

ROBERT E. NOLAN COMPANY
MANAGEMENT CONSULTANTS

92 Hopmeadow Street
Simsbury, Connecticut 06089
(860) 658-1941
(860) 651-3465 fax

17746 Preston Road
Dallas, Texas 75252
(972) 248-3727
(972) 733-1427 fax

Toll-free (877) 736-6526

www.renolan.com

Nolan is an operations and technology consulting firm specializing in the insurance, health care, and banking industries. Since 1973, we have helped companies redesign processes and apply technology to improve service, quality, productivity, and costs. Our consultants are senior industry experts, each with over 15 years of specialized experience. We act as trusted advisors to our clients, ultimately expediting and magnifying improvement initiatives and we are committed to delivering measurable and sustainable results. Visit www.renolan.com to download articles, client success stories, and industry studies.

Through the Nolan Newsletter we share with our readers:

- Updates on industry, business, and technology trends
- Client case studies
- Information on speaking engagements, conferences, and web seminars

COPYRIGHT © 2002 ROBERT E. NOLAN COMPANY



The Nolan Newsletter

People, Process, Technology

Table of Contents

<i>Introduction</i>	Leadership in Tough Times	2
<i>Process</i>	Achieving Results with Business Process Reengineering	3
<i>Client Spotlight</i>	UICI: Successfully Retaining Customers	4
	Measuring Quality is Key to Operational Success	9
<i>People</i>	Slow Down to Get Better!	11
	What is the ROI on Intelligence?	13
<i>People</i>	Can Matrix Management Work?	15
<i>Technology</i>	Not so Fast	17
	Staying in Balance: Balanced Scorecard	18
<i>Nolan News</i>	Where Does Your Bank Rank? Participate in Our Efficiency Ratio Benchmarking Study . . .	19
	Strategy Design for Banking Organizations	21
<i>Technology</i>	West Bend Mutual Insurance Company: The Benefits of New Imaging Technology	25
<i>Nolan News</i>	What are Others Doing?	27



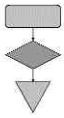
At the most recent LOMA Annual Conference and FLMI Conferment held in Seattle, Washington, we listened to a fascinating keynote speaker, Dr. Jennifer James, talk about cultural shifts and their impact on the future of business. Following her presentation, people asked deep and pertinent questions, all of which she answered in the context of her “urban cultural anthropology” expertise. Then someone asked, “Will democracy survive?” Dr. James went silent for a moment. Then she began her answer with a firm, “Yes, it will.” This conversation took place on September 10, 2001.

It is natural to wonder if Dr. James would answer the question differently after watching the horror of the September 11 attacks on America. We do not think she would. Yes, the coalition of nations is making good progress in the war against terrorism. Beyond that, since September 11 we have witnessed outstanding leadership in all sectors of this country.

In uncertain times, we need leadership to bring order out of chaos. In the speech that our nation’s president gave to the joint session of Congress shortly after September 11, we have an effective model that can and should be used at every level of organization. First, a leader must express the shared values that tie the organization together no matter the circumstances. Next, the leader must describe a clear vision of the future that holds promise for a better environment. Then, goals are articulated that are broader than day-to-day preoccupations, so as to unite people and spur them to higher efforts. Finally, leaders practice continuous communication on the progress being made, keeping the organization focused toward the vision and goals. In tough times, it is effective leadership that makes countries and companies great. ■

Ben DiSylvester

Ben DiSylvester
Chairman



ACHIEVING RESULTS WITH BUSINESS PROCESS REENGINEERING



Ed Fenwick
Director, Insurance Practice

Industry analysts are heralding the return of Business Process Reengineering (BPR). We are glad to see BPR getting attention again since it is so critical to achieving operational effectiveness.

META Group recently identified several harmful variants on the BPR theme. They are Business Problem Redistribution, Business Problem Redefinition and last, but not least, Business Problem Reassignment. We agree that there is growing evidence of these dysfunctional variations. From our view, these variations are, in fact, what many organizations achieved in the 1990s when they attempted business process re-engineering. They are the leading causes of why “reengineering” is a verboten word in many organizations today.

Organizations that did not find success with BPR in the 1990s will find it hard to rally around BPR in this decade and achieve the level of improvement needed. The continued high level of investments in technology will be challenged to yield the expected ROIs when overlaid onto current or only slightly altered processes.

Whatever the label, successful organizations are gaining the desired benefits of technology investments by tightly integrating significant and meaningful process change into the design, development and implementation phases of technology projects. They also often get compelling results from process improvement alone, without expenditure on technology.

