FOREWORD

In today’s global business environment, insurance executives, particularly Finance leaders, face continuous pressure to drive business results, deliver increasingly complex financial reports and comply with new and ever-changing regulatory requirements.

Reviewing the performance of peers and comparing oneself to that benchmark is a powerful tool that leaders can use to identify performance gaps within both the Finance department and the broader organization.

The WeiserMazars 2012 Insurance Finance Leadership Study focuses on the Finance team's level of technological preparedness, its relationship with the business, and its relationship to the Board of Directors as related to risk management and overall effectiveness.

Our targeted questions were answered by a cross-section of insurance industry CFOs. We hope you find the distillation of their responses useful and instructive.

We would like to extend our gratitude to our Advisory Board of current and former Insurance CFOs, with whom we collaborated to formulate relevant topics and to interpret the results. We thank them for their time and for their valuable insights.

If you are interested in having your results reviewed against the benchmark data, please contact Michael Flaviello at 212-375-6639 or via email at Michael.Flaviello@WeiserMazars.com, or any of the additional contacts listed at the end of this report.
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EXECUTIVE SUMMARY

In this year’s WeiserMazars Insurance Finance Leadership Survey we added Return on Capital (ROC) to our profile data which led us to a striking discovery. A strong positive correlation exists between how well-run a Finance department is and the corporation’s profitability - with a clear demarcation in the performance of Finance departments in companies with an ROC less than 10% (Low Performers) and those greater than 10% (High Performers). CFOs reported on hot topics discussed at the board level, with some surprising differences between High Performers and Low Performers.

We also explored the relationship between Finance and their Information Technology partners. Specifically, we examined the ways aging legacy infrastructure and deferred investment impact the quality of data and increase the cost of meeting organizational information requirements.

Summary of Our Top Findings

1. **Companies that close their books faster work fewer hours.** 66% of High Performers close their books in under 15 days vs. 33% of Low Performers. 20% of Low Performers work in excess of 55 hours per week while no High Performers reported working more than 55 hours and 33% reported working fewer than 40 hours. **60% of Low Performers indicated the number of hours was excessive and unsustainable.** No High Performer reported excessive hours.

2. **More than twice as many CFOs at High Performing companies have a positive relationship with Technology vs. those at Low Performing companies (82% vs. 40%).** High Performers felt that Technology projects were well run and that the teams were knowledgeable of Finance’s needs. In order to get required results from IT, executives at Low Performing companies are seeking to move IT under the CFO’s role, but High Performing companies generally do not have this structure.

3. **50% of CFOs believe legacy systems significantly impact the quality of data and substantially limit the introduction of new technologies.** Over 30% of CFOs reported that at least a $10 million investment is required to shore up the technology infrastructure. Lack of master data management is a key driver of additional complexity in otherwise standardized processes. Acquired financial systems that are not fully integrated hinder rapid and accurate measurement and reporting.
4. Most CFOs reported that excessive manual efforts are required to perform routine functions and that their companies are under too much regulatory burden. Increased use of spreadsheets and manual efforts are a direct result of complicated business growth and lack of infrastructure investment. Meanwhile, 100% of respondents stated a great interest in workflow tools. **Workflow tools** are an excellent means of increasing efficiencies, maintaining quality and controls, and lead to standardization of processes without making major system replacements. They codify critical business rules and reduce risk in complex processing environments.

5. **Successful insurance companies’ Boards of Directors are busy with Hot Topics.** High Performers’ discuss hot topics in a balanced manner. Many CFOs reported consistent interest in all of the topics, without focusing in a particular area. The Boards of companies with an ROC below 10% were focused on growing and expanding, increasing profitability, and addressing the challenges of regulatory issues. Stability can be extrapolated from the focus areas for those companies with better returns, indicating well-managed businesses.

6. **While the Insurance Industry is still behind others with respect to Outsourcing and Sourcing Alternatives (i.e. Shared Service Models), some companies are pursuing and implementing them.** 40% of CFOs of Low Performers discuss and use Sourcing strategies to solve departmental challenges while only 16% of High Performers do so. Some Low Performers are looking to avoid investing in broken processes by using outsourcing. High Performers sought to outsource only when a defined future state was clear, enabling them to measure the gains and maximize the benefit from any outsourcing opportunity.

