

# Insurance company enhances payments capabilities to create a seamless client experience



The organization in this case study is an insurance company operating in Canada and globally. It is focused on improving its digital capabilities in order to better meet emerging client needs and has made ongoing investments in its payments technology.

It is an active participant in consultation with Payments Canada regarding its Modernization program and is already planning on enablement of the changes that have been proposed. It is actively pursuing migration away from cheques into electronic payments and has also initiated pilots for real-time payments in countries where the infrastructure already exists. The organization invested in a payments hub that centralizes payment processing and remains committed to expanding the functionality that it provides.

This case study explores how the organization is re-thinking the role that payments play in support of delivering a seamless client experience.

## Key themes explored in this case study



1. How can companies re-define the way they think about payments capabilities to drive frictionless interactions with their clients?



2. How can a payments hub boost payments processes in an organization?



3. What innovation opportunities can be unlocked by a modernized national infrastructure?



*Migrating payments capabilities to a payments hub*



*Promoting a digital mandate*



*Aligning with Payments Canada's Modernization agenda*

This case study was developed through multiple interviews with employees in key payments, business support and leadership roles. Its findings are substantiated by facts that the organization was willing to share without compromising proprietary information.

# EXECUTIVE SUMMARY



## Drivers of change



- Desire for increased visibility into payments in order to simplify operations and increase controls.
- Aspiration for better client engagement through a simplified experience.

## Potential benefits from modernization



- \$4.8M to \$9.1M over five years.
- \$950K to \$2M on an annual basis.
- \$1M due to enhanced data richness in electronic payments via ISO 20022. Includes savings derived from migrating cheques into electronic payments.

## Source of benefits



- Savings associated with moving away from cheques and wires into Automated Funds Transfer (AFT) and real-time payments.
- Increased automation enabling reduction of manual exception handling.
- Ability to better engage with clients by removing artificial barriers caused by inefficient payments.
- Productivity gains from reduction in internal queries about variations in bank file structures.

## Projected effort



- Expectation for a multi-year, multi-million dollar cost initiative based on previous experience with similar activity.

## Accelerators



- Commitment to continued investments in a payments hub.
- Sound organizational awareness of upcoming modernization changes due to active engagement of key executives with Payments Canada.
- Leverage experience gained through ISO 20022 implementations for wire payments in Canada and the U.S.
- Commitment to digital transformation and payments innovation.

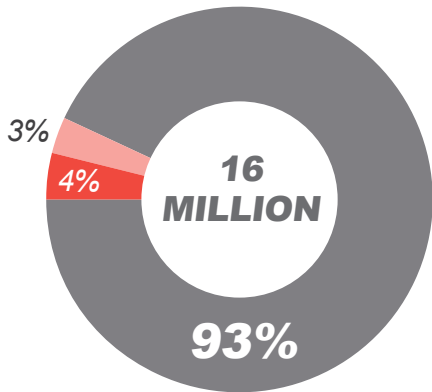
## Lessons learned



- Variability in bank files remains despite adoption of ISO 20022 for wires.
- Need to invest in middleware to enhance ability to extract data from source systems.
- Need for proactive engagement in understanding new guidelines for ISO 20022 and real-time payments.

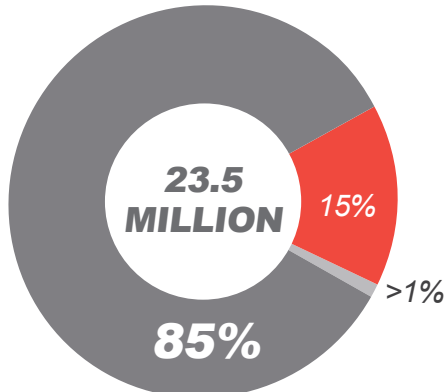


The organization's payments activity is driven by claims disbursements to, and collection of premiums from, its clients. In Canada, it processes 16M incoming payments per year of which 93 per cent are AFT and four per cent are cheque and three per cent are credit cards. In turn, it remits 23.5M payments per year of which 85 per cent are AFT, 15 per cent are cheque and less than one per cent are wire transfers.



