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Treasury Collections in the Insurance Industry: Current Practices and Priorities for the Future

Centralization. Few firms have a single department supporting all collections activities for all business segments. 75% organize collections by business line, with each business line organizing their collections activities independently. Life has the highest degree of decentralization (20%).

Data visibility and coordination. The segmented approach to collections creates a variety of challenges that make it difficult to identify best practices within the business and introduce best practices from outside the firm; to establish consistent and meaningful key performance indicators (KPIs) across the company; and to introduce process, technology and reporting efficiencies and cohesion.

Approaches to automation. There are increasingly techniques available to automate collections processing, such as remote deposit capture (RDC). 80% of Annuities business lines use RDC. Of these, 45% use RDC for less than 10% of collections, while the remaining 55% use RDC for more than 75% of collections.

Electronic collection methods. There is a universal drive for increasing the proportion of payments that is collected through electronic methods such as ACH and ACH Debits. Linked to this is the issue of whether, and how, to accept card payments without eroding margins. 21% of companies surveyed already accepted card payments from customers, although not for all business lines.

Technology. 75% of insurance firms use proprietary technology for collections (although this may be supplemented with third party applications), far higher than for other industries.

Mail float. Mail float is not considered a major issue for insurance firms, which are cash rich, particularly in a low-interest-rate environment.

Reconciliation and late payment. The challenge of unreconciled collections and late payments is less of an issue for the insurance industry than in other business segments; however, it remains important in terms of customer service, working capital management, investment and forecasting.

Banking relationships. 32% of responses indicated that the relationship was the most important factor when selecting or maintaining a banking partner, followed by 25% indicating customer service. Only 14% of responses ranked cost among their highest priorities.

Bank technology. Bank technology, as the means of providing timely, accurate information, is an important priority and the second highest area for improvement amongst banking partners (24%), due to the potential efficiency and bank independence that can be achieved.

Future priorities. 30% of responses indicated that improvements to internal technology and integration is the most important priority for most firms, irrespective of business line. Among medium/long term priorities are business process improvement and increased centralization (27%), and a continued trend towards technology improvement, both external (banking) technology (24%) and internal systems (22%).

Introduction

Prompt cash collection, ease of obtaining remittance data and the ability to apply incoming payments efficiently are among the most important business support requirements for insurance companies today. To explore the key challenges that insurance companies are facing, and to help position solutions to address these issues, BNY Mellon recently commissioned Asymmetric Solutions, an independent research, editorial and consultancy firm, to conduct an in-depth survey of treasury collections among some of the largest and most highly respected insurance companies in the United States. The survey aimed to understand more fully the business challenges and achievements that insurance companies have had in increasing visibility and improving control over the domestic (i.e., United States) collections function.

Research Process

A total of 46 companies were invited to participate in the BNY Mellon Treasury Collections Survey during August and September 2009. Nineteen companies (41%) chose to participate (a very high proportion compared with the industry average 5% response rate) reflecting a high degree of interest in the results of this research. Participants were invited to complete a survey questionnaire in hard copy or on-line; the majority chose the former option. Survey responses were supplemented by telephone conversations with selected respondents. These conversations are reflected in the quotes in selected sections throughout this Thought Leadership white paper.

Survey Participants

The organizations who participated in this survey include those listed below; the remaining participants preferred not to be named. We are very grateful to all the individuals within these firms who collated data. We would particularly like to thank those who shared their time and insights after the initial survey, which we believe has added significantly to the quality and value of this white paper for other participants in the industry.

AEGON USA

Blue Cross Blue Shield Association

Humana

ING North America Insurance

Lincoln Financial Group

MetLife, Inc.

National Life Group

New York Life Insurance Company

Northwestern Mutual Life

OneBeacon Insurance

Principal Financial Group

Protective Life Corporation

Prudential Financial

Safety Insurance Company

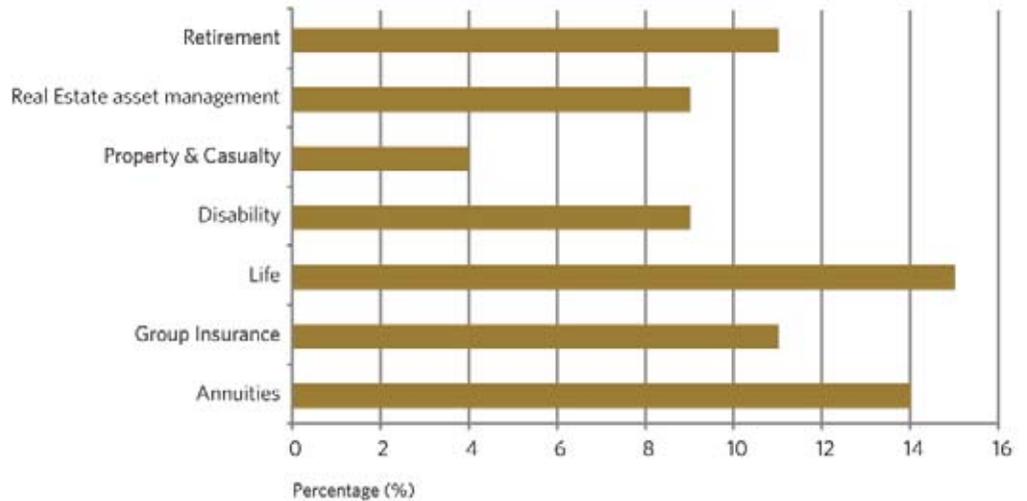
Western and Southern Life Insurance Company

Section 1. Company Information

1.1 Types of insurance offered

To find out a little more about participating companies, and to provide a framework for responses to later questions, respondents were asked what type of insurance their firm provided. “Other” types of insurance offered included group reinsurance and health insurance. Of those that indicated “Real Estate Asset Management,” this referred to real estate loans.

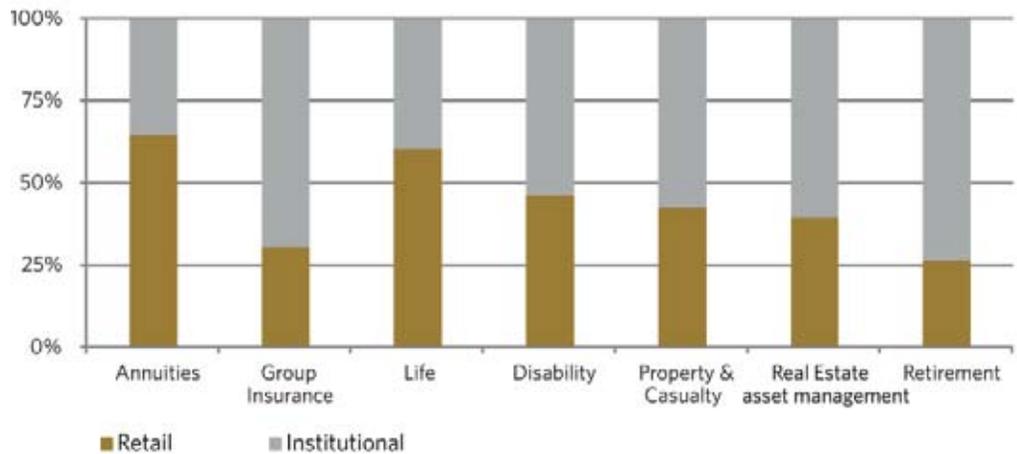
Figure 1: Participants' Business Activities



Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

Within these business lines, activities were divided between retail and institutional customers as follows:

Figure 2: Business Activities Retail/Institutional

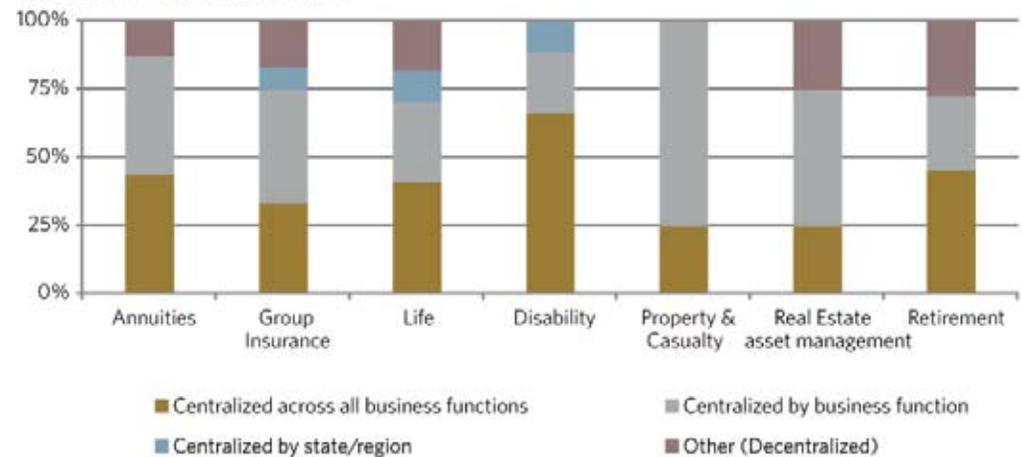


Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

Section 2. Centralization of Collections Activities

2.1 Centralization of collections activities

Figure 3: Centralization Method



Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

The majority of respondents who responded “other” typically centralized their collections by collections methods or, in some cases, collections remained decentralized, e.g., at the property level. Where companies indicated that their collections were decentralized, projects to rationalize this activity were underway. This illustrates the strong commitment to centralization of collections, recognizing the benefits in terms of process efficiency, control and visibility, and forecast accuracy.

