

# INSURANCE & TECHNOLOGY

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## Preparing Technology for New Investment Portfolios

*Insurance investment portfolios are changing. Are your technology and operations prepared?*



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The quest to maximize yield and returns through exposure to different types of investments frequently leads to wide diversity in asset classes within an investor's portfolio. This can create challenges for an organization's operations, accounting, technology, and accounting teams. Some asset classes, such as stocks and performing bonds and loans, are easily handled by automated processes. Other asset classes require more complex processing capabilities. As a result, many insurance firms with diverse portfolios find their teams lacking the sufficient operations, IT systems, and infrastructure to support the company's strategic investment objectives.

As financial markets continue to grow and become increasingly complex, now is the time for insurance firms to examine their operations and infrastructure and to invest in technology that supports growth and performance. As one of the world's largest providers of financial technology to insurance firms, SS&C is often asked: "How should insurance firms assess and evolve their technology to support increasingly complex asset classes?"

Institutional portfolio managers are investing in a challenging economic environment -- yield-starved portfolios are naturally driving asset class reallocation. These modified strategies are creating more exposure to diverse asset classes, which include private equity partnerships, expanded use of derivatives, bank loans, residential whole

loans, commercial mortgage loans, and others. These assets are also recognized for significantly enhanced accounting, reporting, regulatory, collateral management, and internal controls. There lies the need for better technology and operational support.

Periodic and regular reviews of a firm's systems are critical to determining their effectiveness. Because markets, regulations, processes, and technologies constantly change, a thorough analysis of operations ensures insurance companies are keeping up with industry practices. Expertise is essential -- firms should work with consultants who have extensive industry expertise evaluating operational capabilities. Though it might be easier to leverage internal staff, firms working with external consultants can learn best practices from industry peers, rather than limiting the scope of improvements to the knowledge their teams have developed internally.

When conducting an operational analysis, it is important to question the entire process. For example, why are certain reports produced, and who uses them? Is a particular manual process truly necessary, and why can't it be automated? The goal of the analysis is to understand the root causes behind your system design and the cause-and-effect relationships of the operational decisions that have been made historically. Consider using techniques borrowed from Kaizen and Six Sigma processes, such as the "5 Whys" iterative questioning process, to better understand the root causes behind operational issues.

One of the key places to start an analysis is to examine the capabilities of a firm's IT systems. Some of the common errors SS&C has observed with how firms utilize software investments include:

- Failing to upgrade systems on a regular basis and, as a result, not taking advantage of new product features
- Upgrading software but continuing to follow old processes, thereby ignoring new features
- Not using product features as intended, which is often easily corrected through training
- Not raising operational pain points with vendors, many of which can be easily resolved
- Failing to implement new software features due to upstream or downstream IT complexity
- Not staying current on new technology solutions to support your specific needs
- Failing to recognize opportunities to outsource portions of your IT and related operations

Today's technology has greatly enhanced the ability to outsource not only entire operations, but also select pain points.

Once a thorough analysis has been completed and opportunities for improvement have been identified, it is important to map the execution plan clearly. The biggest mistake SS&C observes in implementing changes is when firms try to implement all their improvements at once. This can be frustrating, destabilizing, slow, and costly. Instead, SS&C recommends creating an execution plan that achieves incremental improvements in an iterative process. By taking a thoughtful and planned approach, staff won't be overly burdened, and companies will be able to make adaptations to meet their evolving business requirements. As a result, operations teams will achieve repeated successes.

Once a firm's operations and infrastructure have been fully optimized, we strongly recommend that companies establish comprehensive training programs to ensure that the system remains efficient and controlled. Whether it is learning new system capabilities, studying regulatory changes and their impact on operations, or re-examining workflows, training employees will prevent firms from falling behind market requirements.

If all of the above is done well, firms should be able to observe meaningful changes in their operations. Below are a few of the improvements that SS&C's insurance clients have realized by following these best practices:

- Efficiency, typically measured as output at different stages of a process, but also measured by a reduction in cost drivers tied to operations
- Innovation, defined by operations teams as the ability for operations to support business innovation, such as entering new markets, investing in new asset classes, etc.
- Control, often measured as a firm's ability to meet pre-defined internal controls and to reduce operational risks
- Compliance, assessed through increased transparency into operations, the ability to convert transparency into information (often through reporting), and overall compliance results
- Client service, observed by determining where operations interact with clients and determining metrics for success (for example, the ability to provide data to clients in a timely manner)

Lastly, growth and change in insurance markets is creating new opportunities for firms with flexible and robust operations to compete more effectively. Now is the time for companies to study their operations and infrastructure, and determine whether they are adequately prepared for today's marketplace. By working with industry experts and following best practices for improving operations, insurance firms can make significant operational improvements in a cost-effective manner that provide real, measurable business results.

*Tim Reilly joined SS&C in June 2013 and serves as SVP of Institutional and Investment Management. Prior to joining SS&C, he held senior financial roles at PwC for almost 28 years across local, regional and national markets, most recently serving as market leader in its Hartford office. Reilly also has extensive financial management experience with various clients organizations ranging from Fortune 500 companies to smaller entrepreneurial organizations. He is a graduate of Clarkson University and Certified Public Accountant.*



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