Bring back BPR! But do it in a setting that fully accepts responsibility for business results and provides your people with the proven tools and methodologies. In addition, have a high sensitivity for solutions that have a feel of problem redistribution, redefinition or reassignment. ■

UICI: SUCCESSFULLY RETAINING CUSTOMERS

UICI is a growing, national health and life insurance company. It focuses on health insurance policies, covering individuals and families, the self-employed, association groups and student markets. UICI's catastrophic hospital and basic hospital-medical expense plans are designed to accommodate individual needs, and include both traditional fee-for-service indemnity plans and managed care options, such as a preferred provider organization plan, as well as other supplemental types of coverage.

While sales results were growing in double digits, cancellation and lapse rates were slowing the overall growth rate of the business. With this in mind, UICI undertook the development and implementation of a retention strategy.

Why Customers Cancel

The development of a retention strategy started with an analysis of why customers cancel. Even though UICI management believed it knew the reasons, fact gathering and data analysis produced some surprises. Management originally thought that rate increases were the primary cause, but that turned out to be the problem in less than 5 percent of the instances. The largest cause of cancellations was confusion about coverage. The first three reasons listed below account for half of the cancellation requests.

- 1. Confusion about coverage**
- 2. Buyer's remorse**
- 3. Found other coverage**
4. Took job with coverage or spouse has job with coverage
5. Underwriting decision – health exclusion or family member denial
6. No local hospital or provider in area
7. Don't want to be a member of Association
8. Rates going up
9. Dissatisfaction with claims payments

Developing the Retention Strategy

Armed with the initial analysis, a cross-functional team

developed a plan of attack. It addressed critical issues, including the need to reestablish trust, resell the product and provide caring service. To emphasize the last item, the name of the department was changed from Customer Service to the Customer Care Center. After much brainstorming and evaluation, the primary components of the retention strategy were developed:

- Establish a Customer Retention Team within the Customer Care Center.
- Handle all types of cancellations in the Retention Team.
- Provide the Retention Team with decision authority that allows them much latitude to conserve business.
- Allow time to do research and work with other departments.
- Establish key contacts in other departments.
- Develop a database to identify the reasons for cancellations and develop corrective measures.
- Involve the sales force in creating new strategies.
- Measure and report results.

Implementing the Strategy

A Retention Team was established in the fourth quarter of 2000. This is a team of experienced, dedicated reps whose sole job is to offer options and solutions to prevent cancellations.

The team's primary tasks include:

- Answering inbound cancellation calls and turning them into continuing customers by solving problems and providing alternatives.
- Making outbound return draft calls based on reports of returned bank draft items (NSF, Account Closed, Funds Held, etc.). This highly successful effort assists clients in re-establishing payment.
- Working the grace period report to identify policyholders that have entered their grace period due to nonpayment of premiums. A member of the Retention Team contacts these customers to assist in reestablishing payment on their policies.

- Placing proactive calls during special re-rate projects to address rate increases. Policyholders who will experience a rate increase greater than 20 percent are contacted prior to the re-rate letter being sent.

Additionally, the Customer Care Center initiated several other efforts to support the customer retention strategy. A training program supports the ongoing retention efforts by improving the quality of service and providing more consistent information to clients. Each associate is made aware of his or her role in customer retention.

The Customer Care Center has developed a Rewards and Recognition Program based on retention, speed, accuracy and attendance. All programs are associate-controlled, which allows each person to direct his or her own compensation.

Customer Care also wants to strengthen its relationship with the sales force. With a clear objective of alignment with Sales, a Customer Care goal is to provide consistently superior service so that the sales force will be able to use quality of service as a selling feature and as a support mechanism they can rely on for customer retention expertise. Customer Care personnel are visiting the field to personally deliver the message of unity and support.

Also, the Customer Care Center and the Sales Force are working to develop a common language to unify the message given to the customer. Sales Agency workshops are being developed for all Customer Care Associates and Working Committees are tackling other retention issues. This cooperative effort brings together both sides of the customer contact to formulate strategies for retention success.

Soon, UICI will develop a strategy for Touching the Customer in a positive way. This program is intended to allow customers to view UICI as a caring and supportive partner in their health care.

