MÜNCHENER VEREIN INSURANCE GROUP

INTEGRATED RISK MANAGEMENT – SIMPLER, MORE TRANSPARENT

As a German mutual insurance association, the MÜNCHENER VEREIN insurance group does not have stockholders, it has members. And the company's primary goal is to offer its customers the best possible value in insurance protection. To support this objective, MÜNCHENER VEREIN chose the SAP® Financial Asset Management application to help the company manage all its investments – whether in the form of property, securities, loans, or equity holdings. The SAP software enables the insurance group to conduct comprehensive risk analyses and comply with the latest guidelines and conditions of the German Federal Financial Supervisory Authority (BaFin).

MÜNCHENER VEREIN
VERSICHERUNGSGRUPPE

SAP Business Transformation Study
Insurance

SAP®

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QUICK FACTS
AT A GLANCE

QUICK FACTS

Industry
Insurance

Revenue
€650 million

Employees
850

Headquarters
Munich, Germany

Web Site
www.muenchener-verein.de

SAP® Solutions and Services
SAP® Financial Asset Management application

Implementation Partner
SAP Consulting

The MÜNCHENER VEREIN insurance group covers all the insurance and protection needs for both private and commercial clients. The group selected the SAP® Financial Asset Management application to integrate all its financial instruments for better analysis and risk management. The solution enables the company to comply with government financial regulations while realizing other significant economic benefits.

Key Challenges
- Meet government regulations for financial reporting and risk management
- Integrate data for risk assessments – including externally managed mandates
- Improve data quality and relevance
- Gain an overview of overall portfolio and provide integrated displays of investments
- Improve management of investment portfolio
- Increase transparency for decision makers
- Improve provisioning of required profit- and risk-relevant metrics

Why SAP Was Selected
- Comprehensive solution for risk management
- Solution flexibility and scalability
- High level of interoperability with other systems
- Positive experience with SAP for Insurance portfolio
- Existing SAP® software landscape

Implementation Best Practices
- Cross-organization involvement in defining project objectives
- Detailed business process mapping
- Effective teamwork with SAP Consulting
- High level of knowledge transfer
- Optimized server capacity

Low Total Cost of Ownership
- 95% of company needs met by standard SAP solution
- Minimal customer-specific enhancements
- Company able to support own system administration
- Low cost of ad hoc stock analyses and evaluations

Financial and Strategic Benefits
- At-a-glance visibility of all asset classes
- Standardized evaluation of all assets
- Integrated investment management with daily updates to investment portfolio
- Support for real-time risk analysis
- Support for daily analysis of special funds
- Daily feed of market and fund data for risk controlling
- Better integration of property – including equity holdings
- Full real-time mapping of all transactions – including externally managed mandates

Operational Benefits

Key Performance Indicator	Impact
Time to measure performance	-70%
Time for planning analysis	-30%
Time for market risk analysis	-80%
Effort to map risk positions	-80%
Time to monitor limit quotas	-80%
Ad hoc reporting flexibility	+90%
Reporting quality (assessments from different perspectives)	+80%
Portfolio evaluation quality and completeness	+90%
Transaction mapping quality	+90%

KEY CHALLENGES

SEEKING ACTIVE ASSET MANAGEMENT AND ACCURATE RISK ASSESSMENT

With core customers in the manual trades, public service, professional associations, and the 50-plus age group, the MÜNCHENER VEREIN insurance group views itself as an insurer for all generations. As a result, the company offers a broad portfolio of customized products that address the insurance and protection needs of various stages of life.

Company officials are quick to point out that the group's main objective is not to maximize profit but rather to offer customers good-value protection. As MÜNCHENER VEREIN's CEO Dr. Rainer Reitzler sees it, "Our chief priorities are to securely manage our customers' money and provide the promised benefits." True to the insurance group's philosophy, all of the company's business processes are tailored to serving the customer – who always remains the central focus.

To help achieve its goals, the insurer relied on sustainable solutions for financial management. "In fact, only a handful of companies are able to match our level of integration in this field," says Josef Deifel, head of central controlling at MÜNCHENER VEREIN. "But it became clear to us that we needed a more future-oriented strategy in the area of risk management."

