

Managing change

Change is unavoidable in the process of run-off and a structured approach will help deal with it. **Thomas Willkowi**, director with Global Re*, considers the role of change management in the conduct of a successful run-off



Thomas Willkowi

Change management is a structured approach to transitioning individuals, teams and organisations from a current state to a desired future state. Change management (or change control) is the process during which the changes to a system are implemented in a controlled manner by following a pre-defined framework/model with, to some extent, reasonable modifications.

The field of change management grew from the recognition that organisations are comprised of people. And the behaviours of people make up the outputs of an organisation.

For an organisation, change management means defining and implementing procedures and/or technologies to deal with changes in the business environment and to profit from changing opportunities.

Of course, in any situation and in all sorts of organisations there are always going to be plenty of reasons not to change. Some of these will be helpful, and should be reflected on in order to avoid any negative impacts.

You need to ask: is this really a constructive point or effective argument which you should consider in order to avoid potential problems in the future? Or is it just someone being lazy or anxious, without anything concrete underlying this concern and protecting his own interests, not wanting to adapt to a new environment?

The reasons for change will be compelling and come from various sources. They may be divided into two groups, those which are internal and those that are external (Figure 1).

First, the internal factors. If you decide on an active run-off management strategy, then to achieve finality you will want to reduce complexity, volatility and risk potential. That means you need to do commutations. If these are successful, then the employees that were responsible for certain client relationships will lose the attached underlying workload and may no longer be required; or at least certain particular client related tasks will no longer need to be done. If the original workload

is reduced in line with commutation and the natural expiry of contracts, you may need to reorganise departments in order to keep the staff busy. This may mean combining different departments, transferring tasks from other staff who have left, and also adding certain functions which staff need to be trained for, to enable your company to be fully staffed with a full workload.

If the licence for the IT system expires so you don't have IT support, or you no longer have the source code, this increases risk in case of system failure. If you want to scheme, for example, you need to know that the existing IT system can provide the necessary reports. The existing IT system may not meet requirements for corporate governance, data protection, etc and you may decide to migrate your data into a new IT system, which means staff have to be trained on the new system and adapt to the new environment.

Second, external factors. If the market value of your assets falls, it might not be the right time to sell equities in order to use the proceeds for, say, the cash payment of commutations. You may want to change the strategy and wait until the market rises again. So the market situation, the financial conditions, can impact on the strategy of the company – actively commuting or rather looking to the investment income.

Next, changes to regulations, such as Solvency II, the Reinsurance Directive, etc. If, for example, Solvency II has to be implemented, and this ties up certain assets, the company may decide to outsource to another party and this might impact on the run-off strategy.

Regulation can sometimes assist in run-off matters, or it can be a hurdle and a burden for a company wishing to free up capital for the future. This also applies to an active company if its legacy business is very cost intensive; from a Solvency II viewpoint it may decide to use those assets in a more efficient way.

Clearly, change of ownership can bring with it a change of strategy. So may contractual disputes, as the outcome of litigation may impact on how other cases in the future are approached by third parties.

Auditors may, for example, say that if you have open liquid positions and you are not taking active steps to collect these outstanding amounts, then you need to depreciate them. An alternative is to change internal processes and build a more proactive collection department. Otherwise you cannot keep this position on the balance sheet if the auditors don't believe that you will be able to collect in the near future.

So the scope of change management is wider than it may at first appear. It impacts not just on processes but also on the organisational structure, the necessary tasks and training and on the attitudes of the staff. Consequently you need to look at change opportunities from a number of different angles.

Where an entity has recently gone into run-off, it must concentrate on run-off core competences. The importance of some activities within the company is increased while others decrease or disappear altogether.

In an active insurance company, the underwriters are 'the heroes', writing new business and increasing the turnover, while accounting and administration are given less emphasis. Active auditing and claims management may be seen as making waves and putting off new business, but in run-off this

conflict of interest no longer applies. There is no fresh premium coming in and no opportunity to change things in the next renewal season.

You need to know all about the contracts and outstanding matters relating to each cedant or retrocessionaire relationship, and be aware of which parties owe you money. And you need to scrutinise claims carefully to see if they are really covered under the contract. So all the factors listed on the left side of Figure 2 become more important, and the ones on the right side less so.

