

The Nolan Newsletter

People, Process, and Technology



ROBERT E. NOLAN COMPANY
MANAGEMENT CONSULTANTS

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Nolan is an operations and technology consulting firm specializing in the insurance, health care, and banking industries. We help 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. Visit our Website at **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

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EXECUTIVE INVOLVEMENT SETS DIRECTION



Planning for 2012 is upon us. The economic landscape continues to confuse the most informed business executive, and I find myself trying to simplify my personal world at the same time. I have stopped looking at my 401K, stopped trying to figure out the market and am just trying to keep my ball in the fairway rather than break 90. Focusing on the big picture is hard to do during times like these, with shrinking profit margins and an increasingly competitive marketplace. Sometimes less is more, and focusing on the basics may allow you to take a few important steps forward. Like everyone else, banks, healthcare organizations, and insurance companies are being challenged by new operating models with lower cost structures. The days of growing only the top line are behind us. The revenue from growth is part of the answer, but restructuring the cost model is equally important.

An informed customer base is pressuring banks to limit fees; insurance companies are expected to remain profitable with limited investment options while still improving service and offering state-of-the-art on-line capabilities. And every healthcare carrier in the country struggles with the not-so-easy task of trying to bend the cost curve.

In this new business environment, some of our client executives have become very active in helping to set creative and strategic expense guidelines that shape the vision for their company. We are seeing the leadership team help focus the organization on where and how we should invest and what levers we can pull that would help reshape our expense model.

With a high-level expense review, a senior team is able to pinpoint what decisions they can make that will significantly impact the overall costs. This “executive expense management” approach can provide a framework for the organization to work within to meet expense goals as well as sales and growth goals. It is a three-step process:

1. Determine what the key cost drivers are in the organization.
2. Evaluate the impact of current executive strategy on these drivers.
3. Evaluate alternative scenarios to reshape the expense model.

This is a strategy around one of today’s critical business success factors—expense management. Get your leadership team together and start the process. It is real, it is tangible, and it should be the foundation for your future strategic decisions about products and services. ■

Dennis B. Sullivan

Dennis B. Sullivan, Chairman and CEO

IMPROVING EFFECTIVENESS OF SERVICE OPERATIONS IN 2012



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Not so long ago, four metrics were the key to driving service operations improvements—cycle times, productivity, costs, and quality. Change recommendations that yielded significant improvements in any one of those metrics without a negative impact on the other three usually got a green light for implementation.

To the frustration of many an operations executive, that old rule rarely yields success in today's decision-making and prioritizing processes. To understand why this is happening, let's look at some common environmental issues confronting most organizations:

- There is intense pressure to reduce operating expense. This pressure has been increasing quarter after quarter and year after year going back to 2009. This sustained pressure on operating expenses has dried up several traditional sources of improvement—low-hanging fruit and budget variance. As one client recently stated, “Low-hanging fruit is now 25 feet up the tree and can't be reached without the IT ladder, which we don't have access to.” Reliance on favorable budget variances has been replaced, with many heading into 2012 with an undefined, unfavorable budget gap.
- Growth is the main challenge most insurance organizations are focused on these days. Pursuit of growth opportunities is interrelated with expense pressures. Growth can ease pressure on expenses, but expense reduction often funds growth initiatives. Resources will flow to growth initiatives and away from traditional operations improvement efforts—specifically, IT resources.

So how can a COO improve effectiveness in 2012? We think a big part of the answer is understanding what most CIOs had to learn in previous decades: improvement efforts have to be aligned with overall corporate strategy. Operational improvement efforts that are integral to an improved growth strategy have a fighting chance of approval and implementation. Standalone operational improvements will be DOA.

Recently, we have helped several clients develop and implement these growth and operational improvement strategies. If you would like to learn more or receive related case studies, let me know. ▀

KICKING THE CAN AND OPERATING MODEL COMPLEXITY



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Most of us saw it coming: massive restructuring as the U.S. Postal Service recently announced that it will close one in ten of its 32,000 offices. Efforts are under way to evaluate selling major operating locations across the United States, a move expected to save over \$3 billion annually. Route limitations, no more Saturday delivery, massive layoffs ... the list goes on. Electronic mail, the internet, competition, and rising costs are all pointing one of our country's oldest and largest institutions in one direction—reinvent your operating model and dramatically reduce costs, or risk extinction. You eventually reach a point in your business where leaders can no longer kick the proverbial can down the road for the next guy to deal with your operating model complexity.

