

Success Story

R+V Versicherung AG



Prof. **Schumann** GmbH
innovative information systems

www.prof-schumann.de

Systematic insurance against credit default

R+V Insurance has its roots in the cooperative movement. This partnership has a long tradition and had a decisive influence on the development of the company. Today, R+V Insurance is a cornerstone of the cooperative financial institutions in Germany: it is the cooperative insurer and through its close connections to the Volksbank and Raiffeisenbank it is the largest bank insurer in Germany.

One area of business at R+V is credit insurance, which in addition to other insurance possibilities includes credit default insurance. An insurance against credit default covers the economic risk taken by companies when they grant supplier credit in a broad sense, especially through the insolvency of the customer. Such credit is usually based on a contract between the customer and the supplier regarding the supply of goods or services in return for payment. From the point of view of the insurance company, the supplier is also the insured party (customer of R+V). The company or individual that orders the goods or services is often referred to as the "risk" because their inability to pay or insolvency, and the resulting default on unpaid invoices, is the actual risk for the supplier, against which it is covered by taking out credit default insurance.

Working together with Prof. Schumann GmbH, R+V was able to optimize its processes in this area and significantly increase its efficiency. In the year 2002 the software CAM (Credit Application Manager) was introduced at R+V. CAM is credit management software that makes possible IT-supported implementation of credit policy and almost complete automation of the processes based on it. Today, the complete risk portfolio of the credit default insurance is comprehensively monitored and the number of applications processed by each member of staff has been considerably increased.

Over time, the software has been continually adapted to new developments and challenges and has thus become the central platform for creditworthiness checks in the context of commercial credit insurance at R+V.

Initial situation:

Lists and manual processing

In 1998 credit default insurance was introduced at R+V in addition to surety bonds, in order to complete the product portfolio. At first, the customer base was fairly small and a Microsoft Access based solution was used. This, however, had the major disadvantage that it was not connected to any of the other IT systems at R+V. In particular, the systems for the administration of contracts and the processing of claims were not connected with the tool for creditworthiness checking. This separation of the systems caused redundant compilation of data in many cases, which created unnecessary work in the daily activities of the staff and led to serious differences between the data held in the various systems. Furthermore, as the customer base grew the lists steadily became longer and less comprehensible.

The task:

Integration, automation and service

Against the background of these various isolated systems and the lack of automated processes, a new solution was urgently needed. On the basis of an analysis of the current situation at the time and the strategic requirements of R+V the following three task areas were identified:

- ◆ Integration of the involved systems,
- ◆ automation of the processes and
- ◆ improvement of customer service.

Central data storage and access, and the avoidance of redundant data were defined as targets for the system integration.

