EY insurance CFO survey

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Minds made for building financial services

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The COVID-19 crisis is accelerating a number of transformation trends for CFOs

This survey was undertaken to capture insurance CFOs' views on emerging trends in the aftermath of the COVID-19 pandemic.

EY teams surveyed 15 CFOs from insurers operating in the UK:

- Nine operate in life and pensions or health, four in general insurance and two in speciality insurance.
- Most of them are large players in the UK in their respective fields.
- Thirteen are head-quartered in the UK, one in the US and one in France.
- Seven have an international presence, and eight operate primarily in the UK.

The survey covered:

- Key CFO priorities
- Physical return to work
- Working day timetable
- Accounting judgments and disclosures
- Solvency monitoring
- Cost optimisation
- Business planning
- Risk management and Internal control environment
- Finance workforce
- Readiness for The Task Force on Climate-related Financial Disclosures (**TCFD**)

This presentation outlines the survey results, with results presented on an anonymous basis.

Business growth, business planning and cost reduction rank amongst top priorities for CFOs, with the lack of change execution capability seen as the most significant inhibitor. Despite the global pandemic and an anticipated slow, phased return to the office, CFOs do not anticipate substantial delays in the Q2 2020 reporting timetable.

However, the COVID-19 pandemic is impacting some accounting judgements' disclosures, and most insurers are reviewing their claims' assumptions and are preparing additional disclosures. The pandemic has also changed insurers' risk profiles, with an increased emphasis on protecting the capital position, and CFOs are taking measures to maintain solvency within the target zone.

Many insurers are intending to reduce their cost base over the next 12 months and to make their planning process more agile. Controls have become increasingly important with the overnight move to remote working, and most CFOs are planning to automate up to 20% of their finance controls in the next 12 months. Insurers are also starting to integrate the consideration of climate risk within their business, including financial reporting.

Overall, the pandemic is an accelerator of finance transformation and balancing technical expertise with commercial knowledge will be critical.

We very much hope you will find this information useful.

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Partner, CFO Advisory
Ernst & Young LLP

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Business growth, business planning and cost reduction rank amongst top priorities for CFOs

Business growth is the top priority for eight CFOs over the next 12 months and five over the next 3 months

Whilst business leaders overall are focused on business recovery and business reset, the COVID-19 pandemic has amplified the emerging trend of finance functions becoming better enablers of the business and overall profitability through providing better insights and investment decisions. One respondent mentioned pivoting to a different sales channel mix as a result of the lockdown. Another highlighted that current market conditions were making growth attractive in certain product lines, and that capital was being allocated to these areas of growth potential. Another underlined the importance of adapting at speed and at scale to increase market share.

Eleven CFOs rank business planning in their top 3 priorities

Financial planning and analysis (FP&A) capabilities have never been so important, given the uncertainty and the complexity of the current environment. Business planning is an important tool to equip the Board with critical information to steer the business. Insurers have focused on making the process more agile to respond tactically to the pandemic. There is an acceleration of technology-led FP&A transformation to align the process with strategic needs.

Cost reduction remains high on the agenda, especially in the short term

Expense ratios are under pressure in several segments of the insurance market as a result of the knock-on impact on premiums and claims. Eight CFOs included cost reduction in their top three priorities for the next three months, and six CFOs included these priorities for the next 12 months. The CFO is a key sponsor or enabler to ensure enterprise-wide cost-reduction programmes deliver on time and within budget.

Other insights

- Capital optimisation remains a high priority in the short term as the COVID-19 pandemic is testing capital resilience.
- 5 respondents have raised capital over the past few months.
- Financial close and market communication are an immediate focus. Half-year reporting is, for many, the first detailed market communication since the pandemic started.
- Other high priorities highlighted by CFOs included strategy, downside protection, business integration, group-wide target operating model redesign and finance workforce development.
- Respondents see IFRS 17 as a lower priority, which may be the result of the delay by the IASB to 1 January 2023. With 30 months until go-live, it is critical to keep up the momentum given how transformative and complex IFRS 17 can be, especially for life insurers.
- We expect CFOs will progressively increase their focus on sustainable finance and climate change, especially as financial services are facing increasing pressure from regulators and other stakeholders.

Figure 1: What are your three key priorities for the next three months?

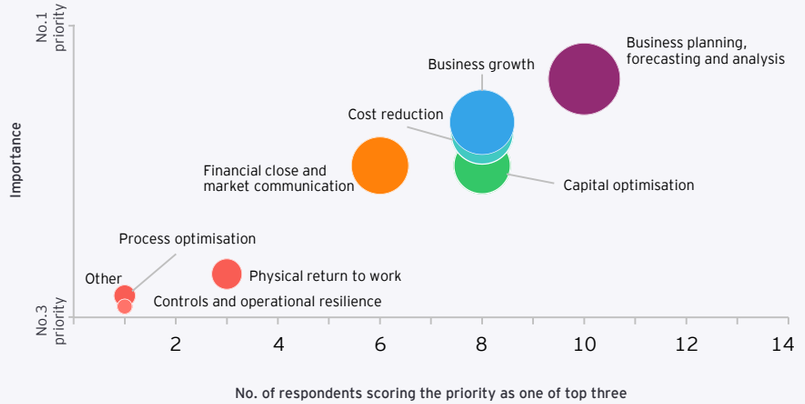
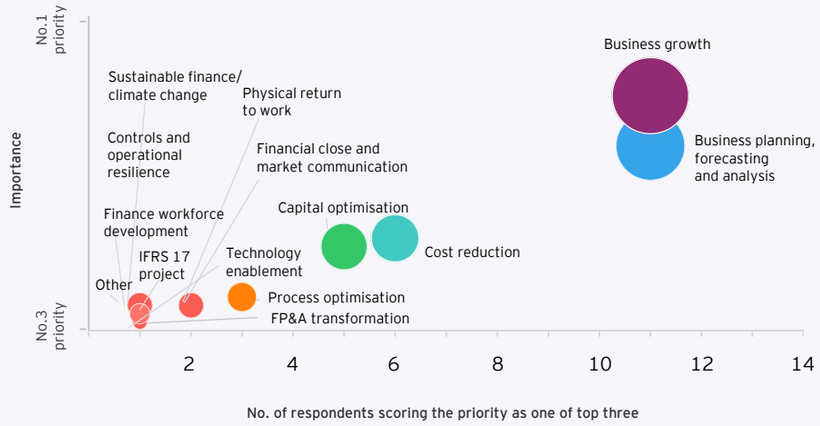


Figure 2: What are your three key priorities for the next 12 months?



