

The CFO's Role in Managing the Company and Board Through Challenging Cycles

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Overview

- Worst economy since the Great Depression
- Industry P/C premiums down nearly 5% from 2007
- Industry loss ratio stable -- ?
- Numerous life insurers in permitted practice territory
- Investment market in relative turmoil
- Layoffs, downsizing, industries disappearing, etc.
- Insurance industry impacts?
- What are top CFOs doing? What should they be doing?

Purpose

- To provide examples of what some insurance CFOs are doing in this soft market cycle to help guide their companies.
- Not all points are applicable to all insurers
- Probably nothing new today

Role of CFO

“Old”

- Core fundamentals – debits and credits

“New”

- Business expert
- “Fill in the gaps” from theory to actuality
- Less compliance, more help in growing the business
- Ultimate steward of company assets
- Chief architect of inputs to financial statements

Role of CFO

“New”

- May or may not be CPA
- Leads charge to remove department silos
- Works closely with actuarial function

Investments

- “Buy it and forget it”
- What is the nature of your investment portfolio?
- Who are the issuers of bonds? What are their credit ratings?
- Exotics – derivatives, swaps, ABS, etc?
- What are issuer credit outlooks?

Investments

- Mortgage-backed or asset-backed securities?
- Credit “wrapper”? If so, who?
- How are fair values calculated?
- Do we have concentrations of issuers, sectors, etc.?
- Are the securities publicly or privately placed?
- Duration matching?
- Who are the equities? What is the nature of each equity security? What is the outlook?

Reinsurance

- Financial strength and outlook of reinsurers
- Pricing and structure of reinsurance programs
- Commutations
- Value to your business

Policy Pricing

- Never heard before: “We’re giving rate decreases”
- Soft market versus new business goals
- Exposure pricing
- Data needs
- “Pricing audit”

Budgeting and Forecasting

- Planning versus reporting—running the business versus keeping score
- How accurate are our budgets?
- How often updated?
- What is our goal—returns, surplus growth, RBC impacts, A.M. Best rating, maintenance, aggressive growth of market share? Are we measuring?
- Partnership of management team
- Bottom-up versus top-down
- Expense control

Expense Control

- Three key questions for each expenditure:
 - How is this cost helping us grow the business?
 - Can or should we be doing it ourselves?
 - Who is the “owner”?
- Ask the employees
- Ask for price decreases

Business Partners

- CPA firm
- Actuarial firm
- Asset manager
- Reinsurer or broker
- Executive search

- Sharing of best practices
- Outsourced experts
- Marks of differentiation

Fraud

- Tends to increase when economy is down
- Agents, claim TPAs, claim handlers
- Where are our exposures?
- “Our CPAs handle that”
- Do we have a handle on our internal controls?
- Would someone from the outside share our assessment?

Productivity

- Enterprise wide—how do we become more productive?
- Model Audit Rule
- Functions and skill sets
- Alignment with goals
- Leveraging of information technology
- Game of telephone and “kingdom protection”

Other

- CFO consortiums
- Loan covenants (if applicable)
- Banking structures
- Company bill versus agency bill; AR turns

Managing the Board

- Explaining business risks and economic impacts
- Solicit input from board members
- Lay out financial strategy
- Instill confidence in grasp of issues

Summary

- Hopefully nothing new
- Back to basics
- Greater attention to details
- Leveraging business partners

Questions/Comments

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