Internal controls considerations for insurers in a remote close environment

Maintaining trust while working remotely

April 2020

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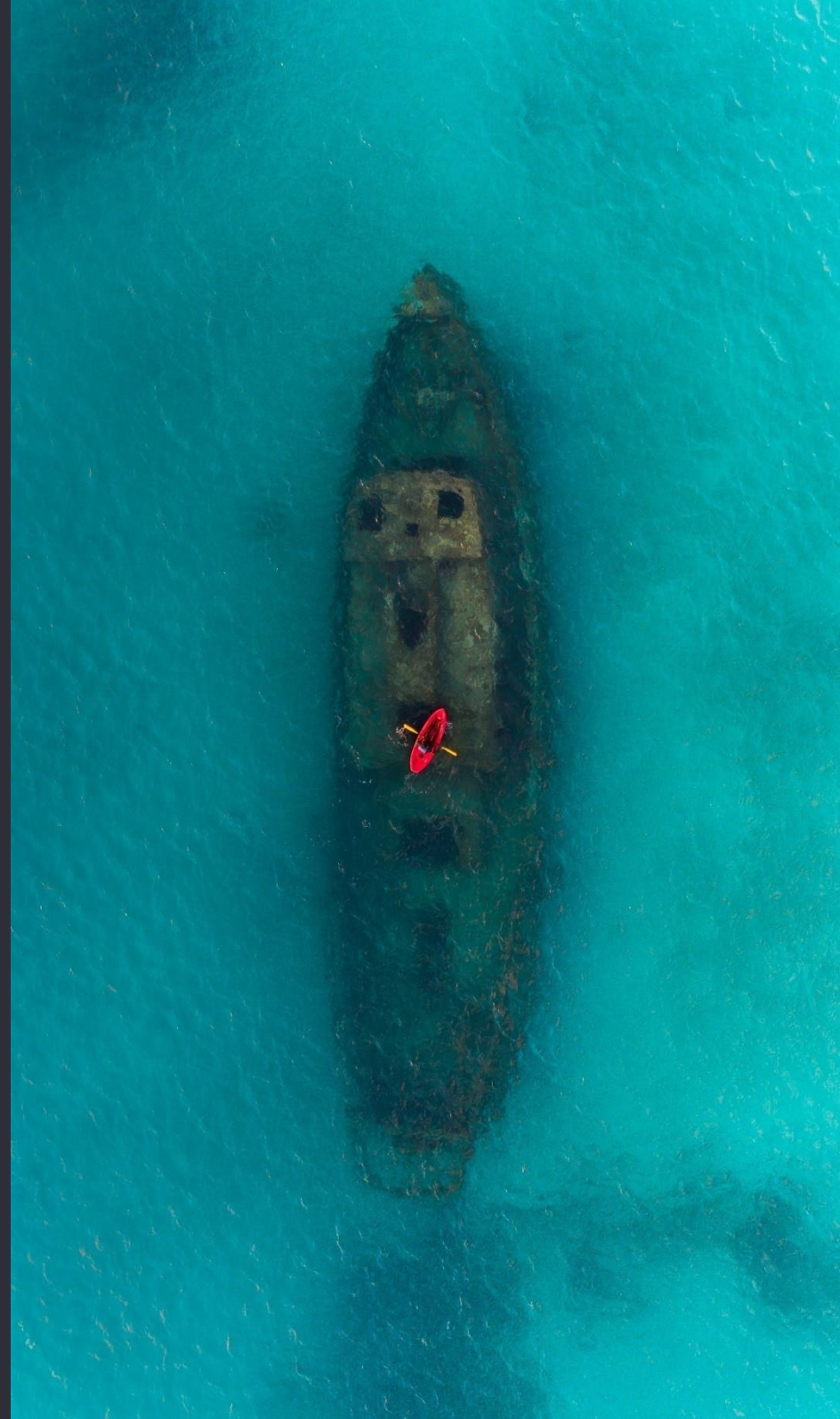‣ Contact your EY CFO Advisory team to discuss evolving strategies

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Helping resilient financial controls in a remote working environment

Key considerations to help resilience and internal controls compliance

As a result of COVID-19, businesses and economies around the globe have transitioned to remote working. This increases 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 programs that were not originally designed for operation in a remote environment. Coupled with stressed circumstances, this working environment requires more judgment to execute, evidence, certify and test controls to maintain compliance.