While not as dire as the U.S. Postal Service's situation, many in the financial services industry are likewise facing increased complexity in the business and operating model. Some have acquired businesses, most have added new products or channels, and all are dealing with higher expectations from customers for better service and accessibility. These all add complexity to the operation and present opportunities to balance the cost versus the value of complexity.

You eventually reach a point in your business where leaders can no longer kick the proverbial can down the road...

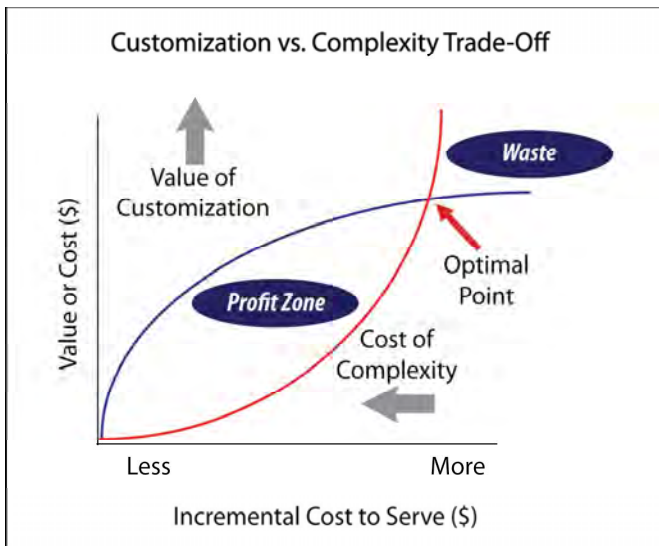
Why is complexity in the operating model bad? Those who can't grow the top or bottom line show the most acute symptoms, such as:

- Delays in getting new products and services to market compared to competitors;
- Excessive time spent keeping up with regulatory changes rather than new product and service introductions;
- Inability to provide fast, convenient service;
- Limited process improvement and innovation;
- Inability to extract sufficient synergies from a merger or acquisition;
- Higher cost due to lack of scale; and

-
- Over-dependence and focus on existing products, channels, and segments, which will eventually put the business at risk.

The solutions are never simple. Complexity didn't just sneak up on your business overnight. It's been years of doing the right things but often with inadequate focus on combating complexity while you grow.

So what are we all doing about it? Do we understand the value of customization compared to the cost of complexity? Every product and service we add to our business has some mix of value and cost. Reviewing the portfolio in aggregate and at the specific product/service/segment levels can help determine where we are creating value and where we are wasting time, effort, and money.



The companies getting their arms around the issue have enterprise-wide plans to address these profit generators versus detractors. Examples include a clear understanding of the future operating model, enterprise-wide product development cycles, clear accountability for product/channel/segment development and profitability, process and segment control, and alignment of measure, culture, and behaviors.

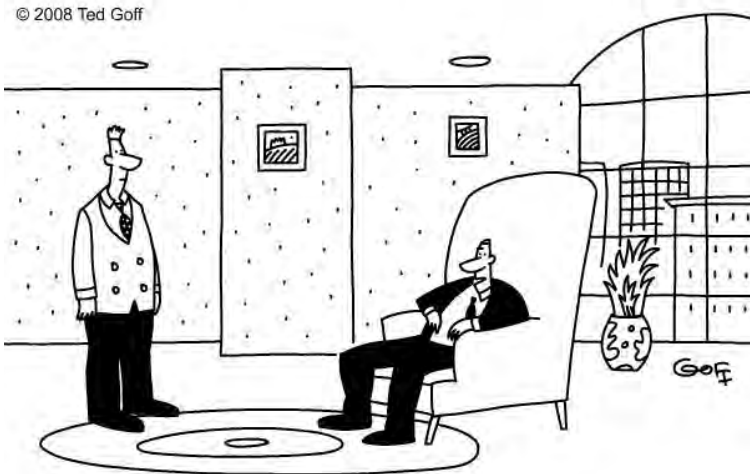
So where does your business fall in the mix? Our experience suggests that companies generally fit into one of three categories:

1. First, companies that don't see it as a problem. They continue to concentrate on top-line growth and defer action, leaving it to the next generation of leaders to address long-term complexity and cost issues.

