Closed Books are policies that are no longer sold but are still on the books of a life insurance carrier as premium-paying policies. Progressive insurance carriers are looking for cost savings, operational efficiencies and ways to get closer to their customers, in more than just the usual places of new business processing, agent servicing, and claims.

This whitepaper tries to evaluate and address how various BPO solutions can help address cost-effective management of the Life Closed Books for Global Life Insurance Carriers. This white paper is focused specifically towards how life insurers across the world can use a Closed Book Utility Model (Business In A Box) for an optimal and cost effective management of their Life Closed Books.

By ATUL NANDA |
MANAGER, WIPRO BPO |
Contents

Introduction .................................................................3
Problems Faced.............................................................3
Closed Books: Major Global Trends and Business Drivers ...........3
Challenges in Closed Books Management .............................5
The Solution......................................................................5
Closed Books Utility Model BIAB (Business in a Box)..............6
Benefits of the Closed Books Utility Model...........................6
Conclusion......................................................................7
Appendix .......................................................................8
  References......................................................................8
  About the Author ........................................................8
Introduction

The global insurance industry faces a challenging and unprecedented market environment; insurance premiums are falling and insurance carriers’ profitability is much below the pre-recession era. Added to this, insurers in the US and Europe as well as elsewhere in the world are reeling under increased regulatory and compliance costs in the next few years. Life Insurance Carriers worldwide are facing huge challenges in all operational areas with pressures due to new/ revised legislation, tighter scrutiny and compliance controls. The advent of the internet and the empowerment that it has given to the customers does not help profitability either. Life carriers are fighting not just for profitability but for survival itself.

Closed Books are policies that are no longer sold but are still on the books of a life insurance carrier as premium-paying policies. The hardware and application maintenance costs for the systems that run the life closed books are high. This is because they are often run on legacy systems that have been starved of new investments. Moreover these systems are not strategic to the direction of the carrier moving forward. Life closed books after all are caused by either discontinuing unprofitable products or as a result of acquisitions and mergers.

The progressive carriers are looking for cost savings, operational efficiencies and ways to get closer to their customers, in more than just the usual places of new business processing, agent servicing, and claims. This whitepaper tries to evaluate and address how various BPO solutions can help address cost-effective management of the Life Closed Books for Global Life Insurance Carriers.

Problems Faced

Life Insurance Carriers break-even on a typical new product only when a customer retains the product and pays the premium for seven years. The cost of managing closed books of business after these seven years is low relative to the effort involved in processing new business.

Acquisition of new business is expensive and thus the attention of most insurance carriers is drawn towards the low hanging fruit of reducing non-commission, new business acquisition unit costs. This creates a sense of complacency in attacking a potentially ripe area for cost reduction namely managing the closed books in a smarter way.

Closed Books: Major Global Trends and Business Drivers

Some global trends and business drivers that have led to the emergence of insurance closed books as an addressable phenomenon in specific geographies are listed below:

Decreased Investment Returns and Less Profitable Products

In the early part of 21st century, global investment returns decreased substantially, affecting not only insurers but other financial services companies as well. Insurers were forced to discontinue many risky investment linked products and redesign a substantial part of their product portfolio. Also many products were discontinued if they were not sufficiently profitable and were associated with high loss ratios.
Earlier Strategic Geographic Spread Proved Unprofitable

Many large insurance firms, especially US & UK based firms had expanded into various countries through their international arms in geographies like Middle East, Japan, Ireland, Hong-Kong, Africa, etc., with predominantly investment and market linked products. These have largely turned into highly loss making entities because of their portfolio turning unprofitable due to negative market conditions globally.

Increasing Regulatory Scrutiny

Increased regulatory scrutiny, especially in the UK and the US by regulatory authorities opened a debate into how such portfolios were managed and administered. Various new regulations have been introduced limiting exposure levels to investment markets, stringent solvency standards, higher transparency levels, reporting requirements and many others. These have led to increased costs of maintaining compliance.

Complexity of Closed Books Management

Managing Closed Books portfolios is complex as such products are multi-channel, multi-lines of businesses, multi-products as well as multi-funds.

Changes in Business Strategy

Some of the major insurers are focusing on more profitable Open Books as a business strategy. They pass on their closed books to other players or specialized consolidators.

Market Innovations

New market operators have emerged, especially in the UK market like Closed Funds consolidators like ‘Pearl’, ‘Resolution’, ‘Admin Re’, etc.

Higher Mergers & Acquisitions Activity

Increased merger and acquisition (M&A) activity in the insurance space offers scope for a immense rationalization and business restructuring.

Pressure To Reduce Operating Costs

The above factors combined with pressure to reduce policy administration and operational costs in general, have added to the woes of insurers.
Challenges in Closed Books Management

Life insurance closed books have no new policy sales except for allowed increases in the policy. Subsequent renewal premiums are received as per the contract. As no new policies are sold, the portfolio size steadily decreases over time. Steadily decreasing portfolio size demands parallel reduction in policy administration costs to keep the business profitable. As there are no commission expenses for a closed book, on-going expense management is critical. Insurance closed books are also regarded as weak and a drain on the company's capital.

Customer dissatisfaction and regulatory penalties arise from negative publicity, staff & agent attrition as well as lack of transparency in terms of working.

Additionally, many of the closed funds are maintained on old Legacy Policy Administration Systems which have very high maintenance costs. The hardware and application maintenance costs for the systems are high because they are often run on legacy systems that have been starved of new investments. Moreover these systems are not strategic to the direction of the carrier moving forward.

The Solution

Managing insurance closed books requires a management focus and needs to be separate from the open business due to their special challenges. Insurers have adopted different courses of action, depending on the size of their closed books and any other unique circumstances.

