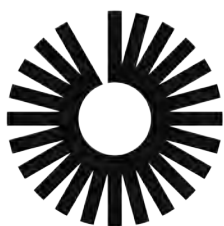




# RECONCILIATION RESEARCH

IN ASSOCIATION WITH

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**BANKING  
CIRCLE**

Insurance  
**POST**

MOVING  
BEYOND THE  
PAIN POINTS:  
IMPROVING  
THE INSURANCE  
RECONCILIATION  
AND PAYMENT  
ARCHITECTURE

**OUT-DATED AND MANUALLY INTENSIVE** collection and reconciliation systems have a stranglehold on the insurance sector, stopping companies from getting any satisfaction from the moving feast of payments they must process daily.

Total non-life gross written premiums in the United Kingdom were £59.1bn in 2017, and £58.2bn was paid back out in claims during the same year. That is the best part of £120bn flowing between policyholders, brokers, intermediaries, insurers, loss adjusters, repairers and other associated parties in the supply chain.

To get an insight into how the insurance industry is managing this financial merry-go-round, financial utility, Banking Circle teamed up with *Post* to canvas opinion from the sector. The results of that research are detailed and discussed in this white paper. ■

## RECONCILIATION FOR RECEIPTS – A HERCULEAN TASK

**MATCHING INCOMING PAYMENTS** to their source and reconciling the respective account is a Herculean task. There are tens of millions of policyholders, using various payment methods, different instalment options, and multiple distribution channels.

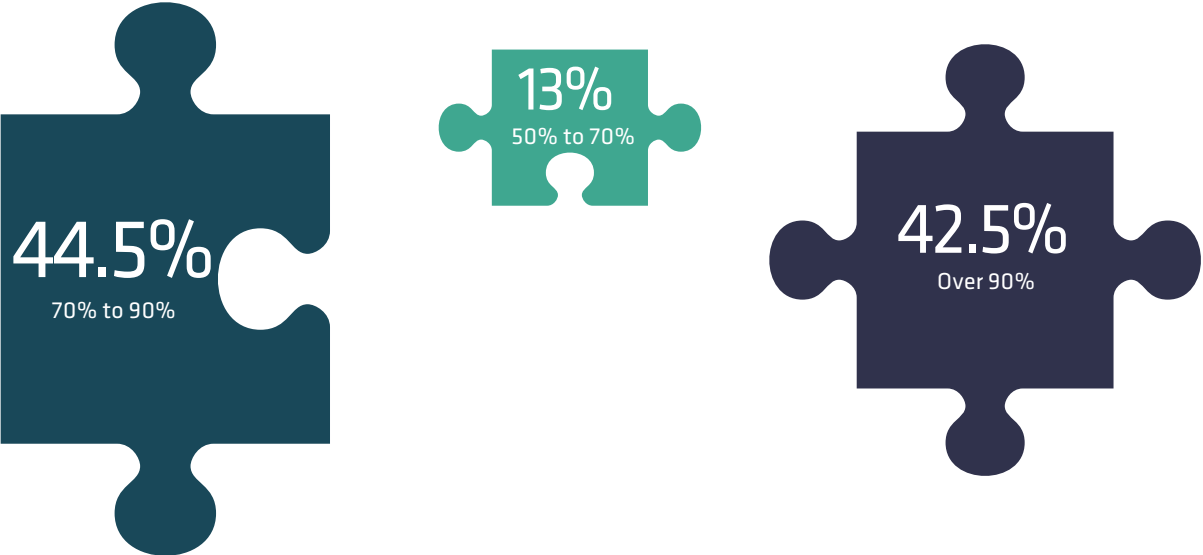
But collecting premiums should be the insurance industry’s bread and butter and is fundamental to its underlying cash flow and liquidity.

The size of the overall market means that single-digit discrepancies in reconciliation rates create uncertainty about inbound payments running to billions of pounds.

