

Playing a critical role

Technology has shifted firmly within radar for captives and insurance risk managers. **Bill Lumley** finds out what it means to the various players in the self-insurance arena

Technology is not traditionally a subject deemed appropriate for the pages of *Captive & ART Review* whose key function is to support the cause of global insurance risk managers and captive owners.

However, IT plays a critical role in the ability of a captive manager to successfully manage a client company so it is important to be aware of key system trends and functions.

John Magee, senior vice president with Marsh, based in Dublin, explains: "There are clear distinctions between the insurance, cash management and accounting functions within a captive and in reality an integrated system is the only way to effectively manage the process. There are still a number of captives managed on spreadsheets, however such arrangements are archaic in today's world and clients' expectation is that managers today have systems that can effectively manage data and produce information and reports as required by clients."

A need for efficiency

Tighter management and reporting deadlines means that managers today must have the ability to manage data in an efficient manner. Integrated systems, which reduce the need for double entries (and the possibility of errors), means that there is a seamless approach to the production of insurance and financial information, Magee says. "Such systems also allow the various members of the respective client servicing teams to work in a structured and co-ordinated manner," he says.

Use of integrated systems also bring additional benefits to captives and assist by ensuring that both audit and actuarial work is completed in an efficient manner. "With greater emphasis by both auditors

and actuaries on the integrity of data, the ability to produce meaningful reports greatly assists the completion of annual statutory audits and actuarial reports. Coupled with the increasing requirements to produce interim regulatory filings, such systems help assist in the management of captives in a cost efficient way," he explains.

"The systems we at Marsh use have all been developed in-house. The decision to develop such systems in-house was taken in the early nineties. We realised at an early stage, the importance of having complete flexibility over the production of management reports to meet each of our clients' reporting requirements. We established our own team of programmers and over time, built a system module by module. Our system is enhanced on a continual basis and we have the flexibility to improve and adapt it to meet any of our clients' specific requirements. Having rolled it out to all of our domiciles and with over 15 years experience in using the system, we believe that it to be very robust," Magee says.

Jennifer Warde is business development manager with Marsh also in Dublin. Her primary role is dealing with new business and she is therefore concerned with what new clients and new captive entrants are looking for. "IT is becoming an important point of consideration during the manager appointment process. With new clients, IT is one of the main areas we see an increased focus on," she says.

Prospective clients are now looking in detail at the types of system that will be used for the management of their captive. "Clients want to understand how we will manage their data, the controls that will be in place and details of the disaster recovery and business continuity plans that will protect such data.

"Interestingly, we have recently been approached by a number of existing

established captives where data integrity has now become an issue for them. Some of these captives now realise that their IT systems are not capable of providing them with the information they need and they are now coming to us looking for alternative solutions. We recently took over the management of a captive where data integrity was far from ideal. One of the first steps we undertook was to carry out a due diligence and get to a point that both the client and ourselves were satisfied with the accuracy of data," says Warde.

Risk managers

Warde says when choosing a captive manager, clients should be asking the following questions of their prospective management company:

- Details of the type of system, including design, management and maintenance. What resources are available to the managers for future development of their systems?
- Is the system fully integrated and what flexibility is there to design reporting packages to meet specific requirements?

■What sort of disaster and business continuity plans are in place and how often are such plans tested?"

Additional uses of IT

IT in captive management is not just confined to the production of management accounts. Magee explains: "Over recent years, we have rolled out new tools to ensure that all our client companies are effectively managed in a cost effective manner.

"A number of our clients have a decentralised risk management function operating in a number of different countries. Allowing clients in different geographical locations to have immediate access to policies, claims data and files via an internet portal is of great benefit and is just one of the more recent developments."

Another development has been the introduction of electronic archiving and project management tools which we use on a day-to-day basis to effectively manage client companies. "With growing compliance requirements, both from the client and regulators, the need to have a structured approach to addressing and

documenting tasks become all the more important," says Magee.

There has also been a growth in the use of electronic banking by captives, a trend which is favoured by most clients. "Clients have responded positively to us where we have implemented electronic banking for the payment of losses and expenses and it's a trend that is likely to continue as it is efficient and gives a higher level of security over client funds," he adds.

Finally there is the crucial issue of data protection, breach of which, regulations could lead to a captive operation becoming inadvertently and quite seriously unstuck. "With growing use of IT, there is a corresponding growth in data protection legislation and it's important that captive managers understand the obligations of each captive in compliance with same," Magee explains.

Entry point

Although the traditional entry point is through the IT manager, the decision-making does not lie exclusively on that level. Nicholas H. Teetelli is CEO of New Jersey-based Maple Technologies.

