

Paper 032-2011

Unit Cost Accounting at Allianz Germany

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ABSTRACT

Allianz Germany is the largest insurance company in Germany. For the Operations division (which has more than 9,000 employees), a unit cost accounting application was developed using SAS® Financial Management. Unit cost accounting at Allianz is used as an element of business control and source of feedback to the Property & Casualty and Life and Health segments. The mission of the project has been:

- Calculate costs per transaction and costs per claim or policy
- On smallest possible unit (skill group)
- Possibility of bridging to SAP Cost Accounting
- Possibility to report different levels of details for costs and volume
- Monthly availability
- Include data and structure history

INTRODUCTION

Traditional cost accounting applications heavily rely on cost center and cost element accounting. Managers use cost accounting to support decision-making to cut a company's costs and improve profitability. In service-oriented industries such as insurance, achieving these objectives is difficult while relying on traditional cost accounting approaches only. This input-oriented view ignores the output of services which caused these costs. An output-oriented view, on the other hand, ignores the costs caused by producing this output, e.g. the use of agency staff instead of internal employees, heterogeneous structures in its organizational units like quality management functions or different spans of control are not taken into account by pure output-oriented approaches.

It is therefore necessary to combine traditional cost accounting with an output measurement, i.e. productivity. For this purpose, costs per transaction, i.e. costs per unit, need to be measured. In the insurance industry this would be costs per policy or claim processed. In 2009 Allianz Germany implemented unit cost accounting for Operations in SAS® Financial Management with the support of ManagementTeam Consulting.

This paper will describe how unit cost accounting was introduced at Allianz Germany and discuss main challenges (e.g. implementation of complex cost allocation rules) as well as the implementation in SAS® Financial Management.

ALLIANZ GROUP AND ALLIANZ GERMANY

The Allianz Group is one of the leading integrated financial services providers worldwide.

With approximately 151,000 employees, the Allianz Group serves more than 76 million customers in approx. 70 countries. In the insurance business, Allianz is the leader in the German market and has a strong international presence.

In fiscal 2010 the Allianz Group achieved total revenues of over 106.5 billion euros. Allianz Group is also one of the world's largest asset managers, with third-party assets of 1,164 billion euros under management at year end 2010.

In 2006 Allianz SE, the parent company, became the first company in the EURO STOXX 50 Index to adopt the legal form of a Societas Europaea, which is a new European legal form for stock corporations. Allianz SE is headquartered in Munich, Germany.

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Allianz 		2010	2009
Total revenues	€ m	106,451	97,385
Operating profit	€ m	8,243	7,044
Net income from continuing operations	€ m	5,209	4,650
Employees		151,338	153,203

Table 1. Key figures of Allianz Group

In Germany, Allianz' home market, the company can look back to more than 100 years of experience in the insurance business. Together with Allianz Global Investors and the Allianz Bank, Allianz Germany today offers a complete range of solutions, including insurance, provision, asset management and banking services:

- The leading property, casualty and life insurer and the number three health insurer in Germany
- Comprehensive financial services for private, business and corporate customers - from one source via every distribution channel
- Continuous expansion of the product portfolio with particular focus on services in the retirement provision and health care areas

In 2009 Allianz Germany generated revenues of € 27.7 m and an operating profit of € 1.4 m with 31,997 employees.

UNIT COST ACCOUNTING OPERATIONS

OPERATIONS AT ALLIANZ GERMANY

The functional operating model of Allianz Germany has the customer at its core and supports more efficient business processes.

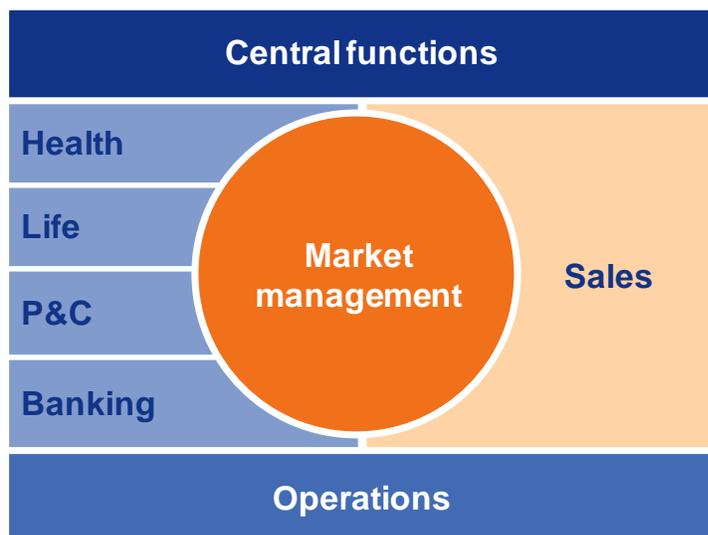


Figure 1. Operating Model of Allianz Germany

The reorganization of its insurance business in Germany enables Allianz to focus to an even greater extent on its customers and their needs: as well as improving its customer service, the company will be developing tailor-made, cross-divisional products for specific customer groups and circumstances.