The Boston Consulting Group Matrix divides the life cycle of a product into four phases – Question marks; Stars; Cash cows; and Poor dogs. Let's apply that same matrix to the run-off model and see what it tells us.

- 1 Question marks – The ideas and research phase, in which we evaluate alternative scenarios and select the most attractive options.
- 2 Stars – The phase where you get profitable results and positive feedback from the market, identify which areas could be improved and reinvest in them to optimise returns.
- 3 Cash cows – This is the payback period when strategy is mature, and everything is optimised. The business more or less runs itself, enjoying high market reputation, high turnover and high profits.
- 4 Poor dogs – Eventually, like an old product that has become obsolete, the model ceases to produce such good returns. It is time to liquidate the business and move to an exit solution.

INTERNAL	Commutations causing obsolete job tasks	EXTERNAL	Capital market (market value, liquidity availability)
	Gradual reduction of reserve volume and number of contracts		Changing regulation (i.e. Solvency II, Reinsurance Directive, Schemes, Taxes)
	Re-organisation (Migration of departments)		Change of ownership
	Migration of portfolios		Contractual disputes with third parties
	Unexpected staff fluctuation		Auditors
	New IT-infrastructure		

Figure 1. Eleven reasons for changes



Figure 2. Concentration on new run-off core competences

Now let's consider the relevance of change management to each of these phases (Figure 3).

Question marks

Here there are questions to be answered and choices to be made as to how to manage and optimise the business. For instance, active or passive run-off management? An internal approach or outsourcing (complete or partial)?

Each is a strategic decision which impacts on the company and the staff. For example, if you decide on complete outsourcing, there is no need to train your own staff to manage the run-off. But if you take the internal route you will need to identify and train staff and develop key processes tailored to the requirements of run-off. So change management is highly relevant to this phase because each choice has a major impact on the organisation.

Stars

Change management also has a high relevance in this phase, which is one of trial and error and continuous review. There will be some successes and some failures which you must review to see where improvements can be made. Core products with future potential which are best handled in-house should be identified and invested in. Likewise, those areas where there is insufficient resource in-house should be identified and outsourced to a suitable third party.

Cash cows

Here change management is of low relevance as there is minimal need for

changes. The staff have the necessary experience, processes have been optimised and you have earned a good reputation. Profitability is high and you have a slight competitive edge due to the knowledge acquired.

Poor dogs

In this last phase, change management is of very high relevance. You must assess why the model is no longer working – maybe due to staff leaving, smaller volumes, regulatory or market changes – and find appropriate solutions. These may involve more outsourcing, downsizing or staff replacement, finally leading to an exit or divestment.

Commutations

Next, we can look in detail at how change management applies to commutations, which may be broken down into five stages:

1) Dynamite

The big problems to concentrate on at the beginning. The company might have financial problems which pushed it into run-off. The priority may be to avoid going bankrupt and there will be some critical cases that must be tackled to avoid this. There will be time pressure and the results may be less than ideal, but this is acceptable in the extraordinary circumstances.

2) Easy

Once the critical phase is passed you can familiarise yourself with the commutations process, train the relevant staff and ensure you have the necessary data transparency. Then it is best

to tackle some easy cases where there is a low risk of making costly mistakes, for example commuting with a local player with which you are familiar and have good contacts.

3) Complex

Once you have acquired some experience and optimised your systems processes, you can move on to complex commutations – for example, a worldwide group that has many offices, has acquired and then renamed numerous other businesses, and with which you may have both direct and broker business.

4) Petty and nasty

Those left over when you have done all the other commutations. Petty ones involve small amounts where there is little incentive for the other party to commute so they will not give it high priority. Nasty ones are with parties where communication is difficult, possibly with disputes and even litigation, taking up a lot of management time. These commutations each require a different approach tailored to their specific circumstances.

5) Finality

To achieve an exit and wind up the company you may want to do a mass commutation or a scheme. In terms of change management you now have the technical knowledge and the organisation required to achieve this.

Claims management

We can also apply change management to claims management (Figure 4). Picture the transition as a curve which first rises and then falls. In the active insurance company you have low scope and low capacity, because aggressive claims management has an unhelpful impact on future business. Once into run-off you no longer have this conflict and can increase the number of staff tasked with claims management.

