RECAP

EXECUTIVE SUMMARY

The CFO & Finance Managers Conference met July 9-11, 2019 in Scottsdale, Arizona. 45 members from 39 firms attended the conference. The first day of the conference was dedicated to the Corporate Athlete® Performance Program led by Natalie Johnson, performance coach at Johnson & Johnson Human Performance Institute. Day two included a presentation on artificial intelligence, robotic process automation and machine learning given by Brian Comerford, Senior Vice President of IT, Director of Strategy, Governance and Innovation at IMA Financial Group, Inc. and Nick Lozano, Director of Technology at The Council. The CFO roundtable discussion took up the rest of the day with an array of topics including AP automation, time and expense reporting, outsourcing, automated reporting issues, business line and profitability analytics, telecommuting, security and fraud management, succession planning and incentive programs.

On the last day, John Fielding, General Counsel of The Council, gave an update on government affairs and tax legislation. Following this, Ben Rubin, Chief Risk Officer, Premium Financing at First Insurance Funding & Wintrust Bank, gave a presentation on employee benefit package design and succession and perpetuation planning for agencies. Lastly, the meeting concluded with Bill Pomponi, CPA at Crowe LLP, who gave a presentation on revenue recognition and lease accounting.

DAY 1 – LEADERSHIP TRAINING

Corporate Athlete® Performance Program – Natalie Johnson, Performance Coach, Johnson & Johnson Human Performance Institute (HPI) spent the day sharing specific tools and techniques to give finance managers more energy in their daily activities.

Realizing that CFOs are not typically drawn to the "touchy, feely" parts of leadership workshops, we delved into some challenging personal discussions about our individual energy levels and how it affects our work.

Highlights from Natalie's presentation:

- You cannot give yourself more time; however, you can manage and control your energy to make the time you do spend awake, more productive. Studies indicate that if you can bring energy to things that matter most to you, you can be more efficient with your time.
- Why energy? Demands at work and home increase over time, so if you do not manage your energy, you will face a human energy crisis. After about age 30, our energetic capacity starts to decrease. When demands exceed capacity, individuals become stressed and burn out. You can train yourself to maintain or even expand your capacity.
- The solution to you showing up as your best self is stress. Natalie presented methods to balance stress with recovery (stress is energy going out, and recovery is energy coming in) where growth occurs.
- Stress is not always negative, but our perception of the stress can impact us negatively. Look at the stress and pull out the opportunity to grow. Growth follows stress, so apply stress for growth through the recovery stage. This practice can be applied to emotional, mental and spiritual stress, not just physical stress. (While this seems counter-intuitive, learning patience and focus by exposing yourself to more stressful situations to learn how to manage stress more productively.)
- Energy is four dimensional – physical, emotional, mental and spiritual.
- The key to increasing physical energy is to increase circulation. Increasing movement increases circulation.
- Strategic exercise is different from strategic movement. Strategic exercise is safe, effective and should be challenging. There should be some level of discomfort. Components of strategic, growth-oriented exercise include aerobics, resistance and flexibility to trigger muscle growth.
- Movement is energy out; sleep is energy in. Sleep is a key part of physical, mental and emotional health. It is as important as air, food and water. We require sleep because it is an essential period of recovery and it is vital to our wellbeing. Incorporating strategies to sleep better and longer is essential to all areas of personal health. Use deliberate, consistent methods for better sleep, including control of devices, light and meal planning.
- Fuel is nutrition for performance; you are eating for energy. The best strategy is to eat light and eat often. Benefits of this include improved brain function and mood, minimized cravings, maintenance of muscle mass and prevention of excess fat storage.
- Quality of energy – emotions that can optimize performance, wellbeing and happiness include hope, gratitude, compassion, realistic optimism, kindness and sense of adventure.