7. **CFOs have been pushing for a seat at the business table for some time.** They have tried to position themselves as a valued strategic partner to the business. However, the Finance team’s time continues to be dominated by transaction and regulatory activities. Only 38% of the Finance team’s time is spent on strategic & forward planning and analysis that drives the business. More than 50% of CFOs reported that their staff having insufficient time and training to help the business is a major challenge.
SECTION I – CORRELATION TO PROFITABILITY

The addition of Return on Capital (ROC) in our profile data uncovers clear trends in the significant attributes of companies that are achieving ROCs higher than 10% (High Performers) vs. those with ROCs lower than 10% (Low Performers).

The results indicate well-run Finance Departments are strongly tied to well-run companies. Specific evidence more closely correlates Insurance Companies with higher Return on Capital with the attributes of a well-run finance department.

While regulatory requirements, excessive manual efforts, and insufficient training challenge all companies, clear distinctions separated High Performers vs. Low Performers. 67% of High Performers close the finance books in under 15 days. Only 33% of Low Performers can meet that timeline.

Figure 1 illustrates that making proper investments in Finance Infrastructure leads to higher quality data. Access to this data yields efficiency within the department and insight for the rest of the organization. As resources become more effective, they grow to be more analytical. As less time is spent on closing the books, business savvy staff make more significant contributions to the organization, which leads to better, timely decision making, which ultimately positively impacts profitability.

The difference between High Performers and Low Performers can be seen clearly in the Biggest Staff Challenges (Figure 2). Where both are focused on regulatory requests, manual effort reduction, and deal with insufficient staff training, Low Performers are also dealing with a lack of time to perform existing business activities, preventing them from taking on new responsibilities.

Figure 2: Biggest Staff Challenges High vs. Low Performers

<table>
<thead>
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<th>Biggest Staff Challenges</th>
<th>High Performers</th>
<th>Low Performers</th>
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<tr>
<td>1. Too Many Regulatory Requests</td>
<td>66%</td>
<td>80%</td>
</tr>
<tr>
<td>2. Excessive Manual Efforts</td>
<td>67%</td>
<td>80%</td>
</tr>
<tr>
<td>3. Insufficient Training to Meet Business Needs</td>
<td>67%</td>
<td>80%</td>
</tr>
<tr>
<td>4. No Time to Help the Business</td>
<td>17%</td>
<td>80%</td>
</tr>
<tr>
<td>5. Work Too Many Hours</td>
<td>0%</td>
<td>80%</td>
</tr>
<tr>
<td>6. Spend Too Much Time Closing the Books</td>
<td>17%</td>
<td>60%</td>
</tr>
<tr>
<td>7. Insufficient Resources</td>
<td>0%</td>
<td>80%</td>
</tr>
<tr>
<td>8. Poor Infrastructure and Silo Challenges</td>
<td>16%</td>
<td>80%</td>
</tr>
</tbody>
</table>
Attributes of Companies with High ROC

- Their boards focus evenly on the different hot topic items
- They are implementing Enterprise Risk Management (ERM) solutions
- Although they still struggle with too many regulatory requests, excessive manual efforts, and training shortfalls, they:
  - Spend more time working with business units outside of Finance
  - Work a more reasonable number of hours
  - Close the books more quickly (most in under 15 days)
  - Employ more analytical resources (vs. data crunchers & validators)
  - Perform more and value-added or predictive analysis
  - Employ a sufficient number of resources
  - Have an infrastructure that is conducive to efficiency

