



Transformation Challenges Facing Insurance Investment Operations

SUMMARY

The operations arms of Insurance Investment Managers are experiencing increased activity. With challenges mounting from increased customer expectations, a challenging regulatory environment, and a divergence in the quality and quantity of data between front and back offices; Insurance Investment Managers are looking for new solutions. The software landscape is quickly evolving as the impetus for change has reached critical mass.

During the past two decades, we've observed many investment managers, including insurance companies, painfully and expensively deploy human capital rather than address technology gaps to solve their operational challenges. Failure to keep applications and related infrastructure current drives up costs. As firms seek change, experienced resources can dramatically improve outcomes.

AGING INFRASTRUCTURE

The investment back-office teams of insurance companies are often running on aging accounting platforms developed over twenty years ago. These systems are supported by legacy technologies, with code written before the recent explosion of regulatory demands, tighter risk management, and increased client expectations. Insurance Investment Managers embed new code, use spreadsheets or outsource painful data aggregation to quickly meet regulatory requirements while avoiding the painful and expensive transformation necessary to replace their aging infrastructure. These workarounds build on themselves as they inherently add complexity and expense to any upgrade or system replacement firms may contemplate. While these locally implemented solutions may have been considered state-of-the-art in their day, they lack the agility and scalability of modern system architecture.

OPERATIONAL RISK

- Aging infrastructure increases operational risk. Yet, the magnitude and expense of platform change is not easy to swallow. Firms delay change efforts, and procrastination manifests or exacerbates operational risks including:
- Data breaks between front, middle, and back office functions as the sophistication between their respective tools continues to diverge
- Human or accounting errors as processes are strained by logic and calculations embedded in code
- Data governance programs don't map lineage, ownership or authority
- Outsourcing functions with insufficient controls or oversight

Achieving operational excellence reduces costs over time as miscues around accounting, trading, or compliance data are systematically addressed. Still, making the business case to do the hard work necessary to achieve these benefits is a challenge.

OPERATING MODEL IN TRANSITION

Insurance Investment Managers realize the value data plays in their operations and the value of the data itself. As such, they cannot afford to be tethered to an inefficient 'spider web' model of point-to-point system connections. Between regulation and market competition, the environment is changing too quickly. For several years now, market leaders have been embracing data models based on hub-and-spoke, or data layered architecture. The transition of this operating paradigm is multi-dimensional and precipitates the adoption of data governance practices.

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MAKING THE BUSINESS CASE FOR A TECHNOLOGY UPGRADE

At some point, the risk and cost of manual workarounds and limitations impacting the ability to adapt to changing needs outweigh the risk inherent in change of this magnitude. Upgrades or system replacements are complex and take years to complete. The success of change initiatives improves with experienced resources that understand complex project management and details involved with changing accounting platforms and the supporting technological infrastructure.

Making the business case to the C-suite for an upgrade that could run into the tens of millions of dollars and span multiple years is no small feat. CEOs prefer to invest in projects that will increase revenues, rather than like-for-like infrastructure. It's not realistic to commit to these kinds of spends without an eye towards long-term ROI. Newer technology creates opportunities to build scalability, improve client experience and align product segments. Efficiencies are realized when manual processes are replaced with straight-through processing and automation. Single, shared data repositories create opportunities to improve the speed at which business intelligence reaches the front office and management. Older applications and stop-gaps are retired, freeing up resources. The evolution can be time-consuming and costly, but the results support long-term AUM growth, revenue, and scalability.

EVOLVING INDUSTRY PLAYERS

The list of players supporting multi-basis accounting requirements for Insurance Investment Managers has been expanding during recent years. Their offerings have gone beyond traditional investment accounting to provide the necessary capabilities to support local GAAP, IFRS, and statutory accounting standards along with Schedule D reporting. The best known and dominant players during the past few decades include SS&C's CAMRA and Portia as well as State Street's PAM. These traditional players are no longer the de-facto go-to software packages as new entrants compete for market share. The early vendors gained market position over twenty years ago as the software ecosystem supporting insurance investments evolved from custom internal builds to scalable vendor products. With new players diving into the space, the early players are more likely to be losing than gaining market share.

During recent years, SimCorp Dimension and BNY Mellon's Eagle Investment Systems have made significant investments in their insurance investment accounting offering and are winning deals at global insurance companies. Clearwater Analytics is gaining traction with their managed service offering. Following the lead of peers in asset management, insurance companies are choosing to outsource parts of their investment operations to custody banks and niche players like Conning & Company. Another interesting player worth mentioning that is better known for providing front and middle office services to insurance companies is BlackRock's Aladdin. These firms are a representative short list of the vendor, outsourcing, and managed service offerings focused on the back office operations at insurance companies.

CONCLUSION

While the traditional stone-columned buildings that house insurance represent long-term stability and security, the software applications supporting internal investment operations may be on the verge of obsolescence. Operations and technology teams supporting Insurance Investment Managers are under tremendous stress to support aging technology while keeping pace with the daily deluge of new investor and regulatory demands. Performance calculation and associated reporting bear the brunt of upstream gaps.

Failure to keep applications and related infrastructure current drives up costs. As firms seek change, experienced resources can dramatically improve outcomes. Meradia has supported the operations and technology teams of investment management companies and insurance investment managers for over twenty years during which we've observed trends unique to the insurance sector. We have the experience and insight as to how your organization can avoid common pitfalls and support change efforts with experienced consultants.



Laurie J. Hesketh, CIPM, PMP, is a Managing Director leading strategic engagements for Meradia clients. She has 20 years of experience in the investment services industry and provides senior-level expertise in the areas of data infrastructure and process development.

Laurie focuses on strategy and target operating model projects, most of which include deep dives in investment data warehouses, investment performance and client reporting transformation. She routinely advises on complex transformation projects from a variety of perspectives since she has held roles in asset management, outsourcing, and wealth management. Her technology background and subject matter expertise have proven extremely valuable in supporting clients' change initiatives.

Her strong foundation in investment operations and investment performance measurement, manufacturing operations, business analytics, human resources and information technology offers clients a unique blend of skills and cross-industry perspective.

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