-
2. Second, companies that have grown and are now trying to drive out complexity while growing the top line. The vast majority of companies fall into this category; they layer businesses and services into their operating model but only occasionally step back and review the overall operating model.
 3. Companies that would be considered best practice. They think through the issues of complexity before adding to their operating model. Their specific processes, programs, and behaviors put a strong filter on complexity.

The trend of increased complexity will continue, with new brands, changing customer segments, more demand for personalized customer service, and, of course, new products. Regardless of how you cut it, dealing with complexity is an endless duty.

So where are you with coping with complexity in your operating model today? Are you on the road to profitable growth or kicking the can down the road? ▪



"I thought spending lots of money on new technology would be enough. No one told me we'd have to use it."

SIMPLICITY CAN BE THE BASIS FOR COMPLEXITY



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Understanding how simplicity can be the basis for complexity can help you manage service operations. Sounds crazy, doesn't it? Simplicity the basis for complexity? Let me explain.

There is a new field of study called “emergent systems.” An emergent system is a system that self-organizes but is capable of very complex behaviors and is highly effective in responding to environmental changes. Because of the paradox of simple self-organization and complex adaptive behavior responses, scientists are deeply interested in them.

Here are a couple of examples. Think of a school of fish. Think of the beautifully coordinated movements of hundreds of individual fish that move as one body, the school. Two simple rules create this behavior: follow what is in front of you, and maintain a constant distance from the schoolmates around you. Or think of the stock market: millions of buyers and sellers, self-organizing. They follow simple rules: balance risk and return, buy low, sell high. (Or, in the case of a broker and former brother-in-law, trade at random and explain in psychobabble.)

*An emergent system
is a system that
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complex behaviors.*

For more than 20 years, I've been involved with managing and consulting to call centers—all sizes, shapes, products, and levels of technology, from Nova Scotia to Singapore, Miami to Seattle. I've seen and heard amazing things as our clients deliver voice-based service. And, along the way, by talking with smart executives and their front line and by comparing their operations to their performance data, I've learned that the complexity of a well-run voice service operation is managed with four simple rules of daily managerial work. The rules are: 1) forecast how many calls you will receive; 2) staff to meet the forecast; 3) work your plan, and, if the forecast is off; 4) adjust your plan for the rest of the day.

Organizations living these rules (even if they can't explain exactly why they are doing it) deliver great service at a good price without staff drama or high stress and turnover. They are like a school of fish: they can adapt

without apparent effort and are fascinating to watch. They can behave in highly adaptive ways and conquer complex service delivery challenges, but the basis of their success is simple.

If you are leading a service delivery organization, you can benefit from discovering the simple rules that can drive success. Here are a few tactics you can use to find your simple rules:

Ask your front-line managers this series of simple questions. What's it like on a good day? On a bad day? What can we do to have more good days?

Another helpful question sequence begins with these two: To deliver exceptional service, what do we need to become exceptionally good at? What does our management team need to master? Expect some silence (perhaps uncomfortable silence) when you ask these questions. However, if you ask them often enough over time, your staff will give you insight and action improvements that you can make.

Talk to people who are new in the job. They have fresh eyes and can see things that your experienced staff has learned (or been trained) not to see. People who have done the same job in other organizations can also give you a sense of how different your organization is. And many times these people can bring you ideas that are old to them but new to you.

Ask clients about your service. Every dollar spent surveying clients on this topic will improve your service. Use new tools, like e-mail surveys to clients who called you today. Ask them three questions they can answer in 45 seconds. No single answer will be magic, but the pattern of simple answers can change your operation.

Use data to find your good and bad days. Then use more data to see what made the days different. "High volume, high abandon rates...Gee, it might have been that ID card mailing we didn't know about. What can we do to make sure we know about future mailings?"