Technology

Although not meant to be a total CRM approach, the retention strategy includes several technology components:

- An imaging system that allows the CSRs to immediately see all transactions, including application, correspondence and claims.
- A workflow system in which all customer contact is documented so that each CSR knows all the customer contacts and action taken.
- Call center workforce management software that helps provide improved customer service by limiting wait times and reducing abandoned calls.
- A call monitoring and auditing tool to help coach CSRs on phone techniques.
- A quality audit and measurement system that reports errors and other quality measures to identify training needs.
- An IVR System to speed customer service without having to talk to a CSR.

Also under development are:

- Web self-service functionality
- Pop-up screens with customer information for CSRs
- Internet capabilities to support communications between agent and policyholder

Expanding the Effort

Even with full commitment from the Customer Care Center, other departments and vendor/partners affect the customer's decision to stay or seek alternative coverage.

The Agency Sales Force can help most with improved product knowledge and clear explanations of Association membership. This will assure consistency in the information given by the Field and Customer Care. Also, understanding administrative procedures will help customers understand health insurance processes.

First impressions are critical. New Business can help by improving accuracy in data input and speed to issue. The more accurate the input, the more professional the final product. Customer Care has learned that the accuracy of the material initially received greatly impacts the customer's feelings about

the organization and starts the trust-building process.

Actuarial plays a critical role in product pricing and re-pricing. Frequent and/or large rate increases have an unfavorable effect on policy retention. Efforts to minimize the need for increases (or reduce their frequency) at the time of product design improve UICI's ability to retain customers.

Marketing can help through its efforts to make brochures easier for the customer to understand while still meeting state compliance requirements. Also, retention is supported by ongoing product development efforts to create competitive products that satisfy customer needs.

Fast and accurate adjudication of claims assists the customer retention effort. Clear explanations of benefits and common language help the customer understand decisions. Also, good provider relationships support retention, and quick verification of benefits is especially important.

The group Associations help retention most when the customers understand their association benefit package. A strong working relationship between the Customer Care Center and the Associations supports a mutual retention effort.

Results

Results of the retention strategy have been impressive:

- Eighteen-percent conservation rate of cancellations handled by the Retention Team.
- Seven to one payback — based on bottom line net income vs. retention expenses.
- Improved relationship with sales force — the home office and the sales force are united in this effort.
- Improved awareness across the whole organization — each person sees his or her role in the customer retention effort.
- Ongoing development of the retention strategy — a database is being created and all new ideas are given consideration. ■

MEASURING QUALITY IS KEY TO OPERATIONAL SUCCESS

Eugene Reagan
Senior Consultant

Transcript of an actual conversation — the names have been changed to protect the innocent.

Bob: You know we have major quality problems here. Our overall quality stinks!

Ted: Exactly how bad is your quality? What is the error rate?

Bob: Oh, I would bet it's 40-50 percent.

Ted: You mean half of everything that goes out to customers is wrong.

Bob: Well, that does sound high. In that case, I'd say it's at least 10-15 percent.

Ted: What should it be?

Bob: It should be something like two to three percent.

Ted: Based on what? Where did you come up with that number?

Bob: Well, one percent is too low and five percent is too high.

Unfortunately, this conversation reflects how little analysis often goes into the development of operational audit processes. The goal of an operational audit is to ensure that proper procedures were followed and correct output produced. Too often, audit findings are not detailed, summarized, tracked and reported.

Working with its client UICI, a life and health insurer specializing in the self-employed market, the Robert E. Nolan Company has refined its Error Measurement System, which is used to monitor the results of quality audits. The Error Measurement System (EMS) is a Microsoft Access-based database that is used to capture the findings of individual audits and summarize them in a variety of ways. It reports the number of work items sampled for any given reporting period. It breaks down the errors reported in the audit process by:

- Transaction type
- Error type

- Financial impact of the error
- Organizational unit (e.g., division, department, team)
- Individual employee

EMS is designed specifically to replace the manual tracking and reporting of results from transaction and adjustment audits. It provides actionable information to improve the quality of transaction processing. Since it helps identify the root causes of errors, it can be used to develop detailed training programs that address specific areas of concern. It can also flag system-related problems and overly complex workflows. The database includes tables that can be maintained by users themselves. It can be installed on a network or a standalone PC.

EMS can be an integral part of a quality review or operational audit process. Its inputs include regular samples of work being reviewed as part of random or specific audits. It can also be used to track errors identified by customer complaints or other methods.

The benefits of using EMS include:

- Fewer errors, adjustments and related customer service phone calls
- More accurate and timely reporting of audit and adjustment information
- Consistent categorization of audit and adjustment information
- Reduced cost of auditing
- Greater detail to support and develop training plans for units and individuals
- Increased accuracy of transaction processing

The easiest and most effective way to improve overall unit productivity is to eliminate the rework and confusion caused by poor quality. An effective audit process, supported by tools like EMS, can play a key role in improving operations and delivering superior customer service. For more information on EMS, contact us at mailbox@renolan.com. ■



SLOW DOWN TO GET BETTER!



