



THE EVOLVING BURDEN OF STATUTORY AND REGULATORY FINANCIAL REPORTING

A research report sponsored by ROOM Solutions Ltd.

The demands on finance teams in underwriting enterprises are growing at an exceptional rate. The complexity and fidelity of the financial and management reports required to support such businesses is increasing, whilst the time available to produce them continues to shrink.

In light of this pressure, ROOM commissioned research to better understand the burden of statutory and regulatory reporting on individual Finance Departments. The research examined how Finance Directors, Financial Controllers and Finance Managers produce reports, as well as the effort required and the tools used to ease their burden. Views on the international regulatory requirements were obtained.

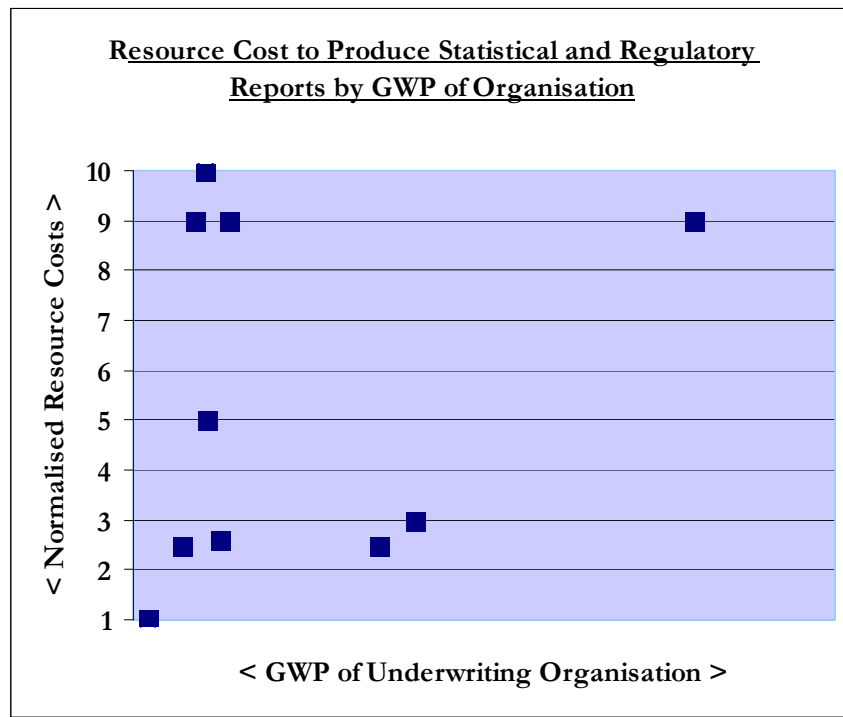
The key findings from the research are summarised below, and discussed in detail overleaf.

- The majority of the respondents wanted to reduce the time and cost to produce regulatory and statutory returns.
- There is no correlation between the size of an organisation and the resource cost to produce statutory and regulatory reports.
- The use of Excel spreadsheets varies enormously, with the number varying from half a dozen to 'hundreds'.
- Concerns were expressed over the amount of data manipulation taking place in spreadsheets and creating unacceptable levels of risk.
- Changes in regulatory requirements, and the short notice periods sometimes given for these changes, causes universal frustration. The amendments to reports generated a high resource overhead.

Resource Cost of Compliance

The research respondents were from a cross-section of organisations ranging from single entity companies operating solely in the UK and reporting to Lloyd’s and the FSA, to large multi-national groups. Whilst the companies were diverse in size, it was interesting to discover that there was no direct correlation between size and the cost expended to meet regulatory requirements.

The diagram details a representative sample of the research, illustrating there is no correlation between the cost of the resource to produce the reports and the Gross Written Premium (GWP) of the company. There was also no direct association between the number of regulatory bodies reported to and the expenditure of reporting.



An interesting example can be drawn through the comparison of two organisations: a large US domiciled insurer (Insurer A) and a managing agency with multiple Lloyd’s Syndicates (Insurer B).

Insurer A’s UK based Finance Team processed returns from the operation in Continental Europe and its two separate FSA regulated UK entities. It has complex reporting requirements based on an income of £500 million GWP per annum. Each entity had three main reporting streams incorporating a European specific GAAP requirement, the FSA (UK GAAP basis) and the US (US GAAP basis). Despite these multifaceted requirements the operation was able to meet the regulatory requirements without external resource assistance.

Insurer A has invested in a reporting solution which involves four key business-based systems automatically feeding into a central regulatory reporting repository. When asked if there were conflicts between the information required by the different regulators, the Financial Controller stated:



“I don’t think it’s a conflict; the data is basically still coming from a common source, and just mapped and adjusted differently.”

With regard to the amount of manipulation required on the data, he continued:

“Over the years, I think we’ve invested quite heavily in financial report production, our core system is very flexible in allowing us to produce data.”

An entity that bases its reporting solution on a single data source, automatically fed from underwriting, claims and finance systems, as per Insurer A, has significantly lower yearly resource costs. Where as an organisation that needs to manually import data to construct and deliver their regulatory reports has a higher annual cost for the delivery of its reports.

Insurer B, a Managing Agency with multiple Lloyd’s Syndicates, who is half the size by GWP of Insurer A, has estimated a cost to meet its regulatory obligations that was three times that of Insurer A. The company is heavily spreadsheet dependent, indeed the Excel spreadsheets are seen as its central repository. Insurer B outsources its regulatory reporting activities, but still requires additional contractors to support the nine-strong finance team, who spend the majority of their time on data manipulation and the construction of the returns to regulators.

The contrast between the two organisations was further highlighted by the extreme frustrations felt by Insurer B relating to the constant change in the regulatory requirements, as detailed in the *Views on Regulatory Requirements* section of this paper.