Read. Blogs, reports, articles. Shamelessly steal knowledge from others who are in similar situations. They can make you look really clever.

As you do these things, over time, you will begin to find the simple day-in, day-out disciplines that can transform your service. Nolan can be a resource, too. We have experience, insights, and diagnostics that can help simplify your complex service challenges. ■

THE STRATEGIC IMPORTANCE OF MANAGING TO YOUR BANK'S ANALYTICS



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This year, in-branch transactions are down again as more customers are switching to electronic channels for their routine transactions. This will escalate as some banks introduce in-branch fees for certain transactions.

This trend bore out in our most recent Bank Performance Study in a way that was not surprising. In high-performing banks, the transactions per teller per month actually decreased by 7% over the past two years. The interesting comparison is that in average banks, the transactions per teller per month decreased by 21%. What is rather startling is that the average banks in our study had a reduction in transactions per deposit account of 14%, while the top-quartile banks' reduction in the same metric was 28%. The gap in performance between top-tier banks and average banks in our study shifted from a 7% gap in 2009 to a 21% gap in 2010. The lesson in this is that the retail operations of the average banks did not respond to the shift in consumer behavior, while top-performing banks managed through it. The question is whether the average banks did not respond to known data or did not measure it as a strategically important metric.

The latest Nielsen data and estimates show that there will be more than 142 million Smartphones in use in the United States at the end of 2011, up from 12.5 million in 2008. Retail bankers should be paying attention to this industry metric. If they don't, they might find that their infrastructure does not support the new consumer reality. Customers will be using their Smartphones, pads, and computers to handle routine transfers of funds and payments at an ever-increasing rate, with estimates that over 50% of transactions will be executed in this way by 2015 in the United States.

The strategic importance of key behavioral trends should shape the technological and service models we build, ushering our customers into the electronic age. This is already how things are done in Europe, where checks are a distant memory. What analytics does your bank use to monitor customer behaviors and the shifts that are taking place? Are you channel-sensitive, or do you manage each channel as a separate silo? Measures and analytics are the intelligence that you will require as we trend to the new banking reality. ■

ARE YOU REALLY PREPARED?



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It wasn't so many years ago that Disaster Recovery (DR) meant being able to bring the company's computer system back up quickly. IT departments invested a lot of time and money to ensure we were able to do 'business as usual' in case of an unforeseen system failure (e.g., Y2K). The DR Plan made us feel safe.

Over the past few years, recovery from natural disasters meant more than getting the computer systems back online. The new awareness became: how do we keep people working normally when *the building the computer systems are in* fails? To address the problem, a Business Continuity (BC) Plan was established. It documents, in detail, how and where departments would operate in case of a disaster. With a BC Plan in place, we felt safe again.

DR and BC Plans should be periodically reviewed, updated, and kept current. While these plans may not be perfect, they provide some certainty of safety and a plan-of-action necessary in a crisis. However, we may still need more.

On a recent claims processing project, I saw a processor using a paper spreadsheet with special-handling instructions for less-common claims. I discovered several of the other claim processors had similar manual tracking systems containing phone numbers, follow-up notes, and processing steps. Those individually-created spreadsheets would very likely not be available during a disaster, because they weren't part of the BC Plan. If the company had to operate from a different location, those tools—which might be an integral part of doing business—may not be accessible. And, if those tools are needed to do business and they are not covered by DR or BC, we shouldn't be feeling so safe!

*Items deemed critical
or highly important
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of the DR/BC Plans.*

How can we know if we have critical processing tools that aren't covered by DR/BC? It can be done by simulating a temporary work station with

the limited tools as outlined in the BC Plan—no paper files or instructions, no personal spreadsheets or databases, and no phone lists.

All documents used in the course of doing business have value and need to be kept secure, accessible, and in an electronic format.

As the processor works, document the missing and critical items that are needed to maintain productivity and workflow. Items deemed critical or highly important and which affect many transactions should become part of the DR/BC Plans. Solutions can be as easy as electronically scanning the processors' spreadsheets and storing in a shared directory or drive.

A final thought...all documents used in the course of doing business have value and need to be kept secure, accessible, and in an electronic format. If you had to vacate your building today, would you be prepared? ▪

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"We could go back, but that would take extra time."