Dennis B. Sullivan
Chief Executive Officer

Now is a good time to reflect on what went well and what didn't in the past year. The events of 2001 have caused us all to pause. Not stop, I remind you — but pause. I've read numerous articles about how Sept. 11th has profoundly changed lives. It certainly has. I too have done some of that reflecting, and for me it boils down to the issue of “balancing” personal life and work life. No one has a perfect formula and we all want probably more balance than is necessary. Let me share a few of my thoughts on this subject.

Family first!

For someone who travels 70 percent of his business life, I am certainly open to criticism about my real commitment to this concept of family first. I understand that, but it takes creativity to stay close to the family. Calling every night, e-mailing math problems and documents to review and a regular dialogue with family members is critical to my “balance.” The only person I vent to about work is my wife because she is the only one who listens (I think!?!). Make the time with family hard and fast. It might be volunteering time with your kid's activities. It might just be spending time with them. Look for the opportunities. I am a critic of the “quality time” concept. It's a me-focused concept that allows us baby-boomers to feel good about ourselves. My experience is that my kids want quality time when **THEY** want it! And their desire for quality time usually comes at inconvenient times for us. Well, too bad — drop what you are doing and spend that time.

When at work, be at work!

The truth be told, we all spend too much unproductive time at work. It comes in a variety of ways, and we all know how we spend that time. There is no need for examples. The idea here is to make your “productive self” 100 percent committed to the

task at hand. Give yourself and your fellow employees that 100 percent effort every day. In sports they talk about “leaving it all on the field.” It is a reference to giving 100 percent on every play so when you go home at night, you know that you gave it your all. Think of your job in the same way. It will be a great improvement over today and allow you to personally get ahead of the competition. Stop complaining about all the company’s negatives, and be a positive contributor. If it’s so bad, do everyone a favor and look for another job.

Give yourself and your fellow employees that 100 percent effort every day. In sports they talk about “leaving it all on the field.”

Stay in touch with friends!

This may be the most difficult task, but it can pay huge dividends. There is only so much time in the day, week or month. E-mail has made keeping in touch easier. Reconnect with lost friends or make new ones. Friends provide both professional and personal support and bring a different perspective to your home and work challenges. (Good friends can be rare, but they may be a missing key to your success.)

Get a hobby!

Find an interest outside of work. For me it is running, sports and wine — not all at the same time. These interests allow me to step away from the rat race and get some release time. Running with a friend, my wife or one of the kids is a double hit of pleasure for me. I’m sure you all have opportunities that present themselves if you are looking for them.

Now is the time to be reflective and to make sure we are always looking at balance. Getting the balance back in your life will increase your own personal effectiveness and your relationships with family, friends and the job. ■

WHAT IS THE ROI ON INTELLIGENCE?



Jim Dunham
Senior Consultant

In today's environment, a business must be able to gather data, analyze it and make decisions.

Organizations, however, often struggle to get data. They have problems retrieving it from old legacy systems, or they may have it residing in several

different databases. Getting it requires special data-gathering software and programming skills, and some reports require the same time-consuming effort each month. Worse, the organization may have to print data from multiple sources and reenter the data manually in a report form.

The problem centers around the ROI calculation that is done to justify spending money on the infrastructure necessary for Business Intelligence. Business Intelligence (BI) is the store

of information that is applied by your people and technology to the business for operational and strategic decisions.

You have it everywhere but getting to it is sometimes difficult. The terminology we use today to discuss the issue centers on data warehouses and data marts.

When IT speaks of data warehouses and data marts, they are talking about the ability to provide location for your data in a single place. It is easily accessible, flexible and scalable. There are many ways to get to this solution,

either directly through a corporate wide

data warehouse or using integrator software to support a transition. It does not directly provide revenue growth or add new customers, so developing an ROI is difficult because there is a cost to the software and programming. Organizations, however, have trouble quantifying the availability of data that is fast, accurate and current.