Ensuring Regulatory Compliance

The specific decision to further integrate MÜNCHENER VEREIN's controlling and risk management functions into the company's SAP® software landscape was triggered by a circular issued in May 2005 by the German Federal Financial Supervisory Authority (BaFin). This comprehensive reform addressed the fund overview practices of financial companies. These guidelines mandated that all financial service providers regularly classify, evaluate, and report on their investment risks.

"Of course, this was something that we were already doing," notes Deifel, "but not in the cycles required by the new guidelines." MÜNCHENER VEREIN had no standardized reporting for the data from externally managed funds. And the company's figures were based on a manually created and inflexible database that would not support the new requirements. "For a long time, much of this data was only available in paper form and had to be manually entered in spreadsheets," adds Deifel. It was apparent that this arduous and manual process was no longer suitable for the insurance group.

Minimizing Manual Data Entry

In addition to supporting the required BaFin reporting, the insurer wanted to improve its overall risk management. Previously, risk-related data came from a very wide range of sources. "Some asset managers sent us PDF tables, Microsoft Word documents, and Microsoft Excel sheets. Others just sent the figures by e-mail," says Deifel. "The manual effort needed to enter and evaluate this data correctly was huge."

As a result, risk-related data was only entered once a month. And a value-at-risk analysis using such a database was almost unthinkable. It took weeks to properly prepare the data for the BaFin stress tests and the quantitative impact studies required under the European Union's Solvency II framework for insurance firms.

> "If we had to rely on the tools we had in the past, we couldn't fulfill all our current requirements without a significant increase in personnel."
>
> **Dr. Rainer Reitzler,** CEO, MÜNCHENER VEREIN Insurance Group

MÜNCHENER VEREIN also wanted to better manage its return on investments and enable more accurate risk assessments of assets. Furthermore, the company needed to conduct future risk assessments using standardized methodology with the same key performance indicators (KPIs) and metrics. As Deifel sums it up, "First and foremost, we needed to gain an economic view of asset classes that was separate from accounting."

WHY SAP WAS SELECTED
EXTENDING AN SAP LANDSCAPE

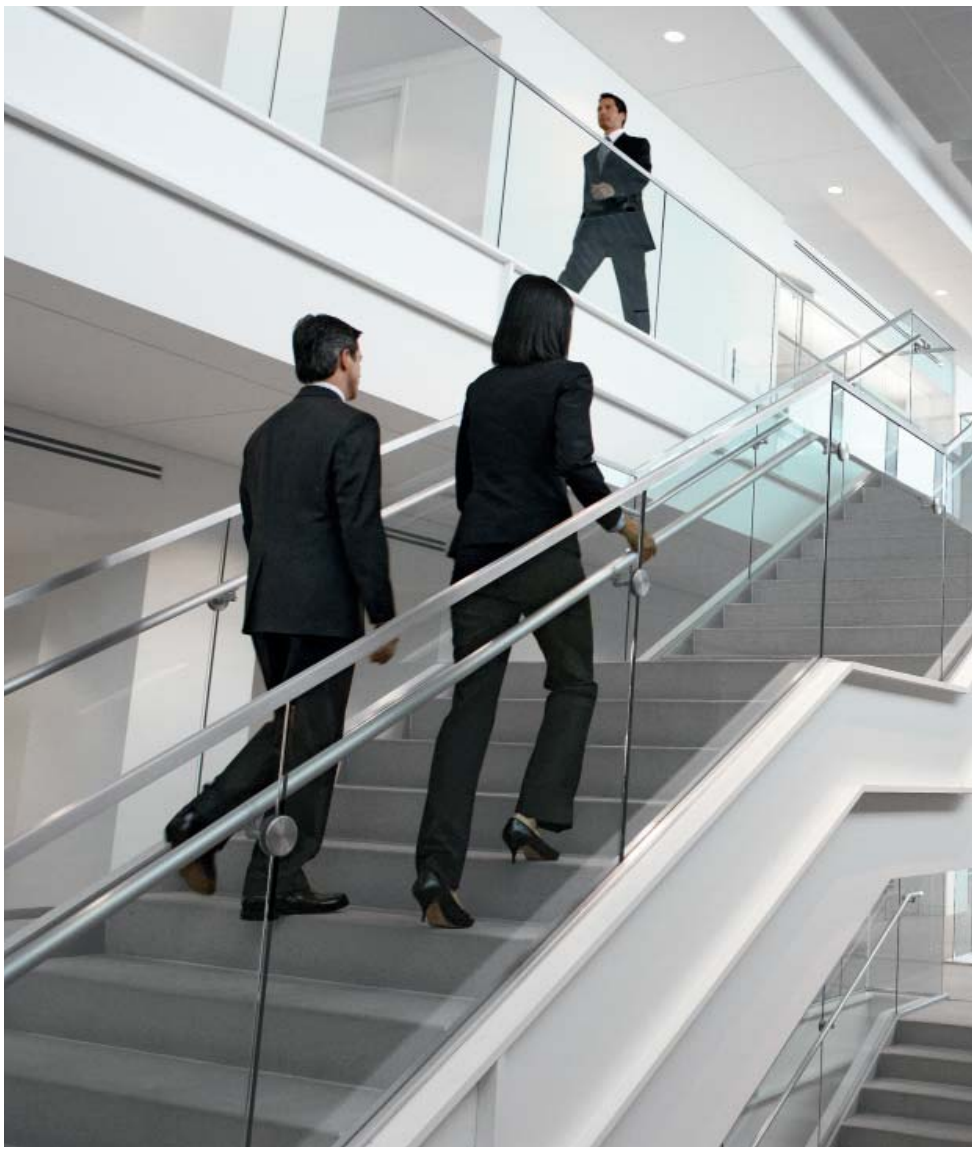
MÜNCHENER VEREIN began working on the project shortly after receiving the BaFin circular. Project managers from the company's IT, controlling, asset and portfolio management, and auditing organizations started by defining requirements. The list included 30 specific objectives, 22 of which were considered mandatory.

