Duck Creek Technologies

Expertise

Keeping Out of the Storm

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Technology helps insurers keep up with catastrophe reinsurance.

As climate change accelerates and weather becomes more violent, insurers are increasingly using catastrophe reinsurance to hedge their bets. Catastrophe reinsurance, however, has become more complex, making modern technology a necessity for carriers needing to get the most value from their premiums. Ceded reinsurance has been one of the industry's most technology- resistant areas, but that has begun to change over the past several years.

There are two major sides in managing a reinsurance program

Managing policies and premiums

Managing claims

Most insurers still use a spreadsheet to track policies and claims instead of a dedicated ceded system. Insurers that use this tracking method must rely on staff combing through multiple spreadsheets to identify claims. Legitimate claims, however, can fall between the cracks.

Tracking reinsurance claims, in general, is challenging; managing catastrophe claims is especially difficult. One problem is claims leakage, which occurs when an insurer fails to file a claim with a reinsurer because no one at the company realizes that a claim should have been filed. That might seem unlikely, but it's not an uncommon occurrence.

Dealing with the hours clause in catastrophe claims is another complex challenge. With catastrophe reinsurance, defining the event, or catastrophe, is crucial. Under the "hours clause," the duration of any one loss occurrence is usually limited to 72 hours. If a catastrophe's duration exceeds the hours limit, the insurer may divide the catastrophe into two or more loss occurrences.

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Consider a catastrophe that lasts 290 hours. Since it's possible to have up to four loss occurrences for such a catastrophe, grouping individual claims becomes a complex exercise. For instance, you can have four 72-hour losses that start at hour one and omit all claims for hours 289 and 290. Or you can start with hour two, and skip claims for hour one and hour 290. That only hints at the complexity of the challenge facing insurance companies needing to optimize reinsurance recoverables. **A ceded reinsurance system with an algorithm designed to optimize for such claims can remove much of the guesswork.**

Reinsurance software is not a core system, but its usefulness largely depends on how tightly it's integrated with core policy administration and claims systems. To ensure that integration, a preliminary study should be made before installing the software.

The study should include a detailed description of the company's reinsurance management processes and identification of potential gaps between those processes and the proposed solution. The study should also identify the contracts and financial data needed, establish interface specifications, define the data conversion and migration strategy and gather all reporting requirements.

In addition to connecting the data in the upstream policy administration system to the reinsurance management system, the ceded reinsurance data will need to be integrated with other applications, such as the general ledger, the claims system and business intelligence tools.

Many insurers still haven't automated reinsurance management. But as catastrophe reinsurance becomes more widespread, a capable system that can handle the hours clause and other complexities of catastrophe claims is becoming a necessity.

Learn more about Duck Creek's Reinsurance solution ▶

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ABOUT DUCK CREEK

We are Duck Creek.

We give insurers a genuine path to the future with advanced technology grounded in decades of industry expertise, responsive to the unique challenges of each carrier, and shaped by the day-to-day of human behavior.

We believe that technology should empower ingenuity, rather than replace it. Our solutions are inspired by scenarios, not screens, to accommodate variability and make room for creativity. We strive for outcomes that are immediately felt and need little explanation - where highly-customized environments flow seamlessly into how you think and work, and deep technical complexity is experienced as a moment of radical simplicity.

We are sustained by a persistent curiosity that isn't afraid to challenge the norms of this industry - that believes the vision for tomorrow need not be tied to the legacy of today - and it is our job to get you there a little sooner.

We are in the business of technology, but we also know that technology is a means to a bigger, more hopeful purpose - to incubate the ideas that will make carriers faster, smarter, and stronger; to enable people to realize their full potential; and to insure the possible, today and tomorrow.

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