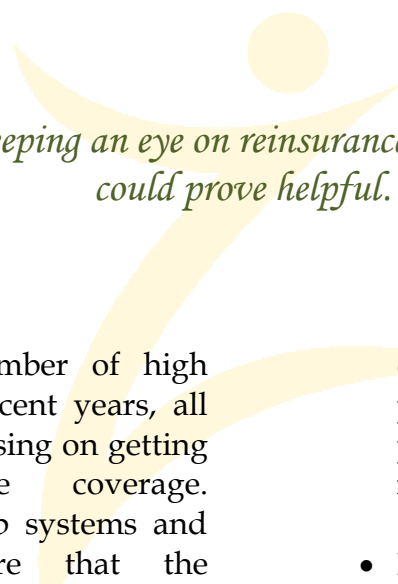


REINSURANCE RECOVERIES

- plugging the leaks

RAMA WARRIER



*Keeping an eye on reinsurance recoveries
could prove helpful...*

With the rising number of high impact losses in the recent years, all insurers have been focusing on getting adequate reinsurance coverage. However, tightening up systems and procedures to ensure that the recoveries are made in full is still an area found wanting in many organizations, both new and old. There are many reasons for this, the leading culprits being the following.

- **Integration of processes :** Reinsurance elements are not well integrated into the core processes, in many cases. They form a different set of processes which get triggered and run on an independent track. This is definitely not ideal as the reinsurance activities are a logical flow down from the

direct insurance processes. Such process 'hand offs' could potentially lead to leakage of recoveries.

- **Inadequate systems :** Most of the insurance companies, in operation for a reasonably long time, do not have very well integrated systems. The policy management , claims management, accounting and reinsurance systems are in silos, making it extremely difficult for processes to flow seamlessly between them. Disparate systems could pose a major threat to streamlining of recoveries.
- **Awareness :** Reinsurance is an enigma in majority of the

insurance companies. The transparency and communication have substantially changed over the years, but being a centralized function, it is neither well understood nor appreciated by staff operating on the ground.

In order to effectively handle the issue of short recoveries, insurers need to address the problem on all the three dimensions cited above.

Process Controls

Placement : In a large number of companies, facultative placements and treaties are handled by different groups. Traditionally facultative placements were done by the direct underwriting team whereas treaties were placed by the reinsurance team. This has been the practice for the reason that the facultative placements have a 'one to one' relationship with the risks underwritten and closure on the placements is a pre-requisite for risk acceptance. This process, however, creates the risk of placement confirmations and terms not being closed and captured appropriately as the direct underwriter loses focus on the reinsurance portion once the reinsurers agree to accept the risk. Routing all reinsurance placements through a single window reduces this risk considerably. The process needs to be clearly ironed out, to avoid delays owing to the hand off between the underwriting and reinsurance teams.

Integration : The reinsurance processes are designed separate from the core underwriting and claims processes. Reinsurance activities

should be integrated with the core processes, as much as possible to the core processes. To give an example, when claims involving recoveries are processed, the reinsurance recoveries are separately processed at a different point in time. It is both possible and advisable to have the recovery initiation done at the end of the claim itself. Though the recovery advice to the reinsurer would go out in a consolidated fashion, in pre-determined intervals, the recoveries would get accumulated to ensure accuracy of consolidation.

Checks and audits : It is often the case that reinsurance recovery audits and process checks take a back seat in comparison to the core transactions. Building reinsurance recovery audits as a part of the regular audit and control process is essential to ensure appropriate control is exercised.

Systems - an effective tool for recovery management

Communicating applications : There are many insurance application packages which have a built-in cessions handling module. In such cases, the reinsurance cessions management is likely to be tightly coupled with the core processes. However, in a large number of organizations, especially those who have home grown systems, cessions are handled separately. The biggest stumbling block, for the effective use of systems as a tool for plugging leakages, is their lack of ability to freely interact. Real time interaction between the core application handling underwriting & claims and

reinsurance cession is essential to avoid missed recoveries.

Underwriting : The thread of reinsurance is to be picked up right from the point of underwriting. There are two crucial elements which need to be checked and validated in the underwriting module of the insurance systems – (i) Accuracy of recording the reinsurance cessions associated with each policy (ii) Ensuring that the policy is appropriately linked to the cession so that the claims would automatically trigger the reinsurance recoveries based on the cession pattern.

Policy Management : The reinsurance transactions closely follow the terms, conditions and changes in the direct insurance policy. The effectiveness of the policy management system in providing *accurate* and *timely* data to the cession management application is the key to accurate reinsurance recoveries

Claims : The claims management system should create and maintain the link between the claim and the cessions module / system. This is extremely critical in the case of catastrophic claims where a large number of claims are attached to a single event and the reinsurance recoveries are tracked on event basis. Similarly, long tail claims which evolve over a long period of time require close knit 'claims-reinsurance' relationship.

RI Accounting : Timely recovery is as important as eliminating misses. The RI accounting system has to be enabled to closely track the accounts as well as monitor receivables. Alerts and

reporting of receivables should be the key feature of the accounting system assisting effective recoveries

Awareness

Awareness, rather the lack of it, is an unrecognized factor inhibiting full reinsurance recoveries. Though effective use of systems is an answer to this problem to some extent, users finding '*work around*' methods to avoid system checks is a difficult issue. A very typical issue is the tendency to associate reinsurance recoveries with large claims, forgetting large amounts of recoveries which come in bits and pieces from small claims. This happens mainly on account of the nuances of the reinsurance program being out of bounds for the operating staff.

A well planned awareness campaign has no substitute to address this issue.

Essential steps for this would be :

- Building-in reinsurance programs into the core / basic training program for all operating staff
- Regularly communicate the reinsurance program details and the philosophy behind it.
- Make the program and check list easily available to operating staff

Having a well planned and placed reinsurance program is definitely a critical aspect of reinsurance operations in an insurance company. However, this is only half the work done. The other half lies in the efficiency with which recoveries made ■

Author could be reached at warrier@consulting.in

You could also visit the website www.consulting.in