This is greatly facilitated by newly integrated processes and IT services, which will also help customers to feel they

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are dealing with one and the same company, whatever service they require. To achieve this, operations that were previously carried out manually and in different legal entities is replaced by fast, efficient and competent online processing. The service facilities of key importance in the new Operations structure are the Call Centers in Leipzig and Munich and the Incoming Mail Center in Berlin. The Call Center take all calls for the all four service regions, while the Mail Center scans all incoming Allianz insurance mail and distributes it electronically to the appropriate customer support staff members within 24 hours. Together, these facilities deal with some 100,000 calls from customers, representatives and brokers and scan in up to 700,000 pages of paper every day.

A processed customer call or a processed letter is counted as one unit and is the defined output of the Operations departments. Operations is organized by skill groups, mainly in customer telephone call receiving teams, correspondence teams and further advisory service teams.

Costs are administered in SAP-based cost accounting applications which inter alia provide cost elements per cost center information. These costs and the units defined above are key elements of the unit cost accounting approach.

MISSION AND CHALLENGES

The mission has been to calculate costs per transaction and costs per claim or policy at the level of the smallest possible organizational unit (so-called "skill group"). It was required to bridge the unit cost accounting fully to SAP Cost and to report different levels of detail for costs and volume. Furthermore, it needed to be updated on a monthly basis and to show the history of data and structure in order to allow the analysis and simulation of several periods and organizational structures.

The main challenges of the project "Unit Cost Accounting" at Allianz Germany are described below:

- A mapping of the organizational and the cost center structure had to be implemented since, in a large organization like Allianz, there are continuous changes of the organization which are often not reflected in the cost center structure with the same speed.
- Specific cost items had to be rebalanced, e.g. cost of department heads, to make costs of skill groups comparable within the framework of an internal benchmarking. Distortions due to inadequate or missing cost or volume assignments have to be reallocated adequately.
- Continuous, largely automated data integration of costs and volumes was required due to the data volume and to eliminate the monthly data logistics manual operations.
- A flexible model needed to be implemented allowing quick integration of new requirements and simulations, so that ad-hoc questions by Senior Management can be processed.

MULTIDIMENSIONAL MODEL AS BASIS FOR UNIT COST ACCOUNTING

In order to allow for a flexible cost and volume aggregation within Operations and to reconcile unit cost accounting with the traditional SAP-based cost center accounting at a cost element level, the following multidimensional model was developed:

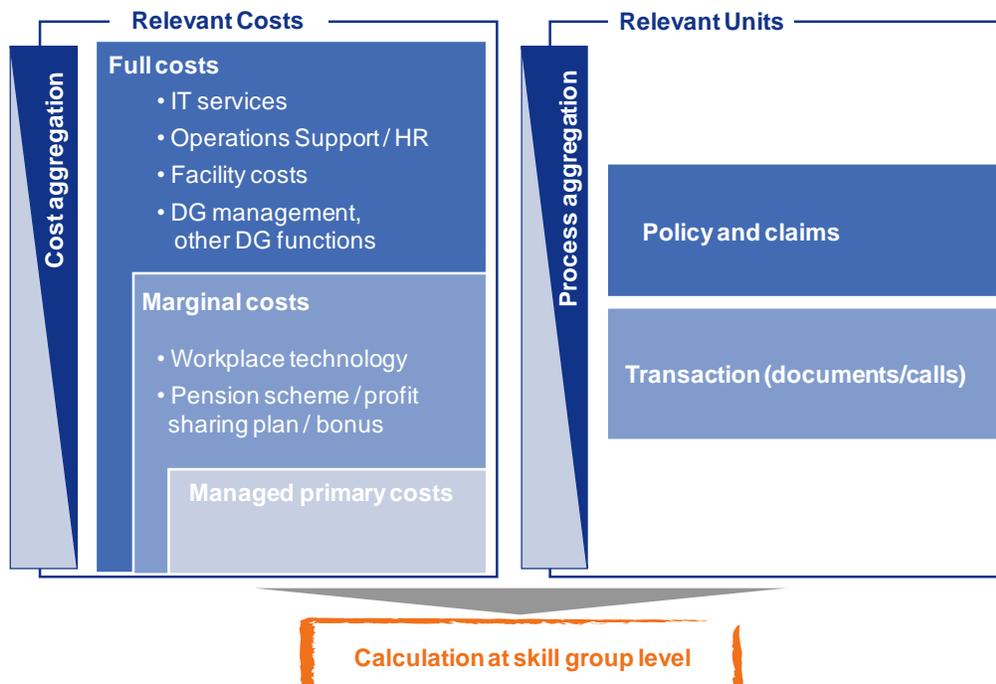


Figure 2. Multidimensional Model for unit cost accounting at Allianz Germany

The basic calculation of unit cost accounting is dividing costs by units. This can be done for different cost layers: with a full cost approach, with marginal costs or with managed primary/direct costs. The full cost approach accounts for all overhead costs of Operations, including those shared with other organizational units. Overhead costs can include IT services, administrative support, data processing, quality management and management functions of Operations. Managed primary costs or direct costs are directly attributable to a team within Operations, to a large share this is their labor costs. If the specific workplace technology used in that team and their pension scheme are added, it is possible to calculate marginal costs. The bridge to SAP is done on a cost element basis, i.e. the cost elements are aggregated and assigned to the different layers discussed above.

The units are transactions (e.g. documents or telephone calls) or policies or claims processed. Transactions of telephone calls in the health segment are, of course, not comparable to correspondence transactions in Property, but to transactions of the same skill group in the same segment (e.g. Operations life insurance, Claims Property private clients) at different sites in Germany are used for an internal benchmarking of processed units and unit costs.

UNIT COST ACCOUNTING: TYPICAL RESULTS

The following graphs show typical results of unit cost accounting:

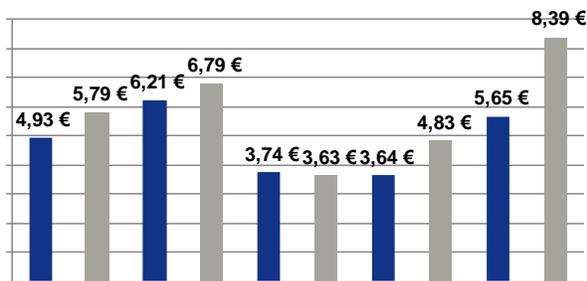


Figure 3. Anonymous example for unit cost accounting at Allianz Germany, a pair of columns could be compared: grey columns represent a skill group at site A and blue columns represent the same skill group at site B

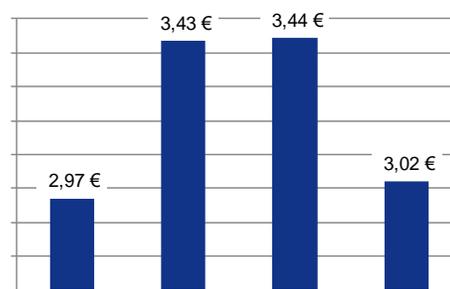


Figure 4. Anonymous example for unit cost accounting at Allianz Germany, the columns represent the same skill groups at four different sites

Comparability of skills groups is essential for the acceptance of the unit costs shown above.

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SAS® FINANCIAL MANAGEMENT PROVIDES THE FLEXIBILITY TO DEVELOP UNIT COST ACCOUNTING

Organizational change can be easily addressed by maintaining organizational structures in the designated dimension (INT_ORG) and by using alternative hierarchies.

Dimensions

Code	Description
ACCOUNT_ADAG	ACCOUNT_ADAG
ACCOUNT_ADAG_2010_PROD	ACCOUNT_ADAG_2010 Produktive Version
ACCOUNT_ADAG_2010_DEV	ACCOUNT_ADAG_2010 Entwicklung
ANALYSIS	ANALYSIS
CURRENCY	Currency
FREQUENCY	Frequency
INTORG_ADAG	INTORG_ADAG
INTORG_ADAG_2010_PROD	INTORG_ADAG_2010 Produktive Version
INTORG_ADAG_2010_DEV	INTORG_ADAG_2010 Entwicklung
SOURCE	Source
TIME_Default	Sample Time Dimension
TIME	Time
TIME_ADAG	