Figure 3: Hot Topics in High Performers vs. Low Performers

<table>
<thead>
<tr>
<th>Hot Topics at the Board</th>
<th>High Performers</th>
<th>Low Performers</th>
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</thead>
<tbody>
<tr>
<td>1. Growth and Expansion</td>
<td>50%</td>
<td>100%</td>
</tr>
<tr>
<td>2. Cost Reduction</td>
<td>50%</td>
<td>100%</td>
</tr>
<tr>
<td>3. Regulatory Challenges</td>
<td>50%</td>
<td>100%</td>
</tr>
<tr>
<td>4. Capital Usage</td>
<td>50%</td>
<td>60%</td>
</tr>
<tr>
<td>5. ERM Strategy</td>
<td>50%</td>
<td>60%</td>
</tr>
<tr>
<td>6. ERM Implementation</td>
<td>50%</td>
<td>20%</td>
</tr>
</tbody>
</table>
SECTION II – HOT TOPICS

We asked CFOs to indicate on a five-point scale from “Not Discussed” to “A Very Hot Topic,” which of 15 areas are most commonly discussed by their Board (Figure 4).

As expected, capital usage and measurement (ROI and ROC) are high on the list of hot topics as are growth and expansion, cost reduction and expense management along with ERM as a function of business strategy.

The survey also highlighted that boards are becoming more comfortable with discussing and leveraging cloud computing as they seek to optimize their IT functions at a lower cost basis.

The regulatory environment continues to evolve for both domestic and international insurers. The CFO and key Finance leaders bear the responsibility for adapting not just Finance, but the organization as a whole, to new regulatory schemes.

IFRS and Solvency II directly affect capital valuation, which has material implications for the company as a whole. Despite the importance of these issues, the majority of respondents felt they were underprepared for both IFRS and Solvency II.

Many organizations have adopted a wait-and-see approach towards confronting the challenge of IFRS and U.S. GAAP convergence. The potential cost and time commitment required for IFRS implementation has led many to delay until the rules are finalized.

Solvency II will further challenge Finance leaders to manage both risk and capital while satisfying rating agency requirements and shareholder demands. For many, these are unfamiliar responsibilities, and it will be the job of the Finance leadership team to integrate them without sacrificing the quality of traditional services.
Figure 4: Hot Topics

CFOs rated the following topical issues as they relate to frequency of discussion among key senior management and the Board of Directors.
SECTION III – CHALLENGES

100% of respondents identified “duplication of efforts” as their biggest challenge. Second place went to “excessive manual effort needed to perform routine functions” followed by “keeping up with regulatory requests”. Other standout items are “insufficient time to help the business” and “insufficient training to meet changing business needs.” (Figure 5)

Figure 5: Staff Challenges

What are the biggest challenges facing your staff?

- Duplication of efforts which result in conflicting outcomes: 100%
- Excessive manual effort to do routine functions: 16.7% strongly disagree, 8.3% disagree, 50.0% neutral, 25.0% agree, 0% strongly agree
- Inundated by regulatory requests: 25.0% strongly disagree, 58.3% disagree, 16.7% neutral, 0% agree, 25.0% strongly agree
- Insufficient training to meet changing business needs: 8.3% strongly disagree, 33.3% disagree, 58.3% neutral, 8.3% agree, 0% strongly agree
- Insufficient time to help the business: 8.3% strongly disagree, 41.7% disagree, 41.7% neutral, 8.3% agree, 0% strongly agree
- Insufficient resources: 16.7% strongly disagree, 25.0% disagree, 16.7% neutral, 25.0% agree, 16.7% strongly agree
- Internal process redesign of departments: 8.3% strongly disagree, 50.0% disagree, 33.3% neutral, 8.3% agree, 0% strongly agree
- Work too many hours: 8.3% strongly disagree, 33.3% disagree, 25.0% neutral, 25.0% agree, 8.3% strongly agree
- Poor reporting infrastructure and siloing: 25.0% strongly disagree, 16.7% disagree, 25.0% neutral, 25.0% agree, 8.3% strongly agree
- Spend excessive time closing the books and inadequate time analyzing results: 33.3% strongly disagree, 8.3% disagree, 25.0% neutral, 33.3% agree, 0% strongly agree
- Disproportionate pressure from rating agencies: 41.7% strongly disagree, 16.7% disagree, 33.3% neutral, 8.3% agree, 0% strongly agree

Strength of agreement

- Strongly disagree / disagree
- Neutral
- Strongly agree / agree
Measuring Data & Requests from Senior Management

When asked if Finance is able to respond to senior management’s requests, a majority of respondents indicated that they provide analysis between normal reporting periods and that they provide such data using dashboards. (Figure 6)

However, only 25% indicated that they can provide regulatory information using their existing financial infrastructure. Less than 17% provide regular monthly information automatically out of their financial systems.

