



**Ian Forwood** discusses the role of integrated data management as reinsurance goes back to the basics of profitable underwriting.

With the global economy in a state of financial turmoil, companies must now focus on driving more profit from underwriting activities to compensate for poor investment returns. This process is becoming increasingly complex – with rates moving in both directions depending on the risk and the class of the business – emphasising the importance of leveraging integrated data management. Real-time collaboration for all parties, using up-to-the-minute, reliable information, is an essential tool that enables companies to differentiate their services through quick, accurate responses at all delivery points.

According to recent industry analysis, the international P&C underwriting market made an overall profit where the combined ratio is less than 100%, in just seven of the last 25 years. Combined with the effects of the global financial crisis – including poor investment returns and the need to raise

additional capital – it is easy to see why there is a lot of pressure to increase rates.

However, increased rates do not sit easily with the need to retain existing customers and gain new ones when those customers also have a greater focus on every area of their business costs. There is very recent evidence of the impact with a high-profile reinsurer losing a major account allegedly as a direct result of rate increases. Squaring this circle is a key challenge for underwriters right along the supply chain.

Working with its customer base, Eurobase has found that international (re)insurance companies generally consider that a 1% improvement in underwriting profitability is equivalent to a 10% improvement in processing efficiency. This leads to an interesting debate on the merits of different investment opportunities to improve overall profitability using new technology. For example, companies can invest to achieve a lower cost-per-transaction in the back office in areas such as workflow or e-trading, or they can invest to improve loss ratios through better decision-making using integrated data management.

One of the considerations is how quickly the benefits of the respective investments can be realised and what are the risks and rewards. New technology can be seen as a higher risk but, as in all areas of business, companies need to progress or they risk falling behind competitors. The main concern is to measure the risk and seek proven case studies that have been

shown to achieve the desired benefits.

Integrated data management is currently a hot topic, with organisations looking to drive efficiencies and see quick returns. Leveraging the latest technologies, it is now possible to bring together information that helps companies improve decision-making for greater profitability. Data can be gathered from many sources and presented in a single, integrated view that supports decision-making at every level of the organisation; each user can select the information services they require to help perform their role, from underwriting to claims handling and ceded reinsurance management. This can lead to real-time collaboration, where all parties are proactively engaged in the decision-making process using accurate, timely information that is directly accessible without the need to wait for reports.

A further development is the ability to share information with trusted partners such as brokers and reinsurers. Not only does this improve decision-making but it also reduces overheads for delivering information to these partners. If individual users at brokers and reinsurers can also select the information services that they require, as well as in the format they desire, this will make the underwriter easier to do business with and therefore promote better relationships that could be leveraged to further reduce costs.

### A new dawn

It is important to emphasise the role of technological innovation as an enabler for these recent developments. We have seen many examples in which companies have tried and failed to deliver real-time information services to key business users using legacy technology; the results were often cumbersome and not easily embraced by the target audience. Promoting information services to improve decision-making through ease of use and pushing the data to each user – rather than waiting for the user to ask – are critical factors in success that the latest technologies can deliver.

Integrated data management can be used at all levels of an organisation. For example, once the full picture is available, a company may decide that it is better to exit a line of business rather than attempt to increase its rates. A simplified, streamlined approach to encourage more profitable underwriting may mean focusing on core competencies, as the natural inclination for premium growth must now be tempered by the realisation that investment returns will not make up the numbers if the business produces unwelcome losses.

Another example is to identify where core competencies should be targeted for growth. For instance, a profitable line of business at an individual organisation may have a relatively low share in some easily accessible markets, so a business development initiative may be a better option than increasing the rates for existing customers. [E]

### 40 years of major reinsurance events

**August 1992:** Hurricane Andrew struck Florida. Andrew caused \$26.5bn damage, with total insured losses standing at around \$17bn. Most of the damage costs centred on south Florida. Andrew was the costliest Atlantic hurricane in US history until Hurricane Katrina surpassed it in 2005.



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