VIEWPOINT

Run-off companies and live firms can learn from each other

At a time when many carriers are looking to do things differently, there is much that can be learned from the differences between live and run-off businesses

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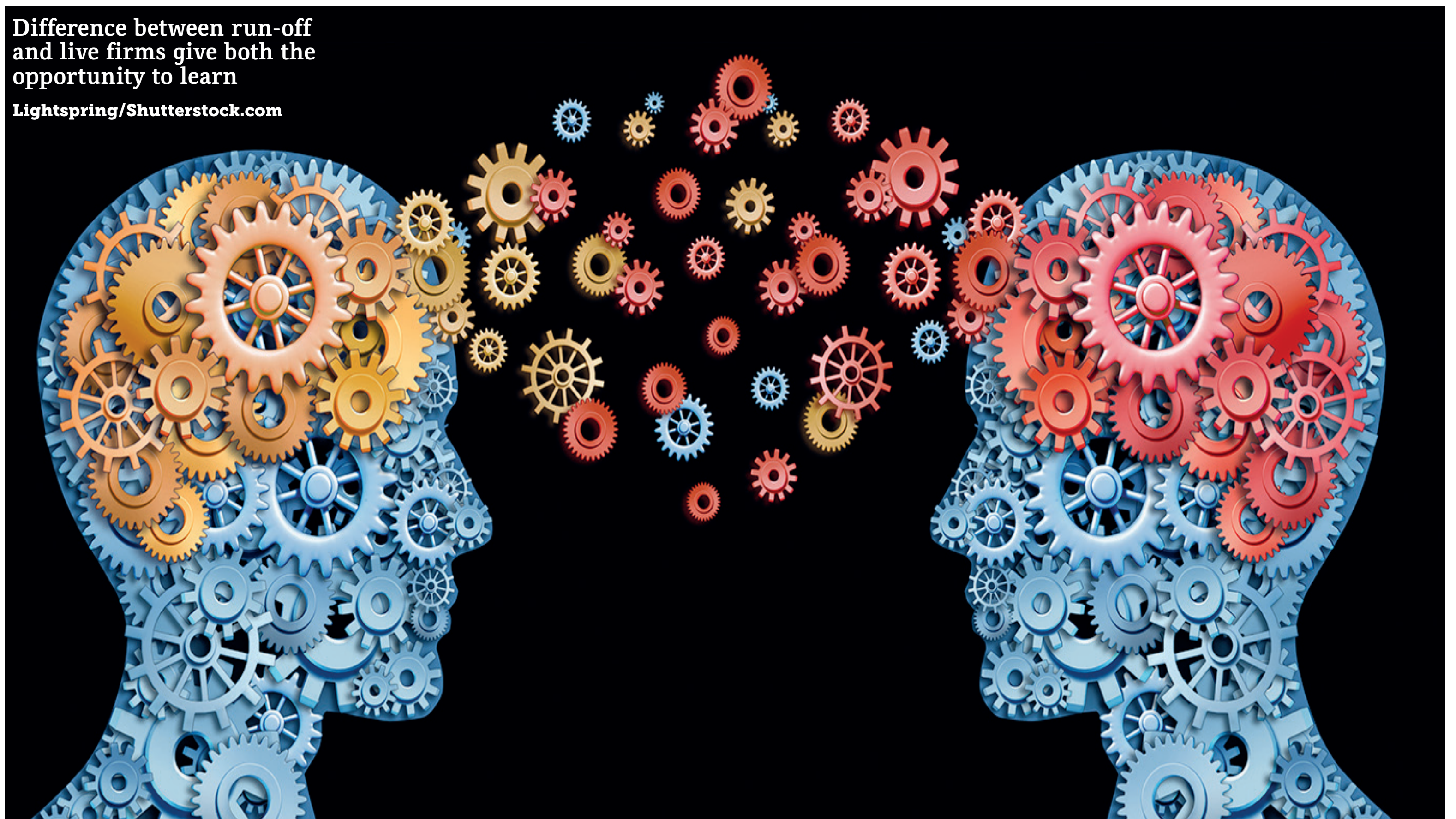
There are two traits I think most live underwriting firms would recognise in their run-off company colleagues. The first is their ability to manage costs; the second is their claims management ability. Why are run-off companies different when it comes to their cost management regime?