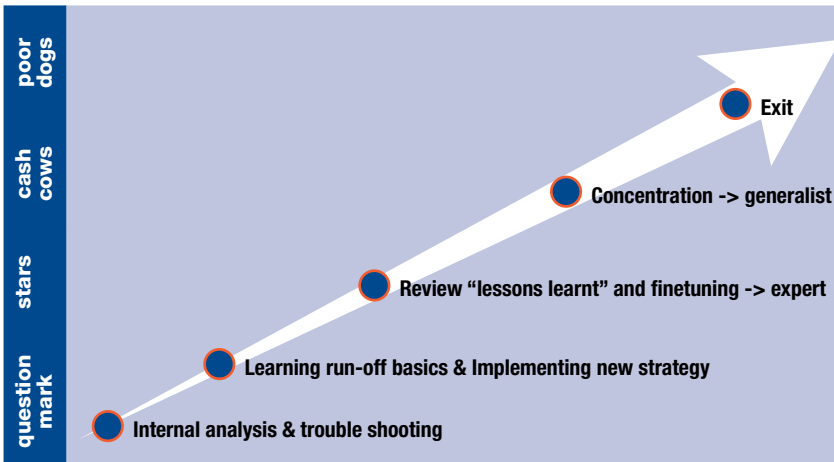


Figure 3. Five phases of run-off

They will require training to change their mindset, to accustom them to ask the right questions. They should check contracts carefully to make sure claims are covered, request full claims documentation and, if necessary, carry out audits.

At a later stage, there will be fewer new claims coming in, and for older ones you will already have obtained the claims documentation. Capacity will decline as claims are paid and business is commuted. As reserve volumes and the numbers of claims to be managed go down, so the number of staff required will also diminish.

In summary, there are four key questions you must answer in relation to the run-off:

- Which areas have an actual need for change management?
- Am I willing and able to assure

prompt and continuous change management without outside assistance?

- Can I succeed without continuous change management?
- Could the involvement of a run-off specialist be more beneficial?

Run-off is an ongoing, continuous process. You must always keep up to date, keep an eye on management activity and be aware of complexity. This has a cost impact and sometimes it is better to ignore it and concentrate on the core business, the active business, and control the run-off by involving a third party services provider. ●

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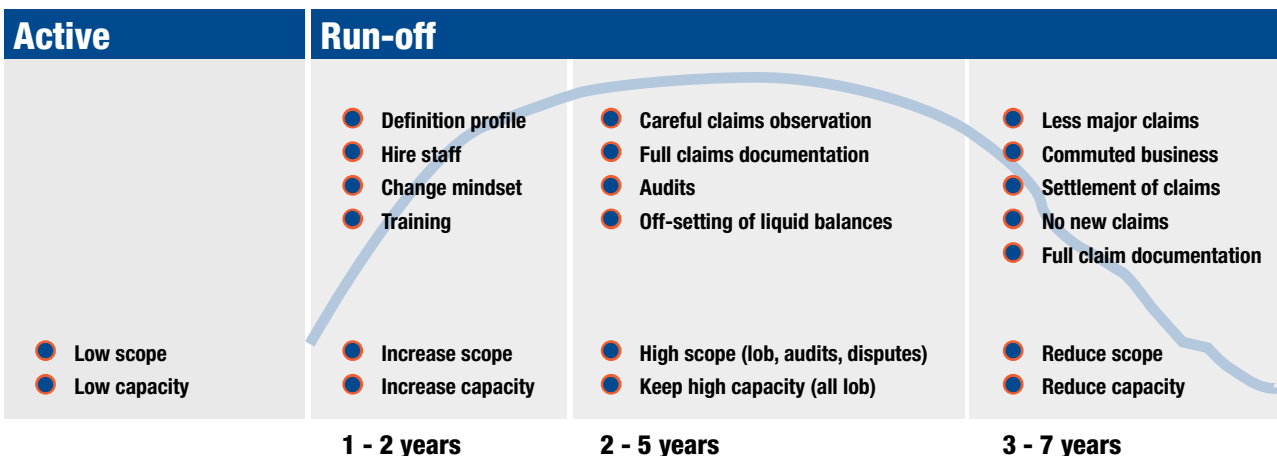


Figure 4. Change management for claims management