Below are some of the questions that insurance chief financial officers (CFO) need to consider when supporting their business to manage increasing risks, while also ensuring an effective control environment around financial data:

1 Communications with your external auditors

▸ Does your organization have a process in place to identify and respond to high-impact, non-routine events?

▸ Have you identified processes and controls with a heightened risk profile e.g., accounting estimates, impairments, treasury, fair values, hedge accounting IT General Controls (ITGC), cyber, fraud and various disclosures?

▸ Have you considered the governance mechanism around increased risk profiles and how this is being reviewed by the entity's Board?

▸ Has there been a discussion with your external auditors in relation to their expectations for internal control procedures?

▸ In a virtual environment, is your entity prepared for ICFR and Sarbanes-Oxley sections 302 and 404 certifications?

2 Responding to changes in working day timetable (WDT)

▸ If key resources become unavailable, have you considered sufficient training and back-ups to perform key controls?

▸ When lives are being rearranged, how should responsibilities be set up to avoid segregation of duties conflicts?

▸ In a disrupted working environment, are your financial close processes resilient enough?

▸ Is data accessible for key controls?

▸ In a virtual environment, will you have appropriate evidence of management review controls?

▸ Do you have resources with the right skills to evaluate controls on more complex accounting issues?

▸ Some operational areas (e.g., claims and underwriting) are now working under a different control structure. Have you assessed the impact of these processes in your financial reporting?

3 Cyber, third-party and fraud risk management

▸ In a remote working environment, have you assessed the potential impact of heightened fraud, financial crime and privacy risks?

▸ Do you understand the impact the disruption may be having on your third-party providers and their ability to operate controls you rely on?

▸ Will rapid system and infrastructure changes impact effectiveness of access and change management controls?

▸ Do you have appropriate hyper care support?

4 Transformation through technology

▸ Do you have the technology infrastructure and tools to support remote walkthroughs and testing activities?

▸ Do you have qualified resources to assist with additional control design, modifications and documentation?

▸ Do you have the right protocols in place to capture the required data for Information Produced by the Entity (IPE)?

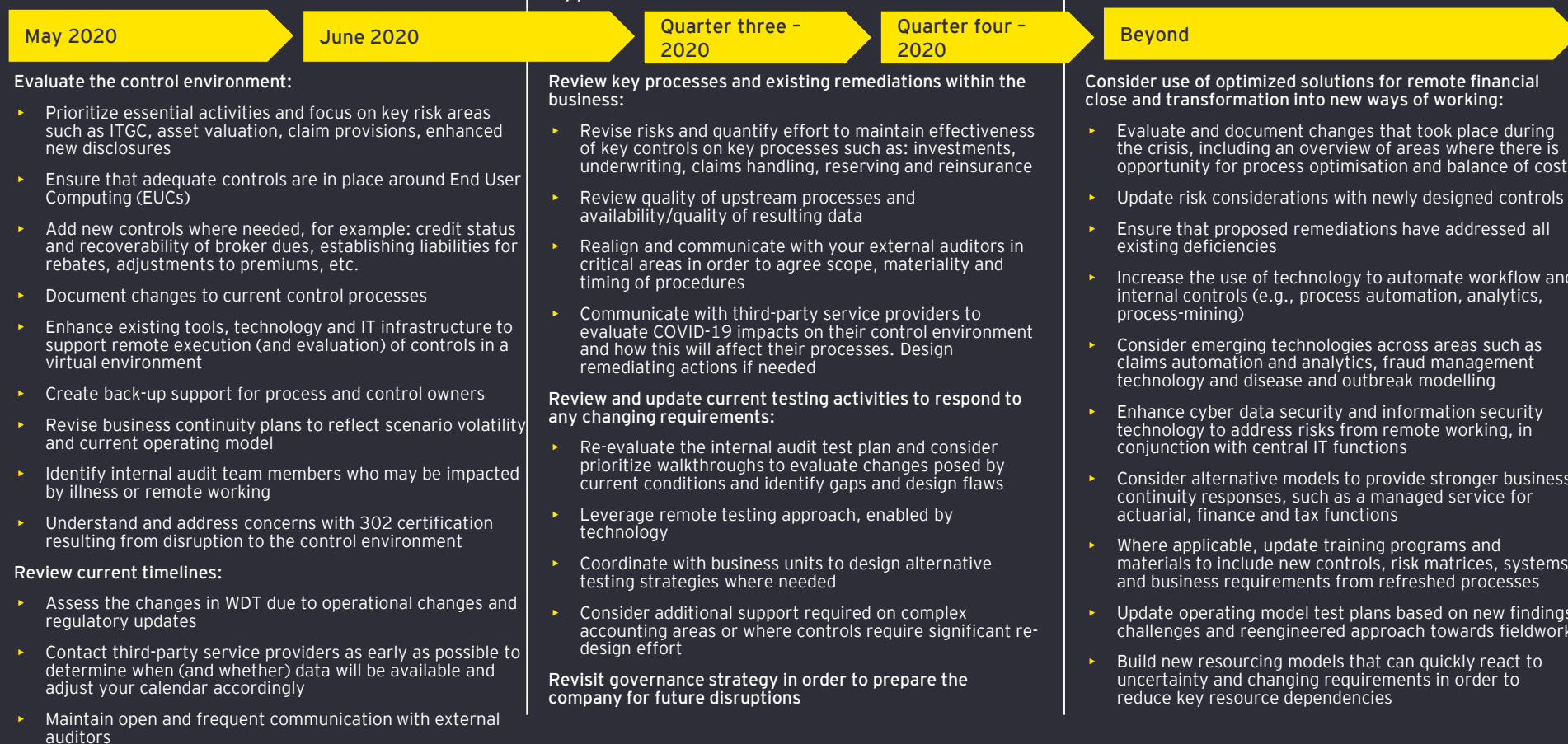▸ Have you considered automating some of your manual controls, such as IPE control management?