*Post* found that 42.5% of those surveyed had a reconciliation rate for matching receipts of more than 90%. The remainder – 56.5% – have rates of between 50% and 90%. Even for those towards the higher end of this band, there is significant room for improvement.

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What’s your reconciliation matching rate for receipts?



# RECONCILIATION FOR RECEIPTS

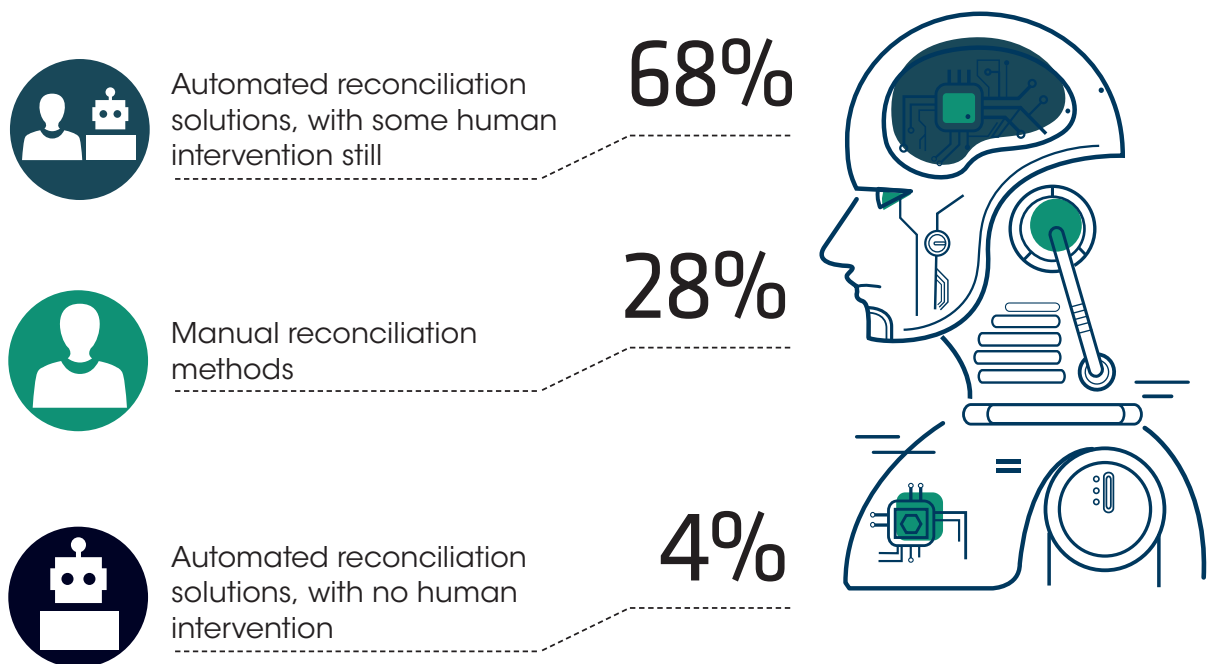
For those at the lower end – 13% were in the 50% to 70% bracket – the inefficiency in their collections systems is an ongoing drain on operational and financial resources and results.

Each insurer will have its own reconciliation process that has evolved, in many cases, over hundreds of years. Aviva, for example, has a heritage that dates back to 1696, while RSA Insurance Group can trace its roots to 1710.

Many composite insurers have bolted together various collection systems as a result of merger and acquisition activity and in most cases before the advent of today's digital age. Few, therefore, have had the opportunity to design their current system on the latest technology, using the most flexible architecture.

The result is that 28% of the market still relies on manual reconciliation methods. At the other end of the scale, only 4% have fully-automated reconciliation solutions involving no human intervention.

Which of the below best describes the reconciliation process that you currently use?