“We have grown through acquisition, resulting in business being processed in a number of different locations. We are now reviewing this arrangement and trying to find the best location and most acceptable vendor to provide the necessary technology.”

Spencer Shell, ING America

Initially, it appeared that six (of 19) companies had established an entirely centralized collections function, which is a high proportion for corporations as a whole, and which would seem to partly reflect i) that international activities are not included; and ii) that insurance is a high-volume, low-margin business in which efficient (and timely) collections are vital to preserve margins.

However, on further exploration, it became apparent that in some of these cases, the question had been misinterpreted and collections were more commonly centralized within business lines. Furthermore, looking at the bronze and grey bars on Figure 3 above, which would appear to reflect a high degree of centralization, the reality is that although collections may be managed at business line level, this does not mean to say that there is no fragmentation and inefficiency.

“While it is true that we have centralized management and responsibility for each line of business’ collections, the degree of centralization within each business area varies in practice, largely due to the impact of acquisitions. For example, Auto and Home insurance is highly centralized, whereas in other areas, such as Annuities, there is both an in-house lockbox and various others. Therefore, on the one hand, we may have achieved centralization within each business line, but we have not necessarily yet implemented the most effective structure, although this is a planned initiative.”

Don Anderson, MetLife

“At Prudential, we do not have a central collections process. Instead each business line manages its own collections process, and has a different approach to implementing best practices.”

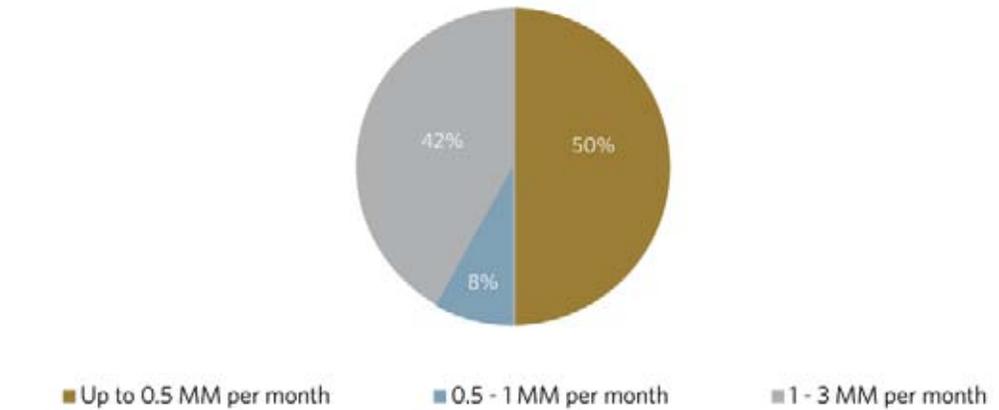
Kathleen Hoffman, Prudential

Section 3. Collection Volumes and Methods

3.1 Collection volumes

All respondents had collection volumes of less than 0.5 million per month with the exception of Life insurance, where higher volumes applied and, in one case, Annuities (>3 million per month). For example, 26% of respondents recorded volumes of up to 3 million per month, emphasizing the need for highly efficient collections processing and reconciliation to avoid the need for additional manual resources and related costs. In future iterations of this research, we will break down collection volumes under 0.5 million in more detail.

Figure 4: Monthly Collection Volumes: Life Insurance

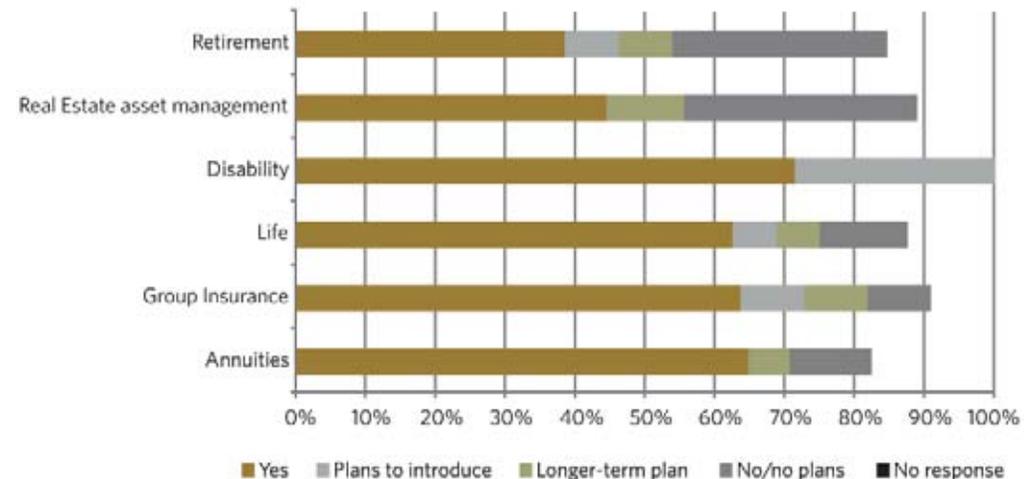


Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

What is clear, however, is that all insurance firms have high volumes of collections to process, particularly if insurance premiums are received monthly. As part of the survey, respondents were asked the proportion of premiums that were received annually, quarterly or monthly, but few had accessible data in this area, so the results have been excluded.

3.2 Use of remote deposit capture

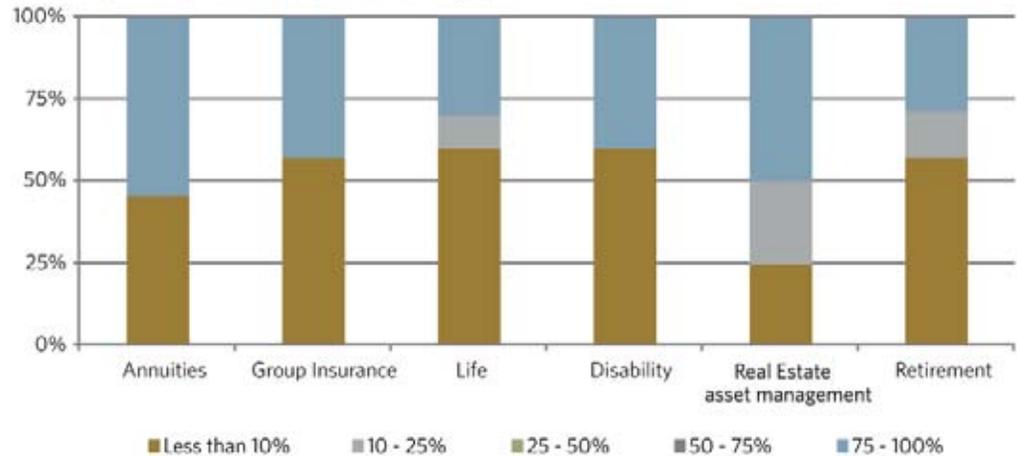
Figure 5: Use of Remote Deposit Capture



Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

While the majority of insurance firms surveyed make use of remote deposit capture for collections, there is quite a strong distinction between those who use remote deposit capture for a small minority of collections (less than 10%) and those that use it for the large majority (75-100%) as shown in Figure 6 below. This trend is consistent across all business lines, suggesting that the reason for making more or less use of remote deposit capture is a strategic rather than operational issue. As Don Anderson at MetLife mentions below, however, the advantages can be significant, but without the need for substantial investment.

Figure 6: Percentage of Collections Through Remote Deposit Capture (Among Those Using the Technique)



Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

“We make extensive use of remote deposit capture, which has proved highly successful for us. The efficiency, speed of collection and ease of reconciliation makes it an easy concept to sell to the businesses. We initially implemented remote deposit capture in two or three business lines; this enabled us to demonstrate the return on investment and overall benefit to other areas of the business. The subsequent rollout has been extremely successful, and we have recently gone live on remote deposit capture in Property & Casualty, and we are close to completion in Disability. We are also planning to develop this area further by standardizing check images with our image workflow systems to create even greater efficiencies.”