Helping resilient financial controls in a remote working environment

Key items to consider for NOW, NEXT and BEYOND with a focus on key risk areas

NOW *Manage the immediate continuity and resilience challenges.*
Understand and respond to immediate risks and challenges.

NEXT *Assess and monitor the risk profile of the company through the curve of the pandemic, including remaining resilient through change. Evaluate the design and operating effectiveness and support remediation.*

BEYOND *Define the new normal, and transform to reframe the future for success.*
Accelerate strategic control transformation.

May 2020	June 2020	Quarter three – 2020	Quarter four – 2020	Beyond

Evaluate the control environment:

- Prioritize essential activities and focus on key risk areas such as ITGC, asset valuation, claim provisions, enhanced new disclosures
- Ensure that adequate controls are in place around End User Computing (EUCs)
- Add new controls where needed, for example: credit status and recoverability of broker dues, establishing liabilities for rebates, adjustments to premiums, etc.
- Document changes to current control processes
- Enhance existing tools, technology and IT infrastructure to support remote execution (and evaluation) of controls in a virtual environment
- Create back-up support for process and control owners
- Revise business continuity plans to reflect scenario volatility and current operating model
- Identify internal audit team members who may be impacted by illness or remote working
- Understand and address concerns with 302 certification resulting from disruption to the control environment

Review current timelines:

- Assess the changes in WDT due to operational changes and regulatory updates
- Contact third-party service providers as early as possible to determine when (and whether) data will be available and adjust your calendar accordingly
- Maintain open and frequent communication with external auditors

Review key processes and existing remediations within the business:

- Revise risks and quantify effort to maintain effectiveness of key controls on key processes such as: investments, underwriting, claims handling, reserving and reinsurance
- Review quality of upstream processes and availability/quality of resulting data
- Realign and communicate with your external auditors in critical areas in order to agree scope, materiality and timing of procedures
- Communicate with third-party service providers to evaluate COVID-19 impacts on their control environment and how this will affect their processes. Design remediating actions if needed

Review and update current testing activities to respond to any changing requirements:

- Re-evaluate the internal audit test plan and consider prioritize walkthroughs to evaluate changes posed by current conditions and identify gaps and design flaws
- Leverage remote testing approach, enabled by technology
- Coordinate with business units to design alternative testing strategies where needed
- Consider additional support required on complex accounting areas or where controls require significant re-design effort

Revisit governance strategy in order to prepare the company for future disruptions

Consider use of optimized solutions for remote financial close and transformation into new ways of working:

- Evaluate and document changes that took place during the crisis, including an overview of areas where there is opportunity for process optimisation and balance of costs
- Update risk considerations with newly designed controls
- Ensure that proposed remediations have addressed all existing deficiencies
- Increase the use of technology to automate workflow and internal controls (e.g., process automation, analytics, process-mining)
- Consider emerging technologies across areas such as claims automation and analytics, fraud management technology and disease and outbreak modelling
- Enhance cyber data security and information security technology to address risks from remote working, in conjunction with central IT functions
- Consider alternative models to provide stronger business continuity responses, such as a managed service for actuarial, finance and tax functions
- Where applicable, update training programs and materials to include new controls, risk matrices, systems and business requirements from refreshed processes
- Update operating model test plans based on new findings, challenges and reengineered approach towards fieldwork
- Build new resourcing models that can quickly react to uncertainty and changing requirements in order to reduce key resource dependencies

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How can EY help?