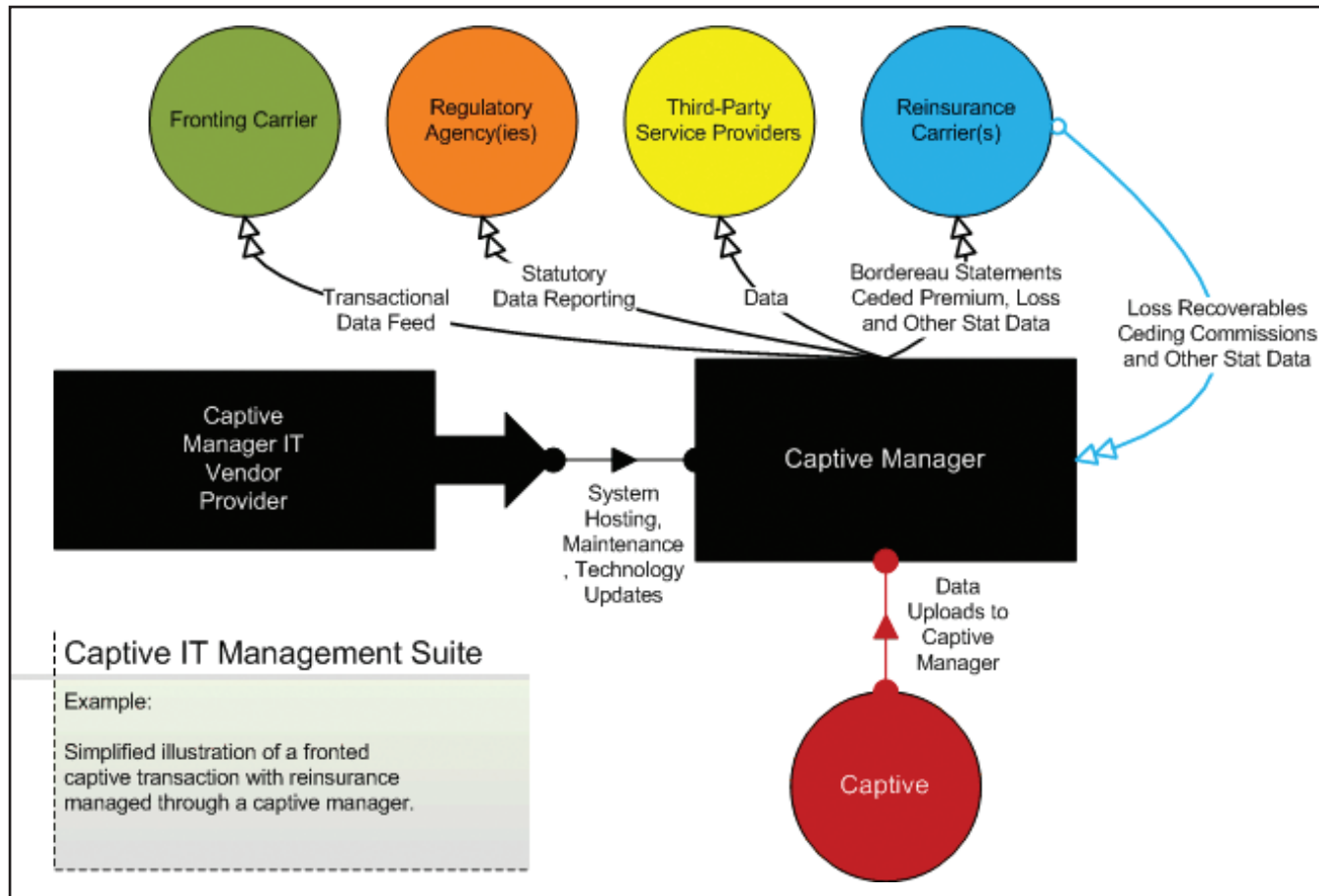


Image supplied by Maple Technologies

He says: "Based on our company's experience, the role of the IT manager is to investigate and formulate business requirements for the desired business model with department heads and then vet-out technology solutions, effectively to determine the qualified technology providers suitable to the defined business model for their organisation."

Among the considerations of an IT manager he says are the type of system, such as ASP (Application Service Provider - Hosted System), local resident system maintained by the technology vendor with transfer of management capability to the company's IT unit or an in-house build-out solution.

Additionally, other systemic attributes are considered such as whether the solution is web-based, type of language utilised on the database side (such as SQL or Oracle), and the user presentation interface such as ASP, J2EE, JAVA, .NET and ColdFusion.

"Another issue IT managers will vet out is if the solution requires client-side software (software that is locally installed on user's workstations) or whether the solution requires antiquated connectivity through a Citrix type conduit or whether in fact it is a 'true' web-based solution."