Members - INTORG_ADAG

Code	Name	Reporting Entity
INTORG_ADAG_2009	INTORG_ADAG_2009	INTORG_ADAG_2009
90009871	D7	ADAG D7 Betrieb
90012832	SW	Süd West
90012834	SO	Süd Ost
90012835	NW	Nord West
90012836	NO	Nord Ost
99016900	ND	Nicht DG
Dummy_Internal_Org	Dummy_Internal_Org	Dummy_Internal_Org
INTORG_ADAG_2009_Bench	INTORG_ADAG_2009_Benchmarking	INTORG_ADAG_2009_Benchmarking
90009871	D7	ADAG D7 Betrieb
Bench_Kundenbetreuung	Benchmarking Kundenbetreuung	Benchmarking Kundenbetreuung
Bench_Kraft_Schaden...	Benchmarking Kraft Schaden SAD	Benchmarking Kraft Schaden SAD
Bench_Kranken_Leistu...	Benchmarking Kranken Leistung Korre...	Benchmarking Kranken Leistung Korre...

Easy administration and maintenance of structural data for the unit cost accounting

Any number of alternative hierarchies per dimension can be created, e.g. for the simulation of restructuring

Display 1. Maintaining organizational changes with SAS® Financial Management

Powerful allocation rules allow for the reallocation of costs prior to the calculation of unit costs, e.g. smoothing of gratification postings or more adequate assignment of management costs. Costs of departmental managers are usually booked to one out of several subordinated skill group's cost center for data privacy reasons. These costs have to be identified, unhinged while adhering to data privacy requirements and reallocated adequately to all skill group cost centers in order to avoid a distortion of the unit cost comparison. This could be implemented with SAS® Financial Management standard functions without additional IT support or programming.

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Frequency ANALYSIS	PTD		ACTUAL		LB KI		
	MAI2009			JUN2009			
	Total	Manual & Rule- Based Adjustments	Base Data	Total	Manual & Rule- Based Adjustments	Base Data	
Gesamt-/Vollkosten	6,615,512.27	9,531.53	6,605,980.74	6,791,877.82	459,756.85	6,332,120.97	
Kosten inkl. AV unc				1,520.53	89,679.09	4,841,841.44	
Primärkosten ohr				2,220.35	89,679.09	3,942,541.26	
FB-KSA mit Ve				3,854.21	257,312.95	3,942,541.26	
HR expenses				4,464.92	257,312.95	3,807,151.97	
Personnel e				0,426.24	257,312.95	3,793,113.29	
Salaries a				2,657.24	257,312.95	3,315,344.29	
Ordinan				3,099.08	257,312.95	3,175,786.13	
Grund				8,297.47	0.00	2,768,297.47	
regeln	140,972.31	0.00	140,972.31	140,839.07	0.00	140,839.07	
Übers	100,394.48	0.00	100,394.48	147,177.82	0.00	147,177.82	
Gratifi	257,312.95	(257,312.95)	514,625.90	253,209.34	257,312.95	(4,103.61)	
Verr	257,312.95	257,312.95	0.00	257,312.95	257,312.95	0.00	
Grat	0.00	(1,404,745.36)	1,404,745.36	(4,103.61)	0.00	(4,103.61)	
Kalk	0.00	890,119.46	(890,119.46)	0.00	0.00	0.00	
Provis	0.00	0.00	0.00	(116.00)	0.00	(116.00)	
Verm	29,827.00	0.00	29,827.00	29,665.00	0.00	29,665.00	
AV-Ba	231,814.26	0.00	231,814.26	94,026.38	0.00	94,026.38	
Sonsti	0.00	0.00	0.00	0.00	0.00	0.00	
So. Ki	0.00	0.00	0.00	0.00	0.00	0.00	

Smoothing of gratification postings:
reallocation of the balance from imputed
gratifications and gratifications paid to the
months of May and June

Gratifications paid:	1,404,745.36	
Imputed gratifications:	890,119.46	
Balance	514,625.90	→ 257,312.95 each for May and June

Display 4. Display of results using Microsoft Excel as user interface to SAS® Financial Management

DATA LOGISTICS OF UNIT COST ACCOUNTING AT ALLIANZ GERMANY

There are several source systems feeding into the unit cost application, e.g.:

- Cost center and cost element data provided by SAP Controlling (CO)
- Company structures, units (volumes of pieces settled, inbound calls and scanned documents) and quality data (complaints) provided by SAS based data marts and specialized telephone administration application
- Debiting and crediting of employees to and from skill groups provided by SAS
- Full-time equivalents per skill group, mapping costs as well as job categories provided by a third-party software provider
- Average labor costs by SAP Human Resources (HR)
- Claim and policy data by Oracle databases

These sources are laid down in an Oracle-based supply ramp storing the original data – the data marts comprising these data logistics are called SMARTD7 (D7 stands for Operations at Allianz Germany). Then data logistics are administered by SAS® Data Integration Studio to transform the source data in the needed structures of SAS® Financial Management. In order to ensure data consistency, completeness and correct transformation there are several data quality checks built in the feeding process by SAS® Data Integration Studio.