In our experience, this points to a reliance on manual spreadsheets and presentations to act as dashboards and significant data manipulation by Finance groups to create reports. As discussed in our 2011 Study, performance gaps in the primary financial data architecture coupled with the challenge of managing complex financial processes across multiple ledgers, geographies, and business units leads many teams to perform key tasks with Excel.

While a powerful and convenient tool, Excel often becomes the gateway to a quick-fix addiction within Finance that causes costly long-term deficiencies. These include: recurring manual efforts that balloon close cycle times, misstating financials due to “multiple versions of the truth,” and allowing marginal resources to become critical ones because they own a particular model or workbook. Insurance Finance leaders who undertake meaningful efforts to decrease the use of spreadsheets in their processes will see equivalent or greater gains in operational effectiveness. Such efforts often involve new technology and process reengineering.

Figure 6: Information Requests from Senior Management

With respect to information requests from senior management, indicate your agreement with the following statements:

- Regular financial indicators with analysis is provided routinely between normal reporting periods
- Routine financial information provided to senior business management is available using a management dashboard feature
- Regulatory requests are generated automatically out of our financial reporting systems
- Regular monthly information to senior management is generated automatically out of our financial reporting systems
- Ad hoc requests are generated automatically out of our financial reporting systems
The majority of respondents measure data quality using an internal control process that has significant checks and balances and is tested on a regular basis (Figure 7). Though “The amount of time it takes Finance to respond to ad hoc requests” was a possible response, no one selected this option. From our experience, we can conclude that although ad hoc request are frequently desired, most Finance departments do not use this as a test to measure data quality. We can also conclude that although the majority of respondents do not have automatic generation out of the financial reporting systems, they are able to respond using Excel worksheets.

Figure 7: Measuring Data Quality

How do you measure data quality?

75%  
Internal control process that has significant checks and balances is reviewed and tested on a regular basis

42%  
Number of errors discovered during normal monthly process

25%  
Amount of time it takes finance to close the books

Note: Study participants could select more than one option, resulting in a sum greater than 100%
SECTION IV – PROCESS CYCLE TIME AND EFFICIENCY

The performance of Finance teams during close cycles is a key indicator of operational effectiveness. Time to Close is a simple measure that can speak volumes about execution levels relative to peers. 40% of respondents close in fewer than 16 days; 40% close in 21 to 30 days and 20% close in 30-40 days (Figure 8).

15 days was selected as the cutoff based on published industry benchmarks and our own experience working with industry leaders.

The majority of the Study participants had staff that worked more than 45 hours during the closing cycle with 41.7% working more than 55 hours during the close (Figure 9).

Figure 8: Length of Primary Financial Close
What is the estimated length of your primary financial close process, from sub-ledger close to CFO signing off on the final earnings numbers?

Figure 9: Average Staff Hours during Close Cycle
How many hours does your staff work on average per week during the closing cycle period?
Time Usage

Finance’s primary goal is to ensure timely and accurate reporting and filing. This year, respondents indicated 34% of their teams’ monthly time was spent on financial and management reporting while compliance came in second with 26% of their focus (Figure 10). Transaction processing accounted for approximately 20% of staff time.

Finance is also increasingly being called on to deliver added value in the form of in-depth financial analysis. Our respondents’ remaining time was split about evenly between financial analysis, strategic planning and process improvement 9-15%. The biggest change from last year is an increase in the amount of time dedicated to analysis that drives business action from 11% to 15%. In 2012, respondents were not limited to 100% when noting the ways their time is split in order for any overtime.

Overall, our respondents indicated a more even division in 2012 than in 2011 (70/30) as to time allocated to traditional reporting and strategic & analytical activities. The optimal mix of these two categories is a topic for debate and varies by organization. We can say with certainty, however, increased demands for more timely and accurate business intelligence will continue to tip the scales to a more even split.

