

Winning at the Margin

“A man who does not think and plan long ahead will find trouble right at his door.”

Confucius

Operations is the administrative heart of the insurance company, providing the transaction monitoring and processing infrastructure that ensures execution of policy issuance and renewals for customer coverages. It is the engine driving back-office work by updating underwriting rating information, fulfilling production requirements, setting up billing accounts, reconciling payments, paying commissions, executing changes, tackling execution anomalies, and dealing with peaks and valleys of demand. That engine depends on input from the frontline functions of the business—Legal, Marketing, Sales, Underwriting, Claims, and Finance.

In broad terms, the insurance company’s Operations challenge is setting up secure, efficient, and effective access points for customers and designated agents that cut across workflows that have different communication channels and operational standards. The common operational requirement is efficient execution balanced against the delivery of required performance standards.

Of all departments, Operations has dealt the longest with the competitive situation described in Tom Friedman’s book *The World Is Flat*. Offshore and outsourced solutions and technology-enabled process excellence are part of the relentless drive for lower costs. After more than a decade of investment and continuous improvement initiatives, insurance companies have achieved what major cost savings are possible. Managing and winning at the margins is the new competitive area for Operations.

Three critical barriers prevent Operations from working these margins to deliver the best possible performance.

Barrier 1: *The operational back end can’t see where it’s going without the frontline’s vision*

Operations depend on accurate and constantly updated information on what is required by customers and agents. If you don’t have accurate information about the transaction demand (both volume and variety) in your pipeline, you stand to lose operational efficiency and margin. With

better information extracted via web services, you can plan for an upsurge and up-resource accordingly to satisfy the unforeseen. System cut-off times for transaction processing can be better accommodated, and extra capacity can be scheduled. You can better match capacity with customer demand and limit the exposure to high incremental cost additions, for example, salary overtime.

Barrier 2: *Process bottlenecks and downtime are endemic*

Operations continuously compete against time. Can this process be faster as it achieves zero-defect standards? Can workflow processes be re-engineered and simplified to gain time? The more steps between start and finish, the more bottlenecks and downtime risk may be hidden in them. The time to complete a series of process tasks is inflated by waiting periods. In some situations, actual process time can be as low as five to ten percent of the total time from start to finish. When only one-tenth of the time used is productive, reducing such waste is a worthy prize. You must identify and eliminate predictable process time-wasters. While many solutions may be internal—such as Internet communications, changes in policy application procedures and forms, or upgrades to IT infrastructure—you may decide the insurance company is better served by outsourcing to third-party administrative specialists with technical and scale advantages.

Information sweet spots help generate continuous intelligence loops on the real cost of bottlenecks and downtime, showing you the benefits of increased automation or specialization.

Barrier 3: *In a fast-paced, increasingly specialized economy, cost averages disguise cost reality*

With the pressure to adapt to new and changing customer requirements and offer specialist solutions, the Operations workflow is regularly affected. It is no longer sufficient to use broad standard cost allocations when the activity drivers differ significantly. That approach may disguise significant variances in actual process performance costs. Customer segments or products and services that appear profitable on a standard cost basis may not be in fact.

By breaking down work processes into discrete activities and measuring them with accurate activity indicators, you can achieve real-time costing. The best indicators will vary with the situation. Some will be based on labor time used to process a given activity, such as credit scoring. Others may directly measure the nature of the customer interaction used, for example, electronic, fax, or telephone, used for a given transaction request, or the number of problem resolutions required for a given customer or product type. The more detailed this activity breakdown, the more accurate your understanding of actual costs. Understanding and analyzing the information sweet spots lets Operations identify process patterns and suggest cost savings.

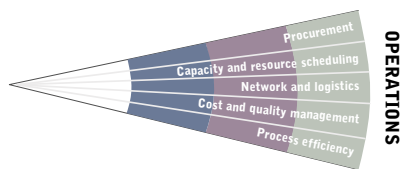
Based on more granular costing information, the business unit can better understand the segment profitability and decide how to position its proposition in the market. “Important” customers may still benefit freely from loss-generating services due to their high net worth. Lower premium customers may be asked to pay for certain services. The key is being sure of the cost drivers and that

the underlying cost-allocation methodology is sound and is not driving business away from the insurance company. Using a broad-based cost transfer and allocation methodology will never highlight customer-specific cost realities. Information sweet spots that let you understand what drives the larger cost categories will have an immediate and sizable impact on managing actual costs.