- Empathy versus sympathy. Empathy drives connections between people, and sympathy can drive people away. We discussed the differences and contradictions between the two.
- Mental energy – Full engagement and understanding of the mental energy dimensions creates awareness in the present moment, improved concentration and critical thinking.
- Multitasking – Studies and personal results show that multi-tasking actually results in poor energy management and disengagement in each task to a surprising extent. We discussed how doing many things at once can often result in many things not being done as well as they could with sustained focus on one thing at a time. This is a difficult reality for finance professionals to put into action because of the very nature of their roles to manage many areas at once with competing deadlines.
- The group discussed mental training strategies to help in the recovery process, including sharing with others about individual energy strategies to create accountability, writing or journaling, mindfulness, meditation and visualization of strategy to increase energy levels and mental rehearsal.
- Spiritual energy – Full engagement in the spiritual energy dimension enables alignment of behaviors with your deepest values and beliefs. The group discussed aspects of spiritual development as a necessary component to the whole person and a critical part of energy building and individual purpose.
- Spiritual training strategies are centered around investing your energy in things and people that matter most and helping to define an individual's purpose. Humans have a fundamental drive to find meaning and purpose in their lives, and ultimately the energy spent to accomplish this fundamental goal should be recognized and purposefully addressed as an integral component in energy work.

The group completed several team and individual exercises, including discussing their desire or resistance to changing habits to promote more energy for their work and home life. They also selected and worked with another attendee to provide accountability and feedback regarding their challenges and strategies to address their personal energy around their work and personal life.

DAY 2 – PRESENTATION & ROUNDTABLE DISCUSSION

Technology Innovations – Opportunities, Challenges and Use Cases

Nick Lozano, *Director of Technology, The Council*
Brian Comerford, *SVP of IT, Director of Strategy, Governance and Innovation, IMA Financial Group, Inc.*

Nick and Brian discussed and defined artificial intelligence (AI) as intelligence demonstrated by machines as opposed to natural intelligence displayed by humans. AI combines machine learning, neural networks, deep learning, cognitive computing, computer vision and natural language processing. They presented a use case on GPS direction mapping and also presented "RPA" or robotic process automation. The term 'robot' refers to software, not hardware as many thought, and it is designed around task flows and decision trees.

The benefits of RPA include automating repetitive, rules-based processes, reducing human error, freeing up staff, reducing costs and improving services. Brian Comerford presented use cases for insurance including claims assignment, document download, inspection retrieval, renewal preparation, barcoding for EPIC and application submissions.

Nick Lozano discussed machine learning that uses algorithms based on statistical probability that teaches itself how to carry out specific tasks that are cumbersome and repetitive that might be more accurately and efficiently completed by machines rather than humans. He presented and discussed samples of use cases for machine learning including image recognition, robotics, reasoning, site evaluation and claims photos.

ROUNDTABLE DISCUSSION

The CFO Working Group convened its roundtable session with the following discussions:

Accounts Payable Automation

- Some organizations are using ResourcePro and PATRA to scan in incoming mail/bills that are then sent to multiple departments.
- Concur software is used by many firms (including The Council) for expense reports and invoicing, but some of the Concur fields are difficult to integrate with other applications. The group discussed the problem —it does not auto-populate some fields, keeping it from being completely automated. Concur is very user-friendly and users may also build out time and expense capabilities and other company specific needs in the software, but that takes time and money to configure. Ultimately, users found it worth the extra time to integrate and program the extras.
- Expensify, Anybill, and Certify were the other vendors used by the group for accounts payable automation.
- The group discussed the challenges of getting their employees to turn in their expense reports if the employer pays their credit card bills up front and waits for employee reconciliation. Many firms have gone to employee pay, and that seems to have solved their

issues with late reporting. The group discussed that many firms had switched to a 60-day window where if the employee does not turn in their expense report, they do not get reimbursed (for employee pay).

Outsourcing

- Functions CFOs outsource include policy checking, certificates, smaller account servicing, EB Claims, enrollment, taxes, licensing, onboarding benefits accounts, direct bill, carrier payables, GL reconciliation, personal lines, invoicing, document management, state filings and surplus lines filings.
- Discussed problems with outsourcing, such as sometimes the outsourced only "follow the script," so you have to be very clear about the outsource process and how to address any anomalies in the process. Challenges can also arise with the level of service not being up to the standard of your own organization.
- It is possible to have specifically hired individuals for a firm at an outsourced company that only deal with their clients.