When searching for a solution, MÜNCHENER VEREIN looked to expand its existing SAP software landscape. "With SAP Financial Asset Management, we found a solution that covers virtually all our needs," says Dorothee Obermüller, SAP administrator in central controlling at MÜNCHENER VEREIN. "And from the outset, we wanted software that would allow us to use the standard version without significant modifications."

"Plenty of other companies will want a piece of this action once they realize what the SAP solution can do."

Josef Deifel, Head of Central Controlling, MÜNCHENER VEREIN Insurance Group

In particular, the SAP Financial Asset Management application offered the insurer comprehensive risk controlling functionality and a high level of interoperability with other systems.



IMPLEMENTATION PROCESS AND BEST PRACTICES

FOCUSING ON BUSINESS PROCESSES

During the implementation, MÜNCHENER VEREIN worked closely with the SAP Consulting organization to produce a very detailed list of business processes to be mapped by the SAP application. Under the new model, each investment entered in the system is allocated various attributes. "These classifications allow the company to conduct very fast evaluations according to specific categories," says Dirk Steinfeldt from SAP Consulting. "It also means a whole range of evaluation criteria are possible, such as credit risk, solvency level, currency type, and issuing country – or a combination of attributes." As a result, requests can be structured based on frequently occurring characteristics.

The new system interacts with information from a database that is also fed by other SAP solutions used at MÜNCHENER VEREIN. These include the general ledger, the SAP Loans Management application, and the SAP Real Estate Management application.

Meeting Demanding Process Requirements

These process requirements largely determined how the project was implemented on a technical level. "Our demands in terms of evaluation and controlling options are very high," says Deifel. "Integrating the solution posed a real technical challenge, and the final implementation was complex and extensive. But together with SAP, we developed an excellent solution."

Addressing the insurance group's processing power was one such challenge. According to Obermüller, "Our calculation runs each day last around four hours. Some 3.5 million data records are processed and compressed as we address all the KPIs in a risk analysis. This represents a huge workload for the computers." To boost processing power, MÜNCHENER VEREIN increased the company's server capacity, The insurer also implemented FlexFrame for SAP from Fujitsu Technology Solutions. This adaptive and modular IT infrastructure solution enables SAP services to be virtualized, thus improving server capacity.

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Supporting Self-Maintenance

One of the highlights of the implementation was the positive transfer of knowledge between SAP and MÜNCHENER VEREIN. "SAP always helped us to help ourselves," notes Obermüller. "This enables us to manage our own system maintenance and to make any necessary modifications in the future."

