



QUANTIFYING RISK, ENABLING OPPORTUNITY

MANAGING THE RISKS OF LEGACY BUSINESS

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Outcomes

- Influencers and decision-makers understand the full extent of legacy risks and the potential strategic implications
- Risk professionals are more proactive and innovative about managing these risks
- Customers get the best value-for-money experience over the whole contract term

Agenda

- **Context:** Where we are now and where we are heading
- **Explanation:** What is legacy and how it happens
- **Risk:** Understanding legacy risk and the strategic implications
- **Actions:** Rationalisation techniques with case study, and legacy avoidance

=> C E R A

Trending

- Empowered buyers are demanding a customer focus
- Regulators strongly support that
- Technology is disrupting business models
- Employees are more mobile

These trends are likely to continue and strengthen in future

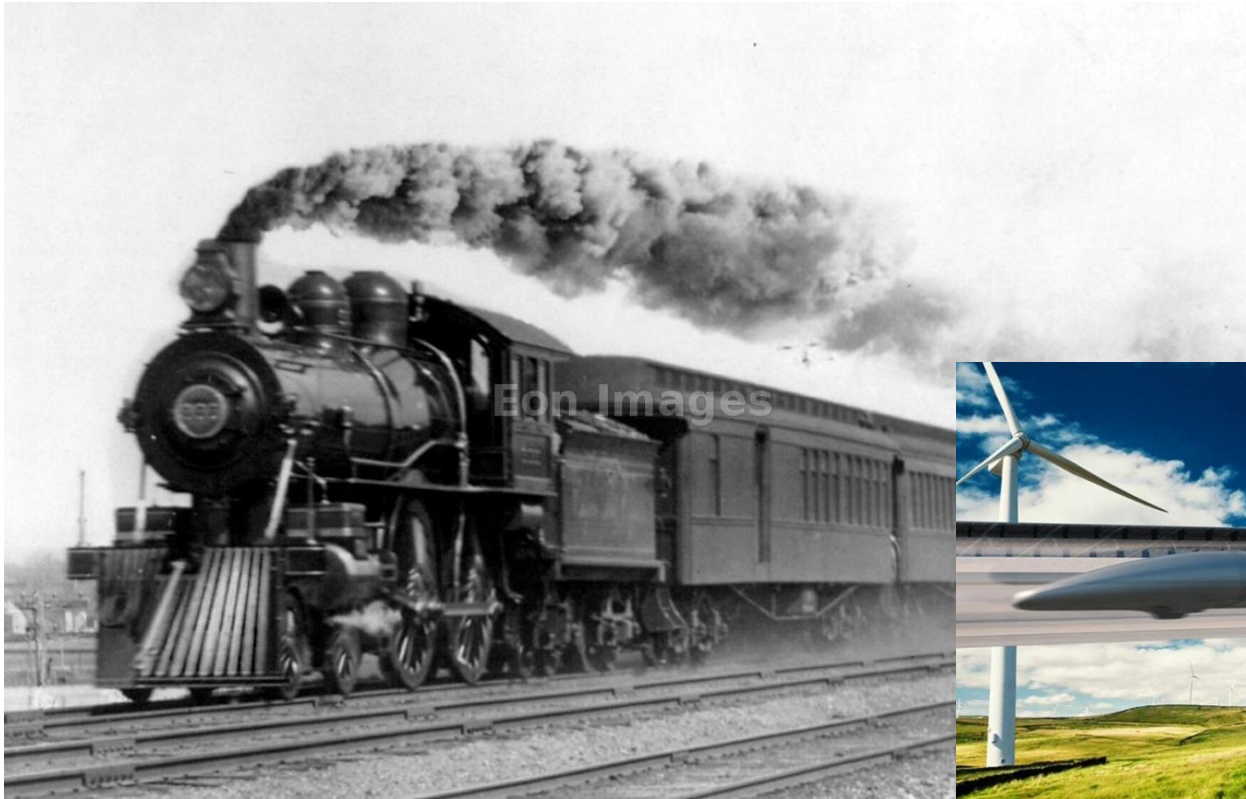
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Legacy is like...



What is legacy?

A product, platform or process that one or more stakeholders believes is:

1. Delivering less value than it could, relative to current expectations and/or
2. At risk of deteriorating in value, without a defined exit strategy.

This may include products closed to new business, but also extends to how a product is delivered and experienced, how it operates.

Legacy management is a subset of techniques that focus on enhancing and extracting value from in-force business.

Why does this happen?

- Environment and expectations change, but contracts don't
- M&A, without operational integration or standardisation
- Complexity, with scarce skills and poor knowledge management
- Proprietary IT, with limited functionality and flexibility
- Focus on new business might neglect existing business

Why does this happen?

