COVID-19: Virtual Close Preparedness

Insurance

The current reality
Given the complexities associated with the business-as-usual close for insurance organizations coupled with the challenges of conducting a virtual close, there is limited precedent into how a global pandemic such as COVID-19 will impact insurance organizations as they prepare to complete their first virtual close. Not unlike other global crisis, it will be critically important to be prepared for COVID-19 related volatility and the likely impacts it will have on successfully preparing and executing the financial close process.

Framing your response

Prepare | Plan and communicate
- Develop virtual close playbook and risk mitigation strategy
- Prepare and communicate virtual close resource plan and BAD
- Conduct systems access and internal control preparedness

Organize | Identify and assess
- Launch virtual close schedule, outlining critical path activities
- Evaluate access, resource requirements, and capacity
- Create virtual command center to oversee and manage close

Prepare | Process Transactions
- Capture Financial Data,
  - Actual/Reserving Results
  - Investment Activity
  - Reinsurance Results
  - Forecast Data
  - Procure to Pay
  - Manage Fixed Assets
  - Human Resources & Payroll
  - Other Financial Data
- Entity Close
  - GAAP Results
  - IFRS Results
  - STAT Results
- Consolidations
  - GAAP Accounting
  - IFRS Reinsurance
  - FX Translation
  - Parent Adjustments
  - GAAP Consolidation
  - IFRS Consolidation
- Validation
  - Reconciliation
  - Re-Class Entries
  - Top-Side Entries
- Analytics
  - Forecasting / Variance
  - Continuous Monitoring
- Reporting
  - Parent & Subsidiary
  - Financial Stmts
  - Footnotes
  - MD&A
- Additional Needs
  - Board of Directors Analysis
  - Analyst/Investor Packs
  - Financial Supplements

Deliver | Collaboration, support desk, and reporting/finlings
- Collaborate, mobilize, and execute
  - Launch virtual close playbook and collaboration portal
  - Activate virtual command center and technical support desk
  - Drive issue resolution through execution of defined protocols

Monitor | Govern and comply
- Monitor team pulse and completion of virtual playbook tasks
- Evaluate controls and variances on ongoing basis
- Measure and address COVID-19 accounting impacts

Typical Insurance Close Process and Associated Challenges

Close
- Ability to access required systems and data in a timely manner
- Potential for knowledge gaps and issues associated with data hand-off
- Network capacity constraints resulting in delays

Consolidate
- Third-party feeds and information may be delayed or unreliable
- Availability to technical resources could be hindered causing delays in consolidation
- Upstream delays could significantly impact the ability to reconcile and forecast

Financial Governance, Policy and Internal Controls
- Reduced timeline for review and subsequent reporting
- Increased likelihood of reduced real-time performance measures and business insights
- Impact of COVID-19 on regulatory reporting deadlines and requirements

Last Mile of Consolidation

Elevated threats of today will likely persist and pose sustained risk in your close environment
Properly designed and implemented controls related to the selection and application of GAAP for the accounting and disclosure issues arising from COVID-19. Entities should also consider management’s ability to complete its financial reporting process and prepare its financial statements on a timely basis. Entities will need to ensure that they have designed controls to compensate for the lack of information.

If an existing control cannot be performed, breakdown in review-type controls or the inability of individuals to perform control duties because of absences (e.g., due to employee illness or the closure of affected offices).

Virtual Close Consideration
- The impact of COVID-19 on claims experience and its effect on management’s understanding of performance

Virtual Close Risks Legend
- A: Access / Availability to Data
- B: Increased Activity Time to Completion
- C: Third Party / Offshore Operations Disruption
- D: Modified / Interim / Circumvented Controls

Virtual Close Risks
- A
- B
- C
- D

Internal Control Considerations
COVID-19 may cause entities to implement new internal controls or modify existing ones. Entities will need to consider the operating effectiveness of controls, including assessing any breakdown in review-type controls or the inability of individuals to perform control duties because of absences (e.g., due to employee illness or the closure of affected offices).

Deloitte Support
As your organization responds to the impacts stemming from COVID-19, Deloitte stands ready to help you tackle your most complex strategic, financial and operational issues. A sample of areas we stand ready to assist include:

- Control support and guidance
- General accounting (US GAAP, Stat, IFRS)
- External financial reporting
- Consolidate and report
- General Ledger analytics and final review
- New and modified adjusting entries
- Calculate and book Inter / Intra-Company allocations
- Perform consolidation
- Prepare SEC filings (inclusive of footnotes and MD&A)
- Prepare financial supplements
- Finalize the analyst and investor packages (i.e., earnings release)
- Update new and modified adjusting entries
- Post adjusting and eliminating entries
- Post top-side entries
- General ledger
- Conduct executive team meetings, audit committee and board reviews
- Finalize Regulatory, Local, IFRS and Tax reporting as applicable
- Conduct executive team meetings, audit committee and board reviews

Virtual Close Considerations
- Virtual Close Process Transactions
- Virtual Close Close and Consolidate
- Virtual Close Last Mile of Reporting