Don Anderson, MetLife

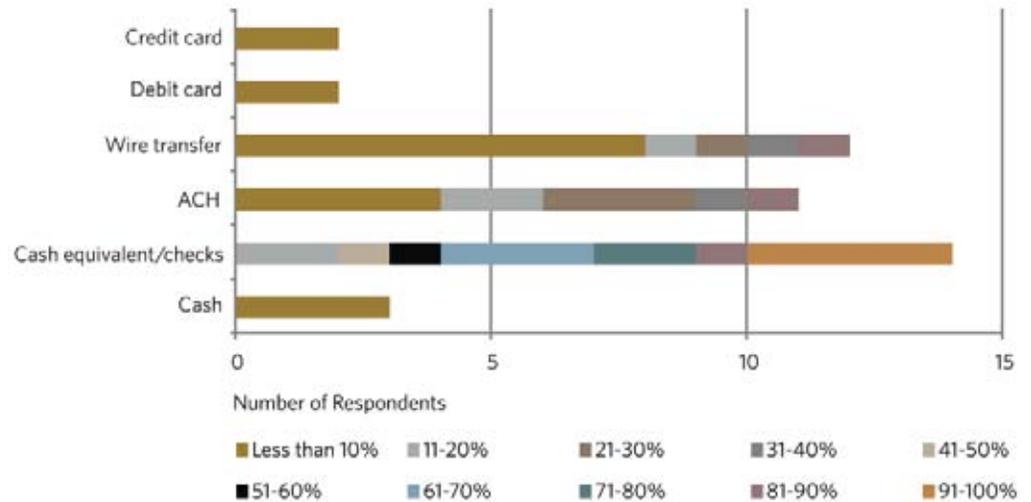
“Business lines process checks in different ways. Group Insurance, Life, etc., use an outsourced lockbox. Remote deposit capture is used only in a limited way for the low number of checks which are incorrectly sent direct to our offices. For Annuities, we have an in-house lockbox and all checks are received into our offices; for these collections, we use remote deposit capture extensively.”

Spencer Shell, ING America

3.3 Payment methods

Payment methods have proved to be one of the most important issues for survey participants; in particular, the move towards electronic payments and the dilemma of whether to support card payments in the future, and if so, how to do so without compromising the firm's financial, ideological and compliance requirements. First, we outline for each business line the proportion of payments received via each method:

Figure 7: Annuities: Payment Methods

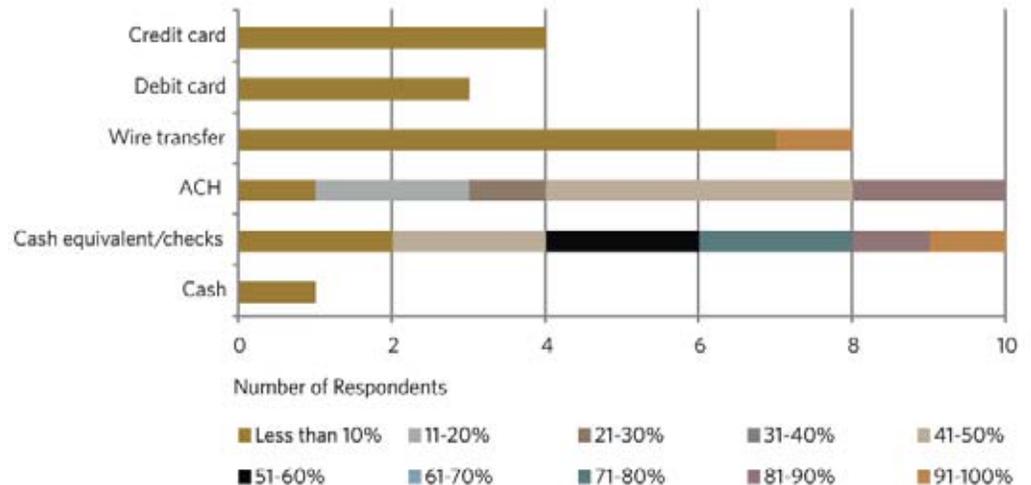


Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

Trends in Annuities:

- Prevalence of checks in most cases;
- Use of electronic methods is relatively small, but would appear to be growing. There is one notable exception, with one respondent receiving 81-90% of payments electronically.

Figure 8: Group Insurance: Payment Methods

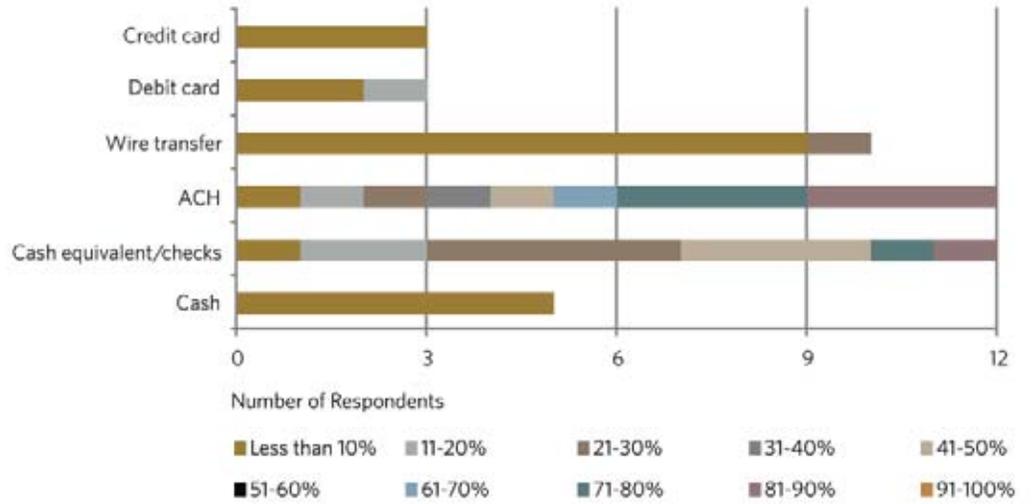


Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

Trends in Group Insurance:

- Number of companies accepting card payments is higher in Group Insurance but still for only a small minority of payments;
- Use of electronic payments (ACH) is more varied across participating companies, and would appear to be growing.

Figure 9: Life: Payment Methods

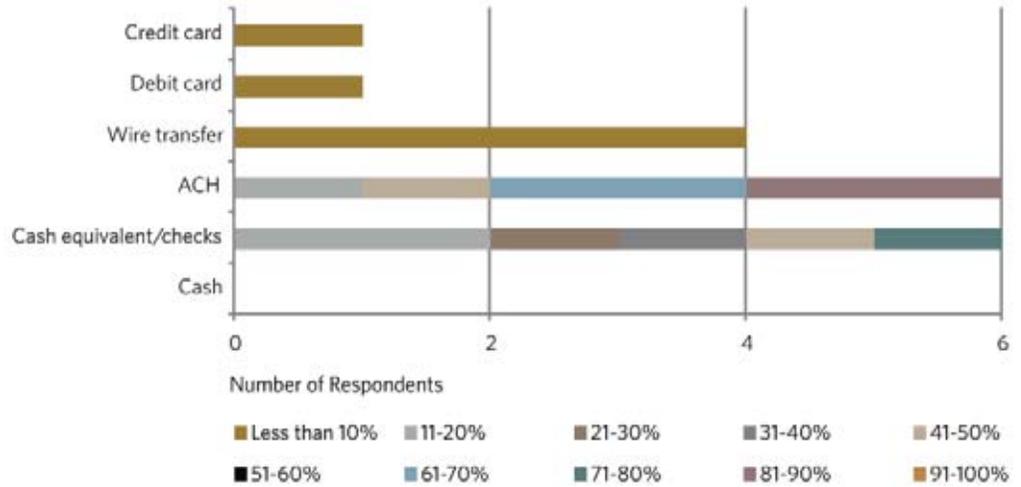


Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

Trends in Life:

- More significant acceptance of card payments (most participants did not distinguish between credit and debit card payments) together with Property & Casualty;
- Highly variable use of electronic collection methods, particularly ACH, from a relatively low usage through to a large majority of electronic collections. The majority of participants receive fewer than 50% of collections electronically.

Figure 10: Disability: Payment Methods

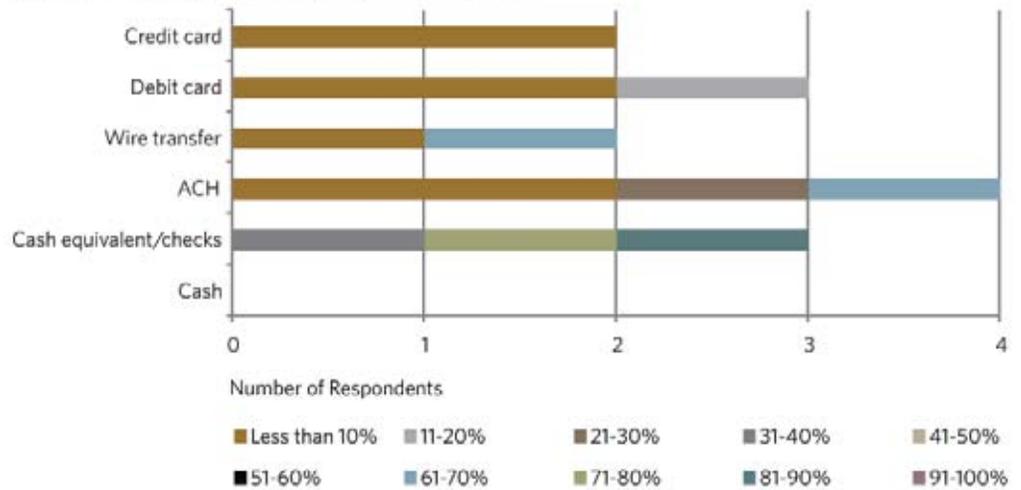


Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

Trends in Disability:

- Proportionally, more extensive use of collections via ACH than other payment methods, but these statistics are impacted by fewer firms offering Disability insurance.