The remaining two-thirds (68%) run systems that sit between these two stools, mixing human and automated reconciliation solutions to balance their books. While the research does not detail how far towards the manual or the automated side of this mix each company sits, given so few companies are fully-automated, it seems reasonable to assume those in this middle ground are still a long way from being hands-free. ■

BIGGEST  
PAIN-POINTS  
IN CURRENT  
RECONCILIATION  
SYSTEMS

# BIGGEST PAIN-POINTS IN CURRENT RECONCILIATION SYSTEMS

**SO, WHAT ARE THE BIGGEST PROBLEMS** with existing reconciliation systems that need to be addressed? Responses to the *Post* research found four areas that continually threw sand in the collection cogs. These were:

- COLLECTION OF THE INSURANCE PREMIUM WHERE DIRECT DEBIT IS NOT USED OR HAS FAILED TO TAKE PAYMENT
- DELAYS CAUSED WHEN THE PAYMENT REFERENCE IS OMITTED BY AN INTERMEDIARY BANK
- DELAYS CAUSED IF THE PAYMENT REFERENCE IS MANUALLY MIS-KEYED
- COLLECTION OF PAYMENT FROM BROKERS AND INTERMEDIARIES

These are challenges that every company in the market will recognise, but they do not represent insurmountable problems, and today's technology is more than capable of providing highly effective solutions.

The problem is transitioning the old way of doing things to more efficient systems. In addition, finance and treasury departments must compete with front-end sales and back-end claims departments for priority when it comes to winning support and resource allocation for operational improvement programmes.

But unless insurers can collect premiums effectively and pay out claims promptly, they risk alienating customers and commercial partners and damaging their reputations. ■

## MISSING OUT ON COMMERCIAL ADVANTAGE

**AS THINGS STAND**, there are few companies that can differentiate themselves and create commercial advantage through their existing payment infrastructure. The research carried out by *Post* found that only 19% of responders graded their premium collection capability as 'excellent'.

When it comes to paying claims speedily, less than a third (28%) felt able to put themselves into this top bracket.

Worst of all was the ability to onboard new partners; only 15% felt this process was 'excellent'.

The majority of companies fell into the 'good' or 'fair' brackets, giving them lots of room for improvement, but little leverage in the market when it comes to winning new customers or suppliers.

The insurance market has given less emphasis to the priority that customers give to finding the lowest premium at the expense of all else. It wants customers and partners to give more weight to considerations such as service, policy coverage and financial strength.

But if an insurer cannot demonstrably prove it has convenient and effective premium collection systems, can pay out claims swiftly, and bring new partners on board with minimal fuss and maximum ease, how can they push the focus away from price?

# MISSING OUT ON COMMERCIAL ADVANTAGE

How effective would you rate your existing payment infrastructure in terms of:

## Effective premium collection



## Paying claims speedily



## Onboarding new partners



Indeed, it seems there is a lag between what businesses want to offer and what they actually can offer when it comes to their collection and reconciliation systems.

This was reflected in the research, which asked those questioned to highlight the top three priorities for their business from a list of five. Scored and listed in order of importance, the list came out as follows:

- QUICK RECONCILIATION OF PAYMENTS AND PAY-OUTS
- HAVING A SINGLE VIEW OF THE CUSTOMER
- SPEED TO MARKET FOR NEW PROPOSITIONS
- TRANSPARENCY OF PAYMENTS
- TARGET NEW MARKETS

But all of these things are difficult to achieve if there is not an efficient payment and collection infrastructure in place that gives companies the ability to fulfil these commercial objectives in practice.

So, what is the answer to these myriad of issues and is there a solution that is possible to implement and scale up, to service the multi-billion pound payment flows in question? ■

VIRTUAL ANSWER  
TO A VERY REAL  
PROBLEM



# VIRTUAL ANSWER TO A VERY REAL PROBLEM

**ONE SOLUTION THAT IS FAST FINDING SUPPORT** and delivering transformative change is based on the use of virtual IBANs (international bank account numbers).

Most collection and reconciliation systems rely on matching payments into and out of a master account using some form of referencing.

In theory this is all well and good, assuming references are always accurate, they are never omitted at any stage in the payment cycle, and finance departments do not introduce errors manually.

However, the research, as well as anecdotal evidence from the market, show this is not the case. In practice all these issues are a daily drag on the efficiency and effectiveness of current systems.