<table>
<thead>
<tr>
<th>Options</th>
<th>Notes</th>
</tr>
</thead>
</table>
| Offloading closed books to any other carriers or specialist consolidators of closed books | Feasible option but chances of this option being a poor cultural fit and would risk damaging the overall brand.  
Additionally, there are no proven success stories in terms of Specialists Consolidators achieving the scale benefits and managing to move all the policies onto their in-house PAS (Policy Administration System) |
| Identify & buy a new strategic policy administration system. Migrate the books onto it from various in-house and obsolete systems | Generally such systems are very expensive and not very well suited to the economics of a closed book operation. This also requires a lot of effort and time investment. |
| Find a systems supplier to support the in-house design and build of a new system to administer the closed book (and also including any acquired closed books) | A very high development and maintenance cost is associated with such an option and is not suited/advisable for a closed book operation. |
| Outsource the systems to a third party and pay them to migrate to a new system | This option seems feasible and is also a comparatively cheaper option but the TCO (Total Cost of Operations) is still fairly high and would not produce an optimally low unit charge of the closed books operations. |
Outsource the closed books administration to a third party for effective business process management and increasing the process efficiencies at a lower cost

<table>
<thead>
<tr>
<th>Closed Books Utility Model (BIAB – Business In A Box)</th>
<th>This pure BPO (Business Process Outsourcing) option is feasible for closed books operations. The flip side though is a very cumbersome transition and operations due to existing multiple, excruciatingly slow and obsolete systems.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A comprehensive solution encompassing all dimensions – technology, people and operations. This is the most optimal solution as the IT outsourcing and migration to a new strategic PAS will be performed by the same vendor (including the complete administration and operations of the closed books).</td>
</tr>
</tbody>
</table>

It is imperative for insurers to understand the size and impact of their closed books and design suitable management strategies for the same.

**Closed Books Utility Model BIAB (Business in a Box)**

The ‘Business in a Box’ solution is probably the best solution that incorporates a consolidated offering of ITO/ Platform as well as BPO. This allows for leveraging common support structures with a consolidated view on transformation for business benefits and an industry specific Centre of Excellence (CoE) proposition to Closed Books Carriers looking for a win-win solution to this complex problem.

**Benefits of the Closed Books Utility Model**

The benefits of the proposed model for management of the Closed Books Operations are:

- This solution provides for a common process layer over the existing platforms to reduce the overall cost of operations without incurring the costs and risks of a wholesale migration or the development of a WRAP platform
- This solution provides life carriers with a single, long-term, strategic platform for all their existing and any future acquired closed books. The increased scale of handling larger number of closed book portfolios on a standardized strategic platform leads to optimized operations and a profitable business proposal
- While migrating to a different solution (in case of an IT based business case), existing systems will be considered as the primary target before any other solution is put in place
- This model allows insurers to release capital and gain access to future profit streams from non-core portfolios
- This model also increases operational efficiency by removing the need for life insurers to maintain legacy administrative systems
- Concepts such as Business Process Re-engineering, product / system rationalization will eliminate process redundancies, while IT application, simplification and rationalization is in-line with business processes
Conclusion

In summary, the BIAB (Business in a Box) solution proposition embodies the consolidated view on transformation for business benefits which insurers with Closed Books can look to for a complete end-to-end solution offering.
Appendix

References

Site References

- PricewaterhouseCoopers LLP. Website: www.pwc.com
- Deloitte LLP. Website: www.deloitte.com
- Center for Risk and Insurance Studies (CRIS), Nottingham University Business School. Website: http://www.nottingham.ac.uk/business/cris/
- The Financial Services Authority (FSA), regulator of the financial services industry in the UK. Website: http://www.fsa.gov.uk/

About the Author

Atul Nanda is a Client Solutioning and Business Consultant with more than 11 years of experience in Insurance BPO. He has extensive experience of working with insurance clients across the globe (US, UK, Japan and Europe) as well as with domestic clients in India. His experience spans across various functions in BPO including Business Development, Business Solutions, Transitions, Operations and Service Delivery as well as Quality.
About Wipro Technologies

Wipro is the first PCMM Level 5 and SEI CMMi Level 5 certified IT Services Company globally. Wipro provides comprehensive IT solutions and services (including Systems Integration, IS Outsourcing, Package Implementation, Software Application Development and Maintenance) and Research & Development Services (hardware and software design, development and implementation) to corporations globally.

Wipro’s unique value proposition is further delivered through our pioneering offshore Outsourcing Model and stringent quality processes of SEI and Six Sigma.

Wipro in Business Process Outsourcing (BPO)

Wipro BPO is uniquely positioned to service customer requirements by leveraging its tenets of quality and innovation, the best people talent, self sustaining process framework and domain knowledge. We offer customized service offerings; translating into the most flexible and cost effective services of the highest quality for our customers. With over 19,000 people, operating out of different locations (India and Eastern Europe), Wipro BPO has been a critical partner to all its customers in achieving their business goals. Wipro BPO services customers in various industries including Banking & Capital Markets, Insurance, Travel & Hospitality, Hi-Tech Manufacturing, Telecom & Healthcare sectors. Wipro BPO also has deep expertise in delivering process specific solutions in areas like Finance & Accounting, Procurement, HR Services, Loyalty Services and Knowledge Services.

© Copyright 2011. Wipro Technologies. All rights reserved. No part of this document may be reproduced, stored in a retrieval system, transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without express written permission from Wipro Technologies. Specifications subject without notice. All other trademarks mentioned herein are the property of their respective owners.