The key difference is as thrifty as live businesses may be, they always have the back-up position of an uplift in revenue towards the end of the year as renewal business is written. This is obviously not the case when it comes to a run-off business, which must maintain far stricter control of its budget and finances.

Having worked only in live underwriting business myself, when I first dealt with a run-off company I was quite surprised by some of the differences. While there are still differences today, this is often the case simply through norms and habits as opposed to a factor of different business models.

Sign-off limits was the first difference I identified; these tend to be far lower for run-off companies. This means members of the C-suite will have to go to the chief financial officer for approval of items (budgeted) that are perhaps only a few thousand pounds or dollars. This level of governance and control does not come for free, of course. It means more time is spent justifying comparatively small sums; however, even having a gate means some will not even attempt to pass through. In most cases, however, those who do will have a far better justification than in non-run-off companies.

This situation is also carried through to change management. Run-off companies tend to set the bar far lower when it comes to identifying what a project is. This means the full project business case, governance and approval process is applied to smaller pieces of work. I have certainly heard criticism of this approach from those who are not familiar with or do not understand run-off companies. It certainly does create barriers to entry and some overheads but the benefits can be expressed quite simply. There is greater control of projects and better project to business alignment (when resources are constrained people ask the right questions), while the governance barrier helps ensure non-business aligned projects do not even get suggested.



Difference between run-off and live firms give both the opportunity to learn
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One of the biggest differences between the two sectors is run-off companies will very often have several systems (even different versions of the same systems) processing the same or similar types of business and data

Strong governance

The one vital piece in this jigsaw puzzle, though, is the strength of the governance (in the form of project approval boards). If this is too weak, then all projects will be approved without appropriate oversight or consideration.

So far, we have spoken about what run-off companies can teach their live counterparts, but that does not mean run-off firms have everything sorted – they too can learn lessons.

One of the biggest differences I notice between the two sectors is run-off companies will very often have several systems (even different versions of the same systems) processing the same or similar types of business and data. This happens more often in run-off companies as opposed to their live counterparts, simply because run-off firms are, by their very nature, more acquisitive.

What seems like a good shortcut in the initial phase of acquiring the data by simply transferring the entire system – including the data – can become a bigger and more costly challenge in the longer term if not managed correctly, as multiple systems have to be maintained.

Multiple system challenges

There are many challenges that can exist in running a multiple system environment. One of the most important ones is the ability to transport data between systems. This is particularly critical when it comes to integrating with finance systems to ensure that transactions are correctly represented in the general ledger and other finance systems. I have seen situations where six interfaces had to be built into the same finance system to cater for the business systems that had been acquired over time and had never been consolidated. The same issue very often arises in respect to transferring data into reporting or data warehousing systems.

While these challenges may seem unimportant, in these times of Solvency II and data compliance, organisations cannot afford to be misrepresenting or under-reporting their data. With every interface that is built, there is the opportunity for a bug to creep in and go unnoticed, potentially causing issues until it is discovered and resolved.

Migration and consolidation of systems, of course, needs management and oversight, but in the longer term provides far greater opportunities for improved operational oversight. One of the most important aspects to any system migration is data reconciliation: this should ensure all of the data records have been transferred between the systems, the data is reconciled and the data owner is involved in the process and provides the final sign-off on the data

There are, of course, many other areas both live and run-off firms can learn from one another. Organisations that do not compete should come together to help improve their operational efficiencies and help the market as a whole to improve. ■

Darren Wray is chief executive of Fifth Step