The lack of change execution capability remains a key inhibitor

CFOs see the lack of change execution capability as the most significant inhibitor

The COVID-19 pandemic has amplified the criticality of change execution capability by adding the challenges of remote working and by adding competing priorities for CFOs. Some respondents noted that even in a pre-COVID-19 environment, the day job and the number of financial closes during the year sometimes left little room for efficient change-execution with tangible benefits. Aligning incentives to the targeted change will be critical.

Legacy technology is hindering the pace of both change and BAU activities

Finance and actuarial technology has been historically under-invested and can be unnecessarily complex and fragmented. Some vendors are also moving to non-support of on-premise solutions, forcing insurers to adopt Cloud. Technology enablement is critical to shift finance operating models to higher value-add and more cost-efficient processes.

Delivering on strategic priorities requires investment

This proves challenging in the current context where cost is even more scrutinised. CFOs must develop a strategic view of the change portfolio, define clear prioritisation criteria and implement robust tracking and dashboarding of benefits realisation from the outset.

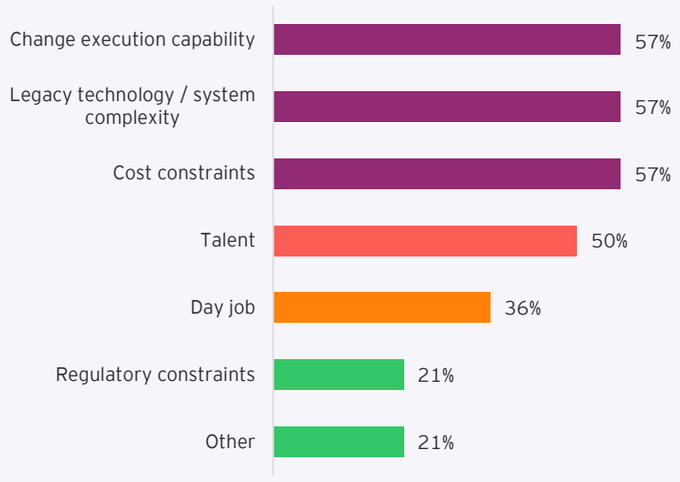
Existing talent can also be misaligned with the skillsets required to execute CFOs' priorities

CFOs are starting to think through the development of their workforce required to respond to the level of disruption the insurance sector has been experiencing and to anticipate new trends. Some have noted the challenge of finding the right talent in the current situation.

Other insights

- The three insurers who have included regulatory constraints in their top three inhibitors also included capital optimisation in their top three priorities.
- Other inhibitors highlighted by respondents include the response to Government policy brought in as a response to the pandemic, a potential second wave of the pandemic, and Brexit.

Figure 3 : What do you consider the top three biggest inhibitors might be to achieving these priorities?



Return to work will be slow and phased, with only 35% of CFOs assuming half of their workforce or more will have returned by the end of 2020

Over the last four months, the pace of change on both working and home life in response to the impacts of the COVID-19 pandemic has been considerable.

Long-anticipated components of the 'future of work' have arrived overnight, with financial services experiencing:

- The transition of both front-line and back-office employees from their office spaces to their living rooms, kitchens and bedrooms to work virtually using tools such as MS Teams and Zoom
- The adoption of digital ways of working and collaboration to complete the Q1 and Q2 financial closes
- An evolution of time optimisation, juggling work expectations with caring responsibilities and homeschooling – with organisations refreshing working-practice policies to reflect this
- A humanisation of leadership, with conversations on mindfulness and wellbeing becoming the norm; the creation of connections between finance teams and customers of the finance function as they enter each other's homes 'virtually'

In the majority of cases, firms have strengthened engagement and maintained their financial reporting processes.

Although 'path-finders' are beginning to return to the office, only a third of CFOs surveyed assume half or more of their workforce will have returned by the end of 2020.
As a consequence, many organisations are exploring how the lessons learned from the impacts of the COVID-19 pandemic can be applied to reimagine the world of work whilst simultaneously managing the return to the office.

The more progressive finance functions are now taking the time to evaluate remote working and challenge the boundaries associated with work as both a place and an activity.
In a drive to sustain longer-term productivity, these functions are considering how best to enhance performance through increased flexibility associated with location, scheduling, responsibility, hours, contractual arrangements, new technology and processes.

Figure 4: To what extent will your Q2 2020 financial close be done remotely?

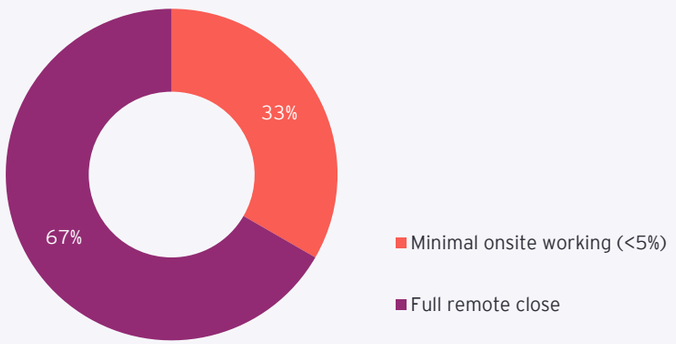
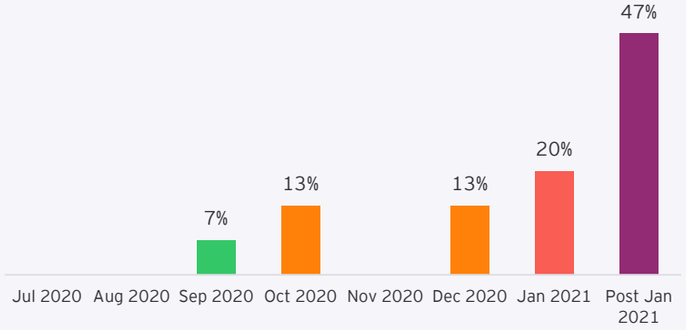


Figure 5 : When do you plan to have more than 50% of your finance workforce working onsite?



