

Facultative
Broker Per Risk XL
Cat XL Slip Retrocession
Burning Cost Cession
Treaty Stop loss Surplus
Portfolio entry Quota share Line
Bordereaux Cash call
Retention Pools
Cedant
Excess of Loss

A Pocket Guide to

Simplifying Reinsurance: Accounts and Administration

Contents

- 01** Executive summary
- 02** Key challenges for insurers
- 03** Moving to a solution
- 04** Focus areas for insurers in the automation journey
- 05** Case Study
- 06** Closing thoughts for the future

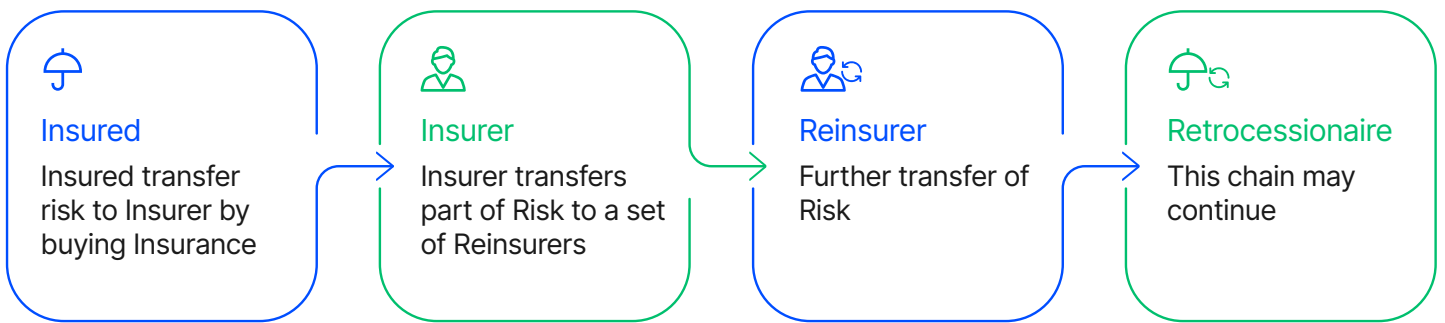


Executive summary

Reinsurance as a practice and a business has numerous systemic hurdles that tend to make the entire process less effective and not entirely deliver the goals for which the programs are planned by insurers. These issues have to be tackled headlong despite the pain it can cause initially to fulfil the objectives for Reinsurance programs are planned.

