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ARTICLE: 5 OUTSOURCING QUESTIONS INSURERS SHOULD ASK

As economic and financial realities change, insurers increasingly seek to outsource operations, including investment accounting – a core aspect of their business.

Most insurers have moved beyond the question of whether to outsource; instead, they must determine which functions to outsource. This trend reflects a challenging, low- interest-rate environment that prompts insurers to add more-complex asset classes to their investment portfolios, as well as increased regulatory oversight.

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More-sophisticated investment strategies generate more accounting challenges. Insurance companies may determine they lack the in-house expertise or infrastructure to handle investment accounting for assets such as structured securities, complex fixed-income products, derivatives, bank loans and alternative investments, and may be unwilling to make the necessary internal investment in technology and people to address these challenges.

At the same time, growing complexity in global currency trading and regulatory requirements demands streamlined data that often reside on multiple systems and platforms. An external investment accounting provider can extend beyond an insurer's back office by delivering investment data and insights that enable better investment analysis and simplify data management.

Insurers contemplating a move need to identify which service providers are most qualified and best-suited for their needs and create a feeling of trust, candor and effective communication. Additionally, it is important to gain a good understanding of an external service provider and its capabilities.

Besides gathering the traditional due diligence intelligence, insurers should drill down by asking outsourcing candidates these five key questions:

1. WHAT ARE THE PROVIDER'S SERVICE AND REPORTING MODELS?

Does the service model encompass preparation of management accounts and reports, in addition to statutory accounts, budgets and cash-flow forecasts? Does the provider offer recordkeeping services and assist with accounting system integration? What about providing financial modeling and assistance with reviewing business plans?

Look for best-in-class investment accounting skills and a candidate's ability to articulate them.

2. DOES THE VENDOR OFFER CLOUD-ENABLED COMPUTER SOFTWARE SYSTEMS?

Ask the provider whether it currently offers or is exploring the use of cloud-based software. Find out if it is knowledgeable about using a variety of software systems and can advise you which system would best suit your needs. Cloud-enabled systems are an increasingly vital area, especially in accounting, because of the significant capabilities they can provide.

For instance, cloud-enabled systems can provide greater flexibility and offer disaster recovery benefits, automatic software updates, and reduced long-term capital expenditure. Cloud systems can also provide enhanced security features and work from anywhere accessibility.

3. HOW ROBUST ARE THE PROVIDER'S REPORTING CAPABILITIES?

Ask the candidate to outline its ability to produce custom templates and queries. The ability to manipulate and understand data is increasingly important to quickly create and modify reporting to fit your needs. At Northern Trust, about 80 percent of our clients use the standard format, but 20 percent want more customization and flexibility in the way data are presented. Having that flexibility is essential as technology and your needs evolve. For instance, can you analyze data on the go via a mobile tablet or smartphone?

Ask about data portability. For example, can the firm run data through an ad-hoc report runner and export to a variety of different formats, including PDF, Excel, and CSV?

Also note how closely the outsourcing provider's report formats match your own internal reporting requirements. Ideally, the report writer will have built-in features to manipulate the data to deliver both the required content and format. This should include data delivery system integration between the outsourcing provider and your system.

4. WHAT LEVEL OF DATA ACCESS DOES THE VENDOR ALLOW?

This is an important question, as you may expect an outsourcing provider will provide unfettered access to all your data. Not so: some providers may limit data access. Questions to consider:

- Will you have full access to all your market and security master data?
- Are all the other accounting and financial values calculated within the system?
- Is it possible to add book yields, effective duration and other metrics to better analyze your data?

When looking at data access, ask whether the provider will let you create and save templates and use them repeatedly, saving you time and frustration.

Even when data access is relatively unrestricted, ask yourself whether you are satisfied with the level of detail provided. And consider your future needs: would you want to dive deeper into the data down the road? Given the recent increases in regulatory reporting needs, and the likelihood that this will continue, can your future needs be supported?

Finally, can you schedule reports automatically based upon a predetermined schedule, whether that is a calendar date or a trigger event?

5. DOES THE OUTSOURCING FIRM PROVIDE FOOTNOTE DISCLOSURE, INTERROGATORY AND OTHER FINANCIAL REPORTING?

You expect Schedule D reporting. You may need Schedules DB, DA and E as well. Some vendors fail to extend reporting that insurance companies need, such as footnote disclosures and other pertinent financial reporting. Investment accounting systems may not provide this data. As a result, you may need to manually manipulate data from your provider, a costly and time-consuming task.

Collectively, asking these questions and weighing their answers will guide you toward the most critical conclusion you need to reach. Does this vendor offer a full end-to-end reporting solution tailored to the needs of your insurance business? If yes, congratulations. If not, you may have more work to do.

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