The IT system's role

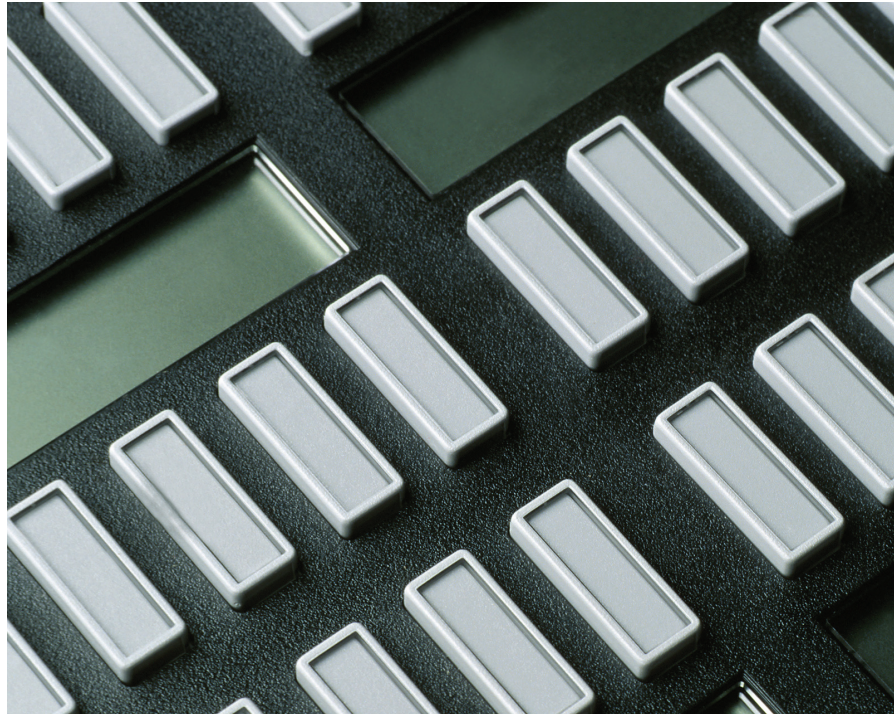
A major consideration for an IT manager is whether the solution must be customised or require custom configuration. Ground-up customisation is typically unattractive as it implies steep costs and a very long development period. Whereas a custom configuration will offer a more timely and cost efficient development providing the features and functionality desired for the implementation.

Although customisation is an option that most IT managers look for, they do so in a manner where such customisation is really more of a modification to an existing system, rather than a complete build-out.

Once primary considerations are defined, the next step involves an evaluation of systemic capabilities, business process efficiency, user friendliness, customisation capability and the like.

"At this juncture other managers are brought back into the process such as the underwriting manager, claims manager, operations officer, and other key business unit managers (and certainly with smaller organisations their president and/or other senior officers), who participate in the second phase of the vetting process.

"Unlike the IT manager phase where substantial focus is on the technical merits



of a solution, business unit managers will focus on the actual business requirements. These business requirements will include evaluation of how a solution manages application processing, rating, policy issuance, endorsement processing (including out-of-sequence endorsement processing), premium accounting, claims administration, statistical reporting, paperless document handling and reinsurance management", he says.

Additionally, consideration will also focus on permissions management architecture and secured data transmission (such as SSL). Permissions architecture is critically important so as to allow, or not allow, certain users to gain access and/or perform actions in the system. For example, typically a company would like to have a claims representative have access to the underwriting portion of the system (or a subsection of that system) and be able to perform coverage verification, however, they would not want them to have the ability to perform any underwriting actions or functions. Permission is of greater concern for those clients who work with agents or brokers to assure that access is limited and isolated to their account information only, he explains.

"The financial people will be focused on the solution's analytical capabilities, abilities to generate reports and compile statistical information that provide the metrics of financial condition, performance, projections and the like," says Teetelli.

"Truth be told in small organizations, all these business unit managers may translate into two or three people, but our experience has shown that the decision making is a consolidated decision not exclusive to just the IT manager."

The big technology players include CSC (Computer Sciences Corporation), Insurety, CGI and Valley Oak, but the larger technology providers may not necessarily be the best fit for a captive or RRG given they are often costly solutions that may not fit the IT budgets of smaller carriers.

Then there are a host of smaller companies, some with Windows-style overlays, others with limited flexibility, some lacking functionality and invariably any one of these solutions will probably lack some desired element.

For its own purposes, Maple has defined the captive and RRG markets as its target markets in addition to other types of small to mid-size risk takers. For this reason, Teetelli says, the company opted to be a sponsor of the Vermont Captive Association's conference in 2007.

"Typically captives or RRGs are specialised risk vehicles, almost niche-like in nature. This often points toward the need for custom configuration capability as there will undoubtedly be elements to their business process and function that fall outside of standard main street applications," he says.

The bottom line is that with IT systems a great deal of homework needs to be done and a lot of questions need to be asked in defining a systems solution for any risk taker.