Delivering on the Promise Made to the Customer

For Operations to win at the margins, every day and every process step, it must balance the need to reduce costs while staying agile enough to respond to new customer services and product coverage demands. Operations has the responsibility to lead five core areas of the insurance company's decision-making:

- **Procurement** → Ensuring timely and cost-effective input of resources
- **Capacity and resource scheduling** → Generating timely output in the face of uncertain demand, complicated processes, and variances in input
- **Network and logistics** → Achieving efficient logistics and secure network execution
- **Cost and quality management** → Balancing the need to reduce costs with the equal requirement to deliver quality output
- **Process efficiency** → Designing a process to monitor and analyze performance benchmarks to find opportunities for greater efficiency.



Procurement

The procurement decision area manages both input costs and supply requirements. Effectively managing them can bring savings directly to the bottom line. In addition to cost, the procurement personnel must ensure inputs arrive in a timely and effective manner. For example, an upgrade of the data service infrastructure within the distribution network could cause unacceptable disruption if not planned carefully with the supplier and ensuring associated performance guarantees. Managers must balance cost savings with the performance standards while maintaining the focus on customer satisfaction.

There is also a balancing act in responding to short- and long-term situations. For example, is the procurement need related to a short-term or long-term service level agreement (SLA) contract? Long-term decisions will tie the supplier directly to the insurance company, and its performance will become an extension of the insurance company’s performance. As such, they require a different degree of diligence in the supplier assessment and selection process.

How do you balance the savings and/or better quality or performance from exclusive supplier agreements against the risk of creating unacceptable dependencies? These decisions require information on specifications, procurement tenders, price quotations, and vendor performance assessments. You cannot make the necessary procurement trade-offs without access to information sweet spots. The better you understand the trade-offs, the more finely tuned your ability to win at the margins

GOALS	METRICS	DIMENSIONS
Supplier Timeliness (%)	Purchase Order Cost (\$)	Fiscal Week
Purchase Price/Unit (\$)	Purchase Orders (#)	Fiscal Year
Supplier Performance Rating	Supplier Credit Rating (A)	Quarter
	Contingency Terms (A)	Month
	Supplier Discount (\$)	Week
	Supplier Discount (%)	Suppliers
	Contract Remaining (A)	Supplier Type
	List Price/Unit (\$)	Supplier
	Supplier Testing Score (A)	Supplier Services
		Services Type
		Supplier Service
		Contingency Terms
		Contingency Type
		Contingency Test

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Purchasing	Executives	*		
	Managers	*		
	Analysts	*		
Audit	Executives			*
	Managers	*		
Customer Service	Managers		*	
	Analysts		*	
IT/Systems	Executives			*
	Managers		*	
	Analysts		*	
Operations / Production	Executives			*
	Managers		*	
	Analysts		*	

Capacity and Resource Scheduling

Without an efficient and timely delivery process, there is no business. Accordingly, this decision area is the backbone of the business.

Capacity management depends on scheduling and fulfilling effectively the demand expectations of the front office and, more importantly, those of the customer and agent. Ideally, you know the transaction demands well in advance to be able to plan capacity needs and fulfill process cycle standards in licensing, policy administration, billing, money transfers, etc. This minimizes bottlenecks, errors, and process re-runs. Changing a schedule, especially for an urgent requirement, means rearranging existing process schedules, resulting in extra system time, overtime, and lost transaction capacity. The bottom line? It reduces your ability to win at the margins.

As with any chain of interconnected links, changes in demand affect your process requirements. The domino effect of changes spreads across the whole Operations workflow, creating a series of costly capacity management responses. To counter this, you must communicate new information seamlessly, so that Operations can adjust its schedule and resource needs in the most effective manner. You must also communicate potential delays to Customer Service for resolution. Closely monitoring this ebb and flow of changing circumstances through production information sweet spots lets Operations maximize its capacity and resource scheduling

GOALS	METRICS	DIMENSIONS
Capacity Utilization (%)	Policies (#)	Fiscal Day
System Up Time (%)	Transactions (#)	Fiscal Year
Transaction Volume Change (%)	Transaction Value (\$)	Quarter
	Transactions Per Employee (#)	Month
	Cost Per Transaction (\$)	Week
	Transaction Activity Growth (%)	Day
	Customer Transaction Accounts (#)	Customers
	Avg. Transactions Per Business Day	Customer Billing Account
	New Accounts (#)	System Transaction Account
	Closed Accounts (#)	Transactions
	Feeb Transfers (#)	Transaction Types
	Payments (#)	Transaction
	Capacity Hours (#)	Messages
	Backlog Hours (H)	Message Type
	Quality Score (R)	Message
	Error Rate (%)	Counterparties
	Accuracy (%)	Counterparty Type
		Counterparty
		Systems
		Application
		System

