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## **Reinsurance and Regulation: Practical Aspects Relating to Change**

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**Transforming the business operational model**

The general awareness towards the upcoming Solvency II and relating regulatory directives is apparent. There are of course some open business issues and specific topics under discussion, but these will certainly be resolved in the near future. At this point in time, it appears the entire insurance industry is required to scrutinize its operational model, and undergo an assessment of all current business processes.

The general attitude is that the present processes, as well as the existing organizational data processing infrastructure, are insufficient for supporting the new – and strict – directives. The initial attitude of industry management towards new regulatory initiatives is unfavorable (naturally); these changes seem to be an obstacle – an inevitable "evil" resulting in a significant cost to the organization. In addition to the direct implementation costs there is also the anxiety of cultural change. Existing tasks that were carried out by knowledgeable staff via undocumented processes and reliance on personalized Excel workbooks now need to be fully documented, decision making must be clear and transparent, and the underlying data should be organized in a structured, logical and comprehensive data model.

Hmmm...come to think of it...it doesn't really seem like a bad outcome. Of course there is still the cost (a manager can/should never ignore this...), but the benefits to the organization can be very significant for many years to come.

**What needs to be done – the practical issues**

Although the dust has not yet settled, it seems the major operational issues will be focused on the following:

**Information** – an overall approach must to be applied to ensure implementation of a proper data model that supports all business aspects. This is a broad subject relating to numerous issues, all of which seem to be obvious; however, most organizations have previously failed in the actual implementation. Some of the major aspects:

- Data quality and relevance – The detailed data elements which are involved in each business process must be maintained in a structured model containing accurate values, as well as ensuring clarity; preventing "ambiguous" cases where a data value can have a different meaning, depending on the specific business case.
- Granularity – all the information must be maintained at the most detailed level for reporting, as well as for accounting purposes; a brief example: premium, commission and claims information must be calculated and maintained at the level of each reinsurer in a contract, per coverage, line of business, etc.; maintaining information at the global contract level, "assuming" the ability to

break down information in the reporting or accounting process, will be insufficient and will not provide satisfactory support for future business and regulatory needs.

- Availability – in addition to appropriate maintenance of the data model, there is the need for real-time accessibility to information at all organizational levels of management information, including MI and BI, supporting the decision-making process. Therefore, modern and convenient data retrieval tools, enabling convenient presentation and analysis of information, need to be adopted and utilized.

**Processes** – there are some basic tools that provide support for structured, documented and fully managed business processes in the organization:

- Workflow – enabling definition and documentation of the business processes. The additional capability that raises process management to the next level is the integration of workflow with the functional data processing components; example: setting up a new reinsurance contract can consist of two steps: 1) entering the contract information and terms and conditions in the reinsurance system 2) management approval. Integration of the data processing system with workflow capability will ensure overall process completion.
- Document management – ability to retrieve all internal and external documents involved in the business processes. The benefits resulting from implementing this tool are best achieved when integrated together with data processing functionality and workflow.

**Audit and Control** – the implementation of authorization and security procedures “up front,” as well as “after the fact” ability to track and audit all business activities, is essential for ensuring proper business controls within the insurance organization. These goals can be best realized by implementing a proper infrastructure, as stated above.

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