Figure 11: Property & Casualty: Payment Methods

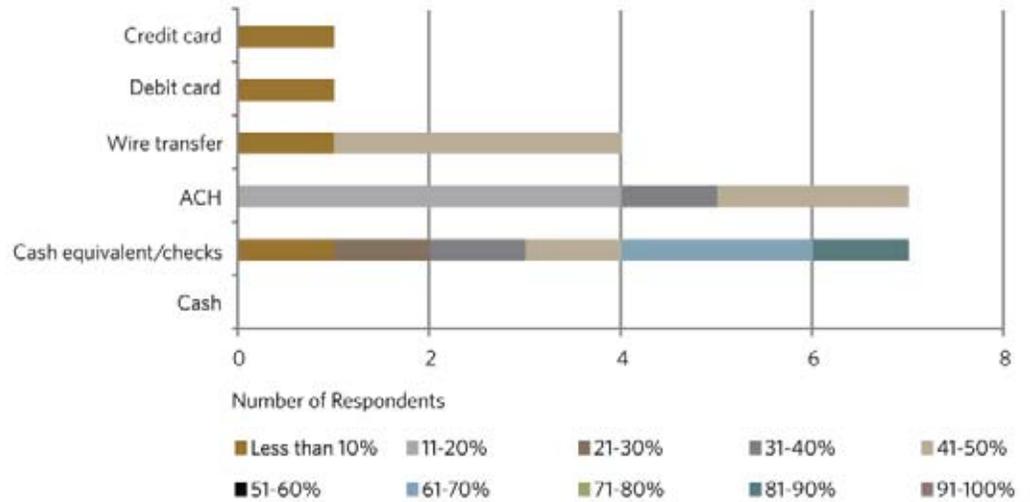


Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

Trends in Property & Casualty:

- Together with Life insurance, Property & Casualty reflects the highest proportion of collections by debit card;
- According to these results, ACH collections are relatively low, but these results are impacted by a low number of responses in this business line.

Figure 12: Real Estate Asset Management: Payment Methods

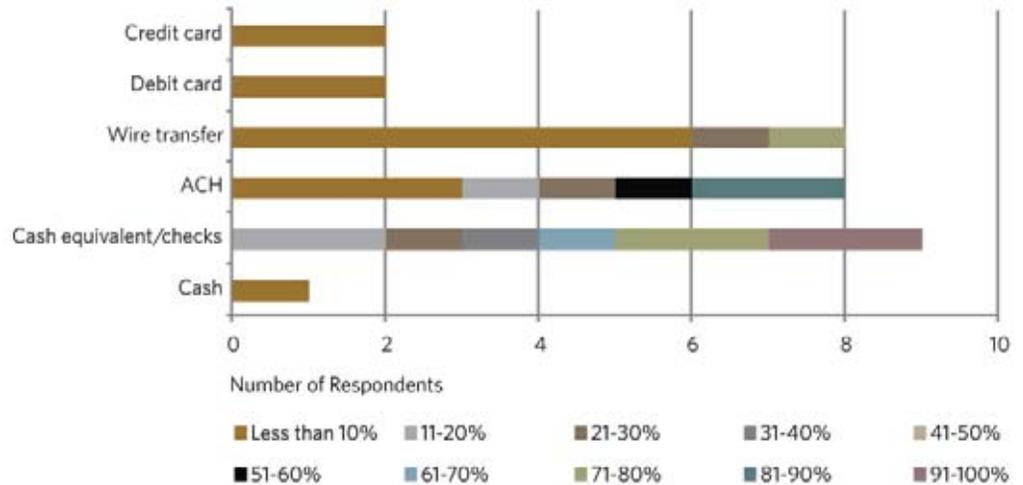


Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

Trends in Real Estate:

- Relatively low proportion of electronic collections, and high proportion of checks.

Figure 13: Retirement: Payment Methods



Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

Trends in Retirement:

- In general, relatively low proportion of electronic collections, but with some notable exceptions.

3.4 Electronic payments

Invariably, survey participants expressed their wish to increase the proportion of electronic payments received but, in some cases, they were concerned that urging customers towards ACH debits would put them in a less competitive position or could damage relationships. Others had a more proactive program of converting check payments to ACH payments. While companies that have been successful in achieving this had different approaches, one of the most important elements was to gain support and commitment from the front-line sales and marketing team. Metrics demonstrating greater loyalty among customers who pay electronically rather than by check will help to secure this, but developing these metrics will inevitably take time. The quotes herein from Don Anderson at MetLife and Laney Chace at New York Life help to illustrate the experience of organizations that have been very successful in converting customers to electronic payments.

“MetLife was one of the pioneers of pre-authorized debits several years ago, so electronic payments have always been a strong focus for us. The benefits of this approach are well understood across the firm, and customers who pay electronically have greater loyalty and longevity of relationships with us than those using other methods of payment. Despite already high levels of collections received electronically, it is a constant objective to increase this proportion even further.”

Don Anderson, MetLife

“Many of the payments we receive are by ACH debit, so we have a relatively low volume of checks. This has considerable benefits in terms of timeliness of payment and ease of reconciliation.

“One of the ways that we have achieved this is by incentivizing agents to set up new policies with ACH debits. We don't currently go back and try and encourage customers to use ACH debits after the initial sale of the policy, but this is under consideration as a way of increasing the proportion of ACH debits further.”

Laney Chace, New York Life

3.5 Card payments

As the statistics in each of the business lines above demonstrate, card payments currently reflect a very small proportion of collections; however, the dilemma of whether, and how, to enable customers to pay premium amounts by card is proving a major challenge for insurance firms. Don Anderson at MetLife and Laney Chace at New York Life outline the issues their firms are experiencing in this area.

“One of our challenges is working out how to deal with the increasing demands on the insurance industry to accept credit cards. Some are already starting to do so, which clearly adds to the pressure on others. Clearly, credit cards are an expensive way of collecting premiums, which therefore erodes margins; furthermore, it is not a legal form of payment for some business lines. This makes it difficult to implement rules which are easy to implement by our agents, and the onus is on them to make the right decisions with regards to customer payments. Consequently, we, like others, are reticent to move into card payments at present.”

Don Anderson, MetLife

“Customers are increasingly asking our agents for the ability to pay by credit or debit card, so this is an important area of focus for us. We receive card payments for a limited group of customers at present, and we are less comfortable with customers paying their premium using credit cards, but we are looking at how to accommodate this request.”

Laney Chace, New York Life

Don Anderson at MetLife outlines some of the factors which are contributing to the growing pressure on insurance firms to accept card payments.

“There are a variety of factors that are contributing to the demand for card payments. As individuals, many people are becoming more inclined towards using cards for as much expenditure as possible in order to benefit from the reward points and cashback programs that exist. Secondly, there is some internal pressure, such as by our call centers, to accept payment by card – for example, if a policy is about to lapse. We would prefer to support this requirement using a one-off ACH debit instead.”

Don Anderson, MetLife

In addition, in areas such as Group Insurance, increasing use of purchasing cards may also increase the demand from corporate clients to accept card payments in the future. Based on feedback from survey participants, the issue of card payments will be a major agenda item for the coming year.

3.6 Collections technology

The “other” response above refers to some collections activities being outsourced.

The majority of firms use a combination of different systems for collections, mostly in-house developed, but also a number of third party systems, particularly in Real Estate where third party systems are more common. A number of survey participants had a large number of systems, both across the business and within each business line. In many cases, the reason for such a plethora of systems is historic, as firms have grown through acquisition, but the use of multiple systems poses a variety of challenges:

Figure 14: Use of Collections Technology

	Enterprise Resource Planning	In-house Developed	Third-party System	Other
Annuities	2	12	5	0
Group Insurance	2	9	4	0
Life	2	11	5	1
Disability	1	6	1	0
Real Estate asset management	0	3	6	0
Retirement	1	6	5	0

Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

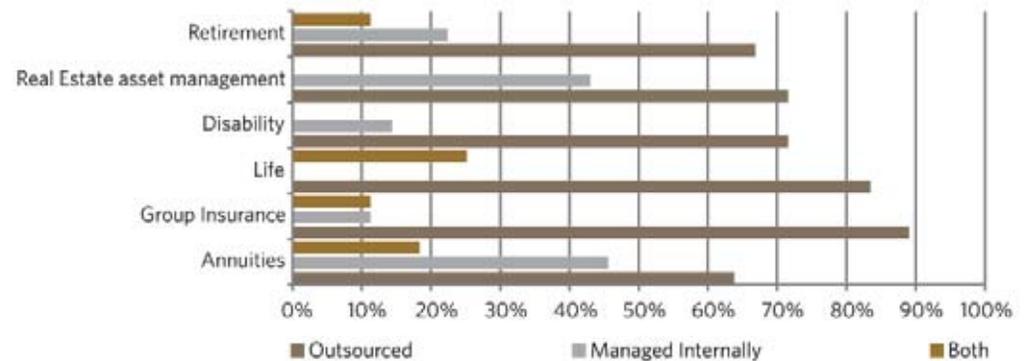
- Many of these systems need to be integrated with bank workstations, which adds to the cost and resource requirement to maintain the various interfaces that are required. Furthermore, these systems will generally receive and transmit information in different formats, adding further to the complexity of systems integration.
- Systems also need to be integrated internally, again adding to the cost and resource requirement to manage the systems environment, and impeding efforts to achieve straight-through processing of transactions.
- As these systems typically hold information in various formats, the detail of information can be lost as it is passed between systems, reducing data integrity and making it more difficult to automate tasks such as reconciliation.
- Some survey respondents described how difficult it is to obtain group-wide collections information, which is partly a factor of having collections segregated by business unit, and partly the result of having information held in multiple systems.