Managing this trend requires two resources that are scarce for many Finance leaders: Time and Capital. Time can be obtained by shortening cycle times and driving out complexity. Standardization of traditional Finance reporting activities will create capacity for value-added activities. However, this often requires additional capital for increased staffing levels, or for better talent, which may be difficult to realize in this era of tightened budgets.

Figure 10: Time Usage

Please indicate what percentage of your team’s time is spent on the following activities during a typical month.
SECTION V – TECHNOLOGY

Technology Investments

A solution to manage staff overtime and stress is to develop strong business cases for process and technology improvements. Such initiatives can reduce both cycle times and headcount while providing clear positive net present value for the organization as a whole. Financially, the choice is often between an upfront investment with a reasonable payback period, or a gradual increase in variable labor costs.

As we review technology, one area many respondents have targeted for efficiency initiatives is transactional processing. This work often involves manual, labor-intensive data manipulation that can be improved upon markedly through reengineering and automation. Adopting a “get it right the first time” approach to transactional processing leads to significant efficiency gains in downstream Finance processes by reducing reconciling items and corrections during the close.

An additional area that is often overlooked when addressing process efficiency is communication and workflow. Workflow tools can provide the accountability, visibility, and control necessary to efficiently perform processes that cross multiple units and geographies. Communication and change management are often the “secret weapons” that turn an effective but not widely understood initiative into a well-socialized, highly impactful solution. The ability to deliver timely and accurate decision support in value-added areas like strategic planning, forecasting, and modeling is and will continue to be a competitive advantage for leading Finance teams.

Contributors to the Study were asked to examine how technology impacts the business functions and then specifically to indicate the quality of the relationship that exists between Finance and Technology.

When reviewing the investment levels for six major divisions of insurance companies, it is clear that the majority sees the bulk of investments being made in sales and distribution, underwriting and rating and claim management areas (Figure 11).

Marketing and Finance get some level of technology investment however Human Resources does not receive a high degree of technology investment. It appears when operational units are receiving greater technology investments, their increased efficiency will positively affect Finance.
Figure 11: Technology Investment Levels

*My company is making significant financial investments in technology to support the following business functions:*

![Bar chart showing technology investment levels across different departments.]

- **Relationship with IT**

  At first blush, the majority of respondents appear to have developed a good working relationship between Technology and Finance. Further dividing the data, CFOs of High Performers rated their relationship with IT as working effectively, 82%. However, only 40% of Low Performers reported an effective relationship with IT. In addition, Lower Performers shared their view that there should be a Director of Finance for Technology. High Performers did not agree, and reported that IT had dedicated finance specialists who are well versed in Finance department needs and requirements (Figure 12). Over 16% strongly disagree with having the Technology division report to the CFO, while over 33% of respondents believe that it should. Interestingly, over 60% agree when Technology and Finance share the leadership of a joint project the projects are successful. Over 80% have a Chief Information Officer and close to 90% of them are drawn from the technology sector.

  In our experience, the key to success is not driven by the overall organizational model, that is, who reports to whom, as much as it is driven by the effectiveness of the working relationship between Finance and IT. CFOs should push to have IT resources be well versed in Finance needs and who treat Finance as a customer with high value to the firm. The partnership between IT and Finance remains critical.
As the majority of participants in the Study are focusing their investments in technology to support the sales and distribution, underwriting and claims management divisions it is no surprise that 100% of the participants selected workflow automation as a point of focus for technology investment (Figure 13). Using cloud infrastructure was another popular choice for more than 50% of respondents, as was the use of predictive analytics for more than 70%. The largest areas of disagreement surrounded the investment in mobile computing and social media.
**Figure 13: Investments in New Technology**

*Please indicate where your company should be making investments in new technologies.*

![Investment Graph](image)

**Costs and Factors for Technology Upgrades**

A legacy system is any older computer system, application, or program that continues to be used, even though newer technology or more efficient methods of performing a task are available. Legacy systems have an impact on the quality of data, the access to data and the efficacy of processes across the organization - comprising a very real risk to the organization (Figure 14). Over 50% of respondents indicate that poor data quality and reliance on legacy systems limiting new technology due to the difficulty of integration are the greatest challenges in achieving consistency and standardization across all reporting platforms. They also acknowledge that too much reliance on legacy system personnel can be a risk.