Distribution of incoming payments processed by the organization

- Cheque payments
- Credit card
- AFT payments



Distribution of outgoing payments processed by the organization

- Cheque payments
- Wire transfer and money orders
- AFT payments

Key payments processing activities include:

- **Claims disbursements:** Claims disbursements are the last stage of the overall claims lifecycle which includes submission, adjudication and remittance. These processes are integrated within the organization's legacy technical infrastructure. For on-line claims submissions clients usually receive payments within 24 - 48 hours of submission provided they are enrolled for auto-deposit and are with a tier one bank in Canada. Claims disbursements are remitted by AFT on an hourly cycle.
- **Premiums collections:** Premiums are collected from clients on an annual or monthly basis. Accepted methods of payment include cheque, credit card or direct debit from a bank account.
- **Accounts Payable (AP):** The organization's AP team is responsible for submitting payments to vendors and handling employee expense reimbursements. Vendor payments account for 840,000 outgoing payments per year while employee expenses account for 540,000 a year. In Canada, 75 per cent of these payments are made by AFT and 25 per cent by cheque. The organization's policy requires international payments to be made either via cheque or wire; 95 per cent of international



## ABOUT THE ORGANIZATION

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vendors are paid by cheque and five per cent by wire. The AP process is largely manual as the organization has not yet implemented any automation tool for AP processes. AFT batches are sent once per day, while cheques are issued twice a week.

- **Treasury management:** The organization has multiple (10+) banking providers. Treasury forecasting is facilitated by a Treasury Management System and is performed in the morning in order to inform the organization's funds investment strategy for the day. If a large value of late day money is received, ad hoc forecasting is performed to review the cash position and invest funds in the afternoon. Liquidity management is managed separately in Canada and the U.S.
- **Payroll:** Payroll is processed on a bi-weekly basis by a third party provider.

## FOCUSING ON A DIGITAL MANDATE



One of the organization's strategic priorities is to enhance client relationships through digitally enhanced experiences at every touchpoint in a client's journey. The organization has committed to a multi-million dollar investment in order to enhance its digital capabilities. Enabling a built-in, seamless and secure payment process is critical to the delivery of a re-defined client experience given increased consumer demand for immediate access to funds and the need for continuously evolving, intuitive self-serve interactions.

The organization is attentive to competitive trends on a global level, where clients' expectations revolve around the ability to have a central point of interaction with their insurance providers, primarily through their mobile device. Applying for insurance, updating coverage, submitting claims or changing products are a few of the activities that insurance clients expect to be able to perform through a simplified digital interaction. The ability to integrate payments in a frictionless manner is critical to the success of those transactions.

Furthermore, the organization is also focused on ingesting greater quantities of more insightful data in order to contextualize and personalize client experiences while protecting client privacy. This is achieved through advanced analytics and the use of artificial intelligence to help it deliver increased value-add insurance advice.

Enhancing payments capabilities becomes a dependency to delivering on the organization's vision. The effort required is significant given the legacy nature of the various claims systems; however, the organization has invested significantly in enhancing its payments capabilities. It is committed to migrating away from cheques in favour of electronic payments as a necessary step in its digital journey.

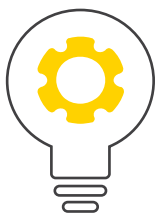


## Claims disbursements

The organization relies on mainframe technology to process its claims disbursements. The cost to update these systems is a significant consideration whenever the organization is enabling new capabilities.

The organization has however achieved a great deal of efficiency despite these constraints; clients enrolled in auto-deposit usually receive funds in their accounts within 24 to 48 hours from claims submission. Despite the relatively efficient process for direct deposit, cheque usage remains relatively high at 15 per cent of total claims payment volume. Migrating away from cheques into electronic, more expedited payment vehicles is a critical component to enabling the modernized payment capabilities that is expected to support the organization's digital vision. By continuing to support the move towards electronic payments, the organization may also be able to monetize some savings as it estimates cheque payments are over 15 times more costly than their electronic equivalents. The organization has reduced cheque usage volume by over seven million items in the last decade by encouraging clients to sign up for direct deposit and offering better terms to suppliers that process electronic payments. The organization has created convenient solutions for clients to upload their claims and banking information through an on-line portal and a mobile application. By continuing these incentives, further reduction in cheque usage by 10 per cent, approximately 350,000 cheques, can deliver cost savings of in excess of \$1 million on an annual basis.