A number of firms indicated their intention to review and rationalize the internal systems environment as a short- or medium-term objective; however, companies' success in doing so will be affected by how much control there is centrally over systems decision-making. Without this, together with demonstrable benefits to business lines, finance managers may have little incentive to change the systems and processes that are in place currently.

Section 4. Collections Posting

4.1 Management of lockbox

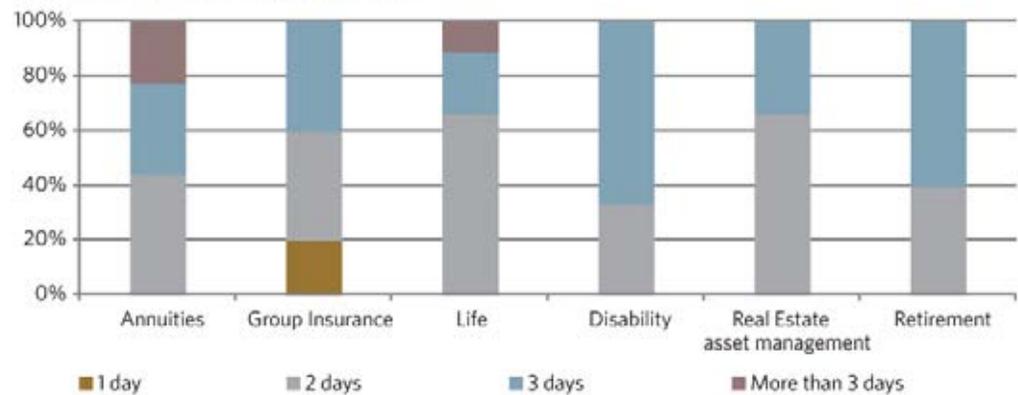
Figure 15: Management of LockBox



Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

The majority of firms use either one or more outsourced lockboxes, but there is a notable use of in-house lockboxes for Annuities. As Kathleen Hoffman at Prudential outlines in the next section, there are advantages and disadvantages to having single or multiple lockboxes. In particular, a single lockbox, whether in-house or outsourced, brings greater opportunity for centralized processes, but may lack the advantage of proximity to key customer locations.

Figure 16: Number of Days' Mail Float



Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

What is most apparent in Figure 16 is the proportion of respondents who did not know what the average mail float was for collections. In an environment where all firms are seeking to accelerate the payment cycle, with companies in many industries strenuously trying to find ways of reducing mail float, it was initially surprising that it is a minor issue for insurance companies, particularly bearing in mind the volume of checks received. Kathleen Hoffman at Prudential explains the reasons that mail float is not a major issue.

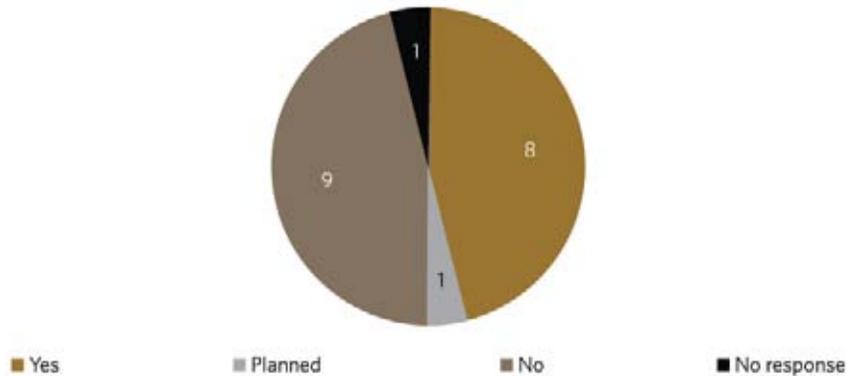
“Mail float is not a key driver of change in our collections process, especially given the low interest rate environment. In one of our businesses, we collect from across the United States into one lockbox, so we are fairly neutral about mail float. In our current arrangement, although we may lose time waiting for checks to be received into the lockbox, there are gains in terms of back office processing. We will reevaluate this with the growth of imaging. However, we try not to make major changes too often to avoid disruption to our customers.”

Kathleen Hoffman, Prudential

As she highlights, mail float may become more of an issue as interest rates rise, as firms seek to maximize the amount of cash available for investment; companies seeking to find ways to create competitive advantage may wish to consider this area earlier to take advantage of investment opportunities as they arise and optimize working capital.

4.2 Review of mail float

Figure 17: Review of Mail Float

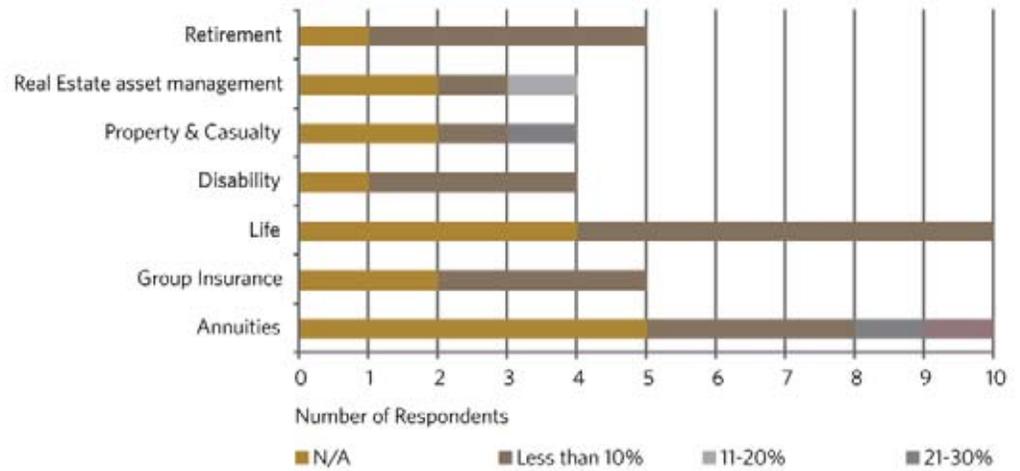


Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

As discussed in the previous section, mail float is not a major issue for insurance firms at present, further evidenced by the fact that most companies have not conducted a review of mail float recently. Since completing the survey and attending the LOMASM Conference, however, at least two additional participants have indicated their intention to review mail float, as they were concerned that they do not have statistics in this area and recognized the opportunity for increasing the efficiency and speed of the collection process.

4.3 Payments collected in branch offices

Figure 18: Payments Collected in Branch Offices and Forwarded to Payment Processing Centers



Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

The majority of firms have payments sent directly to lockboxes as opposed to payments coming into branch offices and then being forwarded to collection centers. The exception tends to be payments that are sent in error to company offices and then need to be forwarded to the lockbox.

4.4 Number of unreconciled items per day

Figure 19: Number of Unreconciled Items Per Day

	Less than 10	10 - 100	100 - 500	500 - 1,000	More than 1,000
Annuities	5	4	1	0	0
Group Insurance	3	2	3	0	0
Life	0	7	2	1	0
Disability	2	3	0	0	0
Real Estate asset management	5	1	0	0	0
Retirement	3	5	0	0	0

Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

Reconciliation of incoming payments (i.e., with policy details and/or expected collections) is less of a challenge than with other industries, as reference information such as the policy number is generally included on the payment, whereas reference information on incoming payments for other industries may differ. Furthermore, amounts are rarely netted, while in other industries, a customer due to make more than one payment, which may be due on different dates, may send in a single payment.

There are some exceptions, however, such as in Group Insurance, where the amount invoiced may not be the amount received, as Don Anderson at MetLife explains.

“A relatively high incidence of unreconciled items is an inevitable challenge in Group Insurance as the amounts will vary as staff numbers fluctuate.”

Don Anderson, MetLife

Reconciliation of Annuity payments may also cause challenges, as Spencer Shell at ING outlines.

“Collection of Annuity payments is a highly time-sensitive operation, and amounts need to be applied quickly so that investments can be made on behalf of the customer and to satisfy SEC requirements.”

