

## Simplifying Financial Modernization

Why an incremental approach to improving the financials function is now a catalyst for high-performing insurers of all sizes.

The business case for an insurer's financial modernization is an obvious one: Improve the financial management process via efficiencies that rely on better data access, collection and analysis in order to make informed management decisions and meet ever-evolving regulatory reporting requirements. And complete that process in a timely and efficient manner. In fact, an insurer's financial imperatives have become a prime focal point for many Boards, as increased scrutiny and higher expectations are now the norm.

A large majority of respondents (87%) in a recent CFO Research survey<sup>1</sup> admitted that, to be able to tell the story behind the numbers in order to drive business growth, finance functions will need to improve their own capabilities and performance.

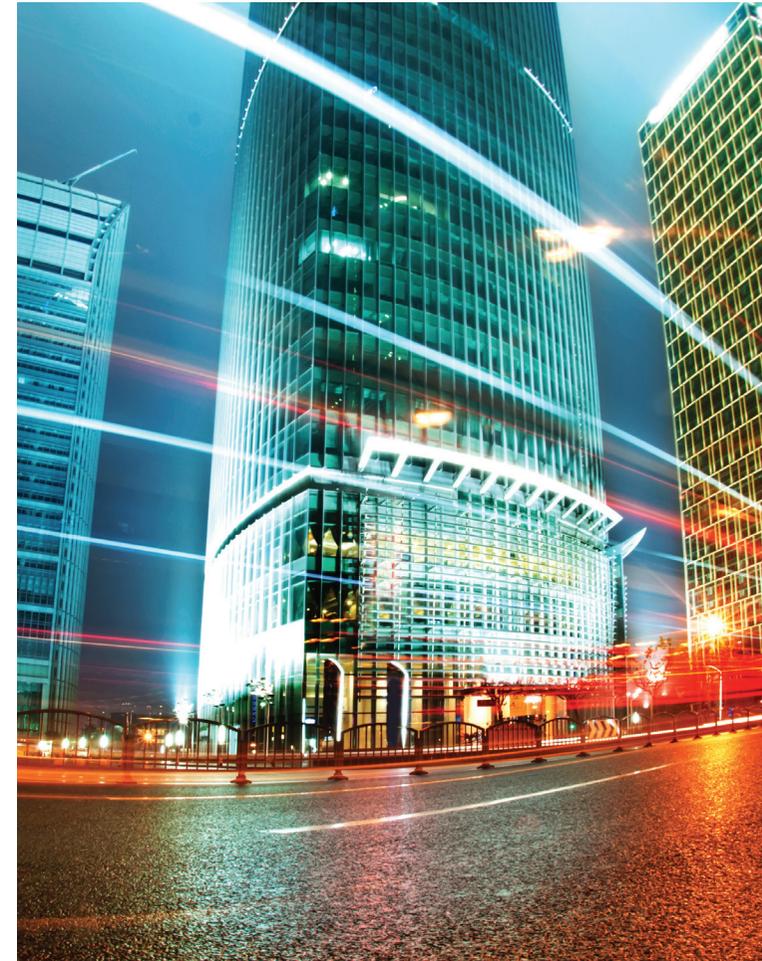
When an insurer sets out to improve its financial imperatives, however, the undertaking often times seems overwhelming; large, legacy systems and a culture of "we've always done it this way" are just some of the issues that prevent the company from moving forward. Consider the following as just one example of financial modernization in

the traditional sense: The overhaul of financial enterprise systems and processes to achieve accurate planning and forecasting could be years in the making.

Yet, according to New York-based research and consultancy McKinsey, the path to enhanced profitability and lower costs lies in the willingness to adopt a more automated approach to key functional areas within an insurer's enterprise. "Carriers are digitizing processes to achieve increases in both efficiency and customer satisfaction, often without major technology infrastructure upgrades, and in time frames measured in weeks or months, as opposed to years."<sup>2</sup>

<sup>1</sup> CFO Research. "The Next Stage in Creating the Value-Added Finance Function. October 2014 (Sponsored by SAP)

<sup>2</sup> McKinsey. "The Making of a Digital Insurer." March 2015



## A New Approach

So what makes a financial modernization effort attractive to insurers that otherwise might continue with the status quo? The most recent version of financial modernization takes an approach that's manageable and affordable for insurers of all sizes. Rather than engaging in a massive, overwhelming effort, insurers can enact real change through a gradual, methodical, phased approach.

More insurers of all sizes are opting for financial modernization initiatives that start small and strategically, first upgrading their core financial system and building a roadmap to ongoing improvements. These insurers often rely on packaged solutions that lower the cost of entry and quickly deliver results.

Taking this stepped approach, insurers can publicize the modernization effort's early wins: better access to data for improved decision making and reporting, automated processes that reduce duplicate effort and errors, more time to analyze the data, the ability to more easily close books and streamline reporting, and establish incremental continued funding based on early successes.

## Begin with the End in Mind

Once the decision is made to modernize and improve an insurer's financial systems, the task at hand is to embrace the methodical nature of such a project: the creation of a roadmap. A roadmap establishes a foundation from which the project will evolve, defines the parameters by which the project will proceed and sets the stage for guidance on integration with future technologies. The timeline for such a roadmap typically spans one, three or five years.

