



# Impact and Need for Financial Transformation in the Insurance Industry Using ERP

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Received date: 2 July 2018; Accepted date: 26 July 2018; published date: 25 September 2018

Academic Editor: Raudah Mohd Adnan

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## **Abstract**

Most big companies need one or another transformation at one point of time to improve their process efficiencies or change their business model to keep up with changing times. Companies expand their operations internationally, but business units in each country continue to maintain their own legacy systems. Hence, financial data has to go through various systems before it reaches ERP system where financial and other reports are created. Presence of multiple systems in the flow of data requires multiple reconciliations and manual adjustments at various points and that brings in inefficiencies that slow down the whole process. In these competitive times, CFOs must have access to up to date financial information in order to remain ahead of the curve but unfortunately, most companies struggle to put together timely and accurate financial reports due to the complexities involved as mentioned above. This is when a company starts seeking transformation in order to consolidate various systems into one, bring standardization across the company, and eliminate manual or redundant processes. Insurance industry in particular has peculiar areas like Underwriting or Actuarial departments where pricing actuaries and underwriters finalize price of the product and reserve actuaries compute reserves for potential claims based on historical losses. The addition of these departments on top of regular departments paralyzes the reporting process further in this industry. This industry is already facing cutthroat competition and companies are making razor thin profits if at all. Companies in this industry must undergo transformation. Transformation together with artificial intelligence would not only equip management with timely and meaningful data but would also provide end customer with timely services.

**Keywords:** Financial Transformation, General Ledger Transformation, ERP, Insurance industry.

## Introduction

Transformation is nothing but a change; it could be a major change or could be a small change. Major changes are done using full-blown re-engineering, and it can take a company 3 to 4 years to accomplish such changes and must have a champion to support this change.

Transformation can be a business transformation that involves changing a company's business strategy and influences its position in the market place. People and Process Transformation and Technology transformation are two other main transformations that companies go for. People transformation involves reviewing skills of existing employees and organizational hierarchy, setting up new skills required and a new hierarchy, and making changes in company structure. While Technology Transformation involves overhauling existing technology or, in other words, ripping and replacing existing systems and technologies.

Financial Transformation touches every aspect of Finance organization including strategy, people and processes, and technology. There are consulting firms that help perform transformations, but companies nowadays also have internal consulting units to help implement transformations. Company's ERP systems play an important role and transformations often revolve around these systems. Enterprise resource planning systems such as SAP R3, SAP B1, LN (BaaN); Microsoft Dynamics AX, Microsoft Dynamics NAV; Oracle Financials and PeopleSoft are a few ERP systems that are widely used by companies, and each of these systems have a specific module to Sales, Finance, production, Materials management etc. ERP helps integrate organizational data and processes into one system.

However, transformations can help in any type of industry, but Insurance is one such industry that definitely needs

transformation. Underwriting and actuarial departments are critical in an insurance company but these unique areas also bring in complexity. In this article, we will focus on General Ledger transformation, for an insurance industry, that help standardize ERP usage, bring all business areas across geographies under ERP, remove redundancies, and accelerate data flow from various departments into an ERP system.

## General Ledger Transformation in an Insurance Company using ERP

General ledger transformation in major companies revolves around standardizing usage of code blocks in ERP FI - GL module they have been using. GL transformation also results in utilizing most code blocks available in ERP module and producing financial reports by different codes e.g. by profit centers, by products, or by accounts etc. providing the company with flexibility to view the same results from different views. Transformation also helps remove multiple systems, bring everything on to an ERP system and make ERP a single source of truth. Various manual processes are also automated in the process and financial reporting is made seamless. Companies with international operations usually have local systems, even if it is not material enough to bring local operations on ERP platform that local systems are mapped to host country's ERP during transformation. ERP FI or GL module has multiple code blocks and different ERPs may name them or use them differently; but more or less, there are seven main code blocks; such as Profit center, Lines of Business, location, Company code, Trading Partner, Cost center and Account.

In an Insurance company, right from when a policy or a claim is entered into an underwriting system that financial information moves through interfaces into ERP. Local ledgers of different countries are mapped to ERPs code blocks to import data. Usage of same code blocks for both domestic and international data also help create

standardization across the company, and everyone follows the same financial language and has one single source of truth. We will discuss these code blocks in detail in this article, as they play an important part in the General Ledger transformation and are the ones that are standardized. Almost all departments in an insurance company, including FP&A, Comptrollers, Underwriters, Finance Directors, Marketing, and Actuaries etc., would use most of these code blocks or codes, if not all, for their purposes. For example, Actuaries may focus or utilize profit center, lines of business and Location code blocks for their reserve studies, whereas Comptrollers may use all of them for reporting purposes.

