The Business Case for Implementing a Reinsurance System in an Insurance Organization

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Introduction

Insurance organizations are fully aware of information technology contribution towards achieving business goals. Proper utilization of IT is a key factor in implementing effective and efficient business processes, enabling financial control and ensuring overall company success. Although the need for IT investment is clear and appreciated, determining IT budget priorities seems to be a constant headache for management.

Of course, every department is certain that their projects are the most crucial for company success – surely management has a similar view – and therefore the required budget will be allocated accordingly. But alas! Another department has received the budget. Somehow they convinced management of the utter importance of their projects and again – same as last year – our projects were not approved. "Don’t worry," says management, "You’ll surely receive the budget for your project next year." Yeah, sure...

Many reinsurance departments are all too familiar with the above scenario, failing to attract essential management attention and losing out to other departments/projects that seem more appealing and crucial for the company’s success.

This article focuses on the risks and issues relating to reinsurance management, raising management awareness and presenting the business case for implementing a modern IT system for reinsurance management in the organization.
The Business Case

The following are the reinsurance business topics that are crucial for company success and where implementation of reinsurance IT technology can reap significant business benefits:

- **Comprehensive information management**
  - Comprehensive information covering all business aspects, at the required level of detail and granularity
  - The ability to produce accurate/timely information for all reporting requirements
  - Regulatory reporting and compliance
- **Support for claims recoveries – preventing claims “leakage”**
- **Optimizing operational activities**
  - Business accuracy – allocation and calculations; auditing and tracking
  - Improved efficiency and control
- **Accounting support**
  - Current accounts management and credit control
  - GL Accounts support

Let's take a closer look at each topic.
Comprehensive Information Management

Reinsurance programs can be complex – consisting of various contract types, multiple layers and attachment points, and various terms and conditions; a sample reinsurance program of a single year is presented in Figure 1.

![Figure 1: Sample reinsurance program](image)

The sheer complexity of the program creates great difficulty when trying to manage the company exposure to reinsurers, and provide reliable information for operational reporting, decision making, MI and regulatory reports – both inwards and outwards. Is the company entirely reliant upon a small group of individual experts for performing these crucial tasks? A recent industry survey found that insurers initially thought they were successfully managing their programs, only to discover that, at best, they could not provide accurate snapshots and projections to senior management...
Figure 2 presents the common situation of reinsurance information management relating to the various business processes:

![Reinsurance Management – Common Situation](image)

**Figure 2**: Reinsurance information management – common situation

Clearly, an incomplete information repository, consisting of a mix of Excel sheets, databases and Word documents, is not a secure, reliable and auditable data source. Creating reports is a painstaking and time consuming process, due to lengthy data verification and consolidation efforts.

Having a single repository containing all reinsurance information at the most granular level – contracts, counterparties, premiums, claims, accounts, etc. – convenient and available for all reporting purposes is crucial, as shown in Figure 3.
The consolidated repository containing comprehensive information is the firm foundation for prudent reinsurance business and accounts management. It is also a sound basis for managing company exposure to reinsurers and ceding companies; regulatory reporting and compliance; and providing comprehensive support for reinsurance operations, claims allocation and accounts management.

The comprehensive information repository will also provide support for program planning and decision-making, as well as MI and analytics – for example, profitability, triangulations, claims profile, and risk profile.

**Figure 3:** Preferable reinsurance management situation
Support for the Claims Recovery Process – Preventing Claims “Leakage”

Reinsurance claims recovery is a major business concern for an insurance company. In many companies, however, the handling of reinsurance claims is performed manually, carried out by experienced personnel. This seems odd, considering the significant effect of reinsurance claims recoveries on the bottom line business results. Companies, in fact, tend to be unaware of the magnitude of the problem – which is often estimated in millions! In many cases, companies become aware of irregularities only via audit activities, or perhaps by chance.

The extent of the problem – some actual examples:

- Company A – missed $14.5M in reinsurance recoveries (out of $2B direct claims)
  Due to: reinsurance program complexity; manual processes
- Company B – missed $8.2M
  Due to: lack of aggregation of small claims
- Company C – missed $3.1M
  Due to: improper calculation of facultative contracts

A complex reinsurance claim example is presented in Figure 4.
When analyzing the reasons for reinsurance claims recoveries leakage, there are various issues:

- Claim not allocated to a reinsurance contract – therefore not recovered
- Claim allocated to some reinsurance contracts, but not to others – partially recovered
- Claim allocated incorrectly to reinsurance contracts – wrongly recovered
- Claim recovery calculated incorrectly – resulting in erroneous recovery amounts
- Claim billing – improper handling of counterparties accounts – resulting in late or missed recoveries

An industry survey revealed a direct correlation between the number of days of outstanding recoverable claims in accounts and the extent of written-off claims.

In order to significantly decrease the risk of claims leakage, a comprehensive reinsurance management system is required, containing the following features:

- Comprehensive management of the reinsurance program – all contracts are maintained, including the terms and conditions of each contract
Partnersing for Success

- Automated claims transactions processing functionality – providing automatic attachment and allocation to reinsurance contracts, and all related calculations; with no – or minimal – manual intervention!

