Making the case for reinsurance automation

Key strategies for eliminating manual processes and integrating systems and data

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Introduction

In this era of modest economic growth, when solvency capital requirements (SCR) mean that insurers must maintain minimum levels of capital, reinsurance is increasingly relied upon to protect earnings and address underwriting volatility.

Investors are pressuring insurers to move to a more sophisticated risk strategy, utilising metrics such as return on equity and economic capital. Once relatively straightforward reinsurance cessions have expanded in number, and now recoverables are among the largest assets on an insurance company's balance sheet.

The resulting intricate reinsurance contracts are harder to administer, and many companies are struggling to keep pace. To cope with complex contracts and growing business, manual processes and workarounds have become common. But manual, siloed processes are hard to manage and can be error prone and costly. Failed submission of billings and payments, plus lack of reporting can result in poor cash control, misplaced recoverables or, at worse, legal engagement.

In today's market, old practices are not sustainable. This paper explores ways reinsurers can overcome these challenges and describes key strategies for integrating and automating reinsurance systems.

Business challenges

Traditional reinsurance contracts used for risk transfer purposes no longer appear to meet today's expanded objectives of reinsurance. As business demands change, risk transfer becomes a reduced part of the equation. Capital management, along with the requirement to adopt advanced income programs to reduce financial inconsistency, requires the ability to write individualised and more complex contracts. The result is greater flexibility, but it creates far more challenges when it comes to administration.

Typical issues include:

- Siloed systems or manual processes such as spreadsheets

- Data availability and its construction and validity

- Allocation of reinsurance recoveries and premiums (with different accounting periods distorting data)

- Diversity of contracts and programme structures (from large direct composite insurers to small London Market specialists)

- Consistency in forecasting how far the past can be expected to serve as a guide to the future

- Premiums that are often loss- or exposure-sensitive

- Legal issues and disputes (access to all associated and valid documentation)

- Volatility of loss experience, giving rise to limitations of statistical methods

- Bad debts (accurate information on recoveries by layer and by probable timing of recovery

- Quality of reporting, ensuring management information and subsequent governance and compliance management
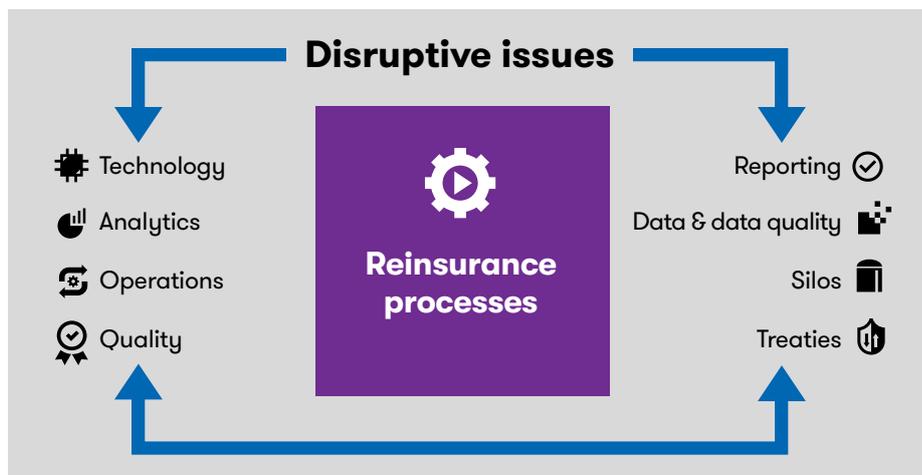
Figure 1. Disruptive issues affecting "day-to-day" operations and combined operating ratio

More specific issues related to claims leakage include:

- An unallocated claim, or claims that are allocated to certain reinsurance contracts but exclude all contracts

- Incorrect allocation to reinsurance contracts and consequently wrongly recovered

- Correct claim recovery allocated to reinsurance contracts, but calculated incorrectly

- Poor management of accounting and technical billing, resulting in recovery negligence and loss

The net effect of poor management and resulting reinsurance claims leakage means that insurance carriers are potentially losing millions in realised revenue, directly affecting the bottom line and thus, combined operating ratio (COR).

Another risk associated with loosely or indirectly managing sources of reinsurance leakage pertains to human capital. Additional resources need to be recruited, trained and maintained to perform audits, checks and balances across multiple departments. Furthermore, the operational knowledge and experience needed to manage and oversee such a people-dependent process tends to be concentrated in the heads of a few key individuals, which introduces even greater risk to the business.