CLIENT SPOTLIGHT

Project: Medicaid Revenue Management and Rate Setting

Client: Multi-State Medicaid Plan

Industry: Healthcare

This multi-state Medicaid Plan wanted to improve its ability to influence the rates they received from the State. The Plan saw themselves as being a "rate taker" versus a "rate setter" when working with States in the annual rate negotiation process. The organization needed to improve their financial bottom line and to ensure that they were receiving fair reimbursement rates for the members they serve.

Nolan was asked to work with one of the organization's health plans to improve three of the key processes that impact rate setting; enrollment reconciliation, revenue reconciliation, and priced encounter submission.

Project Objective

The overall objective was to ensure that the efficacy of the three key processes: enrollment reconciliation, revenue reconciliation, and priced encounter submission, were efficient and productive. For each of the three key processes, the client needed to:

- Implement essential sub-processes that were missing.
- Remediate serious process deficiencies for existing sub-processes.

- Identify and implement improvements to the processes in order to reduce time and cost, and to improve accuracy and quality.
- Develop and deploy tools (e.g. metric and control reports) required to ensure ongoing efficacy of the processes.

Key Issues

Among the core issues and concerns expressed by the Plan's leaders were:

- Several activities, key to supporting the rate setting process, were not being performed.
- Many of the sub-processes involved with the key processes were not fully developed, which allowed for inconsistent and unpredictable results.
- Several million dollars in encounters had not been submitted to the State for inclusion in rate setting calculations.
- Several hundred thousand dollars in encounters, for which the Plan was not at risk, had not been submitted to the State for reimbursement.

Project Approach

Nolan's approach was to:

- Conduct a Nolan Practice Review which leverages process and metrics models to assess the completeness of activities being performed by the Plan.
- Utilize and leverage Nolan's proprietary Process Maturity Model to assess the maturity level of existing processes.
- Design and implement key sub-processes that had been missing.
- Improve the maturity level of existing sub-processes associated with the three key processes.
- Develop process plans for each of the three key processes.

Project Results

New processes were put in place, the process maturity level of key activities was improved, and processing metrics were identified and implemented. At the end of this engagement, the Plan had all of the advancements required to achieve Maturity Level 2 for the key processes. Attaining Level 2 allows

In addition to achieving hard-dollar benefits, overall financial accuracy was improved.

the client to operate smoothly during times of organizational stress including growth in membership, unexpected spikes in transaction volume, organizational changes, and addition of new products.

Also, components the key processes will be structured so that they can be rolled out to other plans within the organization, thus reducing variability and costs across the enterprise.

Nearly \$1.5M in encounters were identified that needed to be submitted to the State for consideration for rate setting. Approximately \$500k in encounters, that were the State's liability, was identified for recovery. Improvements in retro-term processing are expected to result in approximately \$100k in annual benefits.

In addition to achieving hard-dollar benefits, overall financial accuracy was improved, decreasing:

- The need for re-stating financials.
- Violations in State compliance requirements.

In addition to the specific results achieved on this project, this respected healthcare organization is, with Nolan's assistance, embarking on a comprehensive program to improve its processes and process management discipline. The results are already showing benefits of improved service, profitability, and organizational agility.

CALLAHAN ENHANCES LOMA COURSE

Insurance industry association LOMA recently introduced its newest FLMI course, *LOMA 335—Operational Excellence in Financial Services*, which focuses on helping financial services employees improve performance in company operations. Nolan is a strong supporter of LOMA, and we are proud that our insurance practice director, Steven M. Callahan, ChFC, CLU, FFSI, FLHC, FLMI/M, was a member of the textbook development panel.

The course content offers successful management practices in areas such as the operating environment, leadership, analysis and decision making, quality management, project management, and technology. “Steve’s expertise in the subject matter and contributions to the course material were a great asset to the successful completion of this project,” according to Susan Conant, LOMA Senior Associate and content developer. Steve championed the inclusion of topics such as evidence-based management and expert underwriting systems, and ensured accurate treatment of technology. He also provided the basis for some important sidebars, which are formally attributed to him.



