VIEW POINT

AUTOMATING REINSURANCE PROCESSES THROUGH DIGITAL TRANSFORMATION

Abstract

The reinsurance industry has been slow on the uptake of digitisation. Prevalent manual processes and massive document churn lead to process inefficiencies and compliance issues, besides increasing risk exposure. Uncertainty due to climate change, cyber terrorism, an everchanging business environment, and cutthroat competition require that reinsurers exploit the potential of digital transformation to stay ahead of the curve. Automation of reinsurance with a data-driven approach will help reinsurers improve efficiency, reduce cost, and innovate customer-friendly product offerings.

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Challenges of the reinsurance industry

Reinsurance plays a critical role in the insurance business, as it increases underwriting capacity, allows for sharing of risks, helps insurers with capital management, and reduces their exposure to any catastrophic events. The digital disruption to other industries, high consumer expectations, the changing dynamics of the primary insurance industry, increased competition and risk, and strict regulatory and compliance requirements make it necessary for reinsurers to relook at processes and risk mitigation with a new lens.

The reinsurance industry faces several stressors. Insurers have several alternatives to capital, such as hedge funds, private equity firms, and pension funds, where they can obtain better rates, multi-year contracts and flexible terms and conditions. Climate change is already causing frequent and extreme weather events. Reinsurers need to account for the impact of climate change in catastrophe modelling, as it could result in volatility earnings and capital. This in turn could have a negative impact on the primary insurance industry due to implications on the cost of reinsurance.

Strict global regulations, government policies, political crisis, and stringent financial reporting guidelines have an impact on how reinsurance companies conduct business. The digital transformation of the primary insurance industry has improved risk management, turnaround times, and customer experience, resulting in better buyer retention, and increased comfort with underwriting risks. Emerging technologies are beginning to impact daily life, and consumers are looking for innovative solutions to daily needs – drones, riderless cars, ridesharing apps, among others, all of which impact insurers. The reinsurance industry needs to address these challenges to stay competitive.

Reinsurance is a large and complicated process, with niche players. Many of the processes are person-dependent, and not documented. The processes are manual, with several stakeholders, and long transactions. This can lead to slow deals, lack of insights, poor risk predictions, claim leaks, and problems with compliance and payment. The digitalisation of reinsurance processes will help optimise efficiency, save time and cost, and fulfil growing customer expectations.

Digitalisation of reinsurance - A business imperative

Reinsurers can leverage technology at several points of the value chain. A rapidly evolving ecosystem, and high customer expectations are driving companies to automate their reinsurance processes, and leverage emerging technologies such as cloud services, AI/ML, IoT, and data mining to embark on a digital journey. Doing so will increase transparency, time to market, and efficiency, while helping quantify and diversify risk. A data-driven approach to reinsurance administration will lead to more transparent and effective decision making both for clients and reinsurers alike. Reinsurance can benefit from automating both internal and external interactions. Here, we shall look at a few key focus areas.

Process automation: The automation of administrative processes leads to better efficiencies and productivity within the organisation helping companies achieve back-office digital transformation that is both effective and efficient. Companies must weed out inefficient processes and optimise workflows to achieve speedier turnaround times. Manual processes are slow and lead to errors and claims discrepancies and may result in compliance problems.

Reinsurance is a document-heavy process. Every contract is customised and requires integration of data from multiple sources and formats, across lines of business, and from various external systems. Often, these contracts and policy documents are decades-old, and there are several thousand contracts that need to be managed. Digitising document management and maintaining a single, global, and centralised repository for all documents with access and authorisation mechanisms will share knowledge between various groups and functions, eliminate redundancies, and improve workflow efficiency. Seamless integration of back-office processes leads to a cohesive and streamlined workflow within the organisation.

With automation, reinsurers can become more efficient at recording transactions, documentation and preparing financial reports. Robotic process automation (RPA) helps to automate several repetitive and manual tasks, reduces errors and results in faster turnaround times.

Risk management and business intelligence: A data-driven approach to reinsurance will build an intelligent organisation. Advanced analytics, automated reporting and customised dashboards can lead to improved decision making, both within the organisation and for clients. With actionable insights into risks and opportunities, reinsurers can derive near real-time insights for improved risk management. Resources can spend more time analysing rather than gathering data.

Efficient underwriting: Automated underwriting enables quicker decision making and accelerates time to cover. Digitising of data used for underwriting can make the process simpler, and efficient by giving manual underwriters the relevant information to make informed decisions. Reduced processing costs and risk exposure can result in lower premiums.

Claims management: The claims management process can make significant strides with digitisation. Advanced solutions for claims processing bring hyper-productivity* by incorporating image-recognition and cognitive algorithms to identify required repairs. Cost prediction algorithms can predict cost, and even automate pay-outs. Using blockchain technology can automate claims processing, with reduced claims leakage. Data can be accurately extracted from disparate sources and formats, such as PDFs, images, excel spreadsheets, and so on.

Catastrophe management: In recent years, there has been an increase in natural catastrophes largely due to weather-related events. An increase in the population of coastal areas and earthquake-prone regions compounds such losses. According to a report published by Munich Re, a top German reinsurance provider, the resultant global cost of natural disasters in 2021 was US $280 billion. With extreme weather events becoming more likely due to the climate crisis, reinsurers cannot afford to ignore the impact of climate change, earthquakes, and tornadoes. Risk transfer is usually hierarchical in the insurance market, with losses moving from the insured policy holders to the reinsurers. Usually, when a natural disaster occurs, the total economic loss is determined by the extent of physical damage, and much of this is usually uninsured. The insured losses must be borne by the global insurance sector. The insurers minimise their risk exposure by contracting with reinsurers. When a large natural catastrophe occurs, reinsurers usually end up absorbing 55 to 60 per cent of insured losses. Some of this risk is diversified, and a fraction of these losses are passed on to financial markets, but a large proportion of it is absorbed by the reinsurers.

Reinsurers should build strategic partnerships with satellite data providers, disaster management agencies, and AI platforms that predict natural catastrophes, to feed data into their risk platforms. This will improve the accuracy of predicting risk exposure, enable faster risk assessment, and pay-outs when natural disasters occur.

Conclusion

The reinsurance sector stands to benefit immensely from digital transformation. Digitisation is a non-linear process that requires unlearning and relearning. It should ultimately result in more efficient processes and meet higher customer expectations. Process redesign, automation with real-time insights, accurate predictions of risk exposure, and partnering with public and private agencies, will help reinsurers optimise processes, operational costs, pay-outs and revenue while improving growth and profitability.

*For organisations on the digital transformation journey, agility is key in responding to a rapidly changing technology and business landscape. Now more than ever, it is crucial to deliver and exceed organisational expectations with a robust digital mindset backed by innovation. Enabling businesses to sense, learn, respond, and evolve like living organisms will be imperative for business excellence. A comprehensive yet modular suite of services is doing precisely that. Equipping organisations with intuitive decision-making automatically at scale, actionable insights based on real-time solutions, anytime/anywhere experience, and in-depth data visibility across functions leading to hyper-productivity, Live Enterprise is building connected organisations that are innovating collaboratively for the future.

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