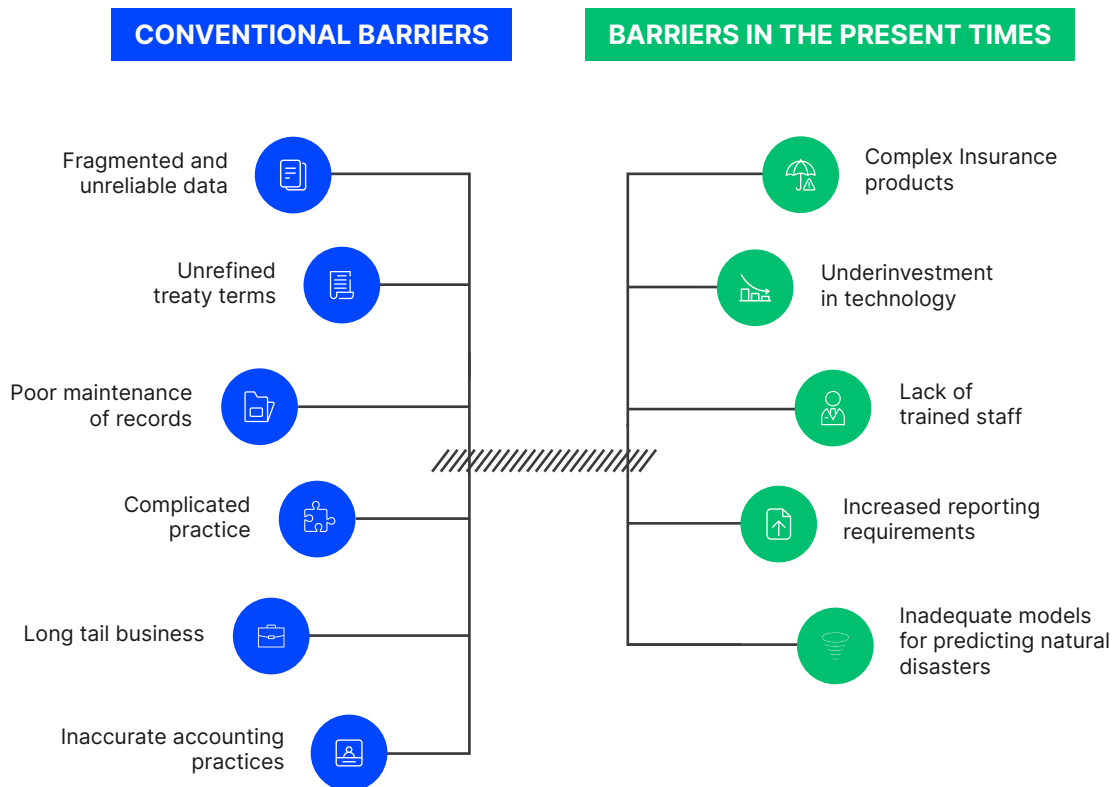
So, what are these objectives? Reinsurance programs are meant to assist the insurer to transfer risk, increase underwriting capacity, protect the portfolio from crippling losses and volatility, maintain liquidity, meet solvency and other financial requirements. Reinsurance programs are therefore crucial for insurers to safeguard their direct and assumed business portfolios and to fulfil regulatory requirements. Reinsurance is therefore known as the "protector" of the insurance company's financial stability and success. However, Insurers face challenges in ensuring effective reinsurance planning and administration.

Introduction to Reinsurance



So, what are the key challenges that can impede the success of the Insurer's Reinsurance programs?

Key challenges for insurers:



Conventional barriers

- 1. Fragmented and Unreliable data:** Reinsurance can be planned and priced properly only if the underlying data e.g., the number of policies ceded, sum insured of risks, previous claims history, geographical spread, loss exposures to various levels of catastrophes etc. are reliable. Otherwise the first step of Reinsurance planning itself can be flawed.

This leads to constant doubts about the efficacy of the Treaty design:

- Are we ceding too much or too little?
- Are the Cat XL programs structured to give the maximum benefits?
- Are we paying a fair price?
- Do the treaty terms ensure effective claims recoveries and no slippages?

