The Nolan Newsletter

People, Process, Technology

Table of Contents

Business/IT Relationship Continues in Spotlight

At the recent ACORD LOMA Systems Forum, the many useful subjects covered included evolving technologies, such as wireless, VoIP, service-oriented architecture, and mobile computing. However, the subject that seemed to generate the most debate during the general session panel discussions was the continuing challenge of getting IT and business people on the same page. Attempts to characterize the relationship included, "it's a marriage."

Typically, when people or functions are not on the same page, it usually means they have different objectives and goals. Often, senior management accepts this as "the way it is," and nothing is done to improve the working relationships other than relying on individual personalities or efforts. This just makes the situation worse over time. As one speaker said, "Do not mistake non-action for action, and do not mistake activities such as planning, presentations, mission statements, and decision-making for action." It is all about leadership. There must be evidence of substantial and elemental change before company leadership can take this off their agenda.

Just as marketing and underwriting, or underwriting and claims, or customer service and sales, or any other functions that must learn to work together for the greater good, IT and business must join to form a seamless working relationship. This is especially true now that technologies such as Business Process Management, Straight-Through Processing, Service-Oriented Architecture, and other tools are more like business processes than pure technology tools.

Essentially, the goals of IT and business are the same—to enable the organization to thrive by attracting and retaining customers. Leadership must get both parties to gain an outward perspective and focus on the ultimate goal. And like other improvement efforts, a methodology needs to be used and applied continuously to ensure that there is action and not just activity.

Ben DiSylvester
Chairman

WHAT WERE YOU THINKING?

Kim Wilkes
Senior Vice President
kim_wilkes@renolan.com

It was second down, late in the fourth quarter, and the score was tied in a high school football game between cross-town rivals. The home team was deep in its own territory when the second-string quarterback, who had replaced the injured starter, was also injured. The coach called time out and summoned the punter, who was also the third-string quarterback. Coach issued the following instructions: "No matter what happens, do what I am going to tell you. Give the ball to the fullback, then give it to him again, and on fourth down punt the ball. Do you understand?" The punter nodded and entered the game.

On the first play, the fullback broke loose and ran the ball to the 50-yard line. On the next play, the fullback broke loose again and ran the ball down to the 10-yard line. The punter called the next play, sprinted back from the center, and punted the ball far deep into the end zone. As he ran to the sideline, the coach grabbed him and yelled, "What were you thinking?" The punter looked at him and said, "I was thinking you are the dumbest coach I've ever played for!"

> Projects completed on time and within budget might miss the mark because they fail to address changes in the business environment.

Funny story, but how often does a semblance of this occur in the business world? People too often follow instructions to the letter, not taking the time to assess the current environment and how the situation might have changed. Business does not maintain a static environment and daily changes may dictate a reassessment of current initiatives. Projects completed on time and within budget might miss the mark because

they fail to address changes in the business environment. Good managers create an atmosphere where employees feel comfortable to question objectives and speak up when things don't make sense.

It's pretty simple. For any projects, management and employees should frequently:

1. Stop
2. Reread the scope and objectives of the project
3. Determine that the work underway still meets the objectives
4. If the answer to #3 is no, call a time out
5. Report the current situation with facts
6. Reestablish the objectives

We should never have to speak nor hear the words "What were you thinking?" ▪

"01101001, 00111011, 00011010, hut, hut!"

Client Spotlight: A Multi-Billion Dollar Health Insurer's Call Center Performance Improvement

Our client for this engagement was the Southeast regional service center for a $16 billion medical and health insurance company. The insurer serves 2.5 million members through five business units and a wide variety of products. Every year, the 1,300 service representatives of the Southeast center handle more than 5 million calls and adjudicate 27 million claims. Throughout the company's history, an emphasis on quality customer service has distinguished it from its competition.

Objective: Given an almost straight-line increase in expenses that was inversely proportional to a decrease in member satisfaction, there was an immediate need to improve service on both calls and transactions. Outsourcing, considered briefly, was discarded because of its inconsistency with the company's values and service goals. The challenge left was threefold: improve customer satisfaction, keep employees motivated, and reduce expenses. With the situation worsening, the time frame for accomplishing these goals was short.