**The organization estimates it can achieve annual savings of one million dollars by reducing cheque usage by ten per cent.**



## ADDITIONAL CONSIDERATION

*While the organization has been very successful in migrating client's payments to electronic formats, as much as 25 per cent of vendor payments still require a cheque largely due to:*

- *The prevalence of vendors who prefer cheque payments over AFT in an effort to obtain remittance information, which is usually attached to the cheque.*
- *The need to manually collect a vendor's banking information in order to be able to enroll them into AFT, which some vendors are still reluctant to share.*

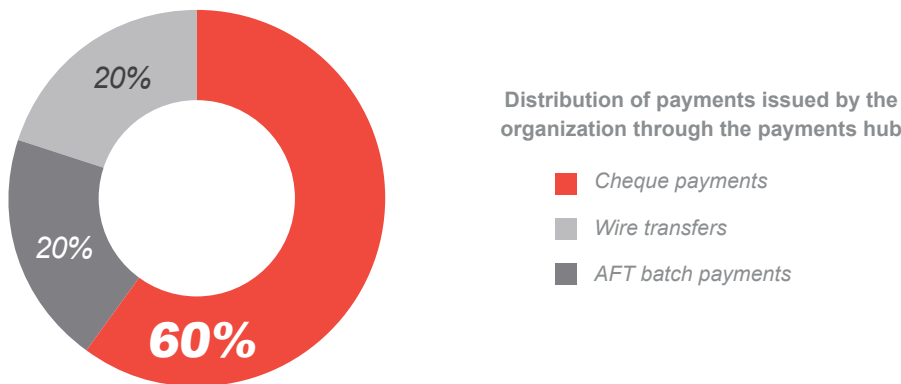
# OVERVIEW OF CURRENT PAYMENTS CAPABILITIES

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## Payments hub

The organization deployed a payments hub in 2011 in an effort to create a single repository for all payments in order to simplify accounting, reduce costs and increase visibility of outflows. The hub also introduced more robust access provisioning, enabling better control over who can see pertinent information to the organization's investments and cash position.

The hub currently processes on-demand payments for claims, vendor payments and intra-company payments. The total value of transactions flowing through the hub exceeds \$85B on an annual basis. From a volume perspective, 60 per cent are cheques, 20 per cent are AFT and 20 per cent are wire payments. Wire payments represent the bulk of the value. Payments made through the hub represent approximately 10 per cent of the organizations total claims disbursement volume; 90 per cent of claims are still issued through legacy systems. The organization intends to migrate the legacy system payments to the hub over the next two to three years.



The organization remains highly committed to continuing to develop payments capabilities through the hub. To that end, a team of 20 Full Time Equivalents (FTE); five technology specialists supported by 15 business analysts, project managers and technical architects are working over the next 18-24 months to improve functionality and to increase the volume of payments processed through the hub. Some initiatives the team is currently supporting include:

- Migration of payment files processed out of legacy systems into the hub
- Rollout of reconciliation software to all business units
- Design of a data lake repository infrastructure to better support analytics and storage needs
- Proof of concept on bulk email money transfer and real-time payments in geographies that currently offer this alternative

As part of this program, the hub was also upgraded in 2015 to enable transmission of wire payments; this involved a software version update and also required extensive rework of its database structure in order to establish appropriate data elements and establish traceability to the payments lifecycle. The project also improved the organization's ability to run AFT payments through the hub and enabled ISO 20022 messaging for wire payments. The execution cost was approximately \$1.8M of which 80 per cent was related to internal costs associated with development and extensive end-to-end testing with bank partners. The initiative's success resulted in the migration of the majority of wire payments volume to the hub.