Reporting

- Most EPIC users are using some other tool to get the data out of the system and to build reports, because many in the group felt the canned reports were not always useful and needed to be tailored. The group discussed several software tools for extracting and reporting on data out of EPIC including Power BI, Tableau, Domo and Microsoft Dynamics/Great Plains.
- The group discussed reasons why good reporting was difficult to get out of Applied or Vertafore. They reported that Applied and Vertafore initially built their solutions for average, small brokerages that don't often use the reporting functions. Therefore, the larger companies that want robust reporting are not going to get the more complicated and tailored reports they need, so they create or purchase add-on applications for reporting. The lack of competition for AMS does not help with the problem. The group discussed creating separate user groups from firms that could meet to discuss reporting solutions.

Account Level Profitability Analysis

- Most attendees expressed some level of difficulty determining whether a book or account is profitable. Some had Excel programs built for this but said it was not easy to manage. Some issues that attendees want more insight on included:
  - Manual process using system reports augmented in Excel, data integrity, confidentiality and using methods of cost allocation
  - Client workload analysis
  - Allocation of compensation
  - Direct & Other Costs
- Some attendees said they used Power BI to get reports of account profitability. The software can look at servicing costs across producers and clients and can also bring in salary data to see if the highest-paid producers are generating the majority of profits. Users said the system can use real time data to create reports.
- We will continue to discuss this topic in upcoming meetings.

Telecommuting
The group discussed the growing trend of working from home. While it works well for some organizations and can be beneficial, there are IT concerns because connectivity and systems can be difficult and security concerns are important. Comments from the group included:

- The group held conflicting opinions as to whether it was a best practice to allow finance/accounting staff to work from home. Some viewed a presence in the office as integral to their work, and others found it to be a more efficient use of the employee's time and had practices in place to promote working from home as an alternative.
- As equipment gets older, replace computers with laptops, which allows employees to work remotely or move around the office.
- Employees who work remotely may be tempted to take a secondary job, so appropriate policies, agreements and disclosures need to be in place.

If you have employees in multiple states, you need to be aware of those state's HR laws pertaining to work at home or out of state from the employer.

Security and Fraud Management: Best Practices
Nick Lozano opened the discussion with trending schemes to be aware of in the workplace with email viruses and ways to combat the problem with protection software and practices.

- To combat possible phishing or spoofing via email, do not send wires to people via email request, but rather call the person or have verbal confirmation in person. Develop policies at work to specifically combat viral infections through your email system.

- Have forms to complete and approval structures in place with multiple people involved so there isn't one person responsible for sending money out. For example, have AP department not able to create new vendors.
- The types of scams change very quickly and scammers are very creative, but most of them still go through email. Recently scams are being sent from SMS (smishing).
- Resources you can use to help with security training are KnowB4 and Wombat.

Succession Planning
Some of the discussion points raised:

- As older producers transition out of an organization, one company will still pay out the standard commission and it is up to the producers to figure out a split, how much and for how long.
- There are different models for producers who own their book and those who do not; some use a trailing split on commissions for new producers mentoring under an old one.
- Organic growth challenges – It is difficult to find experienced producers, but organizations also want to hire young producers who will need to have a time period to validate themselves. Mentoring and a shared commission structure can be critical to the success of the relationship and the new producer's effectiveness.

Incentive Programs
The group discussed several ideas for non-producer compensation including:

- Bonus program – based on results and have a percentage structure but not sure if they are influence behavior as people with low production numbers get the same bonus. Discussed whether or not people entitled to a bonus, and if so, if it drives behavior. Many organizations use a scoring system on their performance but unsure if these systems are fair or accurate. Discussed increasing base in lieu of bonuses or sharing account servicing commissions if appropriate.
- Stock/shareholder incentive programs are financed by the organization, but new producers need to come up with a down payment and then make monthly payments. Several attendees said they use Reagan Consulting as a resource for setting up these types of programs.
- Different ideas – using % match on 401k.

DAY 3 – PRESENTATIONS

Government Affairs Update
John Fielding, General Counsel of The Council of Insurance Agents & Brokers presented the update and discussed how policy and the elections were affecting agencies.