The successful implementation of SAP Financial Asset Management was completed in 12 months – and this included the comprehensive analysis of code-dependent processes and the mapping of the fund overview function.

BUSINESS PROCESS TRANSFORMATION AND VALUE REALIZED

EVALUATING RISKS ACROSS ALL INVESTMENTS

Realizing Value Across Organizations

Today, the controlling department is just one organization that benefits from the new data analysis and evaluation options at MÜNCHENER VEREIN. Organizations such as asset management and auditing – as well as the executive board – use the transparent analyses from SAP Financial Asset Management in their daily work. "This solution is an important tool that allows our securities traders to check their portfolios at a glance," says Deifel. "The fund overview immediately shows asset managers what securities are in their portfolio and who the issuers of those securities are." Traders and the controlling department have the same access to relevant, up-to-date information about the single positions of the entire portfolio.

This capability is extremely useful in light of the difficult economic situation currently affecting global financial markets. As Deifel notes, "If we see negative news about one of our issuers, we can see immediately how this affects our investments and fund portfolios. This lets us quickly implement any measures that might be necessary."

Another advantage of the SAP solution is its integrated limit control functionality. This enables MÜNCHENER VEREIN to meet guidelines of the more recently released Minimum Requirements for Risk Management (MaRisk VA) regulatory directive. If a specified limit is reached, the reporting function issues a warning to the dealer using a traffic light logic format. The software system can also notify the executive board or other departments to help ensure that immediate corrective measures are taken.

Going Beyond Passive Data Collection

SAP Financial Asset Management provides MÜNCHENER VEREIN's controlling organization a powerful management tool. "Instead of simply collecting data, we can now actively participate in the controlling process," says Deifel. Today, the company can rely on automatic triggers and access to key information whenever deviations from the planned strategy threaten to get out of control. "In the past, about 80% of our time in investment controlling was spent collecting, viewing, sorting, and preparing the right data," adds Deifel, "and only 20% was spent on the actual task of controlling. Now, the opposite is true."

Regular stress tests, simulations, and daily reports help enable early identification of risks in the financial markets. This visibility enables MÜNCHENER VEREIN to respond to these risks quickly and proactively. As Deifel notes, "With the functionality available to us under the old system, a monthly stress test of this quality would have been completely impossible."

The new system also helps the insurer address specific BaFin compliance with greater efficiency. "In the past, we needed more than two weeks to perform the annual test required by BaFin," says Deifel. "The comprehensive data we need is now available to us in just one day." The company has a complete overview of all investments and the associated risks at any time – regardless of whether the investment applies to property, securities, loans, equity holdings, derivatives, or other structured products. "We have the controlling mechanisms we need for every situation and every requirement," Deifel explains. CEO Reitzler adds, "If we had to rely on the tools we had in the past, we couldn't fulfill all our current requirements without a significant increase in personnel."

Please see page 8 for a list of challenges in key process areas before implementing SAP software and the benefits realized after the implementation.

Process Area	Challenges	Results After SAP® Software
Asset management	▪ Gain reliable overviews of fund portfolios and risk analyses ▪ Provide more flexible evaluation methods ▪ Simplify data management	▪ Clear fund overview (externally and internally managed) ▪ Multiple views of investment portfolio ▪ Improved limit control
Controlling	▪ Increase data quality and relevance ▪ Integrate control mechanisms for asset classes ▪ Standardize analysis of asset classes ▪ Aggregate key performance indicators	▪ Anytime access to consistent, up-to-date information ▪ Significantly improved control options ▪ Risk analysis of overall investment portfolio ▪ Up-to-date limit system that covers fund portfolios
Financial accounting	Establish data quality and relevance for master, transactional, and market data	Analysis-relevant master data expanded with clear and consistent attributes
Auditing	Enable risk controlling that is independent of accounting	Support for different views depending on indicators
Executive board	Provide real-time overview of company data and risk mitigation	▪ Up-to-date access to all assets ▪ Evaluation of passive cash flows for integrated analysis of interest rate change risk
End users	Deliver detailed reporting based on individual specifications	More easily configured reports for every need

FUTURE ROAD MAP
HELPING ENSURE CONTINUED SUCCESS

MÜNCHENER VEREIN understands that past performance is no guarantee of future success. So the insurance group is already planning further improvements. Both reports and analyses are to be expanded in the future. And there are plans to extend the analysis options to include even more portfolio attributes and enable them to be linked to each other. "This will allow us, for example, to create risk-return analyses," Deifel says.

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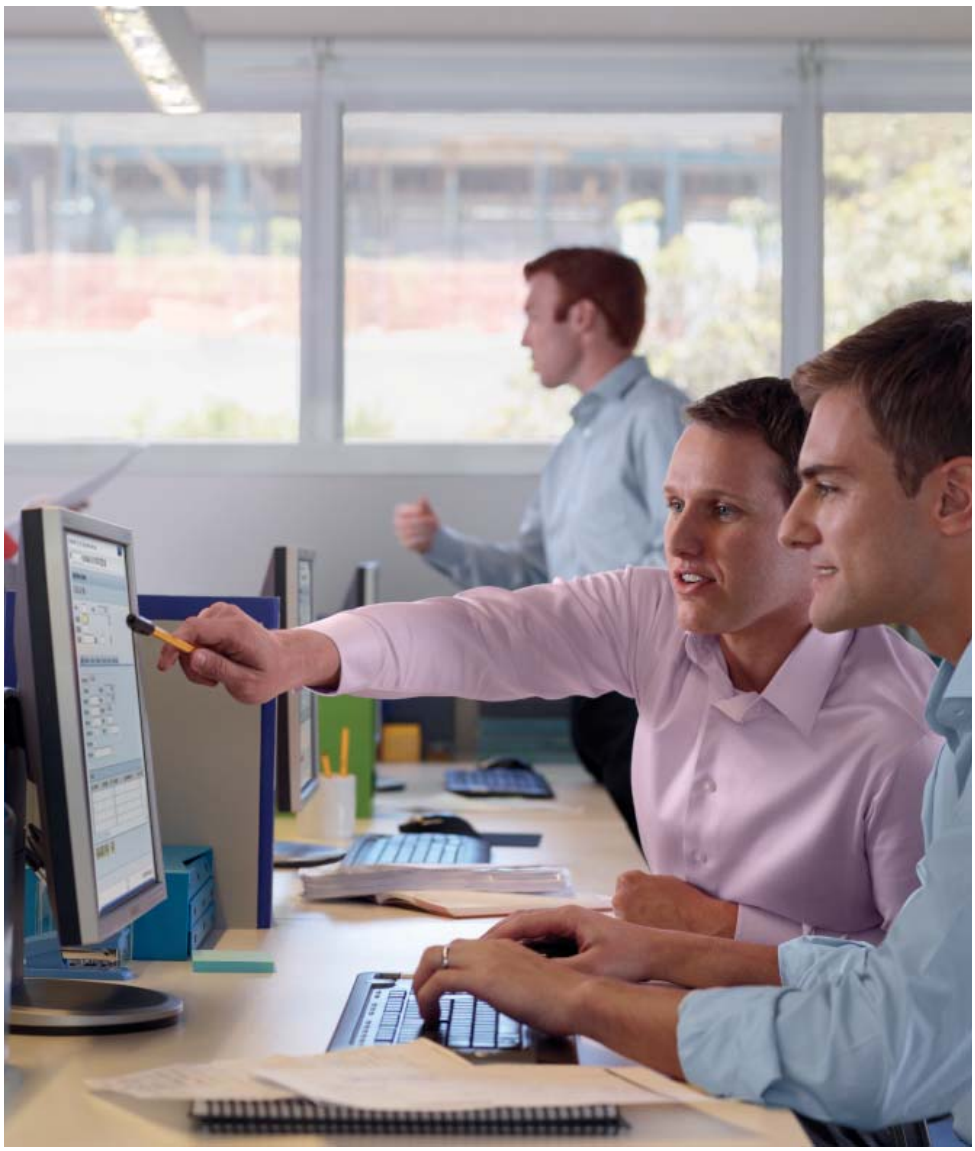
Josef Deifel, Head of Central Controlling, MÜNCHENER VEREIN Insurance Group

As Deifel reflects on the success of this project, one thing is clear. "Plenty of other companies will want a piece of this action once they realize what the SAP solution can do."



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