In contrast, virtual IBANs avoid the need to have all collections flowing into a master account, where they need to be matched, reconciled and then paid on as necessary. Virtual IBANs enable a company to assign a separate account to each individual client or commercial partner. These virtual IBANs then map to a master account.

By having a virtual IBAN for each customer, it is possible to create a full reconciliation engine and see what has been paid into the account and when it was received. In addition to receiving payments these virtual IBANs can execute payments and so any charges or commissions can be settled as necessary.

## **Key benefits of Banking Circle Virtual IBAN accounts include:**

- Fast account set-up – for collection of premiums and first party pay-ins and to fund claims pay-outs
- Instead of relying on references within payment messages, payments can be sent directly to individual designated accounts, meaning there is no delay in reconciling payments
- Ability to leverage the Banking Circle network to make and receive payments instantly
- Payments and FX API connectivity
- Access to an award-winning FX platform via web, tablet and mobile
- Improved payments acceptance, settlement times and reconciliation because payments are made in the name of the Insurance provider account holder
- Reduced AML and KYC risk as a result of end to end transparency and clear segregation of funds through dedicated Virtual IBAN accounts

## **Virtual IBAN functionality:**

- No correspondent channel is restricted for payments to and from corporate entities
- Members can only view the master account online and through the API - the virtual accounts cannot be viewed directly
- Virtual accounts can be in the name of the individual insurance provider's customers or private individual, or have a bulk set of virtual IBANs in the name of the broker or intermediary.

# VIRTUAL ANSWER TO A VERY REAL PROBLEM

The virtual IBAN lets companies have a clear view, at an individual level, of a customer's scheduled and completed credits and debits.

Extolling the virtues of virtual IBANs, and explaining some of the technical detail behind them, consultancy firm Accenture said in a recent paper: "Virtual IBANs are a mechanism to improve straight through reconciliation of receivables for corporate clients. Under such an offering, a financial institution would open a series of dummy IBANs for its client. Underlying each of these virtual IBANs is a real physical account (held in the bank's ledger) to which the payments made to these virtual accounts are routed.

"With this arrangement in place, the client then has the flexibility to assign these IBANs to its individual suppliers, so that when a supplier makes an electronic payment it would automatically go into the relevant virtual IBAN. Once the payment hits the bank's core banking system, a virtual account engine maps the payments made to these virtual IBANs to the real account number, enabling the funds to be cleared to this physical account. The virtual IBANs are also captured in the account statements, allowing clients to identify the payment originators and thereby simplifying their reconciliation process. This type of product also eliminates the need to reconcile receivables information manually."