The organization is planning to continue and likely increase its investments in the payments hub in order to better meet the needs created by digital innovation and evolving consumer trends both in Canada and abroad as current legacy systems may not be able to easily support required innovation. For example, the organization is considering remittance of claims disbursements through different instruments including PayPal, virtual cards, and emerging social platforms. The organization would need to strengthen its hub capability in order to remit these payment types, which may require further development of its middleware to provide more robust integration between its policy and claims systems and the hub.

The organization also recognizes the need to improve its payments capabilities to support real-time payments and other emerging technologies including blockchain. Therefore, the organization understands that some of the investment may even include a replacement of the hub in its entirety as the suite of commercially-available technology has evolved significantly since the organization underwent its initial payments hub implementation.



## KEY CONSIDERATION: What are the advantages of a payments hub?

*A payments hub enables an organization to direct all its payments in a secure manner to a centralized engine for processing. They are used by organizations to streamline and standardize payments processing operations across multiple back-office systems. Payments hubs are commonly found in companies that handle a large volume of payments often in multiple geographies across multiple payment methods. They are often present in the insurance, payment services and banking industries. Key advantages of deploying a payments hub are that it:*

- *Provides a central location from which a variety of payment types may be remitted*
- *Provides enhanced visibility into an organization's cash flow from one central source*
- *Supports streamlined analytics as payment data can easily be extracted from a single source*
- *Consolidates banking connections across multiple systems into a single point*
- *Streamlines payments operations by eliminating the need to maintain and develop multiple systems*

### Adoption of ISO 20022 for wire payments

Part of the upgrade in 2015 included the introduction of the ISO 20022 messaging standard for wire payments remitted from the hub in Canada and the U.S. The project involved creating a middleware integration layer to ensure that the various wire payment bank file specifications could be mapped into the ISO 20022 format requirements. The organization noted that between its various wire payment sources and destinations, 80 per cent of the ISO 20022 file formats were the same, while 20 per cent of the files exhibited minor variations due to different ordering of similar data elements. The solution for the file variations required the development of customized code for each bank within the integration layer in order to remit files that identified and transformed data as required for each distinct format.

The organization also noted that despite having adopted the ISO 20022 data standard, some of its banking partners are not yet able to transmit all relevant remittance information and have to truncate characters over a certain threshold length. As a result, the organization is still limited in its ability to provide detailed remittance information to some vendors when they receive wire payments. The organization therefore continues to rely on secure emailing of payment information to vendors as an additional safeguard. This reinforces the need for all participants in the payment transaction to interpret and adopt the ISO 20022 messaging standard uniformly in order to enable greater interoperability and automation.

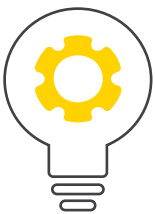


## ISO 2022 for AFT payments

The organization currently transmits Canadian AFT and American automated clearing house (ACH) payments in their local standards. It is actively preparing to transmit both payments types with the ISO 2022 messaging standard. The organization is comfortable with the complexity surrounding upcoming changes given its recent experience enabling ISO 2022 for wire payments. However, it noted a primary concern centered on the large amount of data required to comply with the standard. Extracting all the necessary data elements from its source systems may prove to be a very lengthy and difficult activity as not all required data elements are currently captured by their legacy systems. Enabling capture and storage of those data elements within the legacy technology stack may become very costly given that some of these systems have been in operation for decades, making coding changes a significant effort that relies on a skillset that is becoming increasingly difficult to source over time. Despite that concern, the organization believes it may be able to gain significant interoperability between its various systems as it enables common ISO 2022 data requirements amongst them.

The organization does not believe that variations in the interpretation of ISO 2022 amongst Canadian banks will cause an issue because 95 per cent of its AFT payments are routed through a single institution. The changes to file structures are understood and the organization can leverage the integration layer built for wire payments.