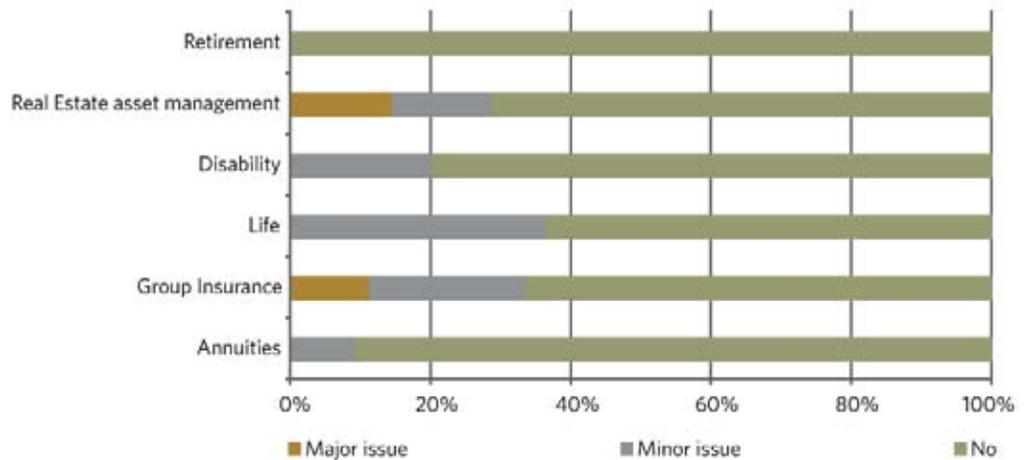
Spencer Shell, ING America

As the table above shows, the highest incidence of late payments arises in the Life business line. There would seem to be two key reasons for this: first, the volume of collections is typically higher than for other business lines, so even if the number of unreconciled items is the same proportionally as for other business lines, the actual number will be higher; second, for a business line with a high number of individual customers as opposed to institutional clients, there are likely to be situations where policy numbers, etc. are not shown on checks or remittance information is missing.

Section 5. Late Payments

5.1 Challenge of late payments

Figure 20: Challenge of Late Payments



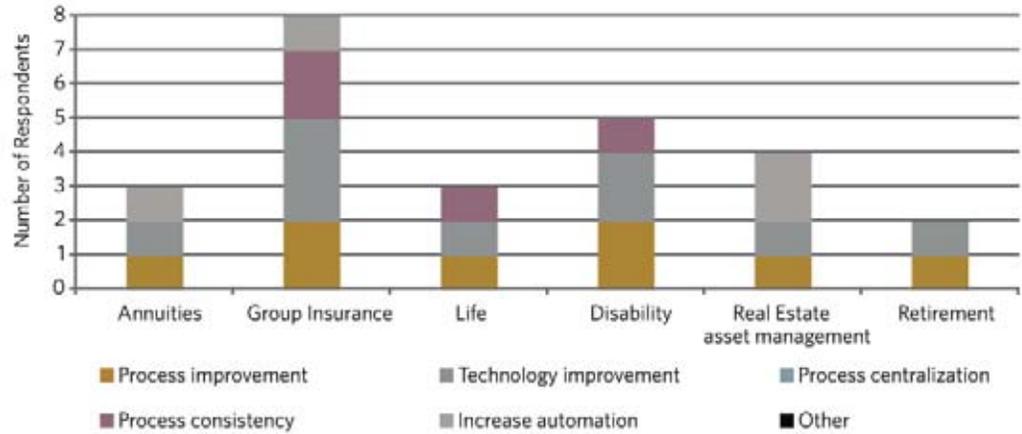
Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

In general, late payments are far less of an issue in the insurance sector than for other industries. For example, while in another industry, goods may be sent to a customer prior to invoice, which makes it more difficult to secure timely payment, an insurance policy will lapse after a certain period from the point that payment is due. As Kathleen Hoffman at Prudential explains, the concept of late payments for Annuities does not necessarily apply; but, this creates some issues with cash flow forecasting, hence the comment from one participant that late payment is a minor issue.

The only business lines in which participants indicated that late payment is a major issue was Real Estate and Group Insurance. In both cases, these business lines have a large institutional client base. In Group Insurance, late payment is primarily the result of changes to the invoice amount due to fluctuation in staff numbers.

5.2 Hindrances to reducing late payments

Figure 21: Hindrances to Reducing Late Payments



Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

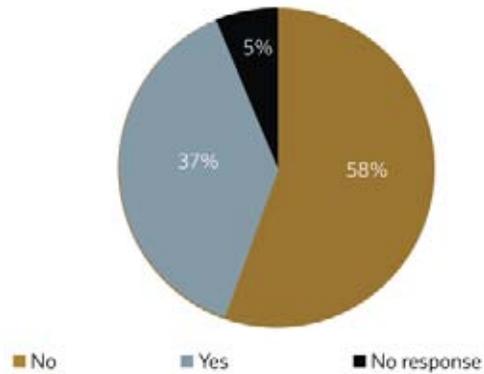
Continuing from the previous section, it is in every firm's interest to ensure that processes are as efficient as possible so that correct invoices can be sent and settled in a timely way. Firms will have different challenges in achieving this, including many of the issues that we have referred to previously, such as fragmented processes, structures and technology.

Section 6. Banking – General

This section illustrates the number of insurance companies with their own bank, and their strategy for the future. This is provided for information purposes but, as the results do not relate specifically to collections, no further commentary is provided.

6.1 Own bank

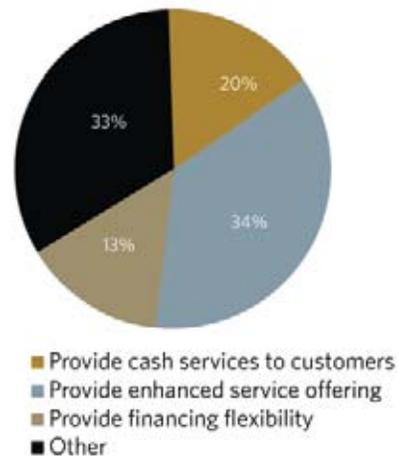
Figure 22: Does the Company Own Its Own Bank?



Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

6.2 Reasons for setting up own bank

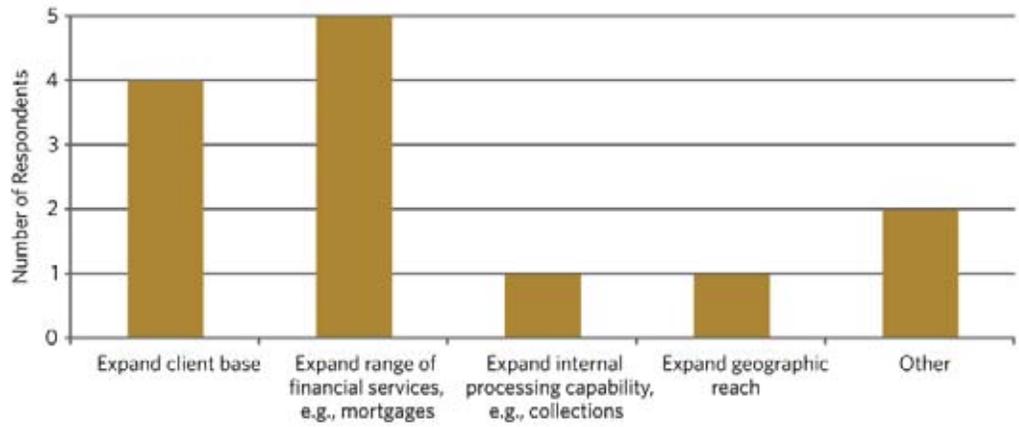
Figure 23: Reasons for Setting Up Own Bank



Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

6.3 Strategy for own bank

Figure 24: Strategy for Own Bank

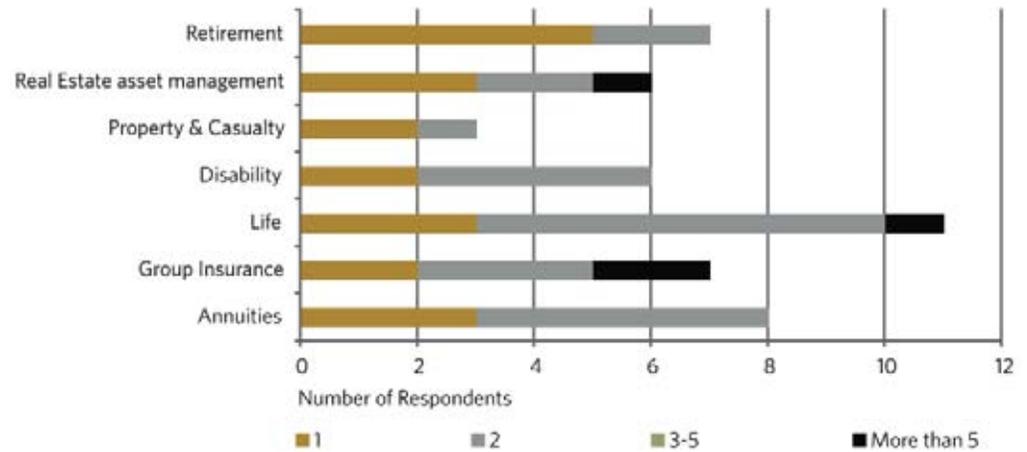


Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

Section 7. Banking – Collections

7.1 Number of collection banks

Figure 25: Number of Collection Banks

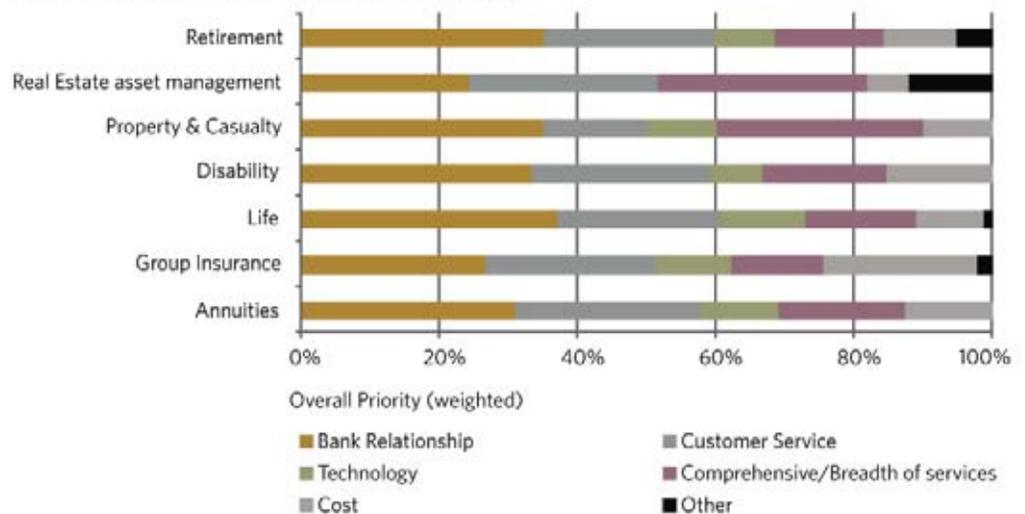


Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

The majority of respondents have one or two collection banks, which makes it easier to ensure a consistent approach to bank connectivity and integration with internal systems, and enables deeper relationships to be formed with banking partners. Where a company has three or more banks, this is the result of acquisition and participants indicated their intention to rationalize their banking relationships in the future.

7.2 Reason for selecting collection banks

Figure 26: Reasons for Selecting Collection Banks



Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

Note: Participants were asked to rank their top three reasons using "1," "2" and "3." Each response was scored, so that a "1" response, i.e., the top category, received 3 points, a "2" response received 2 points and "3" received 1 point. These were totaled for each category, and then for each business line. The percentages above reflect the category total with the business line as a whole.

Participants had a wide variety of considerations when selecting and reviewing their banking partners. One point which some participants mentioned was that there were different priorities across business lines within the same firm, even though banking decisions may be made centrally. Although technology was one of the issues cited least often during the survey, it was the issue mentioned most regularly during more detailed conversations, exemplified by Spencer Shell at ING, as there are various elements to technology. Technology is also one of the areas mentioned most regularly as an area for potential improvement as demonstrated in the section that follows.

“What we need from our banks is a combination of the right information and the right tools for interacting with the bank. From an information reporting standpoint, we need data to be made available in a variety of different formats for integration with various systems. We also need tools to interact with the flow of data in the lockbox real-time. For example, in the past, if a check was received without a remittance slip, it had to be returned or mailed to our office. Now, we are using decisioning features to review the lockbox online and apply collections quickly.”

Spencer Shell, ING America

7.3 Potential scope for improvement among collection banks

Figure 27: Potential Scope for Improvement Among Collection Banks



Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

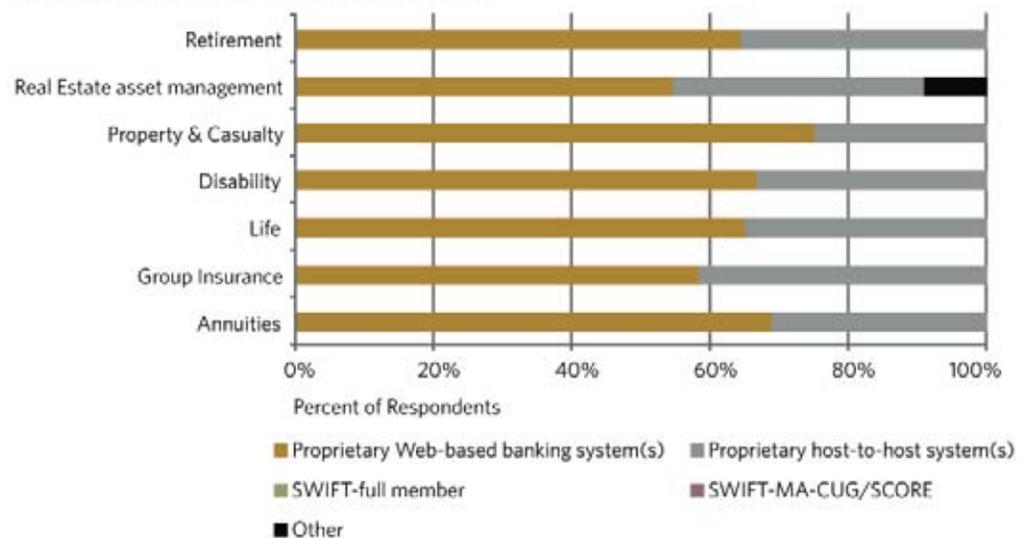
In most cases, respondents asked representatives from each business line to complete the relevant sections of the survey. A number of people mentioned that the process of collating data from across the business, and asking business lines to identify their issues and priorities had been a useful process in itself, and not one that had typically been conducted. Potential scope for improvement among banks was one of the areas which surprised some participants, as Treasury had not necessarily been aware of particular concerns. Furthermore, some of these frustrations, particularly in technology and the quality or detail of remittance information, could be resolved by providing reporting in a different format.

“While individual business lines will prioritize different areas in terms of their own dealings with their banks, the key priority from a treasury perspective is to be able to obtain detailed, timely information in a format we can integrate with our internal systems. Having approached the collections department for each business line and asked them to identify their key banking challenges, it is interesting how many of these we can address internally by ensuring that more complete or timely information is made available.”

Laney Chace, New York Life

7.4 Bank connectivity

Figure 28: Bank Communication Tools in Place



Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

The majority of respondents used web-based banking tools, with some use of host-to-host banking systems, which are integrated directly with internal systems. It was surprising that at the time of the survey (September 2009) no one had implemented SWIFT connectivity, particularly those who had their own banks.

However, two firms had plans to implement SWIFT, one of which has now done so, as Don Anderson at MetLife describes below. The likelihood is that as the cost, efficiency and standardization benefits become clearer, other firms will follow, either as full members of SWIFT in the case of those with banking licenses, or through the SWIFT Corporate Access program in others.

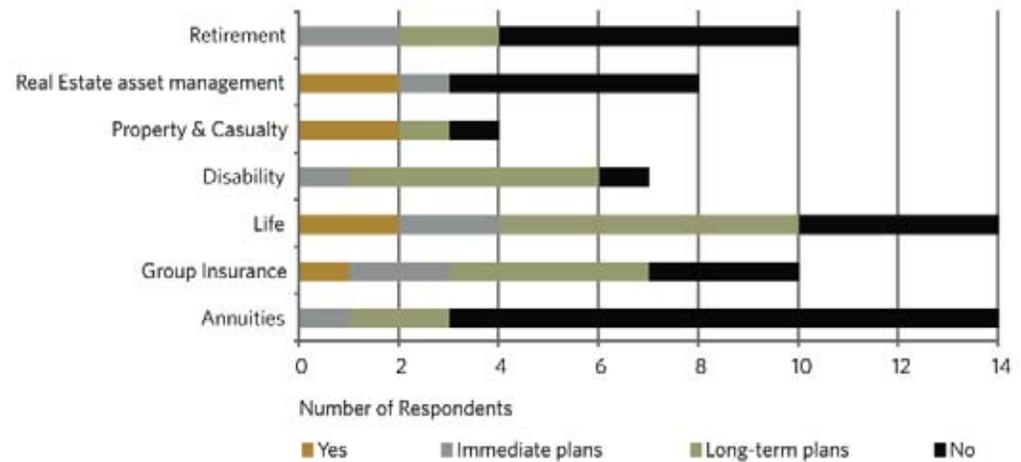
“We have now gone live on our first four banks on SWIFT, initially for external payments through our treasury management system, but we are adopting a phased approach, layering in more functionality over time, and intend to communicate with all of our banking partners through SWIFT.”

Don Anderson, MetLife

Section 8. eBilling Solutions

8.1 Use of eBilling solutions

Figure 29: Implementation of eBilling Solutions



Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

Few companies have yet implemented eBilling solutions; however, many have an efficient invoicing and collections process, particularly for their individual customer business.