Aspect	Bank account (transactional)	Life insurance (conventional with-profit)
Consumption period	Day-to-day	Future lifetime
Fixed contract term	One year (fees)	Whole-of-life
Change/ termination	Either party (?)	Client only
Change/ termination cost	Low	Medium-high

=> Particular challenge for long-term insurers

Legacy risk

- Legacy risk is usually recognised in risk to the sources of surplus, but perhaps not fully. Data and regulatory risks might be recognised separately. The rest is often grouped into operational risk.
- However this does not consider the opportunity costs. Depending on the significance of the business and the “gap” relative to expectations, it might actually become a strategic risk.
- Legacy risk contributes to many of the challenges that insurers face:
 - Lack of trust and TCF issues e.g. termination charges
 - Slower to exploit new technology
 - High cost bases and inflating

Legacy rationalisation

- Consider enforcing/ varying terms where the contract allows for this
- Engage clients and/ or advisers to cross-sell or up-sell
- Segment legacy business and manage it separately
- Freeze allowable changes and redirect into newer products
- Merge/ consolidate similar customer value propositions
- Migrate products to newer platforms and processes

Legacy rationalisation

ACTION	Criteria	Re-engage customer	Req. prior consent	Simplify and scale	Accelerate run-off	Complexity and cost
Contract-flex						
Upsell						
Segment						
Freeze						
Merge						
Migrate						

2015, SA life insurers closed products discussion group.

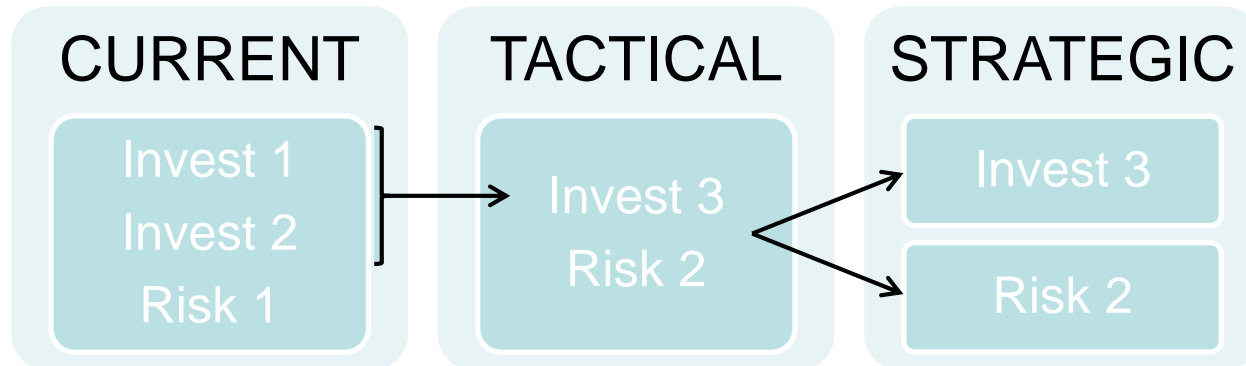
2015, EY. *Extracting value from the legacy book.*

Rationalisation case study

Full operational integration by merging and migrating:

- **Product:** System products and system portfolios
- **Platform:** Operational systems and associated applications
- **Process:** End-to-end business processes and servicing

This might not get you to the hyperloop but it is a step in that direction.



Rationalisation case study

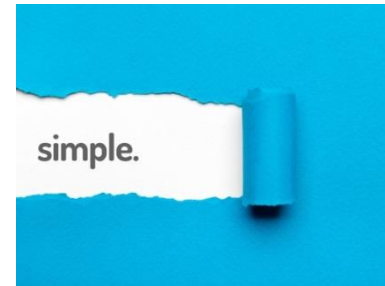
Principles



Fair (customers first)



Affordable (shareholders)



Simple (value chain)

Rationalisation case study

Critical factors

Technology
Transformation
Team
Timing
Transparency



2015, Liberty/ Mark Barberini. Liberty Active migration

2015, McKinsey. Transitioning to standard software: Lessons from ERP pioneers

Legacy avoidance

- Communication
 - Deliberately and proactively share perspectives on value with all stakeholders
- Product design
 - Consciously design and regularly upgrade customer experience
 - Price in the cost and risk of delivering a unique product feature
 - Shorter-term contracts and/or flexible terms (exit strategy)
 - Keep it simple and modular
- Growth by M&A and/or geographic expansion
 - Full and immediate operational integration
 - Or standardise as much as possible

Legacy avoidance

- Management focus
 - Segmentation models and/or modify reporting lines
 - Incentives based on value of inforce customer relationships / satisfaction metrics
- On-going operational rationalisation
 - Rationalise the system and application environment
 - Move to standard systems and software where possible
 - Standardise processing across customer-facing units
 - However must be on commercial terms

In summary

- It might be a strategic risk..
 - Meeting customer expectations
 - Compounded complexity
 - Opportunity cost
- That requires more proactive and deliberate management
 - Principles and best practice are emerging
 - There is risk in not doing anything
 - Not enough to hold capital and strengthen controls
 - Understand the whole value chain
 - Prevention is better than cure

The opportunity...

- The most fundamental risk management
 - Understand where and how value is created and is perceived to be lost
 - Work with cross-functional teams to maximise value and minimise risk
- Sustainability of stakeholder value propositions
 - Understand and report value and risk from the customers' perspective
 - Engage external parties to achieve a common understanding of the impact of regulation/ rulings/ compliance requirements
 - Look for the win-win!
- The freedom to explore...

Contributors



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Stories from the coalface

- Provencal pricing
- Skeletons in the closet
- Forgotten features
- Keyman crisis
- Cellphone companies
- Fund managers
- Other industries?