LOMA’s Fellow, Life Management Institute (FLMI) Program is a 10-course professional development program that provides industry-specific business education in the context of the insurance and financial services industry. *Operational Excellence in Financial Services* is an assigned text for FLMI 335, a required course to earn the Fellow, Life Management Institute (FLMI) professional designation. The FLMI Program is the world’s largest university-level education program in insurance and financial services. To learn more, visit www.loma.org.

Our thanks to Steve Callahan for his important work on this program, and congratulations to LOMA on the addition of an important new resource in their course library.



THE CHANGING CUSTOMER LANDSCAPE



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Like it or not, the landscape of customer expectations and communication is rapidly changing. Borrowing from Burger King, customers are demanding to “have it their way.” They expect service on their terms, not only *when* they want to communicate but *how* they want to communicate. For a while now, some companies have viewed the Internet as a marketing channel and the call center as a dialog channel. But now these channels are morphing, and social media is no longer just a nice option for customers. In many cases, it’s becoming the first place customers turn to when they want to contact you, and you have to be there. Consider some of these shifts in customer behavior:

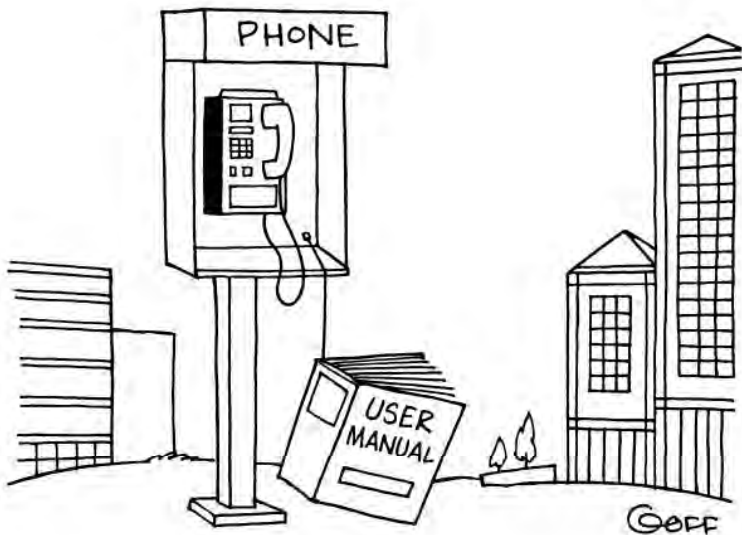
- Half of all American adults now belong to social networks.
- Customers are gaining control of how and when they communicate with you and what they want you to communicate to them.
- Customers want to use digital tools to customize their life—online and offline.
- Customers are learning to filter out what is not important and relevant to them.
- Customers are helping other customers through on-line forums.
- Facebook is cited as the #1 source for referral traffic.
- ClickFox cites that, although once unheard of as a customer service channel, social media—such as Facebook, Google+, and Twitter—has proven to be effective alternatives to other customer service channels.
- More insurers are allowing access to social media sites, with LinkedIn in first place.

It’s not hard to start engaging in social media, but the strategy needs to be tightly integrated with a company’s traditional service and support functions. Fragmented or “bottom-up” approaches will not allow companies to operate social media at scale. These approaches also create risks such as inconsistent customer experiences, inability to monitor regulatory compliance, and redundant investments in technologies and human resources. Keep in mind that not all consumer interactions are “transactional,” especially in social

channels. Companies need to find the right mix of communication, sharing of content, and promotion to develop a more genuine relationship.

Social media can also give companies major customer-service challenges when a person or group uses social channels to ridicule a company. There's even a new word to describe this—"snark," considered a contraction of "snide" and "remark." If someone is asking for a referral on Facebook and your company is snarked, the comments are seen by many people. Companies that don't act quickly to contain negative consumer comments through social media may watch their reputations tarnish rapidly.