Contact your EY CFO Advisory team to discuss evolving strategies

How we can help you

- ▸ Control design and optimization leveraging EY tools and technology
- ▸ Future operating model visioning for people, technology and processes
- ▸ Testing support and staff co-sourcing
- ▸ Digitalization of paper documents using Optical Character Recognition (OCR) technology to increase efficiency of remote working
- ▸ Implementation of Robotic Process Automation (RPA) and workflow management tools to alleviate personnel bottlenecks which affect the accounting and reporting operations

Our tools and enablers

EY Process Mining solution
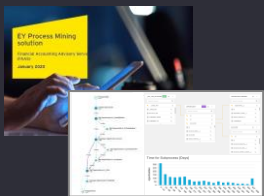
The EY Process Mining solution is a tool to help clients manage business risks by analyzing recorded user and system actions in order to improve process flows.

It uses a state-of-the-art technique to reconstruct and evaluate IT-integrated processes based on real performance data.

EY Optix

EY Optix facilitates the ability to integrate standardized foundational analytics-based testing into core business process audits.

It helps producing higher-quality audits that allow better understanding of the business and processes, with a focus on the risks that matter to deliver relevant business insights.

EY Helix internal control analyzers
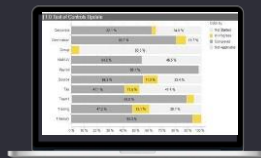
EY Helix provides instant status information through visualization of controls identified and tested with evaluation of any deficiencies identified.

It aggregates deficiencies by business line, geography, process, account, theme etc. and helps early identification of delays and aggregation risks.

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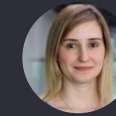
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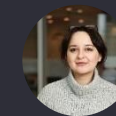CFO Advisory
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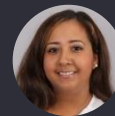
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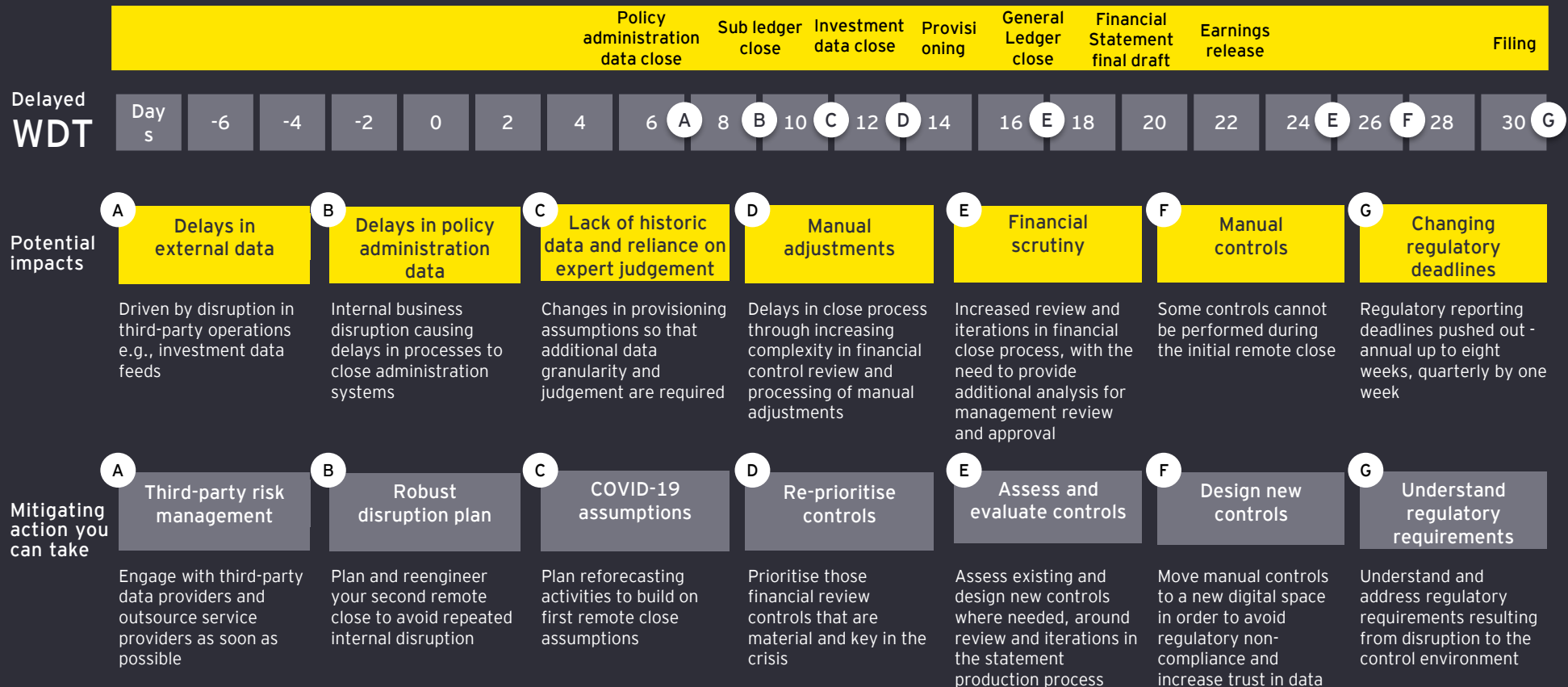Ernst and Young LLP