It also requires a meeting in the middle of line business

Business Intelligence (BI) is the store of information that is applied by your people and technology to the business for operational and strategic decisions. You have it everywhere but getting to it is sometimes difficult.

operation and IT. In many organizations, the business operations say “show me the data” and the IT operations show them the methodology and the conversation stops on a “technicality.” The IT staff wants to know how you want to get the data, what you use it for, how often you need it and how you would like to see it. The business operations people say they want it all immediately and in any format they need it in. Senior management views the argument as something requiring further study due to the conflicts. When asked about payback, neither side can advance an ROI case, so decisions are delayed and the “immediate need” becomes a project on the list for the next two years going nowhere.

The case for BI is not made on pure ROI. But if you consider the amount of management, time, “support staff,” slow decision-making, potential for bad strategic and operational decisions and confusion — then a decision for investing in BI could pass any test. The major problem comes when business operations and IT staff do not work together toward a plan with outcomes and timeframes, as well as an agreement on the data that is key to the organization. Senior management must have the vision and direction to step in and force the issue to be discussed and solved. It must then provide the funding for this infrastructure that can make or break a company even more than new CRM, ERP or other systems that are touted as revenue growing or customer acquisition solutions. It is good data that sets it all up! ■



CAN MATRIX MANAGEMENT WORK?



Fred Kirchgraber
Senior Consultant

“Virtual teams don’t work!” This is a comment that we hear being made more and more throughout the industry. In order to understand this issue we had to begin by asking the question, “What are virtual teams?” At first blush we thought that these might be teams that operate through cyberspace, but on further analysis we learned that the term refers to project teams that are:

- formed for a defined period of time to achieve a given set of objectives
- led by a project manager who does not have total control over the resources assigned and who operates in a matrix management environment
- composed of resources from several different functional entities, which may be geographically dispersed
- populated by assigned resources that generally have other assigned responsibilities, are temporarily assigned to the project team and report directly to a specific resource manager.

In other words, we may now have an updated, shorter label for matrix management project teams called “Virtual Teams.” Can an organization make matrix management work? Or should an organization consider alternatives to the traditional matrix management approach — such as full time, fully dedicated pooled project resources? The answer is either approach can work. Each has its own set of pros and cons and neither is absolutely correct 100 percent of the time.

Full time, dedicated teams can and have been successfully employed for very large projects that are scheduled to be completed over an extended period of time. Temporary

“virtual” project teams, which are formed to complete a project of a fairly limited duration and then disbanded, are a more practical approach for the majority of small- to medium-sized projects.

Matrix management/virtual teams can work effectively provided they are:

- recognized as a way of doing business within the organization
- supported by experienced project managers
- populated by resources that have a clear understanding of defined expectations and potential rewards / consequences for their performance on the team
- supported by a priority / resource allocation process that assures assigned resources are not overloaded with conflicting priorities
- supported by a common project management process

What can organizations do that are struggling with this issue?

- Select or design a project / service delivery process and assign accountability for institutionalizing it
- Provide the resources, tools and training to support it
- Develop and implement the measures to monitor / assure results
- Consider the establishment of a Program Office with the accountability for implementing the organization's project / service delivery process
- A Program Office can also provide project leadership. Under this approach project managers can be centrally selected, managed and assigned, providing common technical management and economy of scale to the organization and its multiple customers. ■



NOT SO FAST



Rod Travers
Senior Vice President, Technology

In recent years the pace of change in the business world has been at warp speed. The Internet and related technologies have been a catalyst for widespread change. From a business process standpoint, the improvement opportunities created by Web technologies and connectivity are so plentiful that we can't take advantage of them fast enough. Or can we?

In the past nine months, the pace of change in the business world, at least in regard to adopting new technology, appeared to be leveling off. Companies seem to be saying, "Enough already!" There are two reasons for this:

Reason #1: Some companies have not been able to fully assimilate the technology they acquired over the past few years. So before investing in even more new technology, they are now taking the time to properly operationalize what they already have. Now it's a matter of properly blending those systems into their operations to generate the true operational improvements that were originally expected.

Reason #2: Companies are doing a better job of driving technology investments based on quantifiable business requirements. It's no longer satisfactory to say, "Our competition has a new integrated contact center with the latest CRM systems. We must build one too or we'll lose customers." Now it's a matter of saying, "Here is where our operations can improve service and reduce costs in a manner that is consistent with our business strategy." The ensuing project thus becomes a business improvement initiative rather than a technology-focused system installation.