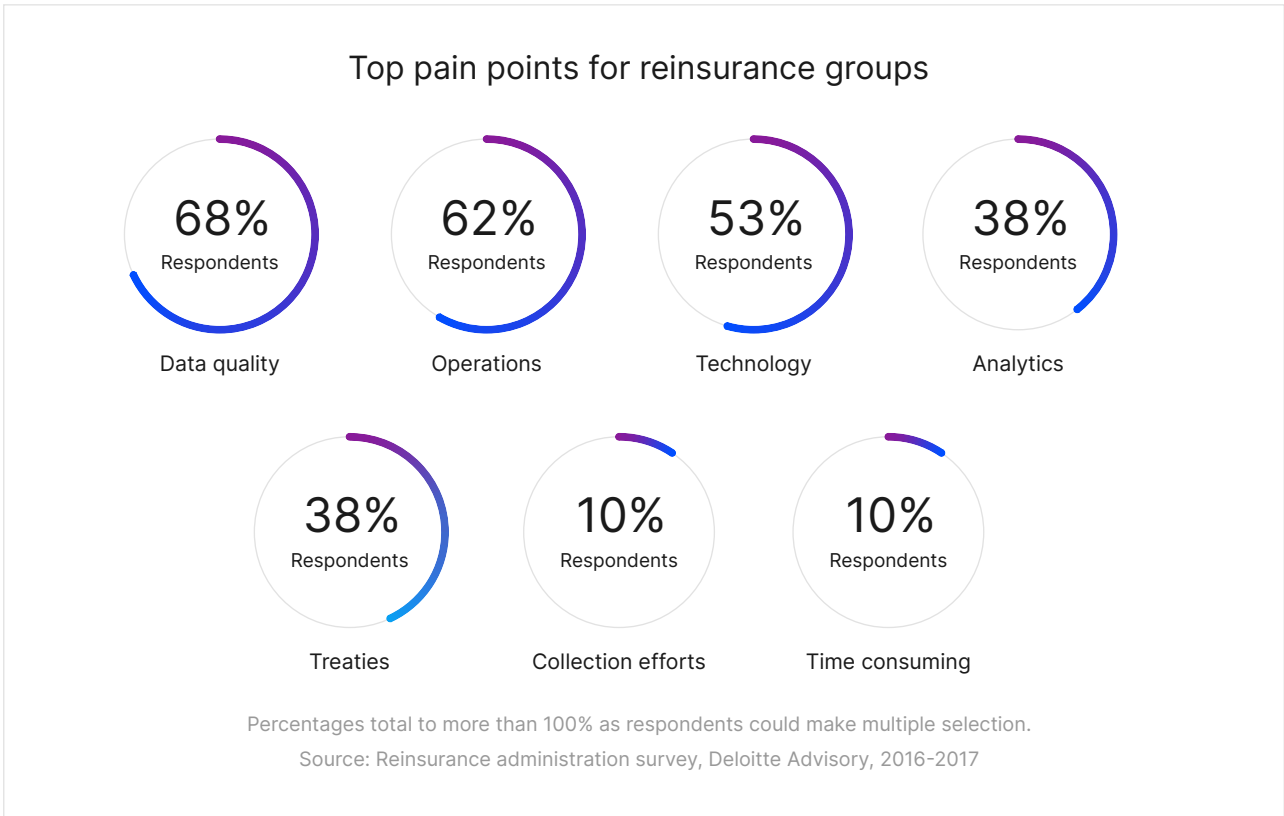
Cost vs benefit or Performance analyses become difficult to calculate without proper data at the time of planning, review and renewal. This happens because insurers have the policy and claim data in different systems in different formats. Both Insurance and Reinsurance administration are done in silos. On the other hand, when Insurers have reliable and accessible risk and exposure details, planning and even price negotiation with reinsurers becomes easier and transparent.

- 2. Unrefined treaty terms:** Reinsurance contracts are sometimes drafted improperly with loopholes and ambiguities thereby causing premium and claims leakage . Sometimes adding too many variables like sliding scale commission and retrospective pricing add complications and are difficult to keep track of over the years. Misapplication of terms can cause costly errors leading to the re-filing of regulatory documents and financial statements.
- 3. Poor maintenance of records:** Reinsurance records (Inward and Outward) have to be maintained for years and quite often for decades. Not taking care of this long term record storage aspect leads to issues especially when recovery notices are sent by reinsurers triggering instances of confusion, arbitration and litigation.
- 4. Complicated practice:** Reinsurance almost always entails multi-party agreements spanning numerous geographies, covering numerous insurance lines, varying loss exposures, diverse currencies and multiple regulators and central bank policies. The Reinsurance program itself can have primary layers of Quota Share and Surplus treaties, secondary protection of Per Risk XL, and overall protected by Cat XL. So unless treaty terms, accounts and underlying risk data is available the implementation of the reinsurance arrangements can get derailed.
- 5. Long tail business:** The long tail nature of Reinsurance contracts demands records to be maintained, staff to be allocated, and servicing done for many years and maybe decades too.
- 6. Inaccurate accounting practices:** Poor accounting practices in spreadsheets and outdated methods can lead to premium leakage without adequate returns and lag in claims recovery. This leads to an adverse impact on profits, reserves and solvency of the Insurer or Cedant.

The above inherent challenges have been further compounded in present times due to some recent trends in the Insurance industry.