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Responding to pressure on working day timetable (WDT)
Reduced workforce and delays in data will mean you need to make changes to your WDT

Below, we show the potential WDT timeline impacts on control and production activities that you may experience, along with mitigating actions you can take:

	Policy administration data close	Sub ledger close	Investment data close	Provisioning	General Ledger close	Financial Statement final draft	Earnings release		Filing

Delayed WDT

Days	-6	-4	-2	0	2	4	6	A 8	B 10	C 12	D 14	16	E 18	20	22	24	E 26	F 28	30	G

Potential impacts

A — Delays in external data
Driven by disruption in third-party operations e.g., investment data feeds

B — Delays in policy administration data
Internal business disruption causing delays in processes to close administration systems

C — Lack of historic data and reliance on expert judgement
Changes in provisioning assumptions so that additional data granularity and judgement are required

D — Manual adjustments
Delays in close process through increasing complexity in financial control review and processing of manual adjustments

E — Financial scrutiny
Increased review and iterations in financial close process, with the need to provide additional analysis for management review and approval

F — Manual controls
Some controls cannot be performed during the initial remote close

G — Changing regulatory deadlines
Regulatory reporting deadlines pushed out - annual up to eight weeks, quarterly by one week

Mitigating action you can take

A — Third-party risk management
Engage with third-party data providers and outsource service providers as soon as possible

B — Robust disruption plan
Plan and reengineer your second remote close to avoid repeated internal disruption

C — COVID-19 assumptions
Plan reforecasting activities to build on first remote close assumptions

D — Re-prioritise controls
Prioritise those financial review controls that are material and key in the crisis

E — Assess and evaluate controls
Assess existing and design new controls where needed, around review and iterations in the statement production process

F — Design new controls
Move manual controls to a new digital space in order to avoid regulatory non-compliance and increase trust in data

G — Understand regulatory requirements
Understand and address regulatory requirements resulting from disruption to the control environment

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Communications with your external auditors
Audit Committee considerations and external auditor expectations arising from COVID-19

Key focus areas
for the Audit Committees and Board of Directors

‣ Significant accounting matters and changes to financial condition and operating performance, including material changes in key performance indicators (KPIs).

‣ Review of key estimates (both on the asset and liability sides), sensitivities scenario plans, stress tests and updated enterprise risk management (ERM) information.

‣ Review key financial statements and disclosures with a focus on investments, technical liabilities, Liability Adequacy Test (LAT), internal control systems and other regulatory filings. This will also involve extensive communications with your external auditors.

Enquiries that should be made
with management, compliance and auditors

‣ In a remote working environment, can financial reporting, compliance and auditing procedures continue to be adequately performed?

‣ Are there any meaningful changes to key policies governing internal controls over financial reporting or disclosure controls?

‣ Are there any resource concerns and, if so, what are the mitigating plans?

