

# From weakness to strength

## Reengineering the reconciliation process



### Client

A global insurance major operating in 130 countries

### Business case

Poor controls in the reconciliation process led to a "material weakness" opinion from auditors. The client needed balance sheets reconciled and then someone to manage the ongoing process.

### Scope

- Build reconciliation template
- Account audit identifying discrepancies
- Reconciliation process action plan
- Pilot for outsourced process management
- Full-time transition

### Background

A leading international insurance major serving commercial, institutional and consumer customers in more than 130 countries struggled to manage its financial reconciliation process, due to its size, disparate business units and poor internal controls. The problem ultimately led to misstatements on the balance sheet that resulted in an adverse "material weakness" opinion from its auditors.

Essentially, internal finance groups lacked effective reconciliation processes. Internal groups noted where reconciliations were necessary without making them on the balance sheets. Working against the groups was the sheer amount of transactions, which covered 14,000 accounts in more than 200 entities.

As reconciliations accumulated, their finance groups became increasingly unable to close the books resulting in the "material weakness" designation.

12 months

Reconciled all balances within 12 months

Removed "Material weakness" assertion removed

\$40 million

eliminated \$40M in exposures

Reduced close cycles 15%

~70% Rationalized key controls for reconciliation process by ~70%

Reduced FTEs by over 33%

50% savings in operations cost

# Reengineering the reconciliation process for large insurer

## The solution

Realizing they lacked internal resources, the company tapped EXL to clean up their ledgers. After the success of this project, the client selected EXL to manage its reconciliation process on an ongoing basis.

EXL analyzed existing processes to identify key problem areas and eliminate the material weakness. Twelve EXL accounting resources stationed in the client's headquarters reviewed 250 key accounts across 10 entities. The resources delved deeply into historic ledgers to understand the nature of the transactions and identify the journal entries that caused the balance misstatements. This required line-by-line diagnostics to investigate the rationale of journal entries, understand what prevented the entry from reconciling on the balance sheet, and develop the plan to reconcile the entry.

EXL then reengineered the client's entire reconciliation process, integrating it into the client's internal control process and rolling it out globally to internal finance teams. The approach created a reconciliation template and action plan that allowed the client to more accurately and seamlessly manage its reconciliations needs.

EXL's initial scope of work was to facilitate the removal of the material weakness and develop the action plan. Once completed, however, EXL was able to prove that it could manage the process on an ongoing basis in a more sustainable, cost effective solution than if the waited to hire consultants when problems arise. Reconciliation is a periodic requirement, and EXL is able to scale resources as required, eliminating the need for the client to staff an internal team full time.

Since the organization never considered the viability of partnering externally for balance reconciliation, it

requested that EXL prove the concept first through a pilot program. EXL structured an on-site pilot that simulated how work would be executed remotely. A 12-member EXL team was stationed at the client's location but could communicate with the client team only by phone or email as if the teams were operating in different locations.

EXL then executed the reconciliation process based on the template they built in Phase 1. The pilot ran for a quarter and once successful, EXL took full control of the process.

After operations matured, EXL turned its focus to building additional efficiencies by centralizing and automating the process. EXL rolled out a proprietary solution that automates account profiling, data sourcing and matching, assignment, approvals and reporting. Automating reconciliation can reduce the cost of reconciliation by 70% and the time the process takes by half.

## Business impact

- Cleared 100% un-reconciled balances within 12 months offshore operations
- Removed "material weakness" assertion
- Identified and eliminated US\$40MM in exposures
- Rationalized key controls for reconciliation process by ~70%
- Reduced FTEs by over 33% through productivity gains and standardization
- Realized over 50% savings in cost of operations
- Reduced financial close cycle time by 15% through standardization

## About EXL

EXL (NASDAQ: EXLS) is a leading business process solutions company that looks deeper to drive business impact through integrated services and industry knowledge. EXL provides operations management, decision analytics and technology platforms to organizations in insurance, healthcare, banking and financial services, utilities, travel, and transportation and logistics, among others. We work as a strategic partner to help our clients streamline business operations, improve corporate finance, manage compliance, create new channels for growth and better adapt to change. Headquartered in New York and in business since 1999, EXL has 23,000 professionals in locations throughout the U.S., Europe and Asia.

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