On the positive side, legacy systems are not seen by the bulk of participants as risks for late financial reporting, missing a regulatory deadline or a fraud or security breach.
Figure 14: Risks of Legacy Systems

With respect to legacy systems, how would you rate the risk of the following occurring?

30% of respondents stated that the cost of updating the current technological infrastructure is greater than $10 million (Figure 15) and nearly 73% of respondents agree that this high cost is directly influenced by the increase in business being written (Figure 16). Close to 46% indicate there is executive support to make the necessary investments and 64% say that the focus is to enhance the efficiency of operations. Only 18% of respondents indicate that the efficiency of the cloud infrastructure is a positive factor in keeping the cost of updating current technology in check.
Figure 15: Cost of Updating Current Technology

*How much investment would you estimate is required to get the finance department’s current technological infrastructure to where it should be?*

![Pie chart showing the distribution of investments required for technology updates.](image)

- Ten Million to 25 Million: 30.0%
- Less than One Million: 20.0%
- No investment necessary: 20.0%
- One Million to Five Million: 10.0%
- Five Million to Ten Million: 20.0%

Figure 16: Reasons for the Cost of Updating Current Technology

*The amount indicated above is a reflection of the following:*

![Bar chart showing reasons for the cost of updating technology.](image)

- Over 90% of respondents use the amount of manual labor required and 83% use the amount of work-arounds as indicators that systems need to be upgraded. Time saving is noted as the next most popular reason to upgrade at 75% and 67% focus on the budgeted cost. The last reason to decide on technology upgrades, cited by 58%, is due to advancements in technology (Figure 17).
Figure 17: Factors in Determining Upgrade

Please indicate to what extent these factors help you to determine if an accounting system needs to be upgraded?
SECTION VI – RESPONDENT PROFILE

The pool of study participants represented a cross-section of the insurance industry. Admitted P&C (both commercial and personal lines), Excess & Surplus, Reinsurance, and Life and Health companies are all featured in the results (Figure 18).

Close to 67% of respondents answered from the perspective of the ultimate parent or the holding company, while 33% were group divisional heads. Respondents represented an excellent cross-section of public, private and mutual companies. Companies representing global, regional, and domestic businesses were also all well represented (Figure 19). CFOs responding included 47% with Net Premiums Written higher than $1 billion (Figure 20).

Figure 18: Business Lines

Which of the following lines of business do you write?

<table>
<thead>
<tr>
<th>Line of Business</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>P&amp;C Commercial Lines</td>
<td>75%</td>
</tr>
<tr>
<td>P&amp;C Personal Lines</td>
<td>50%</td>
</tr>
<tr>
<td>Life Mortality</td>
<td>30%</td>
</tr>
<tr>
<td>Life Interest Sensitive</td>
<td>20%</td>
</tr>
<tr>
<td>Accident &amp; Health</td>
<td>15%</td>
</tr>
<tr>
<td>Surplus/Excess</td>
<td>10%</td>
</tr>
</tbody>
</table>

Note: the sum of percentages is greater than 100% because study respondents could select multiple lines, or that it acts as a reinsurer in addition to a direct writer.

Figure 19: Organizational Forms & Footprint

Please indicate your organizational form and where you conduct business.
Figure 20: Approximate NPW

Please indicate the approximate size of the NPW for the year 2012?

Figure 21: Number of Legal Entities Supported

How many legal entities do you support?

Figure 22: Return on Capital

What is your company’s Return on Capital?
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<td>Hot Topics in High Performers vs. Low Performers</td>
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<td>Factors in Determining Upgrade</td>
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<td>Organizational Forms &amp; Footprint</td>
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<td>Approximate NPW</td>
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<td>21</td>
<td>Number of Legal Entities Supported</td>
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<td>22</td>
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</table>
CONTACTS

If you have questions regarding the content of this report, or would like to benchmark your Finance team’s effectiveness against the results of our survey, please contact one of the team leaders listed below:

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