John reported that this year's Congress is the most diverse and has the highest number of female representatives of any Congress in American history. He said there were 116 new members in the last few years with 93 new members since last year. This is why it is so it is important to educate Members of Congress on our industry, and that is what the majority of The Council's Government Affairs team spends their time doing on the Hill. John noted that seven states have insurance commissioner elections coming up with most of those already appointed. He covered current ACA by telling the group that the penalty for not getting coverage was rolled back so the mandate is essentially useless and the district court ruled ACA unconstitutional without penalties. He went on to report that Medicare for All can mean different things, but The Council does not support this (single-payer vs public option). He said Democrats are looking to expand the public insurance option; however, a majority of newly-elected Democrats oppose Medicare for All.

He moved on to report that the Terrorism Risk Insurance Program (TRIA) is up for authorization next year, and it's a big issue for agencies, so The Council is working to get a long-term reauthorization (7-10 years). In terms of flood insurance, John reported that it expired in 2017 and has been extended many times. He said there are partisan and regional splits in Congress, and The Council is working toward a long-term extension. He completed his talk by touching on FATCA, cyber, insurtech and rebating rules.

Employee Benefits Package Design, Succession and Perpetuation Planning

Ben Rubin and Jim Miller of First Insurance Funding & WinTrust Life presented a session on ways to work on agency succession and perpetuation plans including the following discussion points:

- Executive package design keeping in mind the option of expanding the agency's shareholder base.
- Perpetuation-based plans (restricted stock units, options) to move shares from the older generation of employees as they retire to new employees.

- Retention-based plans can include long-term care, phantom stock and split-dollar life insurance policies.
- Incentive-based plans can include spousal travel, country club memberships and short-term bonuses.
- Producers are competitive, so if they learn of another organization that is providing great benefits for succession, they might want to make a move. It is important for retention to get ahead of the game—plan for this in your budget, and make it a part of the organization's vision.
- Rabbi Trust is a tool that is often used for succession and retention. It's a financial tool that enables a company to provide long-term benefits even after the organization has changed ownership structure.

Revenue Recognition & Lease Accounting

Bill Pomponi, CPA, from Crowe LLP discussed and broke down the complexities with the above topics that he tailored to meet the needs of agencies in the audience. He presented use cases and answered questions that included the following information (A power point of the presentation is available from The Council):

- Transitioning from ASC 605 to 606 – The purpose of ASC 606 is to reduce risk of material revenue misstatement.
- Using the following steps, Bill described the process:
  - o **Step 1** – Identify the contract with the customer – biggest change from past practice is identifying collectability. Could have multiple contracts so CFO can combine them into a portfolio. Assess management and customer commitment and ability to perform under the contract.
  - o **Step 2** – Identify the separate performance obligations in the contract – an entity's promise to transfer a good or service. Identify if the performance obligations are distinct or multiple.
  - o **Step 3** – Determine the transaction price.
  - o **Step 4** – Allocate the transaction price to the performance obligations. Allocation is made at the inception of the contract.
  - o **Step 5** – Recognize revenue when the entity satisfies the performance obligation by transferring a promised good or service to a customer. The performance obligation is satisfied either at a single point in time such as physical delivery or over a period of time as the service is provided by the agency.
- Other matters – incremental costs of obtaining a customer contract must be capitalized. Disclosure requirements increased significantly under the new rules.
- Leases – new leasing standard will be effective in 2020.
- The new leasing standard was implemented to increase transparency and comparability between entities. The standard requires recognizing lease assets and lease liabilities on the balance sheet, requiring new disclosures, adding them to the balance sheet as an asset when appropriate and footnoting when necessary, apply it. Short-term leases are exempt (less than 12 months and no purchase option likely) from reporting on the balance sheet.
- In accounting practice this means to Debit your Right of Use asset and Credit your Lease Liability.
- Finance lease versus operating lease – both are now to appear on the balance sheet if material.

The meeting closed with a discussion about the new CFO Working Group Basecamp app that The Council uses for its other working groups discussion boards. Please contact Nick.Lozano@ciab.com for an invitation to link in to the CFO Working Group discussion board and get involved in the chat, post questions and get quick feedback from group members on the site. It is a members-only discussion board.