

# ENTERPRISE PERFORMANCE MANAGEMENT

## SOLUTIONS FOR THE INSURANCE INDUSTRY

As market challenges for the insurance industry get tougher, enterprise performance management gains in importance. But the finance department cannot do it alone; the entire corporation must focus on linking execution on an operational level with strategic guidelines issued by the board.



Insurance companies can meet their needs today while laying the foundation for the future when they rely on support from SAP® solutions for enterprise performance management. By delivering deep business insight based on a holistic view of the enterprise, these solutions help the company address the business challenges facing both the management team and the personnel making the decisions that impact operations throughout the organization.

### Challenges Specific to the Insurance Industry

The main business drivers of the insurance industry are demanding customers, increased competition, and continuous regulation. To ensure steady, profitable growth, full insight across all of the insurance business processes is necessary.

First, better informed customers expect top service and products tailored to their needs. Insurers require detailed customer and product information to identify profitable customer and product segments. To support timely decision making, insurers require information systems that deliver the necessary granularity of data.

Second, competition has intensified in the insurance business in the last few years in a market characterized by globalization and consolidation. Resulting business optimization, business networks, and collaboration contribute to the greater complexity of the underlying operational and information processes.

Third, the insurance industry is subject to a multitude of regulatory requirements from national and supranational supervisory authorities – like the National Association of Insurance Commissioners (NAIC), Financial Security Assurance Inc. (FSA), Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) – that demand close consideration. To guarantee financial stability for customers and supervisory authorities alike, top-quality information systems are required that deliver reliable data and support auditable reporting processes.

As far as figures and key performance indicators are concerned, the insurance business is very different from other industries. This is true for the liability side of the business – for life and health and property and casualty segments – as well as for the asset side of the business. This data must be managed within the scope of enterprise performance management software.

## Key Functions

SAP solutions for enterprise performance management provide leading software that unlocks information, delivers insight, manages performance, and governs compliance regardless of the underlying business applications and data stores. Goals and supporting initiatives are derived from corporate strategy and cascade throughout the company to guide the execution of all processes concerning compliance, risk, and performance, while delivering full insight into data and information. The following is a summary of the software's key functions:

- **Strategy and scorecard management** – To empower users to make decisions in line with the strategic goals of the organization and establish objectives, measures, metrics, and key performance indicators that truly reflect the levels of achievement in your organization
- **Planning, budgeting, and forecasting** – To support budgeting activities that are in sync with the plans and resources set forth in the corporate strategy, thus advancing proactive rather than reactive business tactics
- **Profitability modeling** – With time-driven, activity-based costing models that can reveal the true business drivers of product, channel, and customer profitability
- **Consolidation and financial reporting** – To give full process control and data transparency, supporting business scenario simulations that address all reporting requirements

## Meet Current Priorities and Changing Requirements

With the right data, performance management tools, and resources, your company can drive operational efficiency, facilitate regulatory and statutory compliance, and control performance for maximum profitability. To address these priorities and help you accommodate changing business requirements, enterprise performance management solutions support you in three important ways:

**Unified information** provides a view into cost and profitability at all levels of your organization, providing a broad business perspective and increased confidence that your content adheres to applicable regulations and preserves the necessary audit trails.

**Collaborative decisions** are aligned across teams and hierarchical structures, strengthened through support from business flows for both structured and unstructured data as well as by ad hoc analysis that facilitates context-driven decision making.

**Business network** optimization links financial plans to operational plans, allowing for greater predictability and performance.

## Strategy Management

Corresponding to their different business lines, asset and cost management insurance companies often have heterogeneous information and reporting systems. Incomplete and ambiguous definitions of key performance indicators lead to ineffective adoption of information. Strategic decisions are often

made in an ad hoc manner outside of any software support and may be based on spreadsheets, which cannot provide management with adequate visualization.

**The SAP Strategy Management** application supports the implementation of business strategy throughout the company, and it employs goals, metrics, and initiatives to make strategy actionable. The software aligns operational execution with strategic intent through scorecards and dashboards. Corresponding risks are taken into consideration through integration with the SAP solutions for governance, risk, and compliance.

## Planning

Planning insurance business is complex and requires the consideration of all factors affecting the business. For example, to plan written premiums the number of agents, applications per agent, renewal ratio, and lapse rate must be considered. Due to the uncertainty and randomness of insurance claims, forecasting outcomes requires detailed analysis. The claims ratio, to give another example, is driven by the claims themselves as well as by such operational drivers as the number of claim specialists and the claim-handling cycle time.

Often insurance planning software doesn't cover the full complexity inherent in the insurance business. Restricted access to financial and planning data hinders driver-based forward planning. Overreliance on personal spreadsheets and in-house solutions can calcify a company's financial performance analysis and lengthen closing and reporting periods, which has a detrimental impact on audit and compliance issues.

**The SAP Business Planning and Consolidation** application, available as a version for the SAP NetWeaver® technology platform and a version for the Microsoft platform, streamlines the planning, budgeting, and forecasting processes for insurance companies and minimizes business risk by providing valid and accurate data and reports. Applications based on best financial practices are integrated with flexible reporting and analytics functionality. Employee productivity is boosted through native access to such familiar tools as the Microsoft Office applications, including Microsoft Excel, Microsoft PowerPoint, and Microsoft Word.

#### Profitability and Cost Management

Questions insurance companies need to answer include:

- Which products and customers are profitable and which cause loss?
- What can we do to make those generating losses more profitable?
- Do we understand the true drivers of cost and profitability in our organization so that we can cut costs without compromising service?

**The BusinessObjects™ Profitability and Cost Management** application delivers metrics that reveal the major drivers impacting the cost and profitability of your customers, products, and channels as well as other aspects of your insurance business. Activity-based costing gives you insight into which activities drive costs, and you gain support for both optimizing costs and maximizing profit. Accurate measurement of process costs and customer, product, and channel profitability will help you understand exactly where your profit is made.

#### Financial Consolidation

Capital market-oriented insurance companies and insurance groups that operate globally are faced with complex accounting requirements. They must be able to conform to multiple accounting standards in parallel books for the generally accepted accounting principles (GAAP) in force in their country or region as well as to the International Financial Reporting Standards (IFRS) or U.S. GAAP. They must often combine strict time plans for disclosure with multilayer reconciliation over group hierarchies.

**The BusinessObjects Financial Consolidation** application helps insurers meet legal and management reporting requirements by providing automated, robust consolidation processes. The software can help minimize business risk and accelerate the financial reporting cycle while increasing accuracy. It helps improve compliance with regulatory and financial standards and can generate a fully documented audit trail to help reduce external audit costs.

#### Key Benefits

SAP solutions for enterprise performance management offer powerful software that can help you align corporate strategy with operational performance to deliver the following business benefits:

- **Greater agility** – Empower every stakeholder to communicate, collaborate, and execute on a commonly understood and defined action plan that you can adjust as needed
- **Deeper insight and understanding** – Identify areas of the business in need of improvement and evaluate alternative strategies for business impact and greater profit
- **Better legal and regulatory compliance processes** – Facilitate compliance with corporate transparency and financial reporting requirements, such as the Sarbanes-Oxley Act of 2002, IFRS, and regulatory requirements, including the Model Audit Rule and Solvency II
- **Closer strategic alignment** – Connect your reporting, planning, and analysis processes to access the information you need and close the gap between strategy and execution
- **Improved profitability** – Achieve operational excellence by identifying and eliminating the most crippling costs to your business and focusing on areas that deliver the most profit
- **Faster performance management cycles** – Quickly access and share financial and nonfinancial information across the enterprise and reduce overall management cycle times and the costs associated with compliance

---

## Summary

As market challenges for the insurance industry get tougher, enterprise performance management gains in importance. However, the finance department cannot bear the brunt of meeting these challenges alone. The entire corporation must focus on linking execution on an operational level with strategic guidelines issued by the board. SAP® solutions for enterprise performance management can help.

---

## Business Challenges

- Considering all relevant drivers when planning insurance business
- Using heterogeneous information and reporting systems that correspond to an insurance company's different business lines
- Making strategic decisions in an ad hoc manner outside of any software support

---

## Supported Business Processes and Software Functions

- **Strategy and scorecard management** – To empower users to make decisions in line with the strategic goals of the organization
- **Planning, budgeting, and forecasting** – To support budgeting activities that are in sync with plans set forth in the corporate strategy
- **Profitability modeling** – To deliver time-driven, activity-based costing models that can reveal the true business drivers of product, channel, and customer profitability
- **Consolidation and financial reporting** – To give full process control and data transparency

---

## Business Benefits

- **Improved legal and regulatory compliance processes** – Facilitate compliance with corporate transparency and financial reporting requirements, such as Solvency II
- **Better strategic alignment** – Connect your reporting, planning, and analysis processes to access the information you need
- **Improved profitability** – Identify and eliminate the most crippling costs to your business
- **Greater competitive advantage** – Exploit key financial and nonfinancial performance indicators to enhance your company's results
- **Faster performance management cycles** – Quickly access and share financial and nonfinancial information across the enterprise

---

## For More Information

To see how SAP solutions for enterprise performance management can help you achieve business excellence, visit [www.sap.com/epm](http://www.sap.com/epm).

50 092 217 (08/10)

©2008 by SAP AG.

All rights reserved. SAP, R/3, xApps, xApp, SAP NetWeaver, Duet, PartnerEdge, ByDesign, SAP Business ByDesign, and other SAP products and services mentioned herein as well as their respective logos are trademarks or registered trademarks of SAP AG in Germany and in several other countries all over the world.

Business Objects and the Business Objects logo, BusinessObjects, Crystal Reports, Crystal Decisions, Web Intelligence, Xcelsius, and other Business Objects products and services mentioned herein as well as their respective logos are trademarks or registered trademarks of Business Objects S.A. in the United States and in several other countries all over the world. Business Objects is an SAP company.

All other product and service names mentioned are the trademarks of their respective companies. Data contained in this document serves informational purposes only. National product specifications may vary.

These materials are subject to change without notice. These materials are provided by SAP AG and its affiliated companies ("SAP Group") for informational purposes only, without representation or warranty of any kind, and SAP Group shall not be liable for errors or omissions with respect to the materials. The only warranties for SAP Group products and services are those that are set forth in the express warranty statements accompanying such products and services, if any. Nothing herein should be construed as constituting an additional warranty.