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Insurance Provider Builds a Strong Financial Close Process

How Zurich in North America Automated Account Reconciliations and Increased Transparency

by **Ken Murphy**, Senior Writer

As a commercial property and casualty insurance provider, Zurich in North America assesses and mitigates risk for a diverse mix of clients in industries ranging from marine construction to healthcare. Its segregated business units comprise over 100 legal entities that generate records for thousands of general ledger accounts.

The responsibility for reconciling and governing the reconciliation process for these accounts falls to Laura Darbro, Zurich's Vice President of Close Operations and General Accounting.

Her 25 direct reports, spread among various accounting teams, all share the same goal: a timely reconciliation and closing process that ensures a balanced general ledger. The support teams that Darbro leads consist of: a primary close team that focuses on activities within the close process; a close operations team responsible for managing expenses in the close process, analyzing expense accruals, and running cost allocation processes within the general ledger system; a general accounting team that oversees account reconciliation and governance processes in support of the reconciliation owners across the

financial organization; and other teams in charge of close activities surrounding claim funding analysis, 1099 reporting, unclaimed property filings, and sales and use tax filings.

Clearly, a lot of moving parts need to be scrutinized to ensure that no aspect of a close is missed.

“Ultimately, we are tasked with keeping track of thousands of reconciliations, and we have to be able to maintain and review them on a standardized basis,” says Darbro.

Reconciling Reconciliations

From a process standpoint, a successful close requires a certain level of standardization to minimize potential errors. Account owners, preparers, and managers all have to be on the same page as far as what constitutes a reconciliation: Is it simply quantifying differences, or is it also resolving them? What are the validation procedures? How are open issues resolved?

With thousands of monthly account reconciliations as well as day-end, month-end, and year-end close processes often conducted in an uncoordinated

way, the accounting teams realized they would benefit from a more standardized approach. “Account reconciliation was a very manual, decentralized process,” Darbro says. “People were using their own formats for their reconciliations, so there was no standard view. Our goal was to find a solution that would improve how we coordinate our monthly close and other finance-related processes, provide additional visibility and transparency into our overall reporting environment, and assist us with our compliance requirements.”

The accounting teams started to look for a solution that could be implemented within their existing SAP framework across the Zurich IT landscape. While Zurich’s parent company, Zurich Insurance Group,

headquartered in Zurich, Switzerland, has a long-term global vision of migrating the company’s entire IT operations onto one unified global platform, its North America operations currently maintain their own platform. Zurich in North America, based in Schaumburg, Illinois, has other finance regional offices in Canada, Bermuda, New York, Los Angeles, Seattle, and Kansas City.

Zurich in North America is currently upgrading to SAP ERP 6.0 and is developing an SAP HANA proof of concept to address several of its reporting processes. Until Darbro’s team sought out a more standardized solution for its accounting governance procedures, the team utilized several manual processes to supplement its SAP solutions. For example, financial-close deliverables were managed on Microsoft Excel, which didn’t address compliance requirements. Other solutions included a third-party accounting application that finance implemented on top of SAP ERP to assist in reconciliation documentation retention and to trigger workflow approval processes.

The Old Way of Doing Things

Previously, individual users uploaded and downloaded account reconciliations at various stages of the reconciliation process. Managers who needed to approve a reconciliation would have to open the account document in SAP ERP, download it to Excel, review it for accuracy, and then go back into the SAP system to approve the reviewed document. This labor-intensive system also lacked transparent reporting capabilities to allow reconciliation preparers, approvers, and auditors to easily catch ledger accounts that were unaccounted for.

“Overall reporting was a challenge,” Darbro says. “Imagine thousands of reconciliations that combine into a balance sheet view that needs to be reported to management. Opening up these reconciliations one by one didn’t provide an overall picture of any 90-day outstanding balances, for example. It didn’t verify that the preparer did a true reconciliation. Due to the size and volume of the reconciliations we had to review, it was a very manually intensive and cumbersome process to ensure that all the reconciliations were working appropriately and there were no financial risks.”

At a Glance

Goal: Standardize account reconciliation and close operations processes, and minimize inefficiencies and financial risk

Action: Implemented an SaaS-based, automated account reconciliation and financial governance solution on top of SAP ERP

Achievement: Streamlined a manual, decentralized process and increased transparency surrounding reconciliation and close processes

Zurich in North America

Headquarters: Schaumburg, Illinois

Industry: Insurance

Employees: 9,500

Company details:

- Swiss parent company provided the new Chicago-based business with \$262,000 of starter capital in 1912
- Celebrated its 100th year of business in the US in 2012
- Is a commercial property and casualty insurance provider, with roots as a workers' compensation insurer
- Offers life insurance products and services

SAP solutions:

- SAP ERP
- SAP BusinessObjects solutions
- SAP Business Planning and Consolidation
- SAP NetWeaver BW

Looking at account reconciliations individually also made variance analysis a time-consuming effort, in which the external reporting team within the controller's area of Zurich in North America performed a line-by-line item analysis of balance sheet accounts to uncover any balance changes on a monthly, quarterly, or yearly basis. If unexplained discrepancies were identified, someone had to pull the account reconciliations. From a closing, governance, and auditing perspective, the processes were untenable.

"The procedures and policies were followed and performed correctly, but it was taking too much time and effort for individuals to go through their routines and for managers to review the activities and supporting evidence to ensure reporting requirements were being met," Darbro says.

