

Limiting Reinsurance Claims Leakage

Claims leakage is a critical concern for insurance companies, significantly impacting their financial health. This phenomenon occurs when financial losses are incurred due to inefficiencies, errors, or inconsistencies during the reinsurance claims handling and settlement process. Claims leakage can result in significant financial losses for the ceding insurer, who may be responsible for a greater share of the claim amount than intended or anticipated.



Causes of Claims Leakage

A number of factors contribute to ceded claims leakage in the reinsurance industry:

1

Manual reinsurance contract management

Spreadsheets using manual allocations are prone to human error and lack appropriate controls and documentation

2

Contract complexity without adequate support

Systems that lack functional support for various XoL contracts, contract allocations, and contract terms, are more susceptible to leakage

3

Insufficient or inaccurate information

Incorrect claim transaction details and amounts pushed through an automated process lacking appropriate controls can create leakage

4

Inadequate billing and accounting functionality

Late reporting and follow-up on claim recoveries, and a poor audit trail impacts claim recoveries

The Complex Nature of Reinsurance Claims

Reinsurance claims have become increasingly complex, with various interconnected elements. These complexities include a mix of proportional and XL treaties, facultative protection, multiple layers and attachment points, inuring rules, terms and conditions, reinstatements, aggregates, currency calculations, interlocking rules, and more. Complex transactions can become a source for errors leading to claims leakage.

Mitigating Claims Leakage

To combat claims leakage, insurers are turning to reinsurance management technology. While some systems offer partial solutions, many aspects are still managed manually. Implementing comprehensive reinsurance management technology can significantly improve claims handling accuracy and reduce leakage.

Addressing Claims Leakage

Claims leakage in the reinsurance industry poses a challenge, as its true extent remains elusive due to various contributing factors. These factors range from contract management to claims information, billing, and interfacing with accounting. Claims leakage is widely acknowledged, but its full scope often only becomes apparent after a comprehensive audit.

The Power of Automation

Automation offers significant advantages in mitigating claims leakage within reinsurance processes. Here's a closer look at the benefits:

1 Scalability

- Automated systems effortlessly scale to accommodate a growing volume of claims without a proportional increase in resources.
- Scalability ensures that the claims process remains efficient and effective as the business expands.

2 Accuracy and Consistency

- Automation minimizes the risk of human errors, ensuring precise claims processing.
- Consistent application of rules and guidelines helps prevent discrepancies and ensures compliance with reinsurance agreements.

3 Faster Claims Processing

- Automated processes drastically reduce the time required to handle and settle reinsurance claims.
- Speedy claims processing addresses potential issues promptly, reducing the chances of leakage.

4 Improved Communication and Collaboration

- Automated systems streamline communication between insurers and reinsurers.
- Enhanced collaboration ensures that all involved parties have access to necessary information, minimizing misunderstandings or oversights that could lead to leakage.

5 Comprehensive Documentation

- Automated systems generate and maintain detailed documentation of the claims process.
- Comprehensive records aid in audit trails and prove invaluable in dispute resolution, ensuring transparency and accountability.

6 Real-Time Data and Analytics

- Automation allows for the integration of real-time data and analytics, resulting in a more accurate assessment of claims and potential recoveries.
- Timely insights enhance decision-making and facilitate the proactive identification of potential leakage risks.

7 Fraud Detection and Prevention

- Automated processes can incorporate fraud detection algorithms and analytics to identify potential fraudulent claims.
- Early detection of fraudulent activities prevents leakage by halting illegitimate claim payouts.

8 Adaptability to Regulatory Changes

- Automated systems can be easily updated to comply with evolving regulations.
- Staying current with regulatory requirements reduces the risk of non-compliance-related claim leakage.

9 Cost Savings

- Automation leads to substantial cost savings by reducing the need for manual labor and minimizing administrative burdens associated with claims processing.
- Efficient processes result in lower operational costs and increased profitability.

The Power of End-to-End Reinsurance Management

Improving the reinsurance claims recovery process relies on a robust reinsurance management technology platform. This platform should facilitate overall management of the reinsurance program, covering all contract types. It must maintain essential data and business rules for claims allocation and offer comprehensive calculations. It should consider terms, warranties, reinstatements, aggregates, limits of liability, and currency management, along with supporting contract inuring rules.