CFOs do not anticipate significant delays in the Q2 2020 reporting timetable as a result of the COVID-19 pandemic

A third of CFOs will prepare their half-year 2020 reporting more quickly than last year

Some noted that this is as a result of efficiency initiatives including automation, workflow management and process improvements.

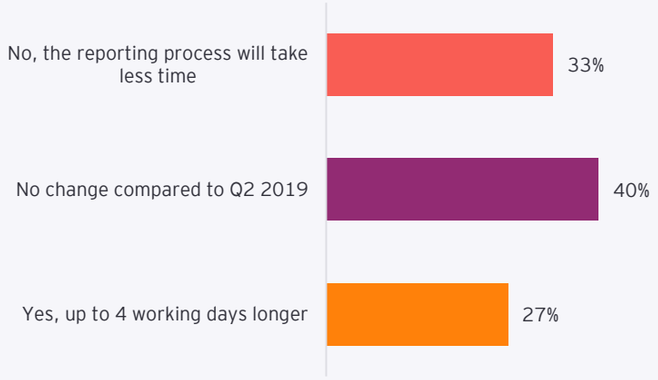
Fewer than 30% are anticipating a delay in the Q2 2020 reporting timetable compared with Q2 2019, and delays of only up to four working days are expected.

The four respondents who highlighted a delay in their reporting timetable identified the following root causes:

- The consideration of complex asset and liability valuation in light of the current uncertainty and of emerging new information
- The operational complexities of the remote close process
- Increased disclosures requirements (also encouraged by ESMA1), especially on changes in key judgments and assumptions, conduct-related matters, and going concern considerations with reference to updated financial projections and stress and scenario analyses
- Enhanced governance process and increased Board scrutiny
- The time required for additional scenario analysis and forecasts

One insurer also highlighted the complexity of multiple source systems, ledgers, legacy processes and cut-off times for acquired business not yet fully integrated.

Figure 6: Do you anticipate that your Q2 2020 reporting process will take longer than Q2 2019?



1. *See the European Securities and Markets Authority (ESMA) Public Statement - Implications of the COVID19 outbreak on the half-yearly financial reports, ESMA 32-63-972 – 20 May 2020, ESMA Public Statement*

The COVID-19 pandemic is impacting a number of accounting judgments for half-year reporting

Most respondents anticipate that the COVID-19 pandemic will impact reserving judgments

This is especially the case with regards to lines of business directly affected by the pandemic, such as income protection, travel, business interruption and life protection. These impacts could lead to changes in actuarial estimates, projections and methodology and models, and in underwriting strategies. Further complexity arises from quantifying the secondary effects of the COVID-19 pandemic on a wide range of non-life lines, and determining how these impact both earned and unearned provisions.

Judgments on property investments follow as the second-largest area impacted

There are questions over the extent to which the decline in UK property prices over the last months is representative of current valuation given the sharp decrease in transactions. Obtaining the required data to perform the valuations is a challenge, with some property indices not currently being published due to lack of volume of data.

Investment valuations are also made more difficult as a result of the pandemic

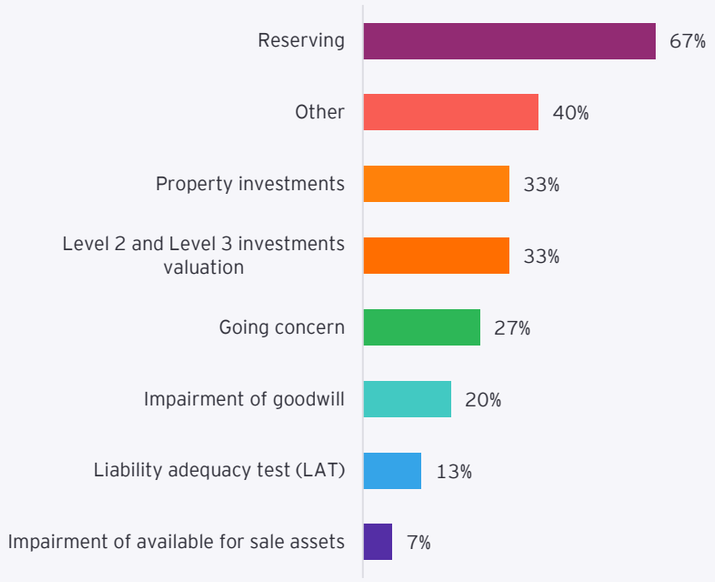
Most UK insurers measure their investment portfolios at fair value through profit and loss, which explains impairment of available for sales assets not being a concern amongst CFOs. Where they are measured at fair value, equity valuations are impacted by volatility in market prices, and bonds valuations are impacted by both interest rate falls and widening credit spreads. Some have noted the challenges of obtaining information on non-observable inputs.

Other impacts of the COVID-19 pandemic on accounting judgments highlighted by CFOs included:

- Going concern, which requires more documentation and disclosures
- Impairment of goodwill as a result of a deterioration in the economic outlook
- Liability adequacy
- Long-term demographic assumptions and relevant short-term provisions
- Impairment of intangibles
- Bad-debt provisions
- Premium provisions

A couple of CFOs highlighted that although the pandemic requires more documentation on accounting judgments, it had not triggered any significant adjustments to these judgments for the time being.

Figure 7: What are the top-three key accounting adjustments most impacted by the COVID-19 pandemic, based on the materiality of the impact?



The COVID-19 pandemic is making most insurers review their claims assumptions for half-year reporting

Many insurers are facing an immediate ramp-up in claims due to the COVID-19 crisis (for example, a continuation for travel and business interruption and more life protection claims due to the increase in deaths). Motor insurance claims are likely to have reduced in the short term but may increase in the longer term as a result of behavioural changes by policyholders. Others insurers are predicting a surge in claims, mostly in 2021:

- Health insurers have seen their 'business as usual' claims almost stop over the past five months, and these are expected to resume.
- Life insurers are concerned that a reduction in testing for conditions such as cancer may lead to an increase in claims in future.

All insurers are likely to be impacted by the recession in terms of premium income and reductions in interest rates, which will lead to increased Solvency II best-estimate liabilities and risk margin. For financial statements, key considerations will be liability adequacy testing (life) and the need for an additional unexpired risk reserve (non-life).