Whether or not the pace of change involving business technology is actually leveling off is open to debate. But there are more than a few companies out there that have kept their cool in the face of technology hyperbole. Not coincidentally, those are some of the most admired financial services companies. ■

STAYING IN BALANCE: BALANCED SCORECARD



Robert Grasing
President

Executive teams are challenged to keep their organizations focused on realizing strategic imperatives. Diversions stem from initiatives intended to fill a sales gap, grow a segment or react to competitive pressures for lower unit cost. We see banks that have built their franchise on Customer Service moving into a Sales/Service initiative that's too heavily weighted on rewarding the sales element. The axiom "You get what you measure and reward" reflects the reality of behaviors even for bankers who have been raised on "delighting the customer."

Some organizations get so focused on implementing the "new processing system" to cut time and create operating capacity, that we don't see how it will impact our profitable customer segments versus the highest numbers of people we service in a typical branch system. Having productivity translate into lower cost delivery is a worthy goal, but are we balancing low cost, high customer service and increasing sales? Are we measuring and rewarding all aspects of the delivery experience?

Balanced Scorecard is re-emerging because it helps set direction and instructs our staff how its performance will be evaluated. It can reflect how each line of business should perform in regard to the strategic objectives. The components of Customer Satisfaction, Time Service, Accuracy, Productivity and Unit Cost apply to every unit of the organization but should be developed as they relate to the bank's strategy and customers.

The instructive aspect of the scorecard development comes from the weights that managers apply to the categories. For example, if product sales are the key driver in the productivity category for Customer Service Representatives (CSRs), then retail management may assign a weight of 40 percent to this factor, reflecting the value it places on sales. Operations management, with areas who directly support the CSRs, must then assign weights in Time Service that will help achieve that objective. It is a system that helps balance the bank strategy with the organizational delivery through measured instruction. ■

WHERE DOES YOUR BANK RANK? PARTICIPATE IN OUR EFFICIENCY RATIO BENCHMARKING STUDY

Calling all financial institutions over \$900 million in asset size! See how your bank stacks up against the competition: Participate in our annual Efficiency Ratio Benchmarking Study.

See How You Rank

The study is a survey of income, expense, staffing levels and productivity by line of business. Within each line of business,

“The primary value of the study is to provide directional assistance to identify, quantify and prioritize specific areas with the greatest opportunities for improvement.”

the study provides a series of measures that show you how your institution’s efficiency and productivity compare to a pool of other participants of similar asset size. Currently, the pools contain data from over 70 U.S. banks! This gives executive management a structured process for identifying departments and lines of business that have the greatest opportunity for immediate profit improvement.

What’s In It for You?

The primary value of the study is to provide directional assistance to identify, quantify and prioritize specific areas with the greatest opportunities for improvement. The information provided to participating banks and credit unions goes well beyond the typical peer group comparisons commonly available. All participants receive an executive summary containing hundreds of ratios showing their efficiency and effectiveness compared to benchmark (top quartile), median and average performers in each business area. To maintain confidentiality of participants, only aggregate top-tier, average and median pool data are reported.

What’s the Cost?

There are no registration or participation fees. Results are provided free of charge to all participants. Remember that eligible participants are banks and credit unions over \$900 million in asset size.

Benefits to Expect

Participants commonly identify improvements within:

- Staffing levels
- Compensation
- Capacity
- Financial reporting
- Unit cost for production volumes
- Revenue: non-interest & net-interest
- Expenses

Don't Miss Out!

Register today by contacting Denise Feeley at 877-736-6526 or denise_feeley@renolan.com.

Mark Your Calendar

Final Registration Deadline: March 29, 2002

Deadline to turn in Input Forms: April 30, 2002

Results: Distribution will begin in June 2002

Nolan Speaking Engagements

Nolan President, Robert Grasing, will speak at BAI's Branch Delivery and Sales Management Conference. The event will be held April 22 – 23, 2002 in Chicago, IL. Mr. Grasing will speak on the topic of branch efficiency.

Nolan Senior Vice President of Technology, Rod Travers, will be presenting at a CRM workshop at the LIMRA Client Management Conference, scheduled for May 29 – 31, 2002 in San Diego, CA.

STRATEGY DESIGN FOR BANKING ORGANIZATIONS



Rob Keene
Banking Practice Director

As the new year begins, banking organizations have high hopes of achieving their operating goals for 2002. Ideally, these goals are aligned with a specific and clearly communicated strategic vision. Though you may not get an opportunity to re-address strategic issues again until later in the year, you will probably have the need to “think strategically” throughout the year. Here are some of our ideas about strategy design that may help you during those times.

Most, if not all, banking organizations exhibit ten important strategic areas. Though all ten areas are present, only one should be strategically the most important and drive the way the organization runs. If there is no clear driver of the organization’s strategy or if the driver is not clearly understood, it is less likely that the organization will achieve a competitive advantage — leaving you to question the impact of achieving your goals.

