



Outsource Insurance Closed Book Management – Safeguard Your Profitability

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The insurance industry today faces the daunting challenge of maintaining operational efficiency in the wake of increased competition and the dynamic economic environs. These apart, insurance companies have to deal with closed book policies that involve high cost of maintenance, managing legacy systems and low returns. Insurance closed books have been at the center of serious debate in recent years.

Closed books are essentially policies that are no longer sold, but are still featured on the books of a life carrier as premium paying policies. Closed books are generated either due to the discontinuation of unprofitable products or as a result of mergers and acquisitions. According to a December 2010 article in the *McKinsey Quarterly*, the practice of outsourcing closed books (or legacy products) in the UK was spurred by the regulatory requirements imposed in the country at the beginning of the decade. The same article also predicts that although insurers outside the UK have remained skittish about outsourcing closed book management until now, it is likely to change due to the rising administrative costs and a persistently weak insurance outlook.

The Need to Manage Closed Books Smarter

Insurance companies are looking at cost reduction, customer satisfaction, efficient service delivery and opportunities to cross-sell / up-sell. Insurers are exploring additional methods to extract value from their closed book operations by integrating it with the overall client management strategy.

There is a growing need to move from a fixed cost model for closed book management to a variable cost model. With a reducing portfolio size, the fixed cost model increases the per policy cost. There is also the risk of reputation and business continuity as there is negative perception among both agents and customers. With increased attrition, the knowledge base to maintain the legacy IT systems and service levels of the product is fast shrinking.

Some of the key solutions for these insurers to respond to these challenges are to modernize their legacy systems and also look towards Business Process outsourcing (BPO) for insurance services.

Progressive life insurance carriers are focusing on cost savings, increasing operational efficiency and staying connected with customers in areas such as new business processing, agent servicing and claims. This has meant that life and annuity closed book administration has taken center-stage. Given below are a few challenges that life and annuity insurance companies have had to face with respect to closed book management.

Decreased Investment Returns

The beginning of the 21st century saw financial services take a major hit; insurance firms were also affected considerably. Insurance companies most affected were those who had product portfolios with a high guarantee portion. These companies were thus forced to discontinue their risky investment products and redesign their product portfolio.

Regulatory Challenges

An increase in regulatory scrutiny in the UK, US and the EU (European Union) led to exceptional pressure on insurance firms as their portfolio management and administration came under the radar. There are hurdles with regard to implementing regulatory changes due to the technological limitations of legacy systems. This added pressure on profitability.

Drain on the Company's Capital

Maintaining insurance closed books means that insurance firms are forced to increase their attention on managing these existing back-books even though there are no new transactions being conducted on the same.



Financial Strain

Insurance firms that are experiencing financial difficulties are under immense pressure to maintain insurance life and annuity closed books. A decline in solvency levels adds pressure on the management of insurance closed books. Should the company be faced with mergers and acquisitions, there is limited consolidation and cross-selling as there is inadequate product and process knowledge.

Increase in Per Policy Operational Cost

Besides contractually permitted increases (wherein renewal premiums are received as per the contract), life insurance closed books do not have any new policy sales. With no new policies being sold, there is a decrease in the portfolio size. However, the cost of the support infrastructure must remain constant due to the long duration of claims processing.

High Cost of Technology

The in-house management of closed books in insurance puts pressure on these firms, as the costs of maintaining legacy systems for these closed book files are immense. Often individual closed books require independent teams of engineers, developers and customer relationship managers.

Low Focus on Customer Retention

Often policyholders have no contact with the service agents of their products and this means that there is no avenue for advice or service from the insurance firm.

Business Process Outsourcing – A Roadmap to Rapid Benefits and Accelerated Profitability

Insurance firms that consider the option of outsourcing closed book management do not have to look at the IT assets, infrastructure, call centers and support staff. The insurer owns the customer relationship but does not have to manage the day-to-day administration. A BPO solution helps *lower IT cost* and thereby policy cost through *efficiency in operation*. Outsourcing also provides the advantage of *higher level of customer service* through the *automation of business processes* and the chance to cross-sell and up-sell. There is a *significant reduction in manual interventions* and focus on *industry best practices*. In addition, BPO companies allow for the legacy platform to be replaced by a *modern platform*. These technology platforms enable insurance companies to operate within a *secure environment* providing them with business process standardization skills and the expertise of productivity improvement.

WNS, a leading global BPO company, has deep domain expertise, strong talent and operational excellence in delivering services to several of the world's leading insurers.

The WNS Insurance Solution

- **Policy Administration:** The WNS solution deals with maintenance of contracts together with their status through the whole policy lifecycle from “In-force / Active → Maturity / Claim”
- **Claim Processing:** WNS utilizes the Elixir platform, which handles the full cycle of all types of claims from initiation or notification through to final discharge, and in conjunction with the financial system handles all financial reporting of disbursements and the provision of all statutory notices and associated discharges.
- **Customer:** WNS records and maintains details of all individuals and organizations that are party to the policies being administered. Automated electronic mechanisms are in place for quicker turnaround in response.
- **Financial:** Deals with customer accounts, customer level billing, collection and disbursements, plus financial accounts at policy level, and the monitoring and controlling of all financial transactions.
- **Agent / Agency Force:** Auto follow-up – E-mail, SMS, online intimations, ratings based on claim ratio, rule engine driven commissioning and bonus based on premium persistency and claim ratios.
- **The Technical Framework:**
 - System is architected to migrate and serve additional product lines.
 - Capability to integrate with enterprises peripheral application / systems to exchange the data – for example, portal, CRM, GL.
 - Supports horizontal and vertical scaling by adding new hardware or upgrading to the existing infrastructure.

The drive to stay ahead in an increasingly competitive environment and also factor in new regulations have forced insurance companies to re-evaluate their outsourcing operations with regard to closed book management and other policy administration. Life and annuity insurance carriers that can manage their closed books optimally can realize cost advantages and improved service.

Partnering with a well-known player like WNS allows insurance firms strategic benefits, agility and cost reduction to stay competitive, putting them in a much better position to sell new products to their existing customer base. While an insurance provider can manage only one or two closed book portfolios, a company like WNS can service several clients at once. These providers also bring to the table experience in IT integration, workflow management and process design that can overcome inefficiencies.

To learn more, please write to us at marketing@wns.com