Ironically, having fewer people with complete knowledge of key structure, history and layering processes complicates succession planning, whilst making transitions prone to disruption. This can create tension within an organisation, accompanied by perceived governance exposure due to inadequate business planning.

The case for automation

Given the complexities of contracts, associated manual administrative demands, reporting requirements and financial exposure, it is critical for reinsurers to modernise their systems. Organisations must migrate from antiquated programs and insufficient analytics capabilities to fully integrated and automated environments that enable reinsurance specialists to easily obtain access to relevant information and make informed decisions.

Automated reinsurance applications enable companies to refocus their resources. Professionals spend less time gathering data and running reports and more time on analysing data and drawing deeper, more meaningful business insights.

To create a road map for change, reinsurers should begin by fully evaluating current processes and operational pain points. A strategic transitional plan can be created to design and implement a comprehensive reinsurance management environment. Key capabilities should include:

- Easy integration with other systems (via APIs or web services) and support for industry standards such as ACORD XML and Lloyd's Outwards Reinsurance Scheme (LORS)

- Scalability, allowing for growth

- Full transparency for compliance with regulatory requirements

- Real-time view of all operations, including a global view of profitability and risk

- Comprehensive currency management, offering multiple currency reports

- Multi-company and multi-country operations — a true 360-degree view

- Multi-national taxation rules, ensuring management via country-to-country compliance

Automation of ceded reinsurance functions will eliminate manual processes and help protect the entire portfolio. In addition, automation through rules-based transaction allocation will deliver comprehensive control and confidence in all ongoing business. Data management capabilities will streamline reporting processes and aid in decision making. Key capabilities include:

- General ledger integration, maximising data value

- Comprehensive reporting, with executive management dashboards and KPIs

- Accrual and estimation, enabling accurate accounting reports for different accounting principles

- Easy data import, the ability to assume legacy or spreadsheet data/calculations

- Analytics for comprehensive scrutiny of all transactions, both financial and risk

A modern reinsurance software information repository is crucial for the proper management and processing of policy and claims transactions, document management and the maintenance of all necessary information.

To achieve the greatest business value, reinsurance administrative functions should be integrated on one global platform, enabling organisations to centrally manage quotations to bound contracts, including technical and accrual accounting, cash reconciliation, claims processing, with fully automated outwards reinsurance protection, recovery and comprehensive business intelligence capabilities. This will ensure that all users will have access to up-to-date, relevant and concise business information and help identify business inconsistencies and irregularities. Organisations also can enforce consistent security controls throughout the enterprise.

Conclusion

Reinsurers and insurers who write commercial insurance risks require a "single version of the truth." Information must be real-time, accurate and provide a global view of profitability in all lines of business and in all locations around the world. To meet these needs, a comprehensive, robust and up-to-date intelligence base is imperative.

Changing demographics, new technologies and tightening regulatory regimes mean reinsurance risk managers are likely to face continued challenges in balancing

commercial and risk objectives. However, by reshaping processes and operations, reinsurers can adopt strategies that enable delivery of seemingly divergent objectives without having to compromise on the focus of the organisation.

As reinsurance assumes greater prominence in strategic financial planning and risk management, system integration and automation offers major benefits. Modernisation can improve an organisation's competitive advantage by lowering operational costs and achieving a truly holistic, real-time view of underwriting, accounting and claims, whilst gaining the ability to ensure that business is priced and managed in a consistent manner around the world. Key steps towards modernisation include:

- **Process management review** – Identify manual activities and spreadsheets that cannot contend with today's complexities and consider ways to replace them, leveraging automated solutions and utilities where available.

- **Technology review** – Consider reviewing aging reinsurance systems for upgrade or replacement, enabling seamless integration across the business domain, removing silos and data black holes.

- **Data maximisation** – Establish a data-centric strategy. Integrate data from multiple sources to a combined data warehouse/data model. Utilise intelligent analytical tools to build a rich source of knowledge to be shared across the business, facilitating the ability to conduct insightful analysis.

The future for reinsurance is rapidly changing, and the case for automation is clear. Customers demand specialist knowledge and refined risk perceptiveness. To meet these demands, organisations will need to access, analyse and apply new intelligence within a modern, transactional reinsurance platform.

Next Steps

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About the author

Colin Dean is a principal for reinsurance software offerings at DXC Technology.