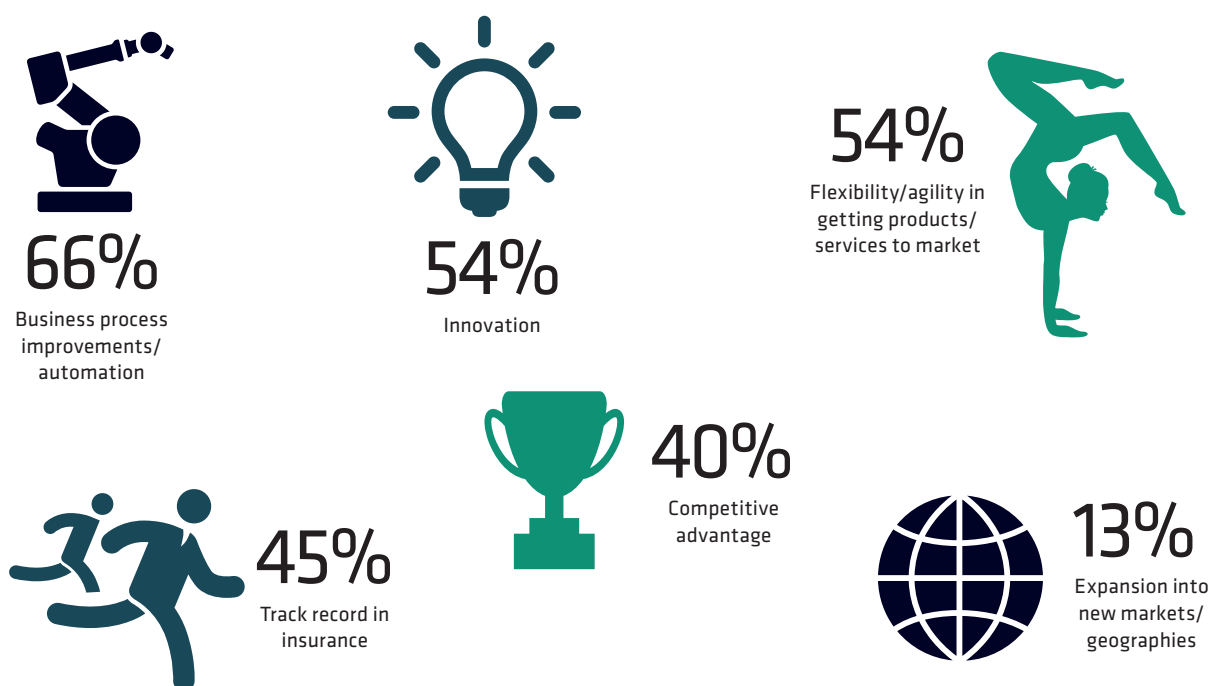
The Accenture report added: "Virtual accounts also offer improved credit control due to the availability of timely and accurate reconciliation of collection information, thereby delivering a clearer credit picture of customer accounts at both the individual and overall level."

This increased transparency enables companies to improve straight through processing rates and get a faster, more accurate oversight of their financial position.

When deciding whether to work with new digital and/or insurtech partners, the number one consideration for insurers is their ability to create business process improvements.

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## What do you look for when agreeing to work with new digital/insurtech partners?



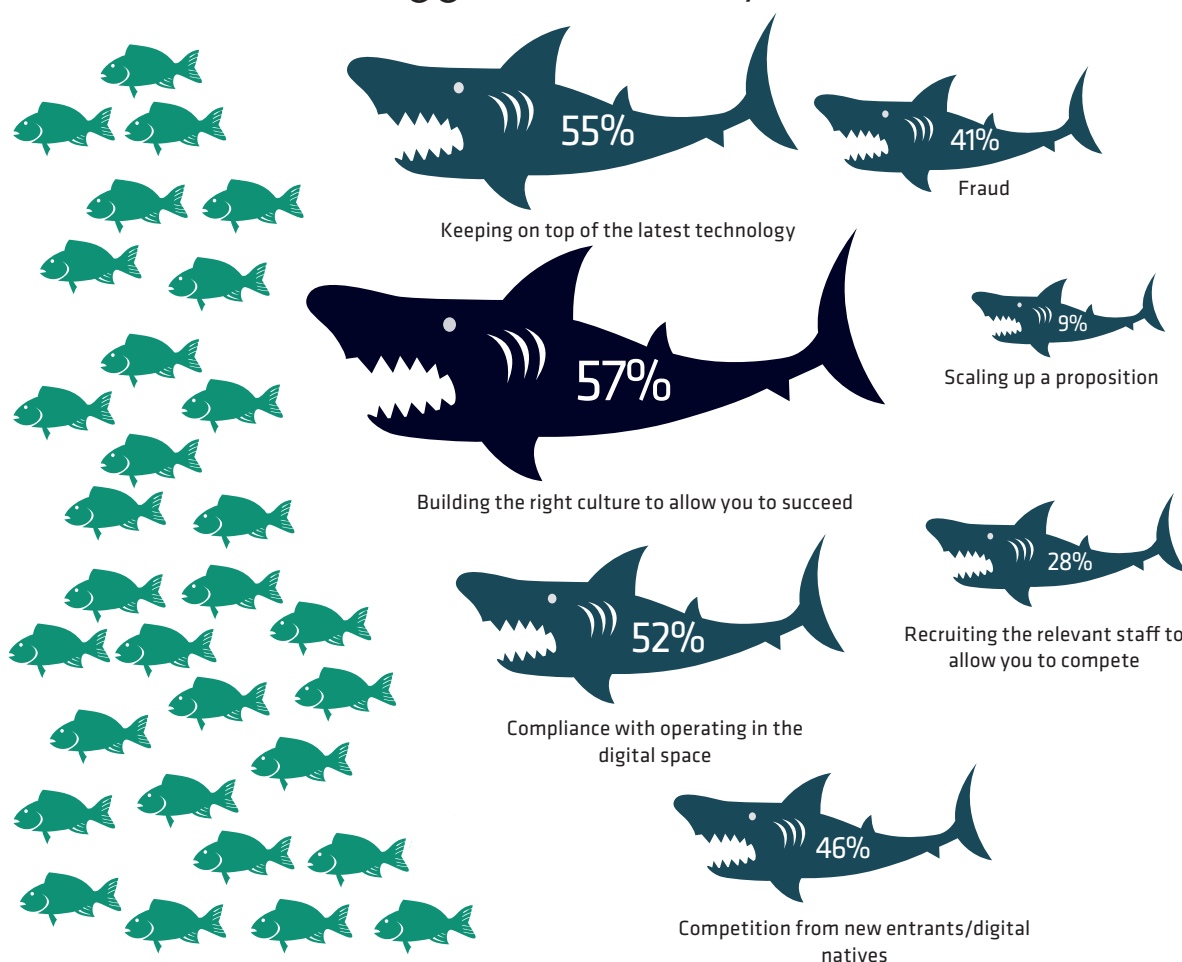
Respondents ranked up to three options in order of importance, with three points awarded to their top ranked selection, two for their second choice and one for their third choice.