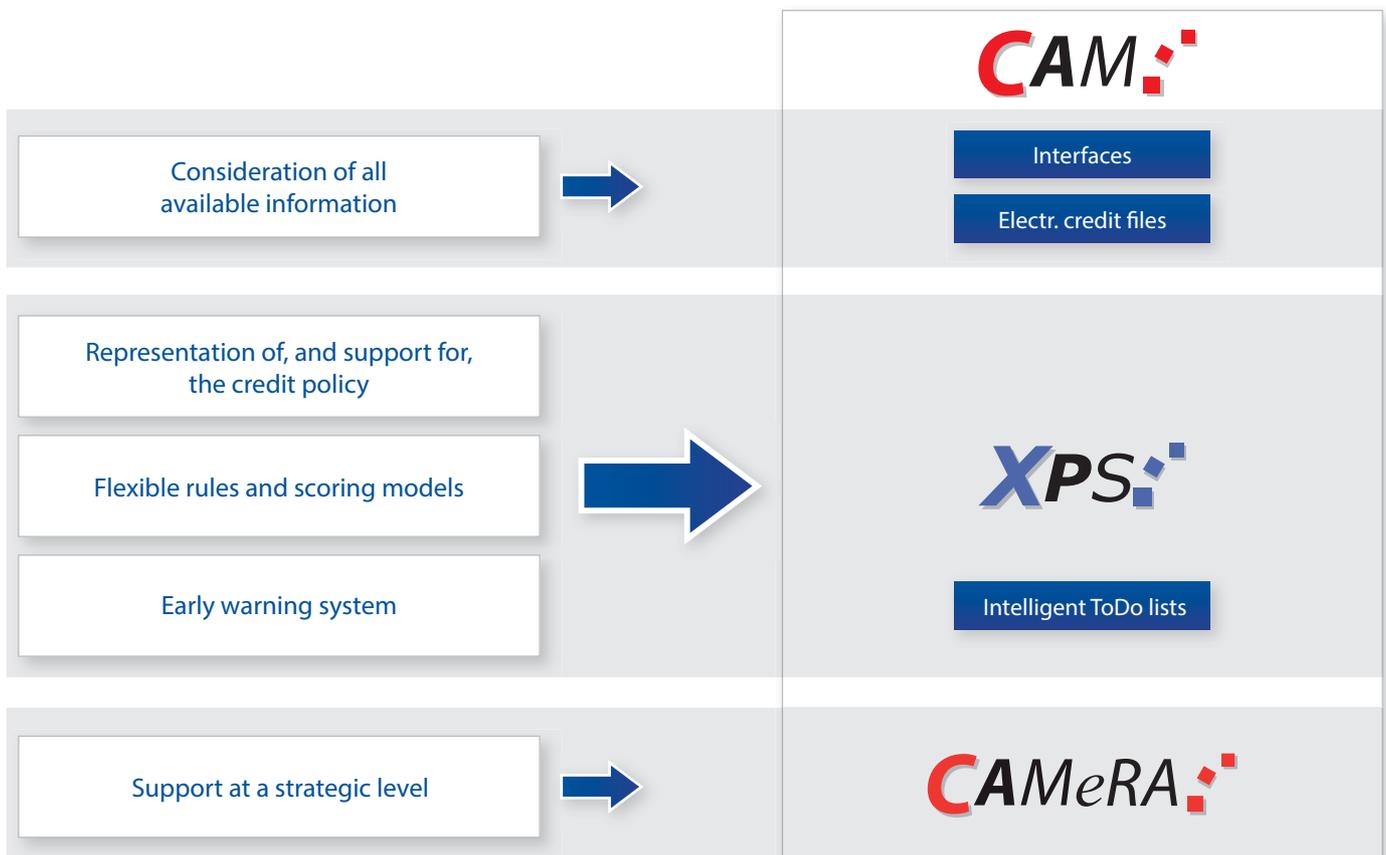
The main priorities for process optimization were the automated procurement of creditworthiness-relevant information, automated creditworthiness rating (where necessary, with the option of manual input) and automated credit decisions. In addition, the sending of credit notifications to the insurance customer was to be automated and automatic creditworthiness monitoring with an intelligent early warning function was to be introduced. The improvement of customer service was the third task area. Here, shorter processing times for credit applications, central availability of important data for customer care and a better service in response to inquiries by the insurance customer were needed. Furthermore, in the context of service optimization, fees for creditworthiness checking were to be invoiced automatically.

The introduction of CAM

In order to achieve these complex tasks, R+V decided to introduce Credit Application Manager. In making this decision, value was especially placed on system integration as one of the central tasks for the realization of the project. Therefore, master and contract data from existing systems on insurance customers and risks was integrated and the problem of redundant data storage was solved. Using CAM, data is now stored and accessed centrally. At the same time, the existing systems at R+V are now supplied with relevant information from CAM on demand.

In order to achieve increased automation it was first necessary to define rules for the processes, both for information procurement and evaluation, and for credit decisions and monitoring.