- Comprehensive accounting functionality – providing effective credit control and debt-aging

- Claims reports and queries – ability to conveniently retrieve information on claim recoveries:
  - Operational results – detailed claims information; allocation to reinsurance contracts and retentions
  - MI and Analytics – indicating potential areas of claims leakage
Optimizing Operational Activities – Effective Business Management

Reinsurance operations consist of a variety of business processes, such as entering and maintaining contracts, premium and commission calculations, claims allocation, technical accounting, current accounts management, and queries and reporting.

Effective business automation is crucial, relating to various aspects:

- Operational procedures must ensure business accuracy – automation is crucial to prevent operational errors, such as wrong insuring premium allocation and calculation errors.
- Auditing and control – when implementing business processes in an organization, the company must also consider the auditing and control requirements, enabling tracking and follow up of activities for all control purposes.
- Seamless integration with external systems – automated interfaces between modules should be implemented – for example, between reinsurance and GL Accounts – to prevent information re-keying, which is also a source of operational inaccuracy.

A comprehensive reinsurance system features essential components contributing to effective business management:

- Comprehensive business functionality – all relevant functions, such as contract maintenance, premium and commission calculation, claims handling, accounting, etc.
- Straight-through processing – a comprehensive process supports all the relevant functionality of each business activity; no need to re-key information for different purposes
- Authorization and security
- Comprehensive audit trail
- Automated and convenient integration with external systems – Policy, Claims, Accounting, Reporting, etc.
Optimizing Operational Activities – Efficiency and Control

Unstructured and informal business processes are common for insurance carriers, with users often individually designing working procedures according to personal preferences. This results in difficulties in implementing auditing and control measures. For example: four-eye procedure for approving large payments, inability to implement authorization control and lack of information for determining service levels and workload handling.

Besides the reinsurance functionality topics, consistent and controllable business processes need to be implemented, designed and coordinated centrally to ensure optimized and fully controlled procedures, and authorization and control.

The following process management features contribute significantly to implementation of secure and optimized business processes, with full tracking and control:

- **Integrated workflow – activities management**
  Workflow functionality enables defining business procedures with detailed definition of activities – including “chains” of activities, based on company-defined business rules. The workflow definitions drive the business processes and activities, determining authorization levels and control points. The workflow process also records runtime information, enabling follow-up, alerting and tracking of all business activities, as well as the ability to analyze performance.

- **Document management integration**
  Ability to attach external documents to reinsurance entities, such as contract wording, claim bills, account statements, receipts, etc.
Accounting Support

The accounting dept. in any organization will naturally deal with standard functions, such as:

- Invoice handling – issuing and receiving
- Managing counterparties accounts – handling payments; credit control
- Recording aggregate figures in the GL accounts
- Reporting – operational reports, MI and regulatory reporting

Clearly, a fully-functional, robust accounting system is required for managing the above functions. Surprisingly, though, in many insurance organizations the reinsurance accounting functions are managed on Excel sheets – invoicing, current accounts...the whole lot!

This creates several risks for the company:

- Invoicing – statements, claims billing, bordereaux – reinsurance departments have unique complexity in this area, because the invoicing rules are not standardized for the entire organization. The rules are dependent on the terms and conditions of the individual contracts – accounting frequency, statement granularity, currency handling, etc. Manual handling of this process is prone to errors – inaccurate figures and late invoicing.
- Counterparties accounts – current accounts of ceding companies, brokers and reinsurers – improper posting of invoice items and cash payments will result in late collection, and difficulties of credit control (perhaps even lost recoverables).
- Information for GL Account – difficulty in aggregating accurate and timely information for GL Accounts is unacceptable for any financial organization; in addition, the need for re-keying reinsurance accounting information into the GL system is an additional source of errors.
- Reporting – besides the direct accounting functions, handling financial information in Excel sheets creates difficulties in preparing regulatory reports and control reports for auditing, offering inadequate support for decision making and business planning.
Summary and Conclusion

The risks related to manual handling of reinsurance business and accounting functionality are apparent, and will likely result in significant problems in managing business processes and obtaining financial results. It is clear that a comprehensive reinsurance system is essential for every insurance organization.

So how can you proceed from here? Some proposed guidelines for choosing an appropriate reinsurance system for your company:

- Functional fit – look for a product with the best functional fit for your organization, based on your business needs
- Configurability and flexibility – the ability to support current business requirements, with the flexibility to accommodate future business changes and challenges
- Seamless integration – the ability to enable seamless integration with existing IT infrastructure
- Connectivity – the ability to enable connectivity with other IT systems and services, such as Policy, Claims, GL Accounts, Document Management, etc.
- Migration of existing data is crucial – the reinsurance product must handle existing contracts and claims
- Modern technology is imperative
- And choose a reliable vendor with a track record of successful implementations of reinsurance projects