Flexibility is another vital aspect of reinsurance program management. It enables swift responses to business changes and continuous program adjustments. Properly managing policy and claims transactions, preserving critical information, and automating allocation to reinsurance contracts with necessary calculations are essential components.

However, a fully automated system alone isn't sufficient. Ensuring suitable controls is crucial. Basic accounting controls are necessary for transaction completeness. Additionally, having a holistic view of reinsurance results accuracy is vital. This can be achieved using management information reporting and business intelligence technology based on the underlying reinsurance software information repository. Managers should receive timely, relevant, and concise business information to spot inconsistencies and irregularities.

At a micro level, a reinsurance management system should offer extended control through detailed entity inquiries, presenting party, contract, and claim information. Other measures should be implemented, including exception reporting tailored to an insurer's specific reinsurance program and random testing of specific business scenarios. These evaluations should encompass all aspects of reinsurance processing, including allocation to reinsurance contracts, inuring order (working, aggregate, etc.), and precise calculations (limits, shares, reinstatements, aggregates, etc.).

Maintaining best practices involves implementing automated billing and accounting procedures. Insurers should automate the production of reinsurance technical billing statements, with results automatically transferred to reinsurer/broker current accounts and the general ledger. Streamlined cash application processes and controls should identify unpaid items and maintain an audit trail of payment collection. Lastly, aging reports are essential for monitoring late recoveries.

Attributes of a complete reinsurance management system



Comprehensive

To manage all contract types, including innovative terms

Flexible

To respond quickly to changes and properly manage transactions



Transparent

To provide a holistic view of the reinsurance program with key reports and analytics

Automated

To support operational efficiency and best practices with full auditability



Case Studies in Claims Leakage

What is the financial impact of claims leakage? In the case studies below, the large amount saved by stopping claims leakage more than compensates for implementing a modern reinsurance solution. By saving millions of dollars, reinsurers added to their bottom line instead of subtracting.



Large Multi-Line Insurer

A large Midwestern multi-line insurer identified **over \$10 million dollars of previously missed recoverables** through the implementation of the system. Much of the recovery was attributed to previously unidentified facultative recoveries as the previous reinsurance tracking method did not provide adequate facultative processing. In addition, this insurer was able to reap other benefits using the functionality provided by Sapiens ReinsurancePro. For instance, **the reinsurance close cycle was reduced from 3 days to 8 hours.**



Workers' Compensation Insurer

A Midwestern workers' compensation client identified **over \$3 million in missed recoverables upon implementation of the system** and was able to recover these old and previously unknown losses. They also utilized Sapiens' reinsurance solution to provide an interface to their primary system **bringing additional accuracy and reducing data errors.**



Personal Lines Mutual Insurer

A client **found \$1.3 million in missed recoverables upon implementation of an automated calculation engine** and was able to recover these old and previously unknown losses. **This alone more than paid for the cost of the system.**

Tackling Reinsurance Claims Leakage

Reinsurance claims leakage presents a significant revenue drain for insurers, stemming from manual processes, data handling, and regulatory factors. It's imperative to combat this issue by embracing comprehensive automated processes and controls facilitated by reinsurance software technology. This strategy not only safeguards accuracy but also averts financial losses.

Mitigating reinsurance claims leakage bolsters an insurer's financial stability, streamlines operational efficiency, and fortifies risk management. In the intricate insurance landscape, precise and prompt claims settlement is paramount for nurturing policyholder trust and sustaining long-term viability.

Sapiens Reinsurance Solutions offer the functionality and adaptability needed to manage today's complex reinsurance operations and accounting. Sapiens' reinsurance solutions empower insurers to automate end-to-end programs, encompassing both ceded and assumed reinsurance business. With robust features tailored to reinsurers and compliance, Sapiens supports auditing and statutory requirements for all lines and sizes of business.

Discover how we can seamlessly transition your reinsurance processes into the digital era.



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About Sapiens

Sapiens International Corporation (NASDAQ and TASE: SPNS) is a global leader in intelligent insurance SaaS-based software solutions. Sapiens' robust platform, customer-driven partnerships, and rich ecosystem empower insurers to achieve operational excellence in a rapidly changing marketplace. A Microsoft Top 100 Partner and the recipient of many industry analyst awards, Sapiens helps insurers harness the power of AI and advanced automation to support core solutions for property and casualty, workers' compensation, and life insurance, including reinsurance, financial & compliance, data & analytics, digital, and decision management.

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