited to, the following items: a) Interest rates b) Currency exchange c) Equity prices d) Insurance risks	As mentioned earlier, COVID-19 is expected to have pervasive impacts in the market and, as such, entities need to understand how these impacts affect them. Insurers and insurance-related businesses need to identify which macro-economic scenarios apply to their business. Identifying critical variables, such as interest rates for annuity products, or unemployment rate for underwriting risks – will help the entity identify the impacts expected to arise in its figures from a sensitivity analysis. Using these critical variables that will affect the P&L and equity, entities can model their financial statements (i.e., balance sheet, P&L, OCI and cash flows) using scenarios (from worst-case to best-case) and identify triggers that might significantly impair liquidity.	Companies should consider specific scenarios using impacts arising from COVID-19 while assessing sensitivity analysis in the financial statements. Sensitivity disclosures should also address how COVID-19 impacted the analysis of stress scenarios and its impact on the entity's key performance metrics.

5.4 Interim reports

Report	Accounting topic	COVID-19 accounting impacts	Reporting considerations
Interim reports	IAS 34 prescribes the minimum content that shall be included in interim financial reports, as well as the principles for recognition and measurement in complete or condensed financial statements for an interim period. Entities are also required to include in their interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report.	For many entities, the interim Q1 2020 report (if applicable) will be the first set of financial reports that are published to the market with COVID-19 no longer being a subsequent event. Interim reports should be prepared with consideration to include timely and reliable information about the impact of COVID-19 in the entity's financial performance in the period – as well as to communicate the actions taken by the entity to remediate losses, where applicable. This will allow investors, creditors, analysts, rating agencies and other users of the interim reports to understand the entity's capacity to generate earnings and cash flows to continue the business in the future.	Examples of COVID-19 related disclosures that entities should consider in interim reports: a) List of actions taken by the entity to protect employees, the community and its customers b) Contingency plans in place to guarantee business as usual continues c) Financial impacts, review of potential losses and impacts to investors' returns d) Contingency plans to reduce and/or remediate losses and stabilize investor returns for the future e) An update of certain disclosures that were included in the previous year-end financial statements with regards to COVID-19 Financial impacts on life and non-life businesses are different: ▸ **Non-life:** Exclusionary clauses could mean that business interruption claims are likely to be limited, but the non-life sector is under growing political pressure to demonstrate flexibility. Equally, travel insurance, event insurance and workers compensation policies are likely to have significant exposures. ▸ **Life:** Poor economic outlook, falling interest rates, uncertain mortality rates and general market and currency volatility are posing significant challenges for life insurers, which is evident from the already falling share prices.

5.5 Impairment of financial (and other) assets that are not at fair value through profit and loss

Report	Accounting topic	COVID-19 accounting impacts	Reporting considerations
Interim and annual reports	Insurers need to consider whether the COVID-19 situation results in an impairment of their assets carried at available-for-sale or amortized cost. Indications that an impairment has occurred include (but are not limited to): a) significant financial difficulty of the issuer or obligor b) a breach of contract, such as a default or delinquency in interest or principal payments c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation e) the disappearance of an active market for that financial asset because of financial difficulties This is because most insurers have not yet adopted IFRS 9 and continue to apply IAS 39, where the impairment model is based on a incurred loss model as opposed to an expected loss model. **Significant accounting estimates and judgements** Consider impacts on accounting judgements and estimates, most importantly on insurance liabilities and reserves.	Companies will need to review the incurred loss model from IAS 39 (or the expected credit loss model under IFRS 9 if they have adopted IFRS 9). For example - delay recognition of losses for certain investments that are not held at fair value through profit or loss; and the impact from applying an incurred loss model under IAS 39 versus the ECL model under IFRS 9. Business interruptions combined with significant claims activity may result in incomplete information for upstream operational activities to support accounting judgments and earning guidance. In addition to financial assets, companies should consider potential impairment implications for goodwill (IAS 36) and value of business acquired (IFRS 4).	a) Give special attention to going concern assessment and related disclosure b) Consider impacts on accounting judgments and estimates, most importantly on insurance liability and reserves c) Review the reserving as a number of key assumptions change d) Increase use of analysis of change (including peak vs. trend analysis) e) Assess the robustness of fair value models particularly the impact of COVID-19 on level 3 asset valuation f) Consider tax implications (effective tax rate, DTA) g) Assess goodwill and value of business acquired h) Engage early with auditors on estimates and judgements i) Revisit the audit trail with the required documentation and evidenced controls, such as on the use of proxies

6. Investor relations

6. Investor relations

The insurance industry in the UK and Europe is overall well capitalized. However, widening credit spreads together with a struggling and volatile equity market and low interest rate environment could significantly test the financial strength of both sides of insurers' balance sheets.

Insurers will be faced with multiple challenges, from the immediate operational issues through to solvency, capital and future business implications of the pandemic.

It is crucial that insurers establish a strategy to communicate with the investor community and anticipate requests from stakeholders and regulators on the current position and implications of COVID-19 to the business.

While immediate and effective response is important, insurers should also consider the longer-term impacts in the business, such as solvency, sales, distribution channels, dividend payment criteria etc.

Actions you can take now

- Set up a virtual command centre and align a SWAT team to deal with accounting, capital, liquidity, actuarial, treasury, tax, IT and investor issues in real time and re-assess existing crisis management plans
- Develop clear communication strategy for policy holders, investors and analysts, with sufficient flexibility to be able to respond to changing circumstances
- Align the COVID-19 communication strategy and investor story with the wider purpose of insurance and with broader sustainable finance objectives
- Agree top down scenarios to help address questions on likely business impact – implications for capital, liquidity, right-sizing and cost – across a range of potential timeframes
- Increase analysis and monitoring of capital, liquidity and solvency
- Consider capital preservation actions, such as dividend cancellation, and focussed asset portfolio management around ratings migration, credit loss mitigation, hedging and re-insurance
- Perform specific scenario and stress testing
- Identify liquidity challenges and ensure robust liquidity plans to be able to absorb cash flow stresses

7. Your EY contacts

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