Overall, relying on a patchwork solution didn't provide the automation or built-in checks and balances the team needed for insight into financial risk assessments. Reconciling a heavy volume of accounts in this manner practically required a full-time employee to verify that workflow processes were running smoothly. Auditors doing reconciliation spot-checks had to hunt down individual reconciliation owners. In addition to the account reconciliation deliverables required, managing the close-process checklist with roughly 1,000 close-related tasks involved a significant effort.

"There was no real efficiency," Darbro says. "When you looked at it, it was just an astronomical amount of information to house within an Excel workbook. To stay on top of things, we needed to know what types of activities were happening hourly and to the minute, so we were looking for that next step to automate some of the solution."

Fixing the Problem

Zurich turned to its audit consultant for help finding a strategic automated financial solution. The recommendation was a comprehensive financial governance tool from SAP partner BlackLine that could handle most of the important closing tasks, account reconciliation, and variance analyses Zurich needed. Senior management saw demos of the product's modules at SAP's annual SAPPHERE NOW 2010 event and developed a business case shortly afterward for executive sign-off. (See the

sidebar at the end of the article for more on how the BlackLine solution helped Zurich achieve a host of benefits.)

"Initially, we identified many benefits from the solution. We saw how both the reconciliations and the task modules would support more efficient, streamlined solutions to our old way of doing things," Darbro says. "From the standpoint of getting the business case approved, the only challenge was getting IT comfortable with how BlackLine operates as a software-as-a-service (SaaS) application."

After more demos, the IT organization became convinced that BlackLine's encryption procedures and other data security measures made for safe off-premise data storage. Zurich was able to set up the reconciliation and task modules within about three months, roll out a pilot of the solution populated with about 300 accounts, and immediately begin to realize benefits.

Zurich has deployed several modules within the BlackLine solution, including a task management module to manage all aspects of its closing process. This module lets Zurich manage individual responsibilities by keeping track of each user's activity. A separate reconciliations module focuses on managing the account reconciliation processes, while a transaction-matching module reconciles bank records with Zurich's general ledger recordings. The transaction-matching module eliminates what had been a time-consuming, manual process of pulling

How Zurich in North America Closes with Confidence Using BlackLine and SAP Software

Account reconciliation is an underappreciated yet critical control to help ensure an organization's financial integrity. Weaknesses and inefficiencies in the reconciliation process often lead to mistakes on the balance sheet and overall inaccuracies in the financial close.

BlackLine Systems' Account Reconciliation software automates and controls manual accounting processes that users currently perform using spreadsheets. An experienced provider of software to companies from the Fortune 100 to beyond the Fortune 1,000, BlackLine provides quick-to-implement, scalable, and easy-to-use applications that automate critical financial-close processes to help improve financial controls for companies of all sizes.

BlackLine works with all major ERP platforms and general ledger (GL) systems and can dramatically improve the accuracy and timeliness of compliance reporting in light of heightened Sarbanes-Oxley (SOX) requirements, converging international standards, and increasing government regulations.

Running alongside SAP ERP, BlackLine provides clients, such as Zurich, with unprecedented visibility into the account reconciliation and financial close processes — ensuring accuracy in the numbers, minimizing risk, and maximizing efficiencies. Automation and optimization of the account reconciliation process is a critical step for global organizations on the path to “closing with confidence.”

BlackLine offers its enterprise-class software in a simple and secure on-demand/software-as-a-service platform. With a proven track record and a commitment to customer success, BlackLine seeks to reduce the burden the financial close places on accounting and finance professionals.

BlackLine headquarters are in Los Angeles, with offices in Atlanta, Chicago, London, New York, and Sydney to serve the company's growing global client base. For more information, visit www.blackline.com.



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— **Laura Darbro**, Vice President of Close Operations and General Accounting, Zurich North America

and analyzing discrepancies by specifying rules in an automated statement-reconciliation process. The module gives Zurich an overview of any unmatched data that is then funneled through to the account reconciliation.

Prior to implementing the solution, Zurich lacked an auto-certification tool. Individuals had to create account reconciliations even for zero-balanced accounts or accounts without any activity and load them into their third-party application in SAP ERP. This was the only way for an account approver to validate the balances. With the BlackLine solution, Zurich can set rules within the tool to auto-certify those accounts.

“We've saved about 10-15 minutes across many of the reconciliations that we had to perform for those zero-balance accounts,” Darbro says. “Right now, 40%-50% of our accounts are auto-certified monthly, so that time savings has given our team better opportunities for more value-added analysis work.”

This new efficiency is one of many that the BlackLine tool has given Zurich across all of its reconciliation and close processes. “For the most part, it gave us standardized templates. We now have a completely electronic and paperless process for how we review the reconciliations,” Darbro says. “In the approval process, all the data is sourced and available within the tool. It has increased visibility, improved levels of monitoring and reporting on the reconciliation status across all the areas within finance, and created complete audit trails and controls around those account reconciliations as well.”

A Global Win

Zurich finished moving most of its monthly account reconciliations to the BlackLine tool in February 2012 and plans to continue to implement the solution with other groups. Since then, Darbro's teams have presented findings to the company's global finance representative, and the tool is now being used by one of the parent company's accounting centers in Europe. “This is not just a win from a local perspective — it's a win from a global perspective as well,” Darbro says. ■