Customers today don't just want *more* choices, but also *better* choices. Your company can create great value for your customers by using digital tools to offer the right kind of customized products, services, and experience. Customer expectations and communications will continue to evolve rapidly, and the successful companies will continue to develop integrated plans and processes to let their customers "have it their way." ▪



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FIVE WAYS TO IMPROVE UNDERWRITING EFFECTIVENESS IN BANKING



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Underwriting is a critical function in both the banking and insurance industries. It is one of those functions that may be taken for granted and viewed simply as having the essential purpose of risk avoidance. With the recent challenges in the financial industry, however, risk tolerance levels have generally decreased, which can result in lost revenue. As a result, it has become more important to maximize the effectiveness of the function. In addition to adjusting risk policy and tolerance levels, there are many other ways to do this.

Balance Staff to Workload and Prioritize

With customer experience a key differentiator in financial services, along with new and evolving distribution channels, customer expectations relative to things like turnaround time are changing as well. Customers expect quick or immediate decisions in many cases, so for applications that cannot go through an automated risk assessment process, it is imperative that underwriting staff be available when needed by the sales side and that staffing levels be aligned with peaks and valleys in volume. Guidelines and processes should be established for loans that can be decisioned quickly and when a customer is present so that they are prioritized within the underwriting shop from a work distribution perspective.

Understand Customers and Relationships

While it's important to monitor the front-end risk-oriented information (such as the credit score), a poor understanding of an individual's or business's past, present, and future and their overall relationship with the organization can result in a short-sighted credit decision. With this information, underwriters may, for example, modify decisions in order to ensure that a long-term, profitable customer relationship is maintained.

Balance Performance Metrics

The goals and performance metrics for the underwriting function should go beyond the traditional risk-oriented performance indicators, such as charge-offs, default rates, and non-performing assets. They should include turnaround time, unit cost, and revenue growth. It is critical that these metrics be balanced appropriately and aligned with the organization's strategy, risk policy, customer expectations, and the competitive market. For effective evaluation of individual and team success, underwriters

should have a stake in profitable sales growth that is appropriately balanced with risk-oriented metrics. If not already available, tools should be developed and put in place that will enable underwriters to see the big picture from a client perspective, which will prompt them to be proactive about providing valuable insights for the sales staff from a cross-sell or up-sell perspective.

Automate

Automation is a key component of underwriting efficiency. The two areas that can provide the most gains in efficiency and effectiveness are automated underwriting and automated workflow. The degree to which these processes are automated can vary between organizations. Automated underwriting requires that criteria be established that will reduce manual volume and human intervention, while balancing this with appropriate levels of risk and the competitive environment. The primary benefits include reduced cost and immediate turnaround. If not already in place, automated work distribution and workflow of applications and trailing documents can provide significant benefits. Applications should ideally be accompanied by electronic images of all training documents.

Apply Business Analytics

Monitoring ratios and underwriting result trends through analytics is a must for underwriting effectiveness. Effective management of the function requires ongoing monitoring and awareness of various statistics at the product, department, and individual levels, such as:

- Application volumes by type
- Approval and decline rates
- Conditional approvals and booked rates
- Withdrawal rates and percent of applications booked
- Turndown percentages for A and A+ credit rating applicants
- Revenue and client retention trends
- Automated underwriting trends

This information may be available in various reports, but it is frequently not pulled together in such a way that trends and patterns can be easily recognized and addressed. Developing such reports and having the ability to develop new reports that provide new insights is key to effective underwriting management.

These concepts are generic enough to apply to insurance or banking and across product lines. They will help to ensure that the underwriting function goes beyond risk management to provide maximum value from a profitability perspective. ■

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MUCH HAS CHANGED AND MUCH HAS NOT



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Frederick Taylor's *Principles of Scientific Management* was published in 1911. His views on the behavior of workers and the role of management were ahead of their time. One hundred years later, I think there are still some important lessons to learn and apply from Taylor's ideas and observations that will work today to help companies deliver value to their customers and compete in the marketplace.

Taylor thought the objective of management should be to "secure the maximum prosperity for the employer coupled with the maximum prosperity for each employee." A century ago, most workers were employed in factories or mines, and few had a say in management's decisions. Taylor's idea that another goal should be the employees' prosperity was not widely accepted by heads of businesses. Today, we understand that the key to any organization's ability to have a lasting advantage over competitors is its culture and employees. Taylor used the term "prosperity" broadly, but it is still relevant.

*Today, we understand
that the key to any
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Taylor's view was first called "task management." He felt that each part of the work being done should be *designed and structured* and each worker *selected and trained*. But there are limits to how Taylor's views fit our world today. I think the largest is his view that workers are excluded from the "science" of design and decisions that were exclusively management's role. A worker in a mine or factory would never have been asked to participate in the analysis and design of work tasks. However, those who know the work best are the ones actually performing the tasks.

The Kaizen approach is a philosophy that originated in the post-World War II era with the work of Dr. W. Edwards Deming in Japan. The thought is that continual improvement leads to quality and efficiency in meeting the customer's requirements. This approach would lead to Six Sigma.

Dr. Deming taught that, by adopting appropriate principles of management, organizations can increase quality and simultaneously reduce costs. This highly focused effort engages those doing the work to solve a problem—eliminating waste and increasing productivity—leading to better service and quality. Both Deming and Taylor agree that decision making should be based on measures and facts; although dependent on the doers of the work, the event is led in a structured manner and the suggestions are reviewed by management for adoption.

Both Frederick Taylor and Dr. W. Edwards Deming dramatically impacted how we manage. Although much has changed, a lot has stayed the same. How will you use the tools to make continuous improvement in your organization for the prosperity of both the employer and the employee? ▪



"Your proposal is innovative. Unfortunately, we won't be able to use it because we've never tried something like this before."

READY TO TACKLE THE BACK OFFICE?



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With the increasing squeeze on margins in financial services organizations, companies may need to look beyond their operational areas and to their back office to further reduce expenses. If your organization is thinking of launching an initiative in the back office, here are five ways to boost your success:

1. **Understand the uniqueness.** “Back office” is a handy term to lump together the non-operational functions of Information Technology, Finance, Human Resources, Actuarial, Risk Management, and Law. However, each back office function is unique. The approach to each is best done with functionally experienced and highly credible facilitators.
2. **Assess** each area before deciding the right approach. This helps to get a better understanding of each area and its challenges. It also helps to identify vestiges of past decisions that have created misplaced operational work for the back office.
3. **Benchmark** each function against the industry, but use the results primarily for needs awareness and priority setting, not for making decisions or judging effectiveness. For example, some IT functions deal with multiple platforms and/or high-maintenance legacy systems, versus a single platform and more modern system. Some finance areas must contend with corporate structures that add reporting demands.
4. **Use the appropriate methodologies.** For example, in IT, rather than dive in to look for unnecessary costs, a good first step is to prepare a roadmap linked to the overall company strategy. In all areas, functional analysis techniques that identify customers served—enabling the computation of importance, reliability, cost, and value—are essential in recommendation development.
5. **Plan the implementation of recommendations.** Once the recommendations have been developed and agreed to, a detailed plan on sequence, schedule, assigned responsibility, and impact measures should be prepared and approved by the staff.

Well-executed initiatives in the back office will deliver bottom-line savings, plus positive effects on the service operations. ■

NOLAN EVENTS

IASA Executive Edge Program

September 18-20, 2011 - Washington, DC

Nolan is pleased to sponsor opening reception entertainment and Nolan executive vice president, Rod Travers, will be speaking at this event to be held in Washington, DC in Gaylord National. - www.iasa.org

IBM Financial Services Summit

September 27, 2011 - New York, NY

Nolan will moderate two panels comprising leaders from banks, insurers, and financial services companies. The program will be held 8 a.m. - 3 p.m. on Tuesday, September 27, at the Marriott Marquis in New York.

BAI Retail Delivery 2011

October 11-13, 2011 - Chicago, IL

Nolan president, Bob Grasing, will be attending this event to be held in Chicago, Illinois at McCormick Place. - www.bai.org

CAHP 26th Annual Conference

October 17-19, 2011 - Indian Wells, CA

Nolan is pleased to be a sponsor of this annual conference. Nolan executive vice president, Rod Travers, will be attending this event held at Renaissance Esmeralda Resort in Indian Wells, California. - www.calhealthplans.org

LIMRA Annual Conference 2011

October 23-25, 2011 - New York, NY

Nolan is pleased to be a sponsor of this annual event. Nolan CEO Dennis Sullivan will be attending this event to be held at the Hilton New York in New York City. - www.limra.com

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