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Operations/Production	Executives	+		
	Managers	+		
	Analysts	+		
	Professionals	+		
Audit	Managers	+		
	Professionals	+		
IT/System	Executives			+
	Managers	+		
	Analysts		+	
	Professionals	+		
Customer Service	Executives		+	
	Managers		+	
	Analysts		+	
Finance	Managers		+	
	Analysts		+	
	Professionals		+	
Sales	Executives			+
	Managers			+

Network and Logistics

This decision area looks into the operational support and infrastructure requirements of an insurance distribution network or indirect network. It also includes the management of local process performance standards, cost, and timeliness of execution and delivery. Examples could include data security logistics, network systems, electronic billing, or telecommunications needs, all to ensure that the support functions offer insurance customers an efficient, convenient, and relationship-supportive service. Operations management will also scrutinize whether you can reduce costs, improve execution standards, and, ideally, exceed customer service expectations. The network infrastructure and logistics to deliver a given service is intricate and costly. Managing third-party providers to fulfill specialist support requirements also involves effective project management skills. Strategic third-party support can be an advantage either in cost or performance.

While outsourcing makes sense on many levels, it does mean you lose direct control and have to accept the risks that come with loss of control. Managing such risks requires negotiating and monitoring agreements with clear terms and performance guidelines.

GOALS	METRICS	DIMENSIONS		
Infrastructure Score (#)	Policies (#)	Processing Date		
Transaction Account Growth (%)	Transactions (#)	Fiscal Year		
Transaction Timeliness (%)	Transaction Value (\$)	Quarter		
Efficiency Ratio (#)		Month		
		Week		
		Day		
		Hour		
		Customers		
		Customer Billing Account		
		System Transaction Account		
		Transactions		
		Transaction Types		
		Transaction		
		Messages		
		Message Types		
		Message		
		Counterparties		
		Counterparty Types		
		Counterparty		
		Systems		
		Application		
		System		
		Authorized System Users		
		System Account		
		Permissions		
FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Operations/Production	Executives	+		
	Managers	+		
	Analysts	+		
	Professionals	+		
Audit	Managers	+		
	Professionals	+		
IT/Systems	Executives			+
	Managers	+		
	Analysts	+	+	
	Professionals	+		
Claims	Analysts		+	
Customer Service	Executives		+	
	Managers		+	
	Analysts		+	
Finance	Executives			+
	Managers		+	
	Analysts		+	
	Professionals		+	
Purchasing	Executives			+
	Analysts		+	
Underwriting	Analysts		+	
Sales	Executives			+
	Managers			+

Cost and Quality Management

In cost and quality management, you balance cost savings in one area against potential threats of reduced performance standards, increased errors, reconciliation monitoring, customer complaints, etc. A new, lower cost call center may be attractive, but the impact on problem resolutions and customer satisfaction may be unacceptable. *What is best for the business?*

You need to understand cost variances and their impacts. By contrasting cost differences, you can benchmark performance, identify patterns, and understand the root causes of cost differences. You also need to understand and analyze the value and cost of preventative measures that ensure quality performance such as training, appraising work flow bottlenecks, and resource improvement. The more you examine measurable work activities and the more detailed your breakdown of costs, the more detailed your understanding will be of the root causes of variances in those costs. Measuring and monitoring must be integrated with quality expectations to understand the effect of changes.

GOALS	METRICS	DIMENSIONS
Operational Failure Cost (\$) QC Reject Rate (%)	Transactions Per employee (k) Customers Per employee (k) Defects (k) Quality Score (k) Error Rate (%) QC Cost (\$) QC Defects Filled (k) QC Units Scraped (k)	Processing Date Fiscal Year Quarter Month Week Day Hour Customers Customer Billing Account System Transaction Account Transactions Transaction Types Transaction Systems Application System

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Operations/Production	Executives Managers Analysts Professionals	+	+	
Audit	Executives Managers Professionals	+		+
Product Management	Managers Analysts Professionals		+	+
IT/Systems	Analysts		+	
Finance	Executives Analysts		+	+
Purchasing	Executives Analysts		+	+
Customer Service	Executives Analysts		+	+
Marketing	Executives Analysts		+	+
Sales	Executives Analysts		+	+
Actuarial	Executives			+

Process Efficiency

Process efficiency management looks at ways to improve operational and work process activities. This means looking for performance outliers and understanding why they occur. There are three areas where well designed comparative performance metrics can make the difference between an industry follower and a leader:

- Internal operational processes
- External developments and trends
- Competitive benchmarking.