Internal Controls on Financial Reporting (ICFR) considerations

‣ Review current scope, materiality and planning

‣ Engage with third-party providers to get ahead of any reporting issues

‣ Ensure any internal controls changes are reflected within ICFR and Sarbanes-Oxley Section 404 (when applicable)

Main issues that can reflect in your relationship with your external auditors

Actions for Now, Next and Beyond to support your activities with your external auditors and Audit Committee

Extension of the external audit procedures
Due to potential weakening of the internal control environment, requiring additional effort for the organization and causing delays in the certification process.

Part of the documentation requested not being available in electronic format
(such as policy and claims documents) which cannot then be shared remotely with the external auditors, leading to incomplete audit procedures, increased audit risk and potential delays in the audit opinion.

Impossibility to perform audit procedures
on areas that require a face-to-face contact between auditors and the entity, such as test of IPEs, management review controls and effectiveness of manual controls.

Now

Assess key accounting and disclosure implications arising from COVID-19:

‣ Premium recognition in case of material contract modifications

‣ Asset recoverability and impairment

‣ Compliance with financial and other contractual covenants

‣ Going concern and the ability to predict the timing and extent of the expected turnaround

‣ Business interruption and other insurance claims and recoveries

‣ Prompt identification of alternative control strategies (from manual to automatic) in the main risk areas

‣ Review of asset-liability management process and impacts on fair value items

Next

In this volatile environment, it is critical that organizations maintain a robust Enterprise Risk Management (ERM) program to:

‣ Continuously assess, respond and monitor the shifting risk landscape

‣ Evaluate the internal control over financial reporting

‣ Review disclosure controls and procedures to achieve regulatory requirements for financial reporting and public disclosures and to satisfy broader stakeholder demand for material information

Quarter three is a big quarter for year end reserving:

‣ With focus on hard close and roll forward provisions, specifically on actuarial reserves in addition to the premium movements, as increased judgement is expected

Beyond

A clear and effective communication with the external auditors could help in the identification of the priority areas:

‣ Engage with external auditors to analyse potential COVID-19 impacts on the audit strategy and share the priority areas in which is necessary to enhance the internal control environment

‣ Explore the extent of existing hard copy documentation and assess the possibilities for a digitalization plan

‣ Enhance IT infrastructure to support remote communications between the entity and external auditors to allow a safe environment to share audit documentation

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Cyber security, third-parties and fraud risk management

Cyber security risks

Now

Enhance information security (InfoSec), remote workspace and cyber monitoring

▶ Establish helpdesks and self-service platforms

▶ Manage disruption and infrastructure limitations

▶ Implement and enhance remote work infrastructure

▶ Identify malware campaigns and other cyber threats

▶ Provide cyber awareness training

Next

Enhance infrastructure solution capabilities and third-party sourcing

▶ Improve security, performance and capability of mobile working

▶ Re-evaluate your enterprise collaboration and communication strategy

▶ Revise sourcing strategies and agreements

Beyond

Enable technology, adopt automation and artificial methods for IT operations

▶ Automate your IT infrastructure

▶ Implement Artificial Intelligence (AI) Ops combined with machine learning and big data

▶ Re-align cyber security strategy and roadmap

▶ Leverage new technologies

Emerging security questions:

1. How are you protecting your organization against increases in cyber attacks?

2. How did you determine if your workforce and infrastructure can handle the increase in remote working?

3. How is your InfoSec team able to monitor the increased number of remote workers?

4. What testing did you apply to assess the resiliency of your infrastructure?

5. How will you respond and recover from a cyber attack or other outage?

Third-party risk management (TPRM)

Manage the immediate operational resiliency challenges linked to your third-parties

▶ Plan for a COVID-19 third-parties assessment

▶ Gather information from third-parties

▶ Monitor and review third-party responses

▶ Manage current operational resiliency challenges linked to your third-parties

Consider existing financial arrangements and refund procedures if third-parties cannot continue to operate

▶ Make use of early warning screen system

▶ Monitor the financial stability of your critical third-parties

▶ Execute detailed risk assessment and mitigation planning

▶ Evaluate and review distressed third-parties

Operate a new normal in a different business environment to stay future-proof for the next disruptive event

▶ Learn from COVID-19

▶ Enhance awareness and automated reporting

▶ Enhance Business as Usual (BAU) TPRM activities

▶ Increase collaboration both internally and externally

Emerging TPRM questions

1. What are you doing to mitigate risks associated with third-party providers in the COVID-19 environment?

2. Do you know how third-party providers are protecting the security of their customers, operations, products and production?