Barriers in the present times

- 1. Complex Insurance products:** Insurance policies are becoming increasingly complex in terms of coverage and insured values. Some examples are energy lines, space travel and exploration, underwater business ventures, large scale construction projects, progress in the medical and telecom industries, increased liability exposures for both individuals and corporations amounting to billions of dollars and this necessitates even more complexity in reinsurance planning and administration.
- 2. Underinvestment in Technology:** Insurers continue to rely on outdated applications like spreadsheets and other manual processes, which are unable to meet present-day demands leading to claims leakage and improper accounting. Data has to be integrated from multiple sources covering various business lines and multiple currencies and insurers.
- 3. Lack of Trained Staff:** The workforce needs extensive training to manage the reinsurance portfolio. After the training, knowledge resides with the employee only and is gone when the employee leaves. The portfolio may not get the attention it requires because of the shortage of trained personnel.
- 4. Increased Reporting requirements:** Regulators have been steadily increasing the reporting, solvency and other requirements. Due to the global nature of reinsurance, regulatory compliance in multiple geographies is an increasing trend.
- 5. Inadequate models for predicting natural disasters:** Insurers suffer from a lack of information on loss exposures and accumulations like MPL and EML estimations. Predictive models available in the market need inputting of large sets and accurate data points to provide accurate outputs. The loss exposures data are needed not only for Reinsurance planning but for pricing, specially Cat XL arrangements. There is a renewed and urgent focus on this due to recent patterns of increased frequency and intensity of natural disasters.



Moving to a solution

So we know that Reinsurance administration and accounting is not easy. A successful reinsurance plan is crucial to an insurer's business. It represents one of the most significant financial plans for an insurer or reinsurer with annual transactions totaling hundreds of billions of dollars. Despite this importance, respondents to [Deloitte Advisory's reinsurance administration survey](#) reported that over the past ten years, little has been spent on the necessary technology, procedures, data quality and analytics in reinsurance.

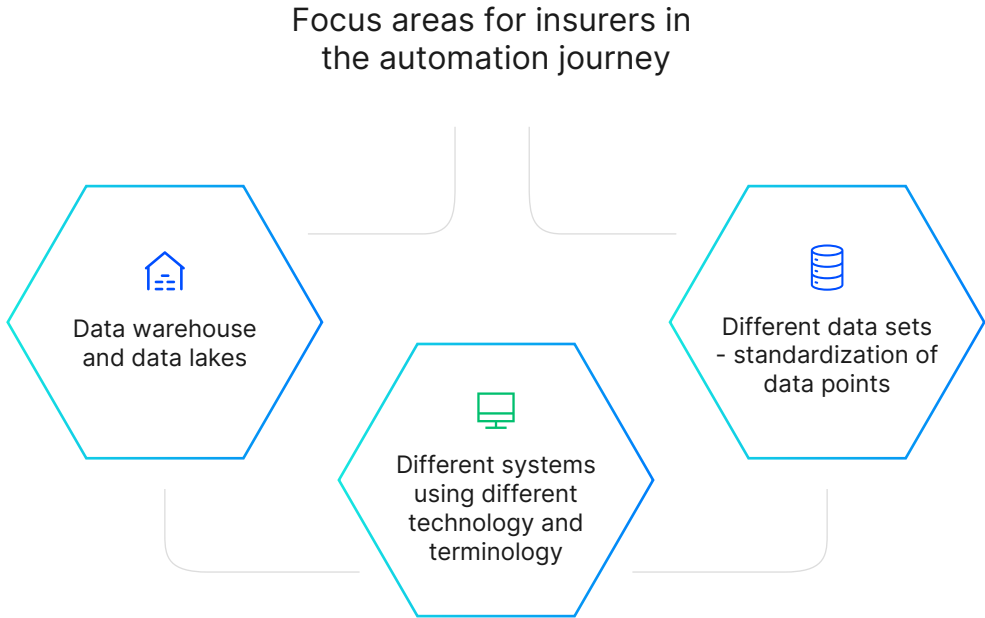
Customer facing operations like policy administration and claims management get most of the focus and budget allocation in an Insurance company. While process streamlining and cost optimization in direct Insurance is important, equally imperative is the streamlining of reinsurance administration and accounting to ensure proper claims recoveries leading to financial stability of the cedant or Insurer.