The SMARTD7 data are accessed via SAS® Enterprise Guide, pre-defined reports and SAS Excel Add-In via the SAS portal and feeding into an Operations dashboard.

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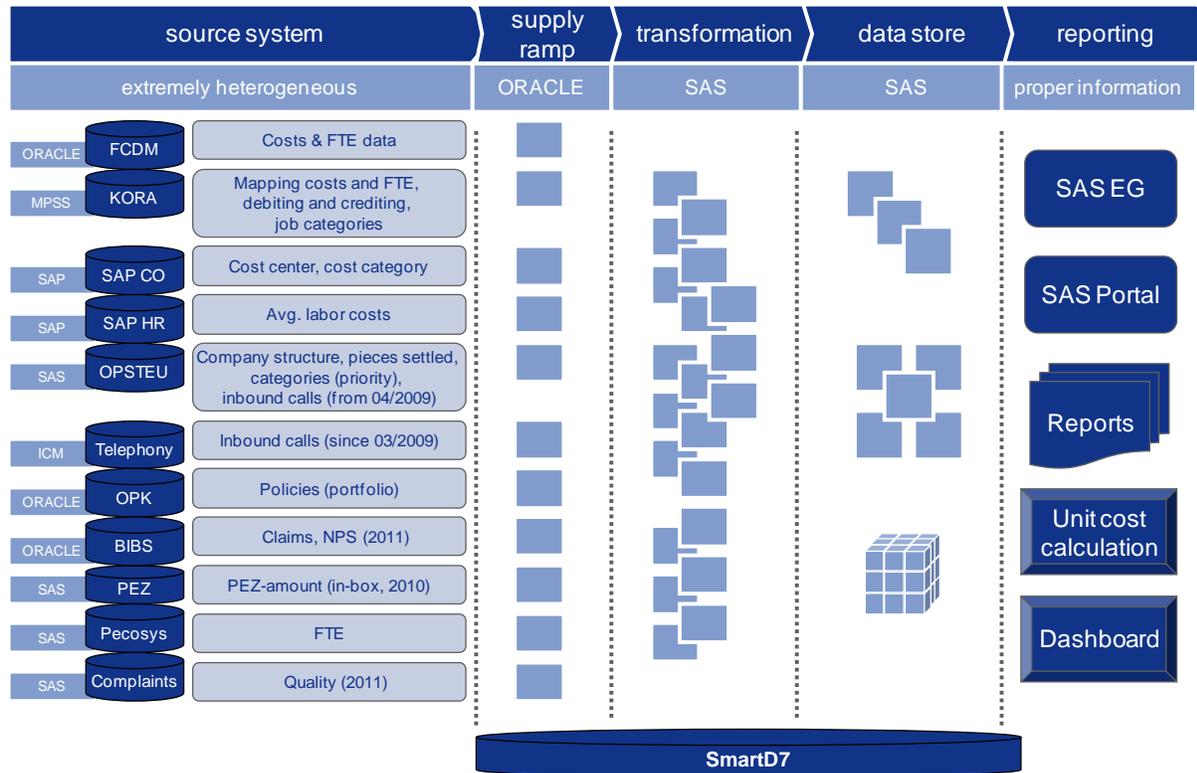


Figure 5. From data sources to reporting

CONCLUSION

The new unit cost application for Operations became an important element of business control at Allianz Germany and a source of performance feedback to Property & Casualty, Health and Life segments.

Unit cost accounting also created the possibility to

- evaluate the cost of changes in transactions (e.g. within the framework of Service Level Agreements requirements agreed with Property & Casualty, Health and Life segments)
- report the cost for processing claims or policies
- use this information for business case calculations, e.g. new employee rates

Further areas of use are inter alia

- Appraisal of effects of structural measures in Operations
- Standardized basis for internal business case calculations
- Basis for internal and external charges for Operations services, mainly for the Property & Casualty, Health and Life Segments

The unit cost implementation project has met and even exceeded all expectations:

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- SAS® Financial Management was successfully implemented within 6 months and required less than 60 consulting days (incl. Group Board presentation).
- The maintenance of the unit cost application was handed over to internal Controllers very quickly (training-on-the-job, less than 5 training days).
- Data logistics are maintained by internal staff in SAS® DI Studio.

CONTACT INFORMATION

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