Your internal operational processes are most familiar to you, and the easiest to analyze. For example, if “cost per transaction” is a benchmark, then an unusual increase in this index may indicate two things. Either short-term transaction costs have increased, or transaction volume has decreased. You must determine whether the efficiency has gone down or if premiums have slumped. Another possible benchmark is “number of policy applications per coverage type.” If this metric is decreasing, it can indicate that the business is

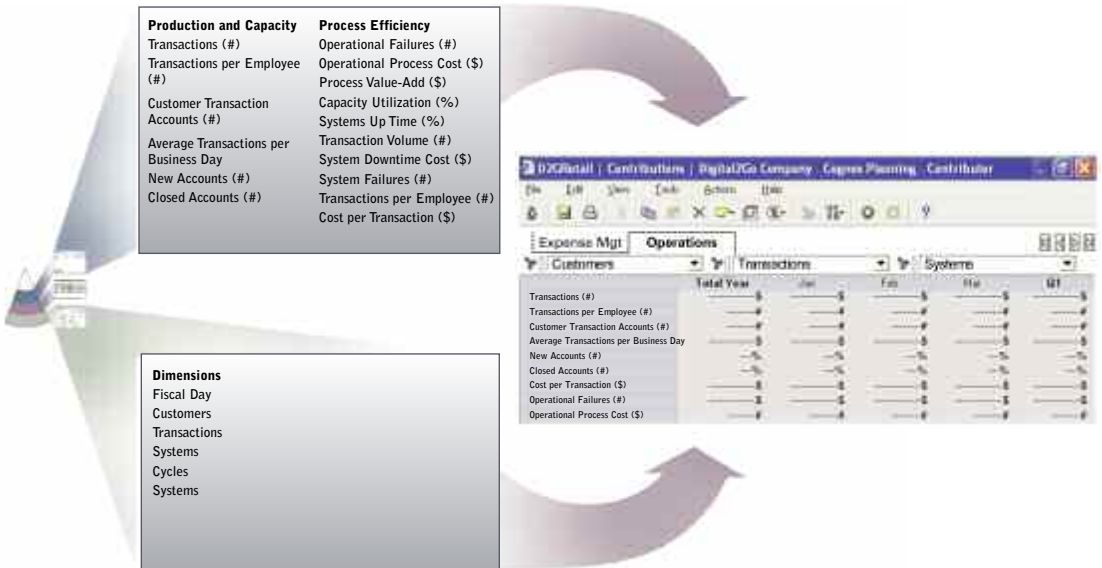
generating more policy applications for the same premium amount. This may mean that the insurance company is less competitive in pricing and/or it is attracting less worthy customers who are failing underwriting acceptance criteria—but it may also indicate that you need to re-engineer the application process to make it quicker and more convenient for the customer and agent.

Taking advantage of external developments and trends requires looking outside your organization. *Should you shift to low-labor-cost economies for services such as call centers? Are there new IT systems, hardware, and third-party providers that can introduce dramatic efficiencies?*

Failing to follow up on these external efficiency developments may jeopardize your competitive position. Beyond this focus, many leading insurance companies extend their monitoring activities to their competitors. Simple comparative benchmarks such as income per employee, cost per employee, cost per policy/account, and others will help identify performance differences. With these identified, you can determine the actions you need to take.

GOALS	METRICS	DIMENSIONS		
Operational Failures (#)	Capacity Utilization (%)	Reporting Period:		
Operational Process Cost (\$)	Systems Up Time (%)	Fiscal Year		
Process Value-Add (\$)	Transaction Volume (#)	Quarter		
	Process Steps (#)	Month		
	System Downtime Cost-\$	Cycles		
	System Failures (#)	Control Activities:		
	Transaction Per Employee (K)	Processes		
	Cost Per Transaction (\$)	Control Activities		
		Documentation:		
		Documentation		
		Contingency Tests:		
		Test Types		
		Contingency Tests		
		Systems:		
		Application		
		System		

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Operations/Production	Executives	••		
	Managers	••		
	Analysts	••		
	Professionals	••		
IT/Systems	Executives	••		
	Managers	••		
	Analysts	••		
	Professionals	••		
Finance	Executives		•	•
	Analysts			
Purchasing	Executives		•	•
	Analysts			
Customer Service	Analysts		•	
Rates	Analysts		•	



The Process Efficiency and Production and Capacity decision areas illustrate how the Operations function can monitor its performance, allocate resources, and set plans for future financial targets.