However, a third do not plan to make claims assumption changes for half-year

They argue that they do not have enough information to support a change outside the annual review cycle. It is unclear whether reductions are real or simply a result of reporting delays due to lockdown, or that their extensive analysis has not quantified a material impact.

As the impacts of the pandemic become clearer, and insurers go through their annual review cycle, many expect changes for year-end reporting

This is a complex exercise. Life insurers are considering whether there is an impact on longer-term assumptions such as those relating to mortality, morbidity and lapse rates. Although some data (such as deaths) is available, albeit with a lag, it is not clear what the impact will be on future short and long-term mortality experience and improvement trends. In addition, some elements of experience data may not yet show the impacts as at H1, for example, where actions such as the furlough scheme have led to steady lapse rates to date on group pensions. This may change as the financial impacts crystallise. Non-life insurers are likely to need to revisit their unexpired risk reserve considerations for year-end reporting.

Figure 8: To what extent are you reviewing claims assumptions for half-year reporting?

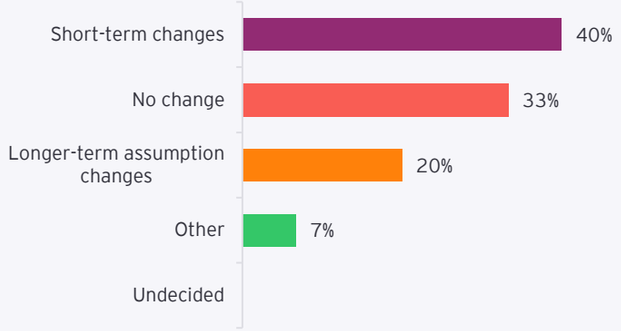
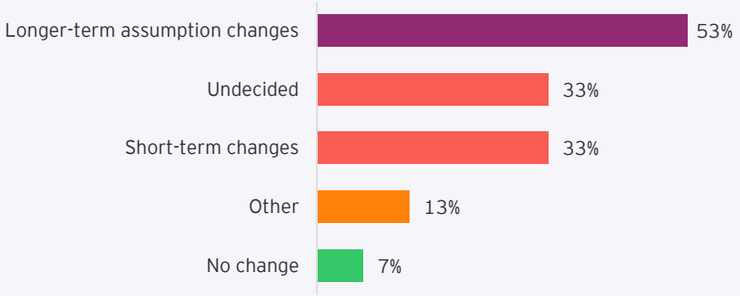


Figure 9: To what extent do you expect to review claims assumptions for year-end reporting?



CFOs are preparing additional disclosures in the half-year reporting to address the COVID-19 pandemic implications

Most survey respondents are planning enhanced disclosures on technical provisions and underlying assumptions, and several plan to add disclosures related to going concern and valuation of unlisted and illiquid investments.

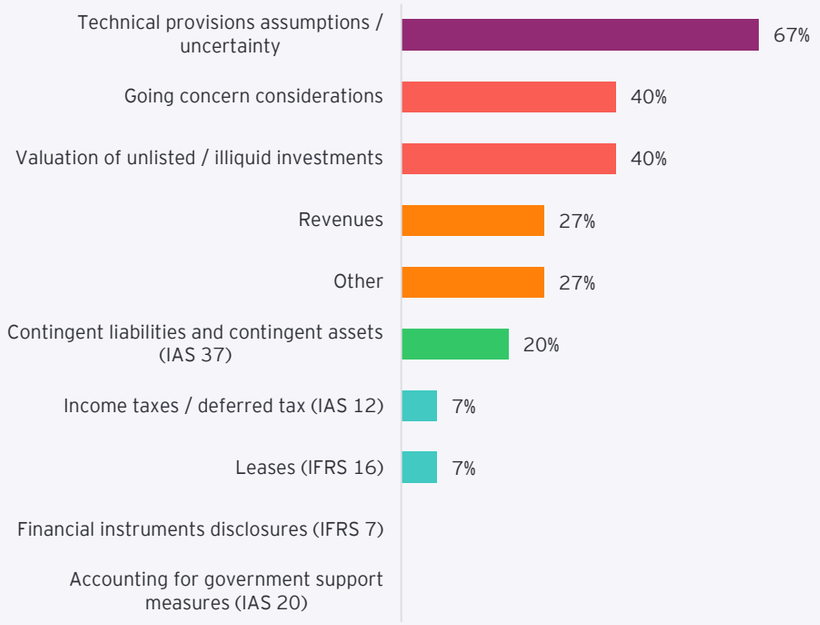
A couple of insurers commented they plan to disclose sensitivity analysis, especially on technical provisions for credit and property business.

Other additional disclosures mentioned included forward risk factors, business operations and GAAP transition.

As a reminder, the ESMA Public Statement on half-yearly financial reports noted that 2020 half-year disclosures should reflect on uncertainties, going concern and risks linked to the COVID-19 pandemic.[1] Disclosures should also be included in relation to the use of relief and support measures in terms of eligibility, conditions and consequences and the IFRSs under which they have been accounted (e.g. IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, IAS 12 Income Taxes, IFRS 16 Leases).

Additionally, the COVID-19 crisis thematic review of the Financial Reporting Council (FRC) noted in July 2020 a number of notable areas for improvements needed in disclosures, especially ongoing concern disclosures and sensitivity analysis for areas subject to significant estimation uncertainty.[2]

Figure 10: What are your top three areas where you plan to prepare enhanced disclosures in Q2 reporting?



1. *European Securities and Markets Authority (ESMA) Public Statement - Implications of the COVID19 outbreak on the half-yearly financial reports, ESMA 32-63-972 – 20 May 2020, ESMA Public Statement*
2. *Financial Reporting Council – Covid-19 Thematic Review: Review of financial reporting effects of Covid-19, FRC – July 2020, FRC Covid-19 Thematic Review FRC Covid-19 Thematic Review*

The COVID-19 pandemic has changed insurers' risk profiles and necessitates more frequent solvency monitoring

Close to 65% of respondents have updated their solvency capital requirement (SCR) in Q1 and/or Q2 2020 as a result of the COVID-19 pandemic.