1. Products: A product-driven company is one that has tied its business to a singular product area. All future products closely resemble its current and past products and are modifications, adaptations or extensions of current or past products. A credit-card bank might be an example.

2. Customer Category: If driven by this strategic area, a company has deliberately anchored its entire business around a describable and specific category of customers. The company then tries to satisfy a range of related needs that stem from that category by responding with a wide variety of unrelated products that are always aimed at the same group of customers. Most banks reject this strategic area as a driver, since most are organized to provide products and services to many types of customers — corporate clients, small businesses, retail borrowers and commercial depositors, for example. Conversely, any bank that describes itself as a “retail bank” would be expected to fit in this category if their products and services are designed to meet the banking needs of individuals.

3. Market Category: Similar to Customer Category, except instead of aiming the design and delivery of products and services to a specific group of customers, a Market Category-driven organization anchors its future to a describable market, such as “services to small businesses.”

4. Production Capacity: If driven by this strategic area, a bank would need to have a substantial investment and capacity in a production facility or capability. The strategy would be to keep that production facility running at all times. We see few banks driven by this strategic area, even though all have production capabilities for certain products or support services that are more efficient when running at maximum capacity. A centralized underwriting department for consumer loans, for example, is a production facility.

5. Technology or Expertise: These companies have the ability to invent or acquire hard or soft (expertise) technology and then they look for opportunities to apply it. Over time, such a company may get involved in a broad range of products, all of which flow from their expertise and serve a broad array of customers and markets. Internet-only banks are one example of banks driven by technology. In most banks, technology occupies a supporting role, rather than being the driving force in a bank’s strategy.

6. Sales/Marketing Technique: A sales/marketing technique-driven company has a unique way of getting an order from its customer. All products or services offered must make use of this selling technique. The company does not entertain products that cannot be sold through its sales approach, nor will it solicit customers that cannot be reached through this selling or marketing technique. Banks tend to practice multiple sales/marketing techniques. Banks have attempted to place focus on this strategic area. Some have tried, for example, to sell gasoline at drive-up lanes but find it difficult to sell a loan at the drive-up. Many offer postage stamps through their ATMs but have not been able to sell a cashier’s check through the same channel. Few banks have made this their strategic driver, though all have strategic issues in this area.

7. Distribution Approach: Banks that have a unique way of getting their products or services to their customers are pursuing a distribution-driven strategy. While banks certainly focus on distribution methods or channels, they tend not to be focused on a single, unique delivery method. Internet banks are a possible example, but even they have to utilize the telephone and mail to reach their customers.

8. Location: When access to a specific location is the key to a company's survival, that company is a location-driven company. While banks place importance on market dominance in certain key geographical areas, by nature they try to spread their risk by operating in multiple markets or locations.

9. Growth: Economies of scale become the focus of growth-driven companies, where almost all decisions are made to increase asset size. These companies often trade current earnings for growth and diversification. Most banks place importance on a growth strategy but usually can only maintain that strategy as a driver for a relatively short period. Instead, while they are always looking for opportunities to grow, banks seldom focus the entire organization on growth for growth's sake long term.

10. Return on Investment (Profit): Whenever a company's only criterion for entering a market or offering a product is profit, then that company is return- or profit-driven. While banks seek to understand the return on investment in most decisions, the nature of the banking business dictates that certain activities take place regardless of profit. Examples are compliance-related steps that add cost to a process or product "loss-leaders" that may be offered with future earnings in mind.

Ask yourself, "Which of the ten strategic areas drive your company?"

To clarify the driving force behind your strategy, you may need to closely examine the characteristics within each of the ten strategic areas. Using the Market Category driver as an example, the following characteristics seem to describe many banks:

- **Supply Exceeds Demand:** Multiple competitors operate within the various market areas. To succeed, you must differentiate yourself from your competitors.
- **Mature Market:** There is limited opportunity for a new market entrant or product innovation. Any competitor can easily copy an innovation by any market participant. Companies entering mature markets usually do so through acquisition of a current market participant.
- **Word of Mouth is Key:** Market Type/Category-driven companies are positioned to satisfy current customers. The keys to growth are retention of, sales to and referrals by existing customers.
- **Products are Similar:** Most competitors offer the same products and services. Customers recognize that the cost of changing their banking relationship is low, so retention success is important and must occupy significant resources.
- **Customer Satisfaction and Repeat Purchases are Critical:** Given the relatively low cost of switching banks, common products and the low expectation for market growth, the only way you may be able to dominate your market is to differentiate on service level while focusing on retention and sales to existing customers. If successful, the added opportunity for growth through customer referrals is possible.