#### **Profit Center Code Block**

Profit center, as the name suggests represents profit (or loss) making units of the company. Profit center is one of the most important code blocks and as soon as a policy is sold or a claim is entered into the system, a profit center code is captured. There exists multiple levels of profit center hierarchy with a number of levels, depending on the company's structure and needs. The highest level of profit center hierarchy generally represents major business units e.g. Commercial and consumer units, and the next level would include major profit centers of these business units e.g. Personal Lines, Accident & Health and Warranty within Consumer. Third level will represent the next layer of profit center e.g. Personal Auto within Personal Lines and so on. Different departments need different types of granularity for business or reporting purposes and multiple levels of hierarchy depending on their needs and can run up to 8 levels or more. Final level created is used for booking purposes and is used in each transaction. Depending on which unit sells the business, that appropriate profit center code is used, and using hierarchies placed in system that results, are rolled up to higher levels. Companies can generate their underwriting profit and loss statement and other reports by profit centers. A profit-and-

loss statement for a commercial unit and consumer unit, or any other lower level business unit, can be created instantaneously using such a hierarchy. As mentioned before in this article, ERP systems are usually mapped to local ledgers with mappings performed between local ledgers and different code blocks of an ERP system that allows the flow of data into a centralized ERP system where management and financial reports are finally generated. Once hierarchies and mappings are in place, they need to be governed; otherwise anyone who's not authorized/ (or) any unauthorized person may make changes to them without realizing the impact of those changes on other departments. Master data governance and a proper approval process are set up before changes can be made to existing hierarchies and mappings. Hierarchies and mappings are generally finalized after discussions with various teams, including FP&A, Comptrollers, Finance directors, Underwriters and Actuaries, and all these departments remain part of the approval process as well to any change request.

#### **Lines of Business Code Block**

Lines of Business are usually a customized and not a standard code block in ERP systems that basically represent products or coverages that a company sells to its customers, carrying all product-related hierarchies and mappings. Insurance companies usually maintain an Annual Statement Line or ASL hierarchy in which coverages or coverage codes are rolled up to ASL lines. Few companies that have too many coverages per product maintain product hierarchies as well where coverages are rolled up to products and reports can be generated at both the granular level and at the higher product level using product hierarchies. Just like profit center codes, coverage codes are selected in all transactions right from when a sales representative sells a policy to a customer.

It is very important to add coverage codes to underwriting and other systems as soon as

company launches another coverage. Some companies simply use existing coverage codes for a new coverage as well, but down the line they create issues as they try to create reports per coverage. Making changes down the line gets very difficult, especially in underwriting systems, and on top of that departments would like to have corrections made on historical data as well and not just going forward e.g. actuaries rely on historical data to calculate reserves, and this makes the task even more difficult. Also, just like profit center mapping between local ledgers and ERP, local ledgers are also mapped to Lines of Business code block of an ERP system. With each transaction carrying Lines of Business codes, one can easily build profit and loss reports or other reports by products or coverages that can give a company good insight on how products are performing. All product hierarchies or ASL hierarchies and mappings must be governed as well and a proper approval process should be followed for any change request.

#### **Location Code Block**

Location is another important code block in most ERP systems though, just like lines of Business, this is not a standard but a customized field. Location hierarchy is building up rolling local areas to city, to state, to country, to region etc. and more granularity can be added as needed by a company. Location codes are utilized to identify where the business was issued or produced. Location hierarchy is decided based on consultations with various departments, including marketing. Financial statements can be produced with producing office view or with issuing office view using location hierarchy. Producing office refers to office or location that actually produced the business, whereas issuing office refers to office or location that simply issued the business. For example, a Canadian entity of a company might have sold a business in United States, so Canada becomes a producing office but due to reporting issues, the legal entity of the company in the United

States issues that business and is the issuing office for that business.

#### **Company code Block**

Company code block maintains company codes. These company codes represent legal entities of a company, are included in financial transactions, and are used to consolidate reports just for a particular entity or group of entities. Company codes are very important to companies with multiple legal entities.

#### **Trading Partner code Block**

Trading Partner code block represents the Company Code for a company's entity that receives transactions initiated by another entity of the company. Trading Partner field helps track inter-company balances and their eliminations.

#### **Cost Center code Block**

It is in cost center code block where costs are planned, captured, allocated, reported and analyzed. Cost center codes are the lowest level department assigned to entities and profit centers to capture expenses.

#### **Account code Block**

Account code block is must and house chart of accounts for a company. This code block maintains various account hierarchies depending upon the company's reporting requirements. Hierarchies include account codes that are rolled up to higher level accounts and ultimately to profit and loss or balance sheet line items. One most important thing to keep in mind when it comes to account code block is to keep deleting dormant accounts. Companies keep adding new accounts and move over from the old ones over a period of time, and deleting old and dormant accounts help maintain efficiency of ERP systems.

In fact, it is during the transformation that hierarchies within each code block are

reviewed and drastic changes are made to these hierarchies to bring standardization or to move to new concepts that could be applied across the globe. Also, new hierarchies are introduced, especially in code blocks, that were not used properly and could be utilized better with the help of new hierarchies or mappings that are placed in them.

With the help of GL transformation, the same financial language is used across the organization; standardization comes on its own with usage of the same code blocks, both domestically and internationally. Most of the code blocks of ERP module are now utilized which means financial reports can be prepared by business units or by products etc. providing the company an edge, and with most other systems replaced with ERP, there can now exist one single source of information for each department. Above all, most updated and real time information is now available to CFOs that also assists in shortening the quarter or annual close process.

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