> Although staff had been trained in this wide range of work, stress levels were high as a result of the constant switching between backlogged service requests and the high volume of calls and abandoned calls—quality of service was mediocre due to the breadth of knowledge required.

Current Environment: In the servicing area, experienced staff worked in a team-based, blended environment, and they were tasked with handling both transactions and phone calls. Calls were answered by all staff in both teams according to a rotating schedule. Between calls, staff were expected to do transaction work. Although staff had been trained in this wide range of work, stress levels were high as a result of the constant switching between backlogged service requests and the high volume of calls and abandoned calls—quality of service was mediocre due to the breadth of knowledge required. The lack of a routine to follow further exacerbated the situation.

Service metrics for the call center were rudimentary and based primarily upon the ASA (Average Speed of Answer) and Abandon rates. A quick solution was needed and with the limited systems resources available, reliance on technology had to be minimized.

Engagement Scope: The subject of this engagement was the handling of all calls and the processing of all service transactions. Call center staff, management, schedulers, statisticians, and transaction processors from the service area were included in the analysis and solution deployment. A 12-week time frame was established to analyze the situation, develop possible solutions and a set of recommendations, gain approval, and initiate the implementation of changes. To address the need, we adopted a focused approach. The Nolan team:
  • Performed an intense analysis of call and transaction volumes, patterns, types, reasons, and solutions
  • Reviewed workflow and work assignment
  • Developed detailed staff schedules and productivity standards and metrics
  • Performed in-depth, dynamic modeling of calls and tasks across existing staff by 15-minute intervals
  • Developed detailed work distribution schedules along with new performance metrics that better aligned staff with goals
  • Reallocated staff using intra-day resource planning and capacity tools
  • Effected changes in front-line managers' behavior to incorporate intra-day resource management and full engagement with employees

Executive participation and support as well as the organization's ability to adapt to change quickly were key.

Project Results: Implementation of these new staffing and capacity tools resulted in a redistribution of how work and calls are handled, specifically:

1. Employee multi-functionality was optimized in tiers, creating a 20% productivity increase
2. Annualized expenses were reduced by $10 million, the equivalent of 200 FTEs
3. Call volume dropped by 22% as follow-ups, callbacks, and corrections decreased
4. Customer satisfaction increased from 82% to 91% while membership rapidly grew
5. Clearer goals and schedules have resulted in employees who are more committed and less stressed
6. Managers have better control; today, they're able to stay on top of service levels and quality

With no major investments or protracted projects, our client transformed itself into one of the top service providers in the marketplace. All it took was the implementation of a few key management tools along with a more effective work management process—thecompany continues to grow successfully while delivering market-leading service to its members. ▪

> Annualized expenses were reduced by $10 million, the equivalent of 200 FTEs, and call volume dropped by 22% as follow-ups, callbacks, and corrections decreased.

Deposit Growth: The Struggle for Market Share

Robert E. Grasing
President
bob_grasing@renolan.com

Quarterly headlines tell part of what's happening in banking today: "Wells Fargo Bank reports continued strong growth in core deposits and checking accounts in 2006" (10% deposit growth); "Deposits were up 9% from a year ago" (Webster Bank); "Frost National Bank records asset and deposit growth" (18% deposit growth); and "Citizens Bank reports strong organic deposit growth (9%) and record earnings."

This sampling of comments on performance is the counterpoint to a continuing struggle for deposits that many bankers are reporting. It has been estimated that nearly 90% of the typical retail bank's consumer and small-business profits come from spreads and associated fees on core deposits. This puts added pressures on banks that cannot increase their market share. Further, some banks are realizing outright deposit "land grabs" by acquiring small business deposits in their own and neighboring states through offers of remote deposit capture. The battle is heating up in technology and ease of processing.

It raises the question of what the real obstacles are to organic growth and what can be done to make the sales and marketing process attract more customers and their deposits. We've seen a few of these obstacles in our routine visits. First, there is too much emphasis placed on new business instead of net new business. The implication here is that customer retention needs to be calculated into the incentive equation, not simply new deposits and accounts. To realize growth, in other words, there needs to be a focus on the existing customer.

The second issue is the process- and technology-related barriers that some banks still have to deal with. Systems integration is essential at the point of sale as is service to link existing customer data to the new business process. We see between 60% and 76% of new business typically coming from existing customers. Let's not treat them as new customers, subjecting them to a laborious process

that includes making them repeat their core information and then getting signature cards as if we didn't already have them on file.

