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Reinsurance Data Management – **the Good, the Bad, and the Ugly**

By Brian Wilkinson

Having had the opportunity to observe how reinsurers collect and manage seriatim policy and transaction data provided by ceding companies over the last decade, it is easy to see how things have changed. Thankfully this change has largely been for the better, but as in all things, sometimes the more they change, the more they stay the same.

THE GOOD

The good news is that clear and obvious progress has been made in the amount of data that ceding companies provide electronically, as well as in the amount of data actively collected and loaded by reinsurers to business systems. Reinsurers have invested tremendous amounts of resources in implementing robust systems which manage both transaction and in-force policy data.

For most reinsurers, less than 6 percent of their total in-force net amount at risk is now managed manually—a number far more likely to have been greater than 25 percent in the not too distant past. Loading ceding company data is not just a lonely figure sitting in a back room with a data mapping tool either; entire departments of data quality professionals are in place tasked with the work of translating, loading and interpreting data for all downstream business processes including claims, underwriting and valuation. In fact, data quality is becoming one of the fastest growing departments in reinsurance companies.

From a data security and privacy perspective, noticeable strides have been made as well. Reinsurers and ceding companies largely have implemented data security protocols for retention and transmission of client data as part of their compliance framework. Risks are far too great, both financial and reputational, to not adopt data policies which militantly protect policyholder data.

THE BAD

There is no doubt that one of the key drivers for the wide scale adoption of electronic seriatim reporting has been the willingness of the top insurance producers to invest in providing regular, high-quality reporting to reinsurers. While this has had a tremendous overall industry impact, generally speaking, this information is all highly structured data which readily fits into a reinsurer's pre-determined data model. There was a time where capturing this type of data drove efficiencies and helped to differentiate reinsurers, however these systems, processes and data elements are present in every large scale reinsurer today. This is the new normal for managing your reinsurance block.

The ongoing challenge for reinsurers is increasingly becoming how non-structured data, such as the reinsurance treaty, or claims and underwriting papers stored as PDFs, can be captured and more importantly, can be leveraged into their business processes.

It is the integration of both structured and non-structured data into its business process which gives a reinsurer the comprehensive view of the particular business situation to which it is trying to manage. Technologies currently on the market are now able to bring this more comprehensive view of the data to decision makers, potentially creating true differentiators for reinsurers.

THE UGLY

The life reinsurance industry still suffers from tremendous inefficiency. In its failure to adopt a single data standard, the industry still manages too numerous proprietary data standards which are inconsistent in layout and without uniformity in implementation. Significant investment in internal processes and systems has perhaps reduced reinsurers' desire to look outward to industry solutions to assist in solving these inefficiencies. Issues which have plagued reinsurance administration areas for decades have not been remediated—where challenges such as those with reporting joint lives, or policy conversions, or replacements, remain virtually unchanged today.

While large direct writers regularly provide their reinsurers the data necessary to manage their risk, small- to medium-sized producers are often under-managed. These clients are too easily labeled as low risk as reinsured volumes are much smaller than large market players, but they are often managed manually with little to no process rigor or oversight. Of course numerous historical examples exist where these small- to medi-

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um-sized insurance companies can create significant volatility on a reinsurer's income statement, not to mention leaving a reinsurer with unknown retention accumulations on a life.

Outside of North America, reinsurers still face many data management challenges. Ceding company data is significantly less available in some European, Latin American, and Asian markets, and the North American data management model just doesn't seem to fit non-North American business. As a result, many reinsurers fall into the trap of initiating very costly global systems and processes to try to fit the proverbial square peg into the round hole.

WHERE DOES THE INDUSTRY GO FROM HERE?

So how do reinsurers come to grips with making the strategic changes necessary to advance their ability to collect and analyze ceding company data? How does a reinsurance operations manager convince its senior management team that further investment is still required to differentiate themselves after the hundreds of millions of dollars they have invested in large global systems?

Perhaps the first step is to begin looking outward again towards industry solutions. As discussed above, having 95 percent of your in-force managed electronically is the new norm. Simply mapping and loading (and even analyzing!), client data offers little to no strategic advantage, however not so long ago reinsurers did not necessarily believe this to be the case. A common industry standard could most certainly address the chronic data problems which continue to be a nagging concern. Also, imagine an industry standard which small- and medium-sized direct writers could leverage to provide more frequent, predictable data to their reinsurers in a much more cost effective manner. A 100 percent view of a reinsurer's seriatim policy data is attainable.

Lastly, reinsurers should consider a strategic approach to managing non-structured reinsurance data. Countless reporting and compliance opportunities exist if companies can get creative with how data can be extracted and utilized from these sources. Anyone who has attempted to design a reinsurance treaty or administration system understands the often insurmountable challenges presented in designing systems and processes which can be adopted for your entire book of business. ■

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CONCLUSION: THE PIE MAY NOT BE GETTING BIGGER

U.S. life reinsurers will have an uphill climb if they want to get back to the reinsurance levels seen just five or six years ago. Industry sources do not expect direct sales to take off in 2011. A recent LIMRA Executive Survey noted: "The majority of U.S. insurance executives are predicting flat 2011 sales for individual and group coverage." If the executives are correct, reinsurers would need to get a larger piece of the same-sized pie in order to increase reinsured amounts. On a positive note, results from the recent Flaspöhler survey show relationships between direct writers and reinsurers are improving. Satisfaction levels have increased recently and many direct writers stated relationships with their reinsurers continue to improve. But don't count on this to translate into more reinsurance in 2011 because, in the very same survey, the majority of direct writers indicated they were not contemplating any significant changes to corporate retention or reinsurance attachment point any time soon. Assuming this holds true, the U.S. cession rate should remain stable in 2011 (hovering around the low 30 percent range). The absolute level of reinsurance will be heavily dependent upon how direct sales go. Also, we'll be keeping an eye on how the SCOR/Transamerica acquisition goes as it could have a big impact on the U.S. market given Transamerica was the largest coinsurance writer in 2010.

DISCLAIMER:

Munich Re prepared the survey on behalf of the Society of Actuaries' Reinsurance Section as a service to section members. The contributing companies provide the numbers in response to the survey. These numbers are not audited, and Munich Re, the Society of Actuaries and the Reinsurance Section take no responsibility for the accuracy of the figures. ■