# VIRTUAL ANSWER TO A VERY REAL PROBLEM

Virtual IBANs certainly offer these benefits and the system can be implemented quickly. Banking Circle can provide hundreds of thousands of – millions if needed – virtual IBANs. It has also completed a live-test and onboarding process for a regulated client in under four weeks, demonstrating its ability to meet compliance demands and work swiftly.

The challenge for the insurance sector is to develop the mindset and deploy the resource to explore and implement technology solutions that will give them the faster, more accurate and more efficient collection and reconciliation systems they need to differentiate themselves in the market and improve their underlying cash flow and liquidity. The *Post* research found that insurers see building the right culture and keeping on top of the latest developments as the two biggest threats that advancing technology poses to their businesses.

With the advancements of new technology, what do you perceive to be the biggest threats to your business?



Respondents ranked up to three options in order of importance with three points awarded to their top ranked selection, two for their second choice and one for their third choice

This might be true. But creating the requisite culture and staying in tune with the latest developments will also give these companies the opportunity to leave competitors in their wake.

Many have invested heavily in understanding and implementing digital developments, but the research shows existing payment systems and architectures have not enjoyed a lot of this attention. As such, these areas could offer significant commercial benefits if overhauled and upgraded. ■

## An introduction to Banking Circle

Banking Circle is a financial utility, which gives banks, insurtech and financial technology businesses the opportunity to provide their customers with access to international banking

solutions – including accounts, payments and loans – without the need to invest in developing and deploying solutions in-house.



**BANKING  
CIRCLE**

It is headquartered in Hellerup, Denmark, has offices in London and Luxembourg, and its technology can cope with the demands of the largest companies. This year it will process 12 million payments with a combined value of £80bn.

In September 2018, Banking Circle was acquired by EQT VIII and EQT Ventures, in partnership with Banking Circle's founders. The acquisition will see EQT support Banking Circle's continued acceleration of its growth strategy, in current and new geographies, as well as the expansion of the product portfolio.

In 2018 alone, Banking Circle has won 13 awards, of which seven were for Banking Circle Virtual IBAN.



# RECONCILIATION RESEARCH