**The organization believes that the adoption of ISO 2022 should be required by a set compliance deadline in order to ensure interoperability gains can in fact be derived.**



## INNOVATION OPPORTUNITY

*The organization is considering pooling the data collected from the payments hub into a data lake with the goal of creating a centralized repository for enhanced payment trend information across all geographies where it operates (e.g. payment types, cross-border payments etc.). Rich remittance information passed along by banking providers to the organization may provide an opportunity to leverage enhanced analytics to better contextualize and personalize interactions with its clients while ensuring privacy is protected.*





## KEY CONSIDERATION

*The Request to Pay feature of the real-time rail may provide an opportunity to improve client experience by reminding clients about upcoming premiums due in order to avoid a potential policy lapse from unintended missed payments.*

### AFT batch enhancements

AFT batches are currently sent once every hour until 4 pm EST. The organization chose not to implement same day ACH in the U.S. and has not as of yet implemented any changes to operationalize the third batch exchange window enabled in Canada in September 2018. Primary drivers behind this decision are included below.

**1) The existence of efficient claims disbursements processes that enable disbursements to reach clients within a 24-48 hour window:**

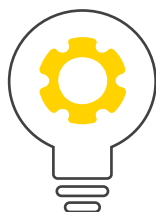
While enabling same day exchange is expected to expedite funds availability for clients, the issue has not yet been raised as a key concern as clients are familiar with the existing time window required for funds to be deposited in their accounts. The organization expects that demographic changes may shift this in favour of preference for more expedited payments, which can be achieved by leveraging real-time capabilities.

**2) The absence of enhanced money placement options to optimize investment of intra-day funds:**

New processes for treasury would need to be created to manage intra-day changes driven by two hour fund availability requirements. It is likely to increase the number of time slots where netting out a cash position is required during the day in order for funds collected later in the day to be moved to an investment vehicle. The organization has not however identified investments vehicles where the increased return properly off-set potential costs and exceptions arising as a result of new processes.

**3) On-going effort dedicated to move AFT payments into the hub may simplify accommodating the third exchange window:**

Minor changes required include adjusting the internal batch payment scheduler to remit payments during a later window. This is considered a low complexity change that may occur in the future once AFT payments are fully moved to the hub.



## INNOVATION OPPORTUNITY

*The organization is interested in understanding how financial services organizations are approaching innovation with regards to products for intra-day liquidity management, with the goal to optimize collection of the large volume of premium payments.*






### The case for real-time payments

The organization is responding to the introduction of real-time payments in certain geographies by leveraging a 'proof of concept' approach. Active pilots are being explored in the U.S. within the next quarter in response to The Clearing House's (TCH) launch of its real-time payments infrastructure in November 2017. The pilot is expected to last six months in coordination with U.S. banks, who have approached the organization to discuss their new real-time feature.




In addition, the organization is also conducting a real-time payments proof of concept in Asia, where a real-time rail was launched in September 2018. It is focused on developing internal functionality such as remitting payroll with real-time payments and exploring the application of real-time payments for claims. The approach of using internal payments as use cases limits exposure as process changes are revised in an agile manner. The organization is also contemplating additional use cases for real-time payments including:

# PAYMENTS MODERNIZATION READINESS

## Use case

	<ul style="list-style-type: none"> <li>• <b>Providing an alternative to wire transfers:</b> Wire transfer payments are primarily used for time sensitive payments including placement of funds for investment. They incur a high transactional cost to process which includes fees, technology and support costs in excess of 20 dollars per wire. The organization is contemplating how real-time payments could be leveraged to execute funds placement at a lower transactional cost. This assumes that the cost to remit a real-time payment will be lower than the one for a wire payment, and that daily transaction limits are fit for purpose to the needs of the organization. It expects that real-time transaction limits will evolve over time as they did in the U.K. where limits have gradually increased to a maximum of 250K Sterling.</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>Offering instantaneous payments in line with expected client needs:</b> The organization believes real-time payments may appeal to a significant share of its clients, particularly amongst the younger demographic cohorts who want funds to be reimbursed immediately. The organization suggested a potential future-state scenario where a dentist claim would be immediately paid to a client at the end of a dentist appointment which would be particularly appealing to these demographic cohorts.</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>Decreasing employee expense reimbursement cycle time:</b> Currently, it may take up to ten days for an employee to be reimbursed for submitted expenses. 60 per cent of this time is quoted as internal approval time, while 40 per cent is allocated to payment processing. Issuing real-time payments for employee expenses thus has the potential to increase employee satisfaction by reducing the reimbursement window.</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>Receiving last minute premium payments from clients:</b> The organization believes there are benefits to receiving real-time payments; particularly as it may enable a client to issue a last minute premium payment in order to prevent a policy from lapsing. This situation commonly arises when the credit card used to pay the premium expires and the client has not updated their information on time. The ability to remit premium payments in real-time is therefore critical to driving an enhanced client experience.</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>Driving additional client engagement:</b> The organization believes a request to pay feature with the real-time payments rail may help engage clients and help them in preventing missed payments that could ultimately result in a policy lapsing.</li> </ul>