In summary, one respondent stated: “You’re actually forced to get slicker and more automated otherwise you’ll just be multiplying your headcount annually”.

The Dependence on Excel Spreadsheets

The inherent lack of flexibility of some reporting tools seemingly encourages the need to use Excel spreadsheets for data manipulation and reporting, as demonstrated in the case of Insurer B above. One large insurer commented:

“Even with the new reporting system they are never as flexible as Microsoft Excel. New requirements drive this, because it is easier to spin data around in spreadsheets”.

Another respondent commented:

“When it comes to regulatory reporting of certain types, we will always use spreadsheets and I don’t think you’ll find anybody who won’t”.

Spreadsheets are perceived to enable a degree of manipulation that is essential whilst regulators continue to alter their reporting requirements, however there is concern surrounding the use of Excel relating to the auditability of the data and the integrity of its source. The best solution for reporting may inevitably involve Excel, especially for delivery purposes, however much of the process and data manipulation involved in the reporting process should be performed using enterprise reporting tools. These maintain links to the data facilitating auditability and automating the process for reporting.



The US based respondents have adopted this route already, and influenced its London based operations who, even in the case of the insurer who only had six key spreadsheets, felt 'over exposed' and is seeking ways to remove its Excel dependence. Pressure from the US parent was seen to emanate from the "sledge hammer" Sarbanes Oxley legislation.

Views on Regulatory Requirements

The research identified that the markets held diverse views on the regulatory and statutory environment; this was largely dependent on the regulatory regime in question. The study highlights the extreme levels of frustration finance teams experience as a result of the annual changes to the regulatory requirements. The experienced respondents noted an exponentially increasing volume of reports:

"In 20 years experience in the insurance industry, I have seen regulatory requirements change from a two page quarterly report, to a fifty page report being required. In the last five years it has probably increased tenfold".

Questions regarding the ease with which their organisation embedded changing reporting requirements into its management and reporting solution elicited a mixed response; over 70% of respondents experienced some level of difficulty responding to the task, however a quarter of respondents adopted the changes with minimal effort and impact.

One finance team spent a year re-organising to ensure compliance to a new requirement, which was changed by the regulators a month prior to delivery. Many of respondents noted the short notice periods given for changes to requirements, and they commented that the instructions appended with the amendments were unclear and time consuming, "the instructions we get from Lloyd's aren't very clear". An overhead was created for teams in "understanding the forms" and "how the data needs to be adapted for those forms".

In contrast, another insurer found it 'fairly easy' to apply changes to regulatory reporting without impacting on the organisation. They felt at an advantage in the current environment as they had already implemented a solid IT infrastructure to cope with the demands of Sarbanes Oxley on its US parent company. Prior to this implementation, major efforts had been required to apply the requisite changes.

The respondents were generally comfortable with the substantial decrease in the FSA reporting requirements over the last year, however several respondents reported the need to produce a 300 page document to embrace Lloyd's and FSA risk codes. Notably, most of the Lloyd's based respondents observed that the Lloyd's risk code level of reporting was far too "granular" in nature. The risk code format does not appear to correlate easily with the insurance classifications used by respondents and therefore a significant amount of work is required to "translate" internal classes into the Lloyd's risk code format. Fortunately, at least on a temporary basis, Lloyd's have agreed to undertake the risk re-coding task, reducing this 300 page document to some 15 pages.

Lloyd's, out of all the markets, generated a general feeling of exasperation from the respondents, who felt there were layers of unnecessary complexity with the same data being delivered in different forms. There is a common view that one generic return could encompass the half dozen that the Syndicates are generating.

One Managing Agency noted that they simply couldn't understand the extra requirements given that Lloyd's now operates on an annual accounting basis, "now Lloyd's is annual AA is seem unnecessarily different".



Closing Synopsis

The research showed the regulatory resource burden is a significant expense amongst many insurers. Data manipulation, lack of a streamlined process, and the changing regulations all impacted their effectiveness. The amount of regulation, and future changes are a certainty, however Finance Departments are able to take control of other areas.

90% of the respondents, regardless of their organisations size or market regulator, felt that the reporting process could be shortened, therefore reducing resource costs. More surprisingly the research highlighted that none of the respondents currently have a fully streamlined reporting system that automatically creates the statutory and regulatory returns, although they appreciate that a streamlined, integrated, automated I.T. process is key to shortening the process for statutory and regulatory reporting. The general feeling is that automation can't be achieved for all reports, but is possible for a vast majority. "If they were to streamline, it would assist the business massively"

ROOM's Solution

Over the last 12 months ROOM has been working with customers and the wider international Commercial Insurance markets to develop a solution to support Finance Departments to manage and analyse the required financial and management data with less effort, reduced timelines and without manual intervention and data manipulation.

ROOM's Financial Solution, RFS, simplifies the processes to produce the financial views required to run an insurance enterprise. The RFS infrastructure facilitates the production of fully reconciled financial reports at all the levels of granularity required for regulatory or management purposes.

The design specification for RFS stipulated that the system should be capable of supporting the statutory and regulatory financial reporting requirements of a global underwriting organisation operating on multiple trading platforms. The result is a highly flexible solution that enables organisations with multiple legal entities operating in several jurisdictions, or single site operations, to meet their financial reporting requirements cost-effectively.

RFS streamlines all operational procedures for reporting and credit control, utilising data from one or many source underwriting systems, via a common integrated data warehouse and ledger solution. This enables the finance department to enrich the support it provides to the executive team.

RFS is currently used to support statutory and regulatory reporting in London (Lloyd's and Company Market), the US and Bermudan Markets.