The third issue is time. When relationship managers are spending less than 50% of their time on new business due to other administrative activities, it is a symptom of lack of integration and/ or excessive problem resolution. If your retail and small business growth does not match your competitors' numbers or your own expectations, please ask your CSRs to estimate how much time they can spend on new business. You may be surprised to learn that you need to improve process and technology to be competitive in this escalating war for deposits. ▪

"Remember, deposit only—you, you, you!"

Capturing the Hidden Value in Today's Fragmented Call Center Functions

Steve Discher
Vice President and Practice Director
steve_discher@renolan.com

Many insurers who operate multiple call centers have yet to recognize the benefits that would come with having fewer. Take, for instance, the multi-line P&C carrier with different phone numbers and departments for personal lines, commercial lines, claims, life and annuities, and so on. This disjointed approach to processing inquiries is increasing costs while creating confusion for agents and the insured. Our experience with clients has shown a 20–40% loss in productivity when call centers are managed unevenly as compared to a more streamlined approach.

The decisions to establish separate call handling functions were probably the right ones at the time they were made. Clients have attempted to Band-Aid the evolving problem by installing call center technologies in an attempt to consolidate the overall call-in function. The problem is that it's often difficult to improve the situation when servicing functions cut across product lines and functions that might include underwriting, claims, billing, and so on. We are seeing swollen cost structures and large inefficiencies from this approach.

Many clients are stepping back and saying, "There has to be a better way to manage our total call center needs while maintaining or improving our service." How can your company determine if there's a hidden opportunity? Ask yourselves these questions:

- How many phone numbers are there for outside parties to call? Given your size, does the total number make sense?
- How many different departments answer the phones? If these departments are typically fewer than 20 employees in size, you're probably sacrificing economies of scale.
- What are the service and productivity metrics for the departments that answer calls? How are these being improved from year to year? Most fragmented call functions don't have formal service and productivity measures because top management views the departments as too small to be bothered with.

- What initiatives are in place to reduce the number and duration of calls? Taking an inquiry over the phone is often 10 times more expensive than servicing the call through IVR (interactive voice response) or the Internet.
- Do you continually monitor and improve the cost per inquiry? As one client likes to remind me, "I keep score and guess what? Scores improve."
- When call function consolidation comes up in management discussions, has the reply often been "We looked at that before and it didn't make sense"? This could have been driven by a perception that the skills needed are too specialized, that there are too many systems to learn, or that a more centralized function would result in service deterioration. Technology and skills improve. Retesting old assumptions with a fresh set of facts, analysis, and solutions is often warranted.
- What happens with the available production time when the phones are not ringing? This is a gaping opportunity for many of our clients who have consolidated call functions and are now looking to move productivity to the next level. We've found anywhere between 10% and 30% excess capacity that can be reallocated for simple transaction processing and other productive activities.

No single solution will fit all situations. Full call center consolidation across all functions is certainly not the answer. Knowing where you are starting and your ultimate service and productivity goals is a good first step.

The Nolan Company has the pleasure of helping dozens of clients answer these questions. These clients range from small to large in size; carry P&C, life, and health products; and operate on scales both regional and national. Please feel free to email or call if you would like to hear more about how we've assisted clients in capturing the hidden value within their total company call center. ▪

Who Are "They?"

Hayden C. Jones
Senior Consultant
hayden_jones@renolan.com

Do you know what your employees are doing? It is not unusual for work or functions that once had a purpose to become obsolete over time. Unless told otherwise, employees will continue to work hard to complete the task or functions that no longer bring value to the company. In fact, employees often won't question why they are doing outdated work.

Some time ago, I approached a young employee who was working diligently at her desk. She had a large stack of applications and was carefully reading through them, looking for specific information. As she found each piece of data, she would write it down in a log that she had prepared. The log had many columns, each with specific data to be recorded. The information included the agent's name, insured's name, coverage amounts, premium amounts, and so forth.

Once she had finished the pile of applications, I asked her what she was going to do with the resulting log. She pointed to a corner of her desk and said, "I stack them there." I then asked if she showed them to anyone or if anyone came by to see them.