3. How are your providers maintaining regulatory compliance requirements while managing dynamic working environments?

Fraud risk management considerations

▶ Robust segregation of duties should remain in place, despite the logistical issues of teams working remotely.

▶ Fraud investigations and whistle-blowing teams should be active and appropriately staffed to respond swiftly to any reported issues.

▶ Focus on educating employees on the increased risks from fraudsters seeking to capitalize on the current disruption.

▶ Measure and maintain employee engagement to prevent employees becoming disengaged.

▶ Re-evaluate your customer risk strategies. Some categories of customers may be considered as higher-risk categories, especially now, as they could become the conduits through which fraudsters attempt to penetrate financial systems.

▶ Review major new contracts issued, and transactions and payments made over the crisis period.

Re-perform fraud risk assessment

1. Have you assessed heightened internal and external fraud risks associated with the COVID-19 crisis?

2. What measures exist to deal with the concerns regarding falling incentives or contingent compensation?

3. Is there enough awareness around current fraud risks?

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Transformation through technology
Leveraging technology for increasing trust in internal controls

Advances in new technologies such as analytics, mobility, AI and RPA, offer CFOs an exciting opportunity to reimagine what the finance function could look like. COVID-19 and the transition to remote working can trigger transformation of your finance function with technologies that help with a smarter internal control environment around financial data.

Planning and monitoring | **Identifying and responding to fraud** | **Document intelligence** | **Testing significant transactions**

EY Helix - internal control analyzers
Helps you visualise controls identified & tested, assess deficiencies and aggregate them by business line, geography, process, theme etc. and helps early identification of delays & risks

Intelligent Metrics Navigator
Visualizes collected data from various source systems to support decision-making and enabling detailed business investigations and assurance on data quality, while simultaneously reducing review times and costs

Integrity Analytics
Identifies high risk behavioral patterns and trends leveraging a robust library of fraud detection algorithms
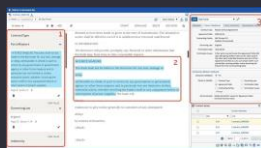
Contract analytics and document review services
Uses AI-based algorithms to identify key provisions and clauses systematically in the contracts and supporting documents
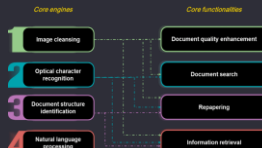
Smart Information Retrieval Engine SIRE
Automatically extracts data fields from unstructured documents such as scanned contracts

EY collaboration with Blue Prism and BlackLine

- EY and Blue Prism collaboration brings depth of RPA and broader automation services expertise together to assist companies with wide and targeted finance transformations.
- EY and BlackLine collaboration allows us to help our clients improve their finance operations through the governance and automation of their finance and risk processes.
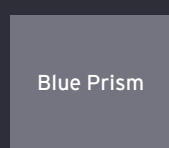
EY Optix facilitates the ability to integrate standardized foundational analytics-based testing into core business process audits.
It also provides:
- Higher-quality audits that allow better understanding of business and processes
- Focus on the risks that matter
- Delivery of relevant business insights.

Blue Prism is one of the leading vendors in RPA with proven technology in various domains including back office, internal audit, finance function, etc.
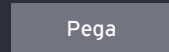
Pega helps create a consistent governance model for the Finance automation journey
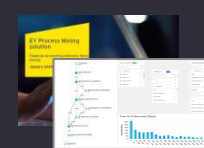
The **EY Process Mining** tool helps manage business risks by analyzing recorded user and system actions in order to improve process flows.
It Identifies (and can eliminate) weak spots using proactive insights to prioritize actions leading to process improvement or risk targeted investigations.

Key success factors of main technology enablers

- Anticipation of data set request to run data quality tests/checks on data before year end and giving time to remediate issues if necessary
- Analysis of larger populations to identify the risks that matter
- Clear identification of trends and anomalies

- Ability to identify processes and repetitive tasks from data sets spanning several years, in order to make suggestions for changes and ongoing improvements
- Customizable review workflows combined with AI-based algorithms to identify key provisions and clauses systematically in the contracts

- Identifies repetitive, simple and limited tasks performed in large volumes
- Simulates an employee
- Shifts control directly to the business rather than coders, limiting demands on IT

- Dedicated to highly automated processes with a lot of volume

Data Analytics and Visualization | **AI and machine learning** | **RPA** | **Process mining**

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About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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