There are significant advantages if you have a well-defined, clearly communicated strategic vision. Identifying a single strategic area and interpreting it into a plan of action that aligns all operating areas with the strategic vision is a prerequisite for maximizing your performance. ■



WEST BEND MUTUAL INSURANCE COMPANY: THE BENEFITS OF NEW IMAGING TECHNOLOGY

Organizations are constantly called upon to review and evaluate new technology in the quest for obtaining improved operating efficiency and customer service, and a stronger bottom line. Failure to recognize and take advantage of the impacts offered by these new technologies can result in missed opportunities, such as not acquiring valuable technology, and a reduced return on investment for new technologies that are unsupported by process changes.

Company Background

West Bend Mutual Insurance Company is a regional property/casualty insurer that writes business in six mid-western states. They are experiencing healthy growth rates and are committed to appropriately sizing their organization and operations to keep up with their growth.

West Bend was considering purchasing a state-of-the-art imaging/workflow system for their property/casualty insurance operations. They engaged the Robert E. Nolan Company to assist them in performing a cost/benefit analysis of the new system and to identify any savings that could be realized from the purchase of this technology.

Nolan also suggested reviewing and changing West Bend's key claims processes in order to best take advantage of the planned technology. Separate efforts were conducted in the property/casualty and workers compensation claims divisions to analyze and redesign these processes as well.

Claims Operations and Technical Redesign

Nolan formed project workshop teams, comprised of West Bend claim experts, to review current operations and the critical activities of the claim process. The new processes would be designed based upon input from these workshops as well as from Nolan's Claims Best Practices library.

The Nolan library includes information developed from research, as well as lessons learned from projects conducted in prominent property/casualty companies within the last five years. In addition, this library has information on personal and

commercial lines underwriting, and product distribution activities related to independent agency, exclusive agency and direct response channels.

As a by-product of the project, the workshop team also produced a detailed description of the preferred claim process. This document was passed on to the imaging/workflow implementation team and formed the basis for their system requirements and specifications documentation. This expedited the development of the imaging/workflow system design for both claim divisions.

Impact and Results

West Bend realized numerous process improvements as well as significant cost savings.

The new processes incorporate significant improvements to the methods used to receive, assign and initiate the claim process. Now, the claims representatives who receive the initial “notice of loss” calls handle the claims, or they transfer the callers directly to the appropriate claims handler. This change alone made a significant improvement in cost and service and leveraged the features of imaging and workflow.

The initial cost/benefit analysis identified savings in excess of \$2 million per year from installing the imaging/workflow technology.

Implementation of the process redesign recommendations in support of the new technology will provide **additional** annual savings of between \$2 and \$4 million per year.

This project demonstrates once again that technology alone will not achieve world-class performance. Maximum improvements can only be realized with the proper integration of a company’s people, process and technology. When this balance is achieved, the results are substantial. ■

WHAT ARE OTHERS DOING?

What are companies like yours doing to be competitive? In other words, what are they doing to reduce cost, improve quality and service, and get the most from technology? Below is a sample of Nolan's current projects that show what insurance organizations are working on.

Health Insurer — Implementing Systems and Processes

The project involves aiding Sales and Marketing in implementing some systems and processes that can help the two departments get to a full automation capability. We are supporting the Sales effort by establishing process flows, implementing the automation of their Sales Guidelines for product selling, automating their new business product approval process and supporting their demographic rating effort.

Regional Insurer — Analysis of Operations

We are assisting this insurer to analyze its operations, and we are developing recommendations for short- and long-term service improvements and cost reductions. Areas to be addressed include claims, member inquiry and provider inquiry. Processes include data capture, pend management, disbursements, and managing inquiries and management practices.

Health Insurer — Redesigning the Health Services Department

We are assisting the health plan in redesigning their Health Services Department to align its activities with the physician's role as the primary manager of care and cost. We will focus on the processes, such as service interactions within the insurer's system and with other providers. The project will result in improved effectiveness and efficiency, significant cost savings and improved service to the physicians.

Regional Health Insurer — Improving Revenue Processing

We are analyzing and improving the revenue processing operation. This includes the generation and delivery of premium bills to group and individual customers, processing of incoming premium payments and associated payment reconciliation, and the monthly cycle in which these activities occur. ■