Some insurance business lines lend themselves to eBilling more than others; for example, the premium for Group Insurance may fluctuate month by month and invoices frequently need to be reissued following discussion with the client. Those that have implemented these solutions have had mixed success, ranging from highly successful through to moderately unsuccessful. Most respondents indicated that such projects have been moderately successful. From discussions with the relevant participants, there would appear to be various reasons for the different success rates:

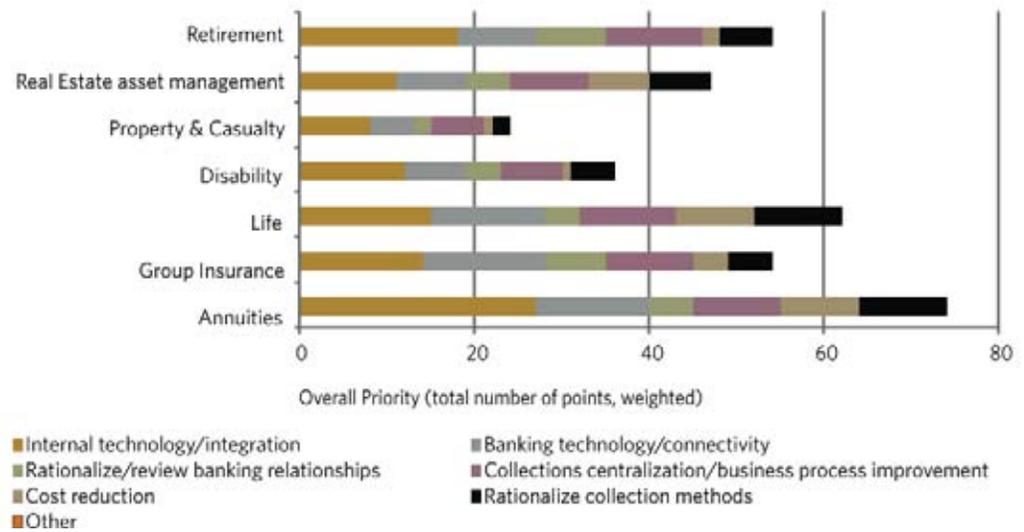
- Implementing an eBilling strategy centrally has the advantage of achieving systems cohesion across the company, but the disadvantage is that business lines have not necessarily bought into the process, and therefore implement solutions with varying degrees of enthusiasm.
- The most effective projects are those where an eBilling strategy is closely aligned with the collections process, such as the lockbox, to enable straight-through processing.
- Another factor in achieving success is to implement pilot projects with specific business lines, which helps to demonstrate value. Some firms indicated that using internal communication mechanisms, such as company newsletters, helps to encourage interest in new projects. Featuring projects in this way helps to acknowledge the commitment of team members involved in the project, and helps to sell to other business lines in a “softer” way. This applies not only for eBilling, but also in other business transformation projects such as remote deposit capture.

“We currently have a significant lockbox initiative underway, and we will be looking at several other businesses’ collection processes in 2010. We are also including eBilling in the RFP process; however, although eBilling and associated processes in the collections cycle are important to achieve an efficient and seamless process, to include these aspects initially creates an exponentially larger project with huge systems implications.”

Kathleen Hoffman, Prudential

Section 9. Future Plans

Figure 30: Short-term Collection Priorities



Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

Note: Participants were asked to rank their top three priorities using "1," "2" and "3." Each response was scored, so that a "1" response, i.e., the top category, received 3 points, a "2" response received 2 points and "3" received 1 point. These were totaled for each category, and then for each business line. The percentages above reflect the category total with the business line as a whole.

Companies have a variety of priorities, both in the short- and medium-term (Figures 30 above and 31 below). These tend to be reasonably consistent by business line, given that fewer firms offer certain types of insurance. Improvements to internal technology and integration is the most common priority, which includes a variety of different project types, including eBilling, remote deposit capture, integration with banking systems, overall systems maintenance and upgrades.

Related to this, banking technology is also important, and as indicated previously, we would expect more firms to start considering SWIFT for bank connectivity as more case studies within the insurance sector become available.

Business process improvement and increased centralization is an important issue, but generally more of a medium/long-term priority than a short-term issue, as is overall cost reduction in collections processing.

"We will be focusing on improving the efficiency of collections for our Retirement business line, which is a large part of our business. We have already implemented efficient processes in other business lines, but we may be looking to achieve some final enhancements such as converting customers to electronic payments and cutting down on exceptions."

Spencer Shell, ING America

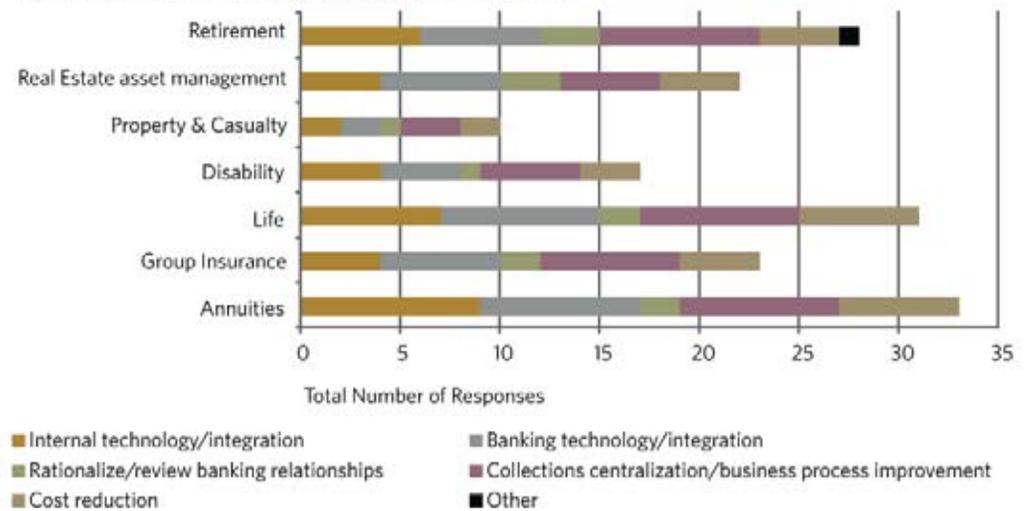
However, a short-term priority, which was expressed more strongly verbally than in the initial survey response, was converting to electronic payment methods.

“We are moving towards electronic payments, and replacing manual processes with automated ones wherever possible, such as increasing our use of remote deposit capture. The migration to electronic payments needs to be managed, for example, moving from checks to image presentment and then to ACH. We are taking a tactical approach when introducing our services to new clients and encouraging them towards ACH payments.”

Kathleen Hoffman, Prudential

Also relating to payment methods is the dilemma of how, and whether, to accept card payments, which was raised as a considerable issue during the LOMA Annual Conference and in discussions with individual participants.

Figure 31: Medium- to Long-term Collection Priorities



Source: BNY Mellon, Asymmetric Solutions Ltd, 2010.

In conclusion, what is interesting is the degree to which survey respondents’ future priorities have already been affected by their participation in this survey, as exemplified by Laney Chace at New York Life, even before the publication of results. We would expect to see issues such as mail float, bank connectivity, remote deposit capture and centralization of processes to become more significant issues, and it will be interesting to see the extent to which this is borne out during next year’s survey.

“This process has been very useful for us to identify challenges and issues across our collections activities which we are able to resolve quite easily, such as providing more detailed reporting. For us, the most important consideration for the future is to have access to a real-time feed of data in a format that we can integrate into our in-house systems, so we can implement an automated workflow. The less we have to work with data manually, the less scope there is for error, so this is an important focus area for us.

“The likelihood is that having implemented straight-through processing for one business line, others will also want to take advantage of the same degree of automation.”

Laney Chace, New York Life

Checklist for Consideration

- ✓ **Centralization.** Few firms have a single department supporting all collection activities for all business segments. The majority organize collections by business line. This is often the result of M&A.
 - ✓ **Technology.** Technology is often fragmented across the business, again, particularly as a result of M&A. This potentially leads to higher administrative costs, difficulties in integrating systems with other internal systems, and a loss of data integrity.
 - ✓ **Electronic collection methods.** There is a universal drive for increasing the proportion of payments collected through electronic methods such as ACH.
 - ✓ **Banking relationships.** By understanding each business line's requirements and priorities from their banking relationships, treasury can help improve the experience of business unit users.
 - ✓ **Bank technology.** As a means of providing timely, accurate information, this is an important priority. Surprisingly, relatively few insurance firms have implemented SWIFT connectivity with their banks.
 - ✓ **Automation.** Increasingly, there are techniques available to automate collections processing, such as remote data capture. The majority of firms have introduced such techniques, but there are considerable differences in adaptation.
 - ✓ **Data visibility and coordination.** A segmented approach to collections creates many challenges, including a difficulty in collating data held in different parts of the business.
 - ✓ **Card Transactions.** There is increasing industry pressure to accept debit and credit card transactions.
-

Conclusion

Improvements to internal technology and integration are the most important priorities for most firms, regardless of business line. This includes a variety of different project types, including eBilling, remote deposit capture, integration with banking systems, overall systems maintenance and upgrades. Dealing with electronic payment methods, including the issue of card payments, is an important short-term priority. Business process improvement and increased centralization, though also important, are generally medium- to long-term priorities.

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