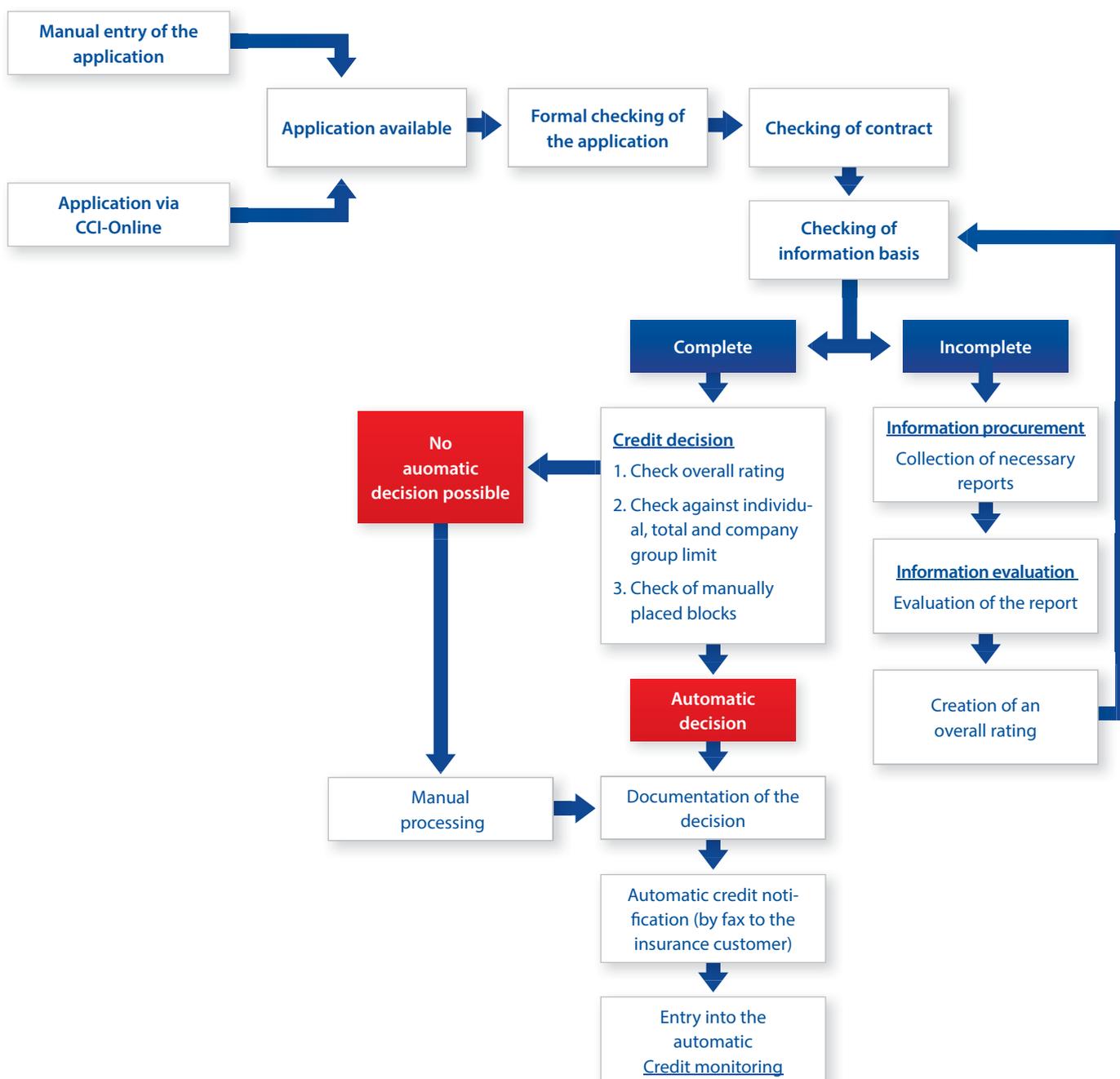
The structure of Credit Application Manager (CAM)



These sets of rules were entered into the expert systems (XPS) that are part of CAM. It is thus possible to define the credit policy in the form of rules, flexibly and individually. With XPS, all the specialist requirements of the credit policy, the evaluation of debtors, the management of Todos

as well as many aspects of the workflow can be set up in an uncomplicated manner. In addition to the flexibility, it is a great advantage that in XPS the specialist processes and evaluation rules are stored separately from the software so that adaptations can be made without any complex

Automated credit application process with information procurement and evaluation, and decisions on applications



programming work being necessary. Realization of the automated procurement of creditworthiness information was also planned. For this purpose, the relevant information modules from CAM were used, which make possible the electronic integration of business information reports as well as bank reports. In addition, modules for the integration of personal information were added. These are of particular importance in the case of small business operators.