Adherence to a roadmap's requirements is key, so processes can be improved, data models can be expanded and access can be provided to data across the organization during the duration of the project. A roadmap enables constant monitoring of the insurer's original plan, therefore eliminating the potential for scope creep, yet can be modified as the insurer's requirements change. Successful insurers that stick to the roadmap's guideposts generate momentum by celebrating incremental results within the financial area along the way, thereby paving the way for a self-perpetuating cycle of success enjoyed by executive project sponsors, the finance area, the technology support and the entire enterprise.

## Avoiding Implementation Pitfalls

Financial modernization is about devising new ways to collect and analyze data for better business outcomes. Too often, insurers integrate with legacy systems and essentially duplicate what they already had. This all-too-common mistake anchors them to legacy issues and problems. Innovative, forward thinking is required for true modernization. That's what frees organizations from the past and the nonsensical mentality of, "We can't do that because we didn't do it that way before." Successful companies start with an open mind and build toward integration with future technology.

Without executive sponsorship, financial modernization projects – no matter what their size or scope – flounder, or worse, limp along and experience resultant scope creep. Creating and adhering to the strategic plan will help insurers avoid this trap.

The most successful implementations are ones in which leadership empowers employees to innovate, supports their decisions, removes barriers to success, and supplies appropriate resources throughout the life of the project.

We believe a natural foundation step is SAP Simple Finance. This smart, flexible general ledger system is ready for growth and sets the stage for future integration. From an accounting standpoint, it is the system hub. Now preconfigured for insurance, SAP Simple Finance helps mitigate the cost and speed of implementation. It requires fewer resources than other financial transformation approaches and it draws upon industry best practices. The system's built-in knowledge represents years of consulting expertise, feedback and validation from various financial transformation projects implemented for numerous insurers of all sizes.



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The next set of steps depends on the insurer, and is laid out in the strategic plan. It would be easy to make a business case for virtually any one of the SAP insurance suite of tools/solutions that comprise Simple Finance (general ledger, collections/disbursements, etc.), but each insurer must prioritize implementation based on its unique individual requirements. Multiple methodologies that take a phased approach exist, giving insurers extensive choices on how to construct a plan that makes sense for their business. Experienced insurance consultants such as msg global solutions can assist insurers to tailor a plan that best meets their business needs.

## A Clear Example

One msg global solutions client, a mid-sized property and casualty insurer, serves as a prime example of how to successfully execute financial transformation. The company developed and is following a strategic plan that has converted

### Top 10 Reasons to Re-evaluate Your Financial Systems

1. Large data volumes slow down the current system
2. Data model requires expansion
3. Overall system performance is poor
4. Too much time is spent entering data and fixing problems
5. Greater control of the data going into the ledger is needed
6. Access to real-time data is limited or unreliable
7. Improved reporting requires a streamlined ledger, and the ability to leverage subledgers
8. Close times are too long
9. A better foundation is needed for integration with other systems
10. The company has outgrown its current system

its financial operations into a more efficient, well-run organization. The flexible plan is predicated on starting small and building on success, focusing on one phase at a time. The initial phase was to install SAP Financials for its core business. Phase 2, which entailed rolling out SAP Finance to its subsidiaries, occurred with little assistance from outside technology solution providers. Experience gained during Phase 1 was institutionalized and empowered the organization to successfully extend its new technology and processes throughout its financial operations. Subsequent phases included compliance, governance and consolidation.

As the company looks to the future, it will focus on Procurement and Vendor Management. Long-term plans may also include Collections and Disbursements as well as SAP Insurance Analyzer. The implementation team will continue to achieve success in large part because it will exercise discipline, adhering to its strategic plan and resisting the temptation to customize, instead relying on preconfigured solutions. Throughout each phase the team will continue to build on the success of its smart, flexible general ledger to maximize business results.

Even with limited resources, insurers such as the one mentioned above are finding that financial modernization is possible. Implementation of SAP solutions such as Simple Finance are attainable for mid-market insurers interested in gaining control of their data and using it to reach optimal performance. Insurance companies that adopt gradual, methodical financial modernization can overcome issues inherent in massive projects. Those that master it can become stronger, more robust organizations capable of servicing clients while better managing risk and capitalizing on business opportunities.

## A Proven Partner for the Insurance Industry

msg global solutions helps its clients access the depth and power of SAP through enhanced workflow, improved operational efficiency, effective resource deployment, efficient data exchange and accurate reporting. Our expertise in insurance and reinsurance spans policy management, claims management, billing and payments, CRM, analytics and finance. Many of the largest international insurance companies rely on msg global solutions for software development and implementation services.

msg global solutions is the international development arm of msg group, an independent, international group of companies with autonomous regional companies and subsidiaries and well over 5,000 employees worldwide. The company's 30-year partnership history with SAP ensures that the variety of integrated services comprising creative strategic consulting and intelligent IT solutions will produce sustainable added value.

With 16 offices worldwide and a staff of more than 800 professionals who possess superior business and technology skills, msg global solutions focuses more than 80 percent of its business on the insurance sector. Through extensive employee training and development, msg maintains a strong team of consultants, your assurance of a stable, long-term professional partnership.

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