## Implementation consideration

	<p>A primary consideration is the scope of change to existing technology systems and the associated costs. For example, if changes are to be limited to the payments hub, the associated costs would be more manageable as vendors offer real-time payments applications out of the box. However, if changes are required to the legacy policy and claims systems, the complexity of required changes may well exceed the organization's appetite for investment.</p>
	<p>The organization also noted key cash management considerations related to real-time payments as the claims process is highly automated. Once triggered, AFT claims disbursements are staggered for remittance in one-hour intervals that can be monitored regularly. Real-time payments cannot be recalled in the case of errors. In response, the organization may impose a policy of only allowing claims below a certain amount to be made in real-time.</p>
	<p>The organization foresees that treasury operations, such as payment reconciliation, fraud management and cash application, may need to operate 24/7/365 in order to adapt to the needs of real-time payments.</p>



## KEY CONSIDERATION

*Modernization efforts present a capacity constraint for the organization's resources, especially in the Technology area, replacing legacy systems will amount to major system costs. As a consequence, the organization expects that implementing multiple Payments Modernization initiatives may span multiple years.*



The subject of this case study has a defined mandate to increase its payments capabilities to support their digital enablement efforts. It invested in deploying a payments hub to gain better visibility and control over payments flows. As a result of this program, the organization gained experience with implementing ISO 20022 for wire transfers. It is also interested in the potential benefits of real-time payments and is actively pursuing potential use cases in the U.S. and Asia.

The organization is interested in Payments Modernization due to the potential to standardize outgoing payments, reduce claims processing times, and provide cost efficient transaction alternatives that improve the client experience. The organization believes Payments Modernization could provide the following benefits:

- **Increased efficiency:** The ISO 20022 standard is expected to increase interoperability between U.S. and Canadian banks.
- **Decreased internal queries:** The ISO 20022 standard is expected to enable a decrease in internal queries related to managing different bank file formats.
- **Faster payments to clients:** AFT enhancements and real-time payments can reduce the current 24 – 48 hour claims payment time.
- **Faster payments to employees:** Real-time payments can be used to reduce the cycle time for employee reimbursements.
- **Improved options for payments:** Real-time payments can help reduce the organization's wire payment volumes.
- **Improved client payment choices:** Real-time payments may give clients a way to make important last-minute payments to the organization.

***For more information on the benefits that payments Modernization can unlock for your organization, please visit Payments Canada's Modernization resource: [modernization.payments.ca](https://modernization.payments.ca)***



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Payments Canada ensures that financial transactions in Canada are carried out safely and securely each day. The organization underpins the Canadian financial system and economy by owning and operating Canada's payment clearing and settlement infrastructure, including associated systems, bylaws, rules and standards. The value of payments cleared and settled by Payments Canada in 2018 was \$53 trillion or \$209.7 billion each business day. These encompass a wide range of payments made by Canadians and businesses involving inter-bank transactions, including those made with debit cards, pre-authorized debits, direct deposits, bill payments, wire payments and cheques. Payments Canada is a proud supporter of the Catalyst Accord and the 30% Club. For more information about Payments Canada, please visit [payments.ca](http://payments.ca).