To move towards this, managers need to plan to get rid of outdated programs that are burdened with manual procedures, antiquated technology and insufficient analytics capabilities by concentrating on efforts to modernize and automate reinsurance operations.

However, a modernization plan is easier said than done. Reinsurance has not kept pace with the increased complexity of today's Insurance world and actually needs to do a 'catch up' from years of underinvestment in Technology.

So, what next?

Focus areas for insurers in the automation journey



- 1. Different data sets-standardization of data points:** Insurers have a lot of groundwork to do before embarking on the reinsurance automation journey. Data sets to be standardized(sometimes even seemingly elementary terms like Gross and Net premium can have different interpretation), access to underlying data and integration has to be planned and ensured.

2. **Different systems using different technology and terminology:** Next-level automation, Applied AI and Distributed infrastructure and other cutting edge technologies should be explored and insurers need to adapt their operating models, products and core processes to these technologies.
3. **Data warehouse & Data Lakes:** Data lakes and data warehouses are occasionally used interchangeably, despite the fact that they are fundamentally distinct. Having a systematic approach to data storage and usage is essential as the volume, speed and variety of data associated with insurance continue to increase.

Case Studies

Case study

Accelerating new business intake with intelligent automation for a leading US commercial insurer

70%
Cost Saving

94%
of accuracy for
Data Extraction

In insurance, new business request intake is often a document-intensive process, and when executed via manual data validation techniques can often lead to long TATs, negatively impacting the customer experience. With approximately 600,000 submissions per year, consisting of 30 to 200 pages per requisition, the insurer faced challenges in handling the volume, resulting in increased handling time and limited scalability. SLK's AI powered, Intelligent onboarding solutions drastically accelerated business intake by automating account set-up, identity validation, risk assessments, and policy selection to create a far smoother CX, while significantly reducing the average handling time from 6 hours to 3 minutes. Also, the speed of intake (TAT) improved while enabling a 70% cost savings for straight through processing requests with an accuracy of over 94% for data extraction from structured and unstructured forms, including email submissions.

Case study

Intelligent intake to enable risk modeling for a top global re-insurer

At SLK, we helped a top global reinsurer in implementing Risk Modelling by providing automated data capture for specialty line of business submissions. With over 600 parameters from 200+ document variants, the reinsurer aimed to streamline risk evaluation, prioritize submissions, and ensure accurate pricing of reinsurance policies. By leveraging AI and mathematical modeling techniques, SLK significantly reduced handling time, facilitated faster risk assessment, and enabled precise pricing. The solution automated data capture, eliminated errors, and empowered the reinsurer to make informed decisions efficiently. The successful implementation of Intelligent Intake improved operational efficiency, enhanced risk evaluation accuracy, and strengthened the reinsurer's ability to provide timely reinsurance solutions.

600+
Parameters

200+
Document variants

Closing thoughts for the future

The success of an insurer often relies on having a strong reinsurance program. Automating manual procedures will improve process efficiency, lower error rates and reduce premium and claims leakage. Alongside AI, Blockchain applications are another option that will aid the reinsurer in improving their understanding of risk exposures and improve output in areas like compliance checks, dashboarding, analytics, insight and predictive models. Although insurance has historically been slow to adapt, the rate of growing innovations has made it essential that the sector adjust more swiftly to keep pace. Additionally, the availability of so many options for modernization makes this an exciting opportunity and journey.

And so...

To build or to buy? That is the question (With due apologies to Hamlet).

About us

SLK is a global technology services provider focused on bringing AI, intelligent automation, and analytics together to create leading-edge technology solutions for our customers through a culture of partnership, led by an evolutionary mindset. For over 20 years, we've helped organizations across diverse industries - insurance providers, financial service organizations, investment management companies, and manufacturers - reimagine their business and solve their present and future needs. Being A Great Place To Work Certified, we encourage an approach of constructively challenging the status quo in all that we do to enable peak business performance for our customers and for ourselves, through disruptive technologies, applied innovation, and purposeful automation. Find out how we help leading organizations reimagine their business at www.slksoftware.com