Further components were added to make possible the depiction of connections between companies and also the automatic condensing of all the available information to an overall rating, and automatic credit limit allocation, within an aggregated risk report.

As an essential part of the new system, credit application management and automated decision-making processes were also integrated. The system is thus able – within defined limits – to make decisions on credit applications completely automatically (see graphic). In cases where an automatic decision is not possible, the process is at least prepared by the system to such an extent that the credit manager is presented with all the necessary information. For increased service optimization, integration of an invoicing system for credit check fees as well as the connection to an internal fax server for the fully automated sending of credit notifications to insurance customers were realized. The graphic shows the method of operation of the automated credit application process with CAM. The workflow and the decisions are determined by the expert systems that work in the background.

Support for the decision-making process

The credit limit application from the insurance customer is made either directly via the web-based R+V customer portal or must be compiled manually. It is then automatically checked whether the application has been submitted correctly in relation to the credit insurance contract. If this is the case, then the system checks whether a decision can be made directly on the basis of the available information or whether additional information must be obtained.

The part of the process for the determination of the rating is explained in the next section.

On the basis of the overall rating and with the help of further information an overall and individual limit for the company (the risk) is determined, or the extent to which the application from the insurance customer can be served is checked. If a decision is made fully automatically, this is communicated to the customer via the online portal soon after the application is made. Independently of this, the customer receives a fax in every case that is automatically generated and sent via the fax server. This decision is documented in the system for the risk and for the insurance customer. If the proposed credit limit exceeds the amount for which automatic decisions can be made, or the evaluation is not clear-cut, the application is presented to a credit manager with a prepared recommendation for the decision. The credit manager then uses the system to document his final decision.

Once a risk has been checked and a limit has been allocated, the company is then automatically entered into the credit monitoring system. Here, external information from information services, exposure notifications from the insurance customer and new internal information are used almost completely automatically to check and update the creditworthiness estimate or are presented to the credit manager. The result can be a change in creditworthiness, which in the worst case can lead to a reduction or cancellation of the credit limit.

All of the actions described above are historized in the system independently of version updates, so that the decision-making history can be reconstructed at any time in the future.

Method of information evaluation

Before a limit is allocated, a multi-level, system-supported evaluation of the information takes place in order to estimate the creditworthiness of the risk. With the limit application from the insurance customer as a starting point, the system determines which information is required. If the risk company is already known and has been evaluated, and the information with which the evaluation was

carried out is still current, limit allocation can be carried out directly with the support of the system on the basis of this evaluation. Otherwise, the necessary information is retrieved online. In this case, CAM first evaluates the individual information sources. With the help of structured individual information, estimates are made and condensed into an overall estimate. If knockout criteria are discovered, a refusal can be generated directly. For some information sources text analysis is used to investigate parts of the free-text information. It is also checked whether there are contradictions between important content from the various information sources.

If the latter is the case, then the prepared analysis of the risk is presented to a credit manager for further evaluation. Otherwise, the individual evaluations for the various information sources are combined to form an overall judgement on the risk, which is an estimation of the creditworthiness. This evaluation is then used to determine limit allocation.

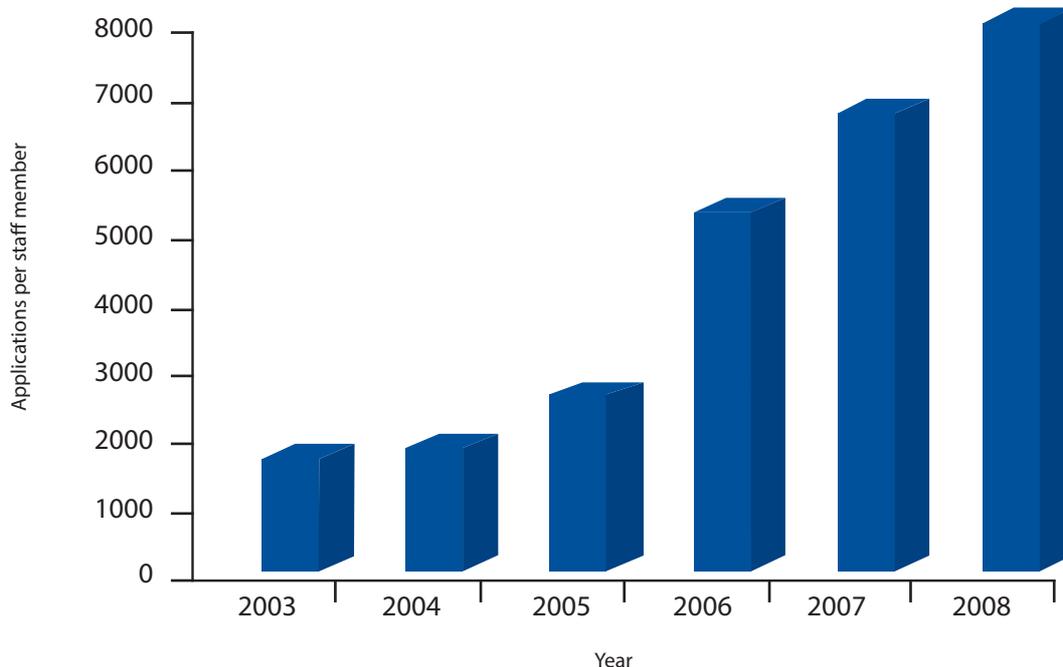
**Primary target achieved:
Increased efficiency and reduced costs**

The staff in the area of banks/credit at R+V have been working productively with CAM since 2002. Initially, there was a test phase in which the staff had the possibility to get to know the system. After the system had been in use for only a short time it became clear that all the primary targets in terms of integration, automation and service optimization had been achieved.

Through the constant automated monitoring of all the risks in the R+V commercial credit insurance portfolio, a much deeper level of creditworthiness checking has been achieved than was ever possible with manual monitoring.

Whereas only a few companies could be continuously monitored manually (especially in times of increasing applications), this is possible with CAM without any increase in time or staff requirements. In addition, duplicate files and threatening creditworthiness deteriorations are recognized at an early stage throughout the customer base.

Increase in efficiency through automation and centralization, measured by the number of applications per staff member and year (new applications and increases only).



The workflow is accelerated and the credit managers are relieved of routine work, so that more time is available to consider cases with a complex data situation or where there is a high exposure. This also improves the motivation of the staff. Transparency and automation both lead to cost reductions. The graphic clearly shows how staff efficiency has been increased by using the CAM system.

Further components

Because of the constantly growing customer base and the increasing number of applications and users the introduction of an extended user-rights model was necessary. The previously existing responsibilities (individual limit, overall limit, group limit) were transformed into a model that was entered into the system. Using the credit portal, the insurance customer has the possibility to check his contract and his coverage agreements directly and at any time of day. Customers who have purchased commercial credit insurance (CCI) can place credit applications online via the portal, view their contracts, manage their limits and apply for new limits.

In addition to the support at the operative level, CAM also offers the possibility to provide support at a strategic level for the overall management of the commercial credit insurance portfolio. The reporting and portfolio analysis module CAMeRA facilitates strategic portfolio analysis by combining and evaluating the individual pieces of information stored in CAM. In addition to CAMeRA, R+V uses its own data warehouse to create evaluations, to which the data from CAM is exported. But whereas these evaluations are only updated once a month, CAMeRA can be used to generate a report from the current data at any time.

CAMeRA therefore offers R+V an overview, for example, of the current exposure distribution and an up-to-date industry risk analysis for all risks.

Innovation & dynamism

Credit Application Manager has made it possible for R+V credit default insurance to automate processes to a large extent and thus considerably improve their efficiency. Furthermore, CAM is a flexible and dynamically expanding system.

This flexibility means that R+V commercial credit insurance is also well-positioned for future developments. CAM can easily be adapted to changes and new challenges. Thereby, the individual wishes of the company as well as changes in external conditions can be integrated without problems into the system. With its innovative and comprehensive approach, CAM supports both the operative and the strategic levels for R+V credit default insurance optimally, and will continue to do so in the future.

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