A full recalculation of the SCR other than at the year-end is usually only triggered by a significant change in the risk profile of an insurer. However, many firms (particularly life insurers) recalculate some elements of the SCR more frequently. The responses indicate that the COVID-19 pandemic has had a significant impact on the risk profile of many insurers, triggering more frequent recalculations of the SCR. The May 2020 Interim Financial Stability Report published by the Financial Stability Committee noted that solvency ratios of the largest PRA-regulated general and life insurers had declined around 10 percentage points since the end of 2019 (from 160% for both sectors to 152% for non-life and 151% for life).[1]

Insurers are expected to include in their half-year report as at 30 June 2020 an explanation of the movement in their solvency position over the period if there has been a significant movement.

87% of CFOs are monitoring the solvency position more frequently, with a weekly reporting to the regulator for half of them

Most CFOs are monitoring solvency more frequently than before the COVID-19 crisis. This is driven both by increased demand by management for solvency monitoring and scenario analysis and increased regulatory reporting requirements.

The action of UK regulators during the pandemic has been seen as helpful by many CFOs, for example, by relaxing the deadlines for formal annual 2019 and Q1 2020 Solvency II reporting.[2] However, several of them have highlighted the additional regulatory reporting burden with more frequent ad hoc solvency reporting requirements. The frequency of such requests is likely to depend on the PRA's view of a firm's market impact and its level of solvency cover.

Figure 11: Did the COVID-19 pandemic trigger a recalculation of the solvency capital requirement (SCR) at Q1 and/or Q2?

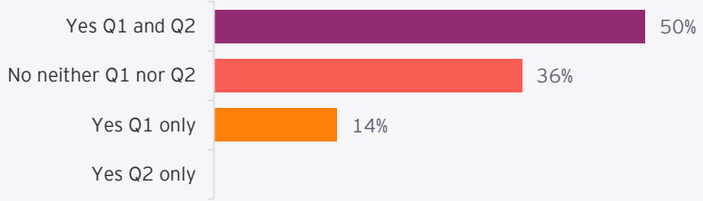


Figure 12: Are you monitoring the firm or group solvency position more frequently than before the COVID-19 pandemic?

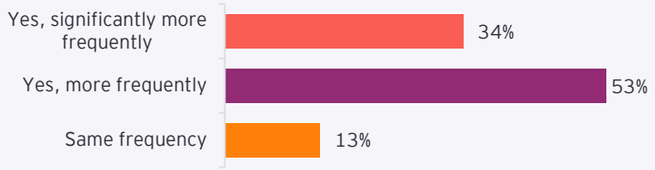
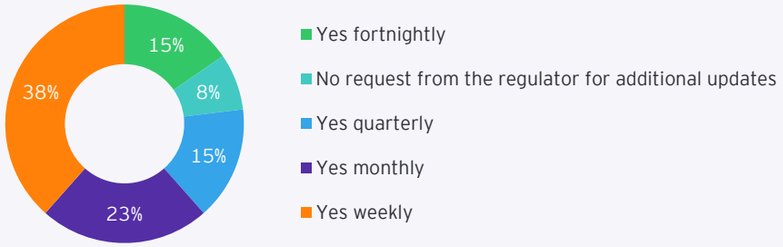


Figure 13: Have you been requested to provide additional solvency and liquidity updates to the regulator and if so, how often?



13 firms responded to this question

1. *Interim Financial Stability Report, Bank of England Financial Policy Committee, May 2020, page 34-35.*
2. *COVID-19 regulatory reporting amendments, PRA, 23 March 2020,*

CFOs are taking several measures to maintain solvency within the target zone

Although most UK firms and groups were well-capitalised going into the pandemic, solvency ratios are likely to be under pressure going forward, and measures will need to be taken to protect policyholders whilst providing a return to shareholders. Those with risky asset strategies may come under strain. Cash-flow strains may result from a fall in premium volumes and the accelerated payment of some claims.

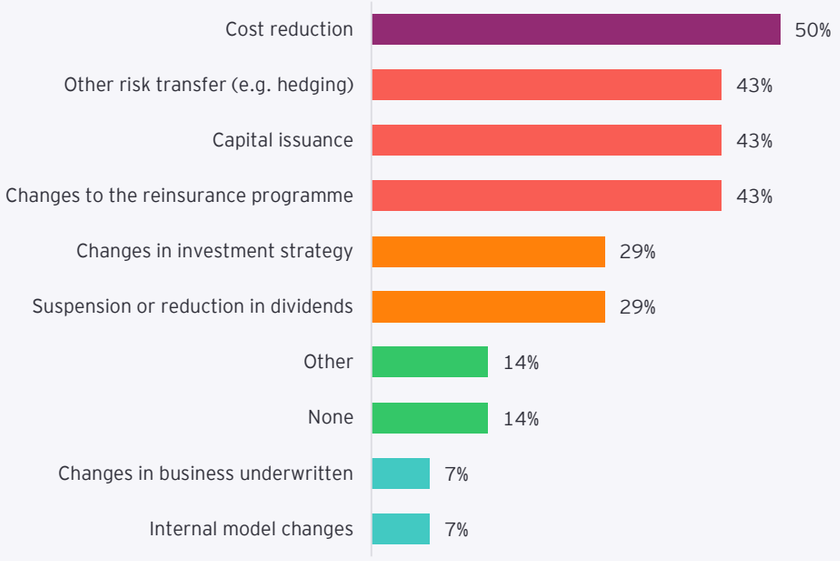
Survey respondents have taken a number of preventive measures to maintain solvency within the target zone, variously: accelerating cost-reduction programmes, issuing new capital, updating their hedging and reinsurance programmes, updating their investment strategy and suspending dividend distributions.

For some, the decision to suspend dividends may have been driven by the aim of 'doing the right thing' rather than by numbers, as there is an increased public opinion pressure for firms to cater for a number of stakeholders other than shareholders, such as employees and policyholders.

The PRA discouraged the payment of dividends and variable remuneration by insurers in a letter from Sam Woods on 31 March 2020 noting the key role of insurers as long-term investors in the UK economy.[1] Some dividends were nevertheless paid. In a subsequent statement on 8 April 2003, the PRA noted that it welcomed the prudent decision from some insurance companies to pause dividends.[2] Accounting losses may currently be causing dividend traps in some groups, but the current environment may not be conducive to capital reductions.

Another action mentioned by CFOs was a reduction in capital expenditure.

Figure 14: Have you taken, or are you planning in the near term any measures to ensure that the firm or group solvency position remains within the target zone? If so, what measures?



14 firms responded to this question

1. *Letter from Sam Woods, Deputy Governor, CEO Prudential Regulation Authority to the boards of all UK insurers and reinsurers, PRA, 31 March 2020.*
2. *PRA statement on decision by insurance companies to pause dividends, PRA, 8 April 2020.*

Most insurers are intending to reduce their cost base over the next 12 months

All but one respondent intend to reduce their enterprise-wide cost base over the next 12 months, with a majority targeting a 5%–10% cost reduction

For many, this is already part of a long-term strategy to create a more agile, client-centric, digital and profitable business, and some have already communicated expense ratio targets to the market prior to the pandemic. The pandemic is a further catalyst to drive businesses to become more resilient.

Whilst travel expenses have sharply decreased as a result of the crisis, several firms have invested in remote working capabilities. Natural attrition and, therefore, headcount reduction overall has mostly stopped since March. As a result, some CFOs have highlighted that their cost base was currently higher than they had initially planned. As a response to the pandemic, some firms have also announced a commitment not to make employees redundant this year, which poses a cost challenge as headcount is often the first cost lever.

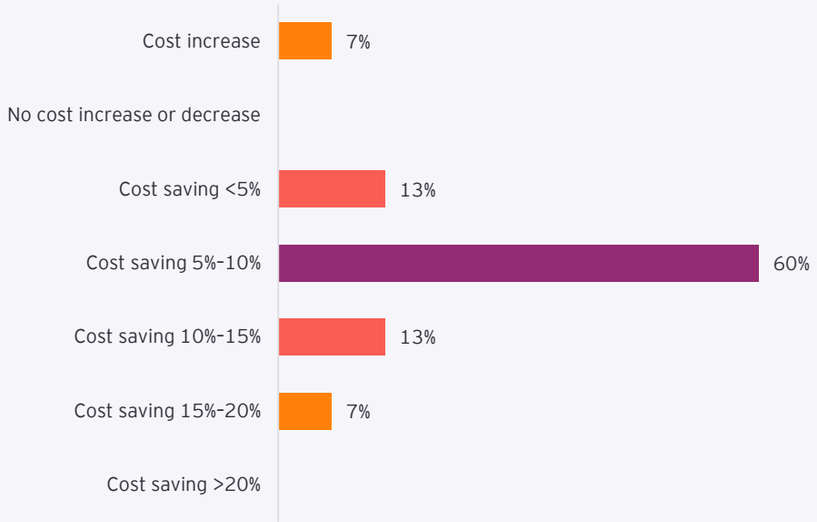
The pandemic is accelerating the transition to a modern workplace in the short term and the right-sizing of the real estate footprint in the medium term.

Sustainable cost reduction requires investment in technology and data analytics to remove manual processes, as well as a holistic effort to improve end-to-end processes across the organisation, avoiding silo projects. A number of benefits should be targeted beyond cost reduction, e.g. better policyholder experience, greater insights to the business and controls enhancement.

CFOs play a central role in enterprise-wide cost optimisation programmes

CFOs provide governance around prioritising funding and control gating; they monitor programme costs and track financial and non-financial benefits. A robust framework to prioritise investments and enhanced analytics to track benefit realisation are critical for this — financial services are, overall, not very mature in these two areas.

Figure 15: How much enterprise-wide admin cost are you planning to save over the next 12 months?



CFOs are taking steps to make their business planning process more agile

Business planning is a key tool to steer the business

At the start of the pandemic, CFOs were focused on getting a strong handle on exposure and closing the books remotely. Their focus rapidly shifted from immediate business continuity to business planning as a key tool to equip the Board in making important decisions regarding underwriting, capital, investments, operations, customers and people.

The COVID-19 pandemic has added considerable pressure on FP&A teams

Respondents have highlighted the constant requests for new numbers, especially during the first few months. Often only a handful of people are able to project numbers for the business, which creates a bottleneck, and FP&A processes are usually heavily manual. Respondents also noted the challenges of upgrading planning tools and processes, changes in distribution models and overall economic uncertainty made it difficult to form a central scenario.

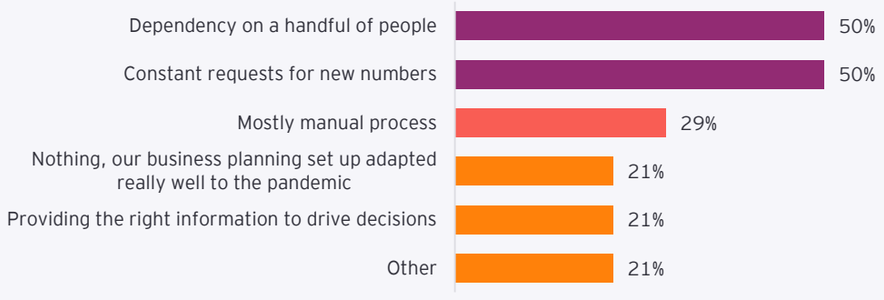
Two key priorities are to make business planning more agile and more strategic

Insurers have mostly relied on tactical solutions to provide real-time information to the Board and regulators, adopting a simpler, more proportional approach to focus on the 'so what' question, and increasing collaboration across Finance, Risk and the Business to speed up the process.

Some are also implementing quick wins to impact the upcoming annual planning cycle. For example, by providing more Executive strategic steer upfront on key assumptions or targets, changing the sequencing of the end-to-end process to prioritise strategic areas or key areas impacted by the pandemic, automating rule-based forecasting calculations, and leveraging existing data visualisation capabilities to help make sense of the numbers.

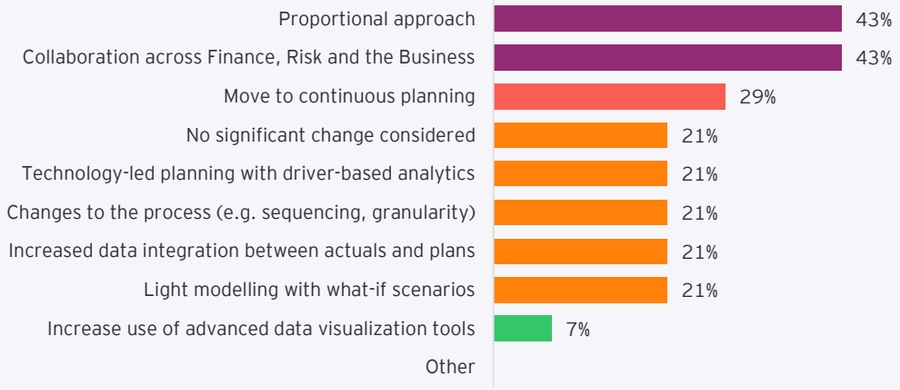
Several insurers are considering more strategic improvements to move to a more sustainable process with a focus on data integration and more technology-led continuous planning, including visualisation tools with drill-down capabilities.

Figure 16: What are your top three challenges for business planning in the context of the COVID-19 pandemic?



14 firms responded to this question

Figure 17: How do you plan to address challenges around business planning? Select all responses that apply



14 firms responded to this question

The COVID-19 pandemic and remote working have caused CFOs to reassess their attitude to risk management

Ninety-two percent of CFOs surveyed will put more emphasis on risk management over the next 12 months

The COVID-19 pandemic has caused CFOs to reassess their attitude to risk management with increased emphasis on protecting the capital position and managing operational and reputational risks. Capital has never been recalculated as frequently as today.

Operational risks have tended to be more stable relative to other areas of risk within many firms' risk profile. The COVID-19 crisis has highlighted the threat to operations and the business model by an operational risk event and increased the CFOs' emphasis on managing such risk. This trend is likely to continue with the proposed introduction of operational resilience requirements in 2021.[1]

Similarly, there is growing awareness that if a future event were to impact one firm rather than the whole economy, it could have significant implications for the reputational risk of the firm. More broadly, investor relations and markets messaging remain priorities for CFOs at a time of increased scrutiny over going-concern documentation and on the role of insurers in protecting policyholders.

Sixty-two percent of respondents have seen increased scrutiny from Executive management or Audit Committee on internal controls, including 38% from both

Remote working has increased risk in multiple areas that impact the completeness and reliability of financial data, such as internal controls on financial reporting (ICFR) and other internal control programmes that were not originally designed for operation in a remote environment.

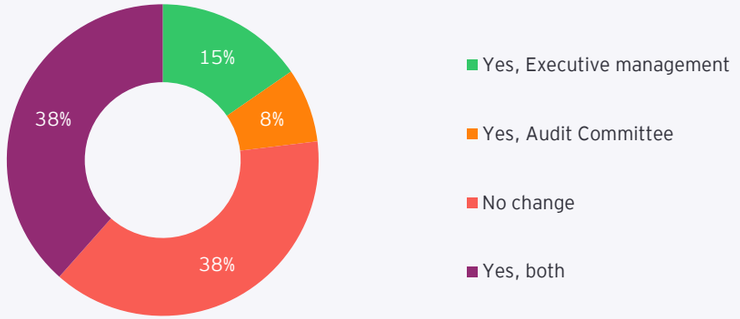
Under these circumstances, it is unsurprising that the majority of firms enhanced their oversight.

Where the controls may be impacted, e.g. those that help mitigate data misuse, cyber risk and fraud risk, there is currently more reliance on expert judgement in assessing the control environment and identifying areas where additional controls need to be introduced.

Figure 18: As a Risk & Control owner, how would you describe your attitude to risk management over the next 12 months?

13 firms responded to this question

Figure 19: Has Executive Management and/or Audit Committee made changes to the monitoring or oversight of internal control environment in response to COVID-19?



13 firms responded to this question

1. *Building the UK financial sector's operational resilience – discussion paper, FCA and Bank of England, July 2018 and Consultation Papers from Bank of England "Operational Resilience of FMIs", Dec 2019. Under consultation until Oct 2020.*

Most CFOs are planning to automate 5%–20% of their finance controls in the next 12 months

Over 60% of CFOs have strengthened their control environment as a response to the COVID-19 crisis

This is a lower percentage than might have been expected in a pandemic and demonstrates CFOs' confidence overall on the operational resilience of the finance function.

To ensure business continues to operate as normal, many insurers have established additional steps to manage internal financial controls, including:

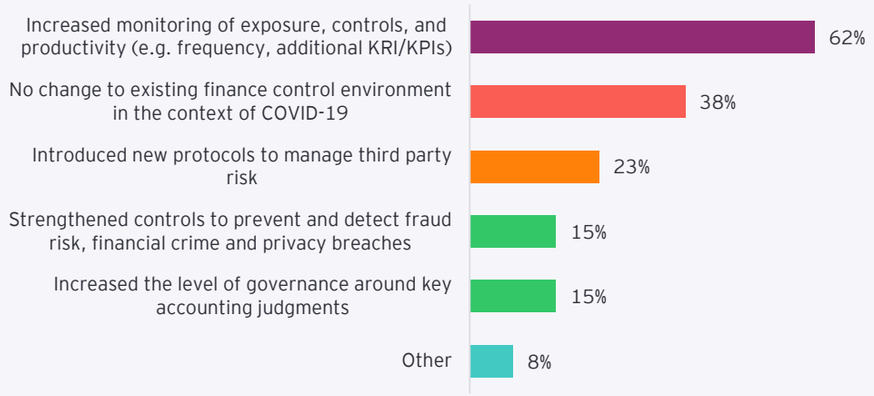
- COVID-19 financial control added to Board meeting agendas, including regular MI and KPI reporting on controls
- Additional scrutiny over, and documentation of, judgments
- Additional oversight of outsourced service providers to ensure compliance and continued reliance on ISAE 3402 controls reports
- Redesign of internal audit procedures to test the effectiveness of remote ICFRs
- Design and test operational risk assessment components
- Increased frequency of certain controls

Almost two-thirds of respondents plan to automate 5%–20% of their finance controls over the next 12 months

CFOs are planning to automate workflow and internal controls such as reconciliation controls via process automation, analytics and process-mining. One respondent mentioned that over 40% of financial controls would be automated over the next 12 months via the rollout of a new financial system. In addition to delivering efficiency savings and creating capacity for more complex activities, control automation also enables more frequent monitoring, earlier interventions in the event of control deficiencies and optimises the investment in key controls.

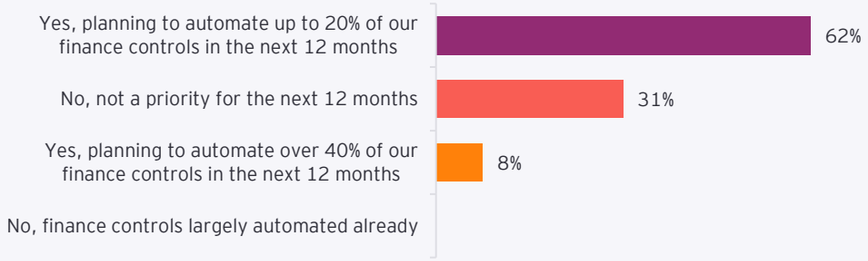
We will also likely see an enhancement of cyber-data security and information security technology to address risks from remote working, in conjunction with central IT functions.

Figure 20: Where you have strengthened the internal finance control environment; what key actions have you taken?



13 firms responded to this question

Figure 21: Do you plan to automate controls in the next 12 months?



13 firms responded to this question

Finance teams must sharpen their commercial knowledge to partner better with the business

Most CFOs ranked commercial knowledge as critical for their function in the next two years

This is consistent with their focus on business growth and business planning for the next 12 months, and with the broader shift of the finance function towards a better value-adding business partner. The role of the finance function continues to evolve rapidly, broadening beyond traditional accounting expertise. Finance professionals are playing a more strategic role, using new technologies to partner better with the business. The crisis has also demonstrated that the analytical skills Finance brings to the table, and the overall understanding of the business, was critical to understand and project the impacts of the COVID-19 pandemic.

Technical accounting and actuarial skills will continue to attract a premium in order to navigate the significant accounting change that IFRS 17 and IFRS 9 (effective from 1 January 2023) will bring.

Recent events have highlighted the importance of additional skills associated with resilience, managing through change and team leadership.

As Finance continues to transform and challenge old norms in a post-COVID-19 crisis environment, these skills will continue to become of growing importance.

Other skills noted by respondents included process design, and data and reporting skills.

It will be essential for Finance to embed and sustain new ways of working, refreshing talent management and capability building to meet this future requirement.

Figure 22: What are the key skills that are critical to your finance function over the next two years?

Insurers are starting to integrate consideration of climate risk within their business, including financial reporting

In April 2019 the PRA published PS 11/19 and SS 3/19 – enhancing banks' and insurers' approaches to managing the financial risks from climate change, which set out the PRA's expectations regarding the strategic approach that it expected firms to adopt regarding governance, financial risk management, scenario analysis and disclosure.[1,2]

Insurers submitted plans to address these requirements in October 2019, and the survey results highlight that the majority of respondents are beginning to develop the core components of their climate strategy.

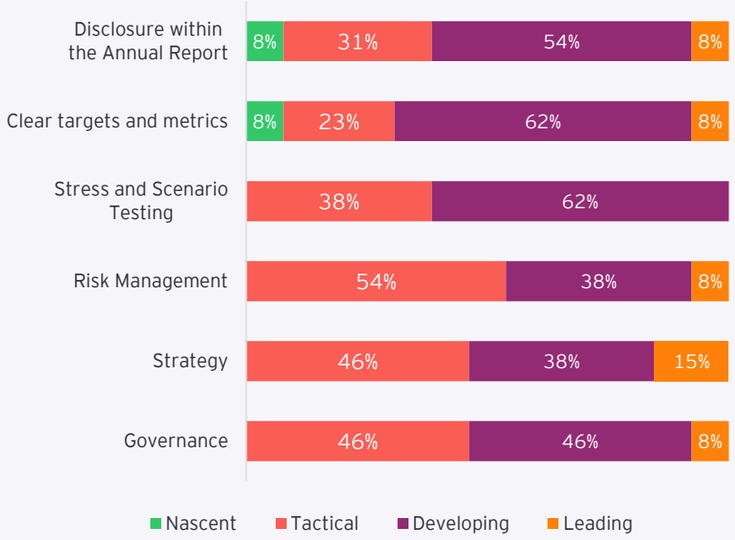
However, as disclosure requirements and the volume of requirements and guidance on stress testing measures[3], Boards are stepping up the pace and requiring firms to embark on more robust analysis. There are three key drivers to this:

- Boards are seeking to get ahead of the regulatory requirements, recognising that the effort to achieve minimum compliance is non-trivial.
- The strategic imperative is increasing as the groups across the sector seek to take a public stance on material sustainability issues at a holistic level, including climate action but also extending to prioritised UN Sustainable Development Goals, particularly in light of COVID-19 and issues of race and ethnicity.
- As insurers emerge from COVID-19, many are seeking to rebuild sustainably and 'build back better', recognising the shift from a shareholder perspective to multi-stakeholder primacy.

On 1 July 2020, the PRA sent a 'Dear CEO' letter providing feedback on the PRA's review of firms' Supervisory Statement 3/19 (SS3/19) plans and clarification of expectations. The letter highlights that firms should have fully embedded their approaches to managing climate-related financial risks by the end of 2021.[4]

To meet the PRA's expectation, all firms will have to focus on embedding climate risk activity, working across functional areas, with Finance having a key role to play.

Figure 23: How mature is your organisation in relation to integrating consideration of Climate Risk within:



13 firms responded to this question

1. *Policy Statement 11/19, PRA, 15 April 2019, Enhancing banks' and insurers' approaches to managing the financial risks from climate change.*
2. *Supervisory Statement 3/19, PRA, 15 April 2019, Enhancing banks' and insurers' approaches to managing the financial risks from climate change.*
3. *E.g. Bank of England, EIOPA, the Climate Financial Risk Forum (CFRF) and the Network for Greening the Financial System (NGFS)*
4. *Letter from Sam Woods, Deputy Governor for Prudential Regulation and CEO of the Prudential Regulation Authority, 1 July 2020.*

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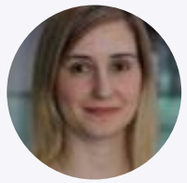

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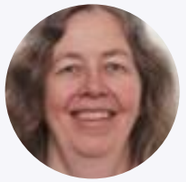

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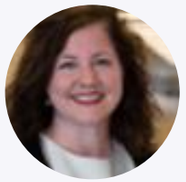

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ED None

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