She said, "No." I asked her why she was doing the work since no one appeared to be looking at the logs. She said, "Because they told me to." I asked who "they" were and she answered, "I don't know."

I saw that there were a few logs at the corner of her desk and asked her what she did with them. She explained that at each week's end she summarized the logs in a separate report. I asked her what she did with the weekly summary report.

She said, "I stack them there," pointing to the other corner of her desk. I then asked if she showed them to anyone or if anyone came by to see them. She said, "No." Again I asked her why she was summarizing the logs, since it appeared that no one was looking

at them. She said, "Because they told me to." I asked who "they" were. And again she answered, "I don't know."

Noticing now that there were a few weekly summary reports on her desk, I asked what she did with the summaries. You guessed it: She summarized them into a monthly report that was submitted to and reviewed by no one. Knowing in advance what she would say, I asked why she was creating the monthly summary.

She said, "Because they told me to." I asked once again who "they" were. She answered, "I don't know."

It turns out that her predecessor had told her that this was a very important part of the job and that "they" wanted these reports to be completed and summarized. When I questioned what she did with the monthly report she had prepared, she showed me a virtual fleet of filing cabinets that contained all of the monthly reports going back for who knows how long.

Recognizing that I had found a function with no value added, I suggested that since no one was looking at the reports, she should stop producing them. Her response was, "No, we can't stop doing the reports." I asked why. She responded, "Because they'll get mad." I asked, "Who are 'they'?" She answered, "I don't know." And so it went on and on.

I later stopped by to see the employee's supervisor. When asked about the reports, he looked confused and said he knew nothing about the logs and subsequent reports. Only when the supervisor told the employee to stop did the employee reluctantly stop producing the logs and reports.

As a leader, knowing what your employees are working on is a critical part of the job. It is also very important that a leader does not become the dreaded "they" who causes or permits no-value-added work to remain in the department. Be sure your employees know who "they" is. ▪

Back to Basics, Rudy's Way

Dennis Sullivan
Chief Executive Officer
dennis_sullivan@renolan.com

I recently had the distinct pleasure of introducing Rudy Giuliani as the keynote speaker at the annual Insurance Accounting & Systems Association (IASA) conference in Boston before a crowd of more than 1,300 insurance professionals. In preparation, I reread Giuliani's 2002 best-selling book, *Leadership*. It reminded me how important it is to make a point of returning to the basics when it comes to front-line management and leadership. Giuliani took on the enormous task of rebuilding and revitalizing New York City in the early '90s. What is at first surprising is how simple and straightforward an approach Giuliani employed to get things moving.

He notes in his book that "part of leadership is being able to harness your passion to help attain your goals." To be successful in any job, passion is a prerequisite. Accepting status quo never gets you into the leadership club. Another tip offered in the book was "maintain your humanity." With these two bits of advice, Giuliani addresses both the job at hand and the people needed to accomplish that job.

As demonstrated by the 8:00 a.m. daily briefings he held religiously for the eight years he was mayor of New York and his obsession with using data to track results, Giuliani's leadership style was hands-on. He hired talented people and expected them to deliver results, and held all team members accountable at all times. His style appears uncomplicated, stripped down to raw essentials: there were no long-winded chapters in the book about vision, strategy, or development of long-term core competencies. My takeaway was a simple credo—be an optimist, look to the future, and have a goal. But it is the day-to-day blocking-and-tackling aspects of leadership that provide the momentum and course corrections you need as you move towards that goal, whatever it may be.

There is an interesting chapter about decision-making. "Reflect, then decide," Giuliani writes. The chapter talks about not making a decision until it's time. Some might read this as analysis paralysis, but after listening to him speak, I think he is cautioning against making quick decisions merely to end the tension and discomfort of conflicting views from your management team. Review the input, play out the alternatives, but then be ready to pull the trigger. Leaders need to be willing to pull the trigger and have a feel for timing. Balancing the need for adequate input with the need to make a timely decision is a function of the talent of the people you hire.

Giuliani's optimism was evident in his address at the conference. People will not follow a pessimist and the leader needs to identify a goal, build the plan (strategy) to reach that goal, and then be relentless in their preparation to accomplish the steps needed to attain the goal. The concept of relentless preparation really hit home with me. Giuliani talked about preparing for unseen circumstances and potential pitfalls. This preparedness allows you to adjust course when necessary (and you must always be willing to adjust when one of your bright people finds a better way). A constant focus on the goal and a relentless pursuit to deliver the results are the traits of a true leader. ▪

> Review the input, play out the alternatives, but then be ready to pull the trigger. Leaders need to be willing to pull the trigger and have a feel for timing.

MANAGEMENT INFORMATION—BECOMING e-FFECTIVE

Greg Madsen
Senior Consultant
greg_madsen@renolan.com

Getting the right information to the right managers at the right time is tough! Providing information that is clear, complete, and timely is one of the most difficult tasks facing today's corporations.

Several recent projects provide insights into the many factors that need to be addressed in order to be successful in ensuring managers have the information they need to meet their objectives. While many factors are important, the key factors for success are:
- Setting local line-of-sight objectives to corporate objectives
- Technology adequacy and acceptance
- Leadership around the issues of change, accountability, and teamwork

Line-of-sight objectives that stretch from the board room to the data input department are rare. Because of this, different departments will develop objectives for both themselves and their employees that are a close approximation to what the local management believes their managers desire them to accomplish. A clear example of this lack of line-of-sight linking can be seen when everyone accomplishes their objectives (or exceeds them) and the company misses their profit target.

Many senior managers fail to fully appreciate the advantages that technology such as intranets, the Internet, web portals, and shared computer drives can bring to everyone's desktop. Organizations that still have their primary management information being supplied by paper desperately need a two- to three-year conversion plan. If management information still flows on paper and no solid plan exists to stop the paper flow, then technology is underutilized—period! End of discussion.

"Even a small kingdom, Your Highness, can make effective use of modern management techniques."

Bringing about change in the way management information is constructed and transmitted requires talented leadership—the most important factor. Leadership on information needs to possess a vision where the right information is provided to the right managers in the right proportion and in a timely way. The days when managers in similar departments construct their own measures, produce different success reports, and remain only accountable and rewarded for meeting their own objectives should be gone! A mountain should no longer be made out of a molehill, and a small blemish should not be a main source of discussion at the annual management retreat.

Talented leaders need to recognize that hard work, long hours, and "striving to be the best" are all important, but results are what count. Results are best achieved when line-of-sight objectives are in place, management information is married to effective technology, and leaders use the information to drive change, accountability, and teamwork. ▪

TELLER STAFFING AND SCHEDULING: GETTING THE BEST RETURN

Rob Keene
Practice Director
rob_keene@renolan.com

The goal in teller workforce management is always to achieve the highest possible quality of service at the lowest possible cost. Getting the best return requires the implementation of certain workforce management practices: (1) determine transaction processing standards; (2) forecast; (3) schedule and enforce schedule adherence; and (4) optimize productivity.

Transaction processing standards determine the length of time tellers should need to meet customer demand. A basic rule in workforce management is that you can only control what you can measure and the degree of control is directly related to the quality of the measurement system. Every teller transaction has three phases—"start," where the customer is greeted and the transaction type is determined; "change," where the majority of the transaction is performed; and "stop," where the final steps occur and the customer goes on their way.

Many banks take these steps lightly, accepting industry standards as their own or developing proprietary standards through observation. Fallacy lies in both methods, as industry standards do not represent the reality of individual banks and observed standards reflect only what is happening rather than what should be happening. It's better to use engineered standards that measure the precise practices of the organization and the time that should be allotted to complete the steps. Engineered standards frequently improve measures by as much as 30%, bringing reality back into the equation. In one conservative estimate, engineered standards were shown to reduce staffing cost by 12%–15%.

Forecasting teller transactions can be easily accomplished by using historical data and examining arrival patterns. The arrival pattern of transactions does not vary significantly from day to day,

and plotting the number of transactions by time of day will usually reveal a common pattern. Weekday and weekend patterns should be analyzed separately. Once established, patterns can be used to consistently distribute your forecasted volumes throughout the teller operation hours so that breaks and non-teller work can be scheduled at times when there is excess capacity.

Scheduling tellers requires some additional tools, typically Erlang-based calculations that accurately determine the number of tellers you need at each interval of the day based on your forecast and service variables (such as service level target, the time you expect the average transaction to take, and the level of adherence to the schedule being achieved). Schedule adherence must be emphasized and measured to ensure that service does not deteriorate. The most accurate schedule will yield terrible service levels if the tellers are not in their places doing transactions at the scheduled time.

Productivity, defined as the time tellers are occupied with transactions, is one of the most misunderstood variables in workforce management and one of the most costly if mismanaged. Organizations that understand the significant cost associated with achievement of little or no customer wait time are those that understand how to manage productivity effectively. For example, transactions completed at an 80% service level (80% of transactions begun within a targeted wait time) will cost almost 11% less than transactions completed at a 95% service level. The difference in transaction cost is due to the additional staff needed to ensure that transactions are begun within the targeted wait time 15% more often. Keep in mind that in this example, meeting a higher service level causes teller productivity to drop significantly: it is important to realize the tradeoffs between too-high and too-low productivity levels. Generally, if tellers are occupied more than 70% of the time by transactions, service levels suffer. If occupied less than 60% of the time, cost is too high. A productivity rate in the low- to mid-60% range—where customers have to wait a short time but only occasionally—is ideal.

The value proposition of effective teller staffing is better service at lower cost. Banks that develop and use proprietary teller transaction processing standards generate accurate volume forecasts from historical data, schedule their tellers, make sure their tellers follow the schedule, and have a realistic sense of the service level they wish to achieve. In return, they experience shorter wait times, faster transactions, and lower teller transaction cost. ▪

NOLAN EVENTS

July 23-25, 2006: Southern Farm Bureau Conference

Nolan Chairman, Ben DiSylvester, will present a session on Underwriting Processes and Nolan Vice President Steve Discher will present a session on Strategic Planning.

October 2, 2006: PCI Information Technology Conference

Nolan Senior Vice President Rod Travers will speak on Business Continuity at this event in Phoenix.

November 14, 2006: ISOTech Insurance Technology Conference

Nolan Senior Consultant Tim Lauer and Kathy Huskey, Director Federal Employee Program, BCBS Arizona, will present the session "Moving Beyond the Call Center: How to Maximize Resources in a Service Center Environment" at this conference in Orlando.

Please visit www.renolan.com for more information on the events.

The Most Important Call Center Metric You're Not Measuring

Bob Cecchini
Senior Consultant
bob_cecchini@renolan.com

First Call Resolution, Resolved on Contact, First Time Final, or Once and Done. By whatever name you choose to call it, First Call Resolution (FCR) is very likely the most important indicator of customer satisfaction, and you are probably not measuring it. Think about it. Do you really care that you had to wait in queue for two minutes if the agent who takes the call solves your problem and you don't have to call back?

FCR is best defined as the percent of calls that do not need any other contacts to resolve the customer's issue. Its complement is repeat calls. So, if you have 20% repeat calls, you have 80% FCR.

Research has shown a close correlation between high levels of FCR and customer satisfaction. In addition, high FCR usually means lower costs (fewer repeat calls) and higher employee satisfaction.

So, if FCR is so wonderful, why isn't everyone measuring it? It's because unlike other call center metrics, the system can't do it for you. FCR is subjective, and you need to ask the caller. Some companies do post-call surveys. Others simply have agents ask the caller if their issue was resolved or if they've previously called on this same issue.

Once you start measuring FCR, you'll want to take actions to improve it, so here are three things to work on:

1. Agent Training—High FCR requires agents who are trained to handle all types of inquiries, especially the more complex ones that most negatively impact FCR. Well-trained agents know how to confidently convey all the necessary information needed to assure callers.

2. Easy Access to Information—The agent desktop should be designed to make it easy for agents to navigate to the correct

information, and that information must be well maintained and current.

3. Timely Response to Pended Calls—One way to ensure repeat calls is to say you'll do something and then take too much time doing it. So, try to minimize pended calls, set aggressive timeliness goals for resolving them, and keep a close eye on pended call aging and the number of pended calls by agent.

To those of you who are already measuring FCR, congratulations. For others, give it serious consideration. It may very well become one of your most important call center metrics. ▪

"Could you give me a moment to collect my thoughts? It's been some time since I spoke over the phone to an actual person."

A Matter of Metrics

Steve Callahan
Senior Consultant
steve_callahan@renolan.com

Constrained product margins, increasing labor costs, increasing shareholder pressure on returns, higher consumer expectations, and intensified competition are all testing the operational capacity of our industry. As product features converge, the importance of service becomes more apparent. Executive dashboards, benchmarking, and productivity as an integral part of performance management, all represent a growing recognition of the importance of turnaround time, quality, and consistency to market share and growth To monitor these service levels, the most successful companies have put in place clear metrics that often incorporate qualitative aspects like customer satisfaction.

Despite all the attention being given to metrics, there lies an inherent risk buried in the measurement of average performance over time. For example, take call center performance, a topic increasingly under the spotlight of debate. One prevalent measure of success for call centers is service level, stated as "80% of the calls will be answered within 30 seconds or less for at least 90% of the 15-minute intervals measured." No question about it: this is a clearly stated, measurable performance goal.

Now say you are achieving that goal. How is your service? Most would respond that their service was good because the goal was being met. Perhaps, yet what about the other 20%, the calls not being answered within 30 seconds? How would those customers rate their experience with you? And if they are frequent callers—the high-maintenance customers—how do they feel when one out of every five of their calls takes more than 30 seconds to be answered? Do they accept the disparity as an acceptable given?

We have the technology available today to allow speech recognition, automated response to service needs, even the automated scheduling of callbacks during busy times. We have Internet-enabled

customer service portals, electronic signatures, automated faxback of forms, "Call Me Now" online service buttons. We can route calls by geography, need, even by caller if necessary. The technology is stable, mature, and in place at many companies now. Given all that is available, are we ready to accept what is being measured today as our mantra of success? Or would the company's competitive position be better served by taking service to the next level? If so, will there be a measurable benefit to offset the costs?

With the abundance of options available for improving performance, how does the savvy executive weigh the possibilities and put in place the right blend of solutions? Looking ahead, there are no clear-cut answers, no one strategy to fit every company. One thing's apparent, though: the potential solutions have become complex and incur costs that are easier to measure than the financial value (if there is any). Evaluating the options to find the best strategic fit requires careful thought and due diligence, as does ensuring the alignment of operational solutions with long-term organizational goals.

As leaders, we have become very effective in weighing the financial aspects of costs and benefits, particularly in the context of measurable investments like technology, capital investments, or underwriting performance. Yet the times, and associated demands on our judgment, continue to change. The horizon of implementation and impact for many of our decisions has moved way beyond the one- to three-year realm, and great care must be taken to effectively make the shift to this longer view.

Nolan challenges senior executives to scrutinize what is being measured and what is considered "success" at their companies, especially given the changing cost of competitiveness. The traps of averages and percentages have to be taken into account as measurement systems become more directly linked to the total customer experience over time versus single event-driven measures. Are you positioned to leverage the inherent value of service as a competitive differentiator?▪

Are Health Plans at a Tipping Point?

Merit Smith
Vice President and Practice Director
merit_smith@renolan.com

A tipping point is reached when a subtle, slow-building process or evolution becomes obvious; there is a sudden awareness that a significant change has occurred. Think about tipping points and you will find them all around: cell phones have tipped land lines; in the airline industry, the Southwest Airlines model is about to tip the hub-and-spoke model; and contracted networks have replaced Yellow Page fee-for-service medicine.

In 2004 Nolan consultants noticed that some of our clients were spending more on inquiry management than on claims management. Soon, through our work with a variety of types of organizations, we saw that what had begun as a curiosity had blossomed into a full-blown trend. Here's a telling example. About five years ago, one service organization had 2,400 people in their service centers, split evenly between claims work and phone work. Today, the same client has about 450 people on the phones and 95 in claims processing.

How did it happen? Standardized data has helped expand the use of EDI, and improved EDI skills have improved first pass rates to the point where an 85% pass rate is "table stakes" for claims management. OCR continues to improve. More attention to processing logic and rules and second-generation process management technology have reduced the cycle time and labor content for managing pends. Simpler provider contracting has reduced processing complexity and has boosted quality. For many organizations, gains in processing capability and productivity are compounding faster than the growth of transactions.

What dynamics are driving inquiry management? The members of the more complex, confusing products tend to call health plans more frequently and with more involved questions. In many cases,

members are now spending their own money and they want to talk before they use their benefits.

Also, providers have intensely redesigned their revenue cycle that sends the health plan claims and phone calls. Providers' efforts to improve their revenue cycles have increased voice inquiries for eligibility and status checks. And many providers have been slow to move from expensive voice inquiries to lower-cost channels (but they are moving faster than members to the lower-cost channels).

The shift in relative importance between claims and inquiry management has profound implications for health plans. Priorities for the management at plans that have made this transition are different, and the day-to-day operational issues and challenges are distinct. We see the tipping point reflected in human terms—managers selected for advancement in these companies are more likely to have managed an inquiry process than a transaction process. The post-transition plans may spend more to develop staff skills and more on technologies to improve the inquiry interface and customer experience. We believe there may be important differences in cost structures that occur as part of the transition.

I don't know where your health plan is in relationship to this tipping point, but I suspect that you compete with plans that have made the transition. To be an effective service company, you need to know where you are in this transition and where your competitors stand.

It will help to understand what this transition will do to your staff, your products, and your profits. A good way to get going on this problem is to get it into your annual planning process. We've developed a self-inventory that can help you identify where you are in the transition. Drop me an e-mail or business card and I'll send it to you. If you want me to talk with your strategic planner, I'd be happy to do that, too. ▪

It's Elementary, My Dear Watson

Clay Ricord
Senior Consultant
clay_ricord@renolan.com

In Sherlock Holmes stories, "it's elementary" came to express how the great sleuth would discern the key facts of a case from the background noise, solving what baffled others. The resolution of Holmes' mysteries always hinged on a few causal facts. The same is true in business. To establish a basic understanding of any workplace problem—and to have any chance of finding its solution—we must begin by sorting out what are causal and what are secondary events occurring in a process, and which are important and which are not.

Do any of these questions sound familiar?: What will improve the application through-put time for our auto new business? What will improve our closure rate on commercial quotes? How do we improve our persistency rate? These operational problems are so common that they are predictable social-hour conversation topics at industry functions. Clients ask me these types of questions all the time, but usually in this form: "What are the best practices for getting (fill in the blank) result?"

Sure, there are some clear best practices and good benchmarks to follow, from financial ratios to ASA (average speed of answer). But seeking and using best practices or "the best way to get it done" can be a fool's errand.

When I am asked for best practices, I urge clients to focus first on what their business is and how the process in question supports the business. It is the place to start because every company is meaningfully and profoundly unique—each has its own culture, processing systems, customer mix, and value-added equation. That uniqueness is important to why and how processes occur.

In problem-solving, failure to examine what makes a business unique can result in the wrong "facts" being found. Take call centers,

for example. In an attempt to improve performance, more than one company has zeroed in on the length of agents' calls. Call length, after all, is an easy metric to gather and would seem to be a driver of efficiency. However, a focus on call length can backfire, leading to "dropped" calls, loss of business, and more call-backs. Our hero Sherlock Holmes would recognize that call length is not a cause, but the result of a number of factors (training, call nature, system support, and skill match among them).

It is also possible to look at the wrong benchmark or best practice. If you value low cost, for example, then salary to premium appears to be a logical place to focus. But some carriers have tried to increase new claims per rep or the number of cases transferred to loss control only to see both employee turnover increase and functional results deteriorate. What are the real drivers that will enable you to handle more premiums with fewer salary dollars? Some carriers are significantly outperforming others in this area.

Yes, process problem-solving can be elementary, but it is not always easy to sort out the true facts from the incidental results. The most meaningful facts will come from within your organization. Refocus on what you are offering and how your processes support it, then use the facts to find appropriate solutions that will improve your performance. Use the best practices of others to frame a discussion, not to define your future. ▪

Making Sense of Claim Outsourcing Opportunities

Larry Wood
Practice Director
larry_wood@renolan.com

Recently, I participated in a webinar on the merits of business process outsourcing (BPO) for property/casualty claim functions. The other panelists came from a company that had recently outsourced some key functions and a vendor who offers outsourcing services to claims departments. The presentation offered good information regarding the history of BPO, some recent applications of BPO thinking, and future opportunities. What I most enjoyed, though, was the panelists' teleconference in preparation for the webinar.

During the course of our discussion, we debated whether claim handling is a core competency of P&C insurance companies. Certainly, most companies feel that the claim function is important due to its impact on operating results and customer satisfaction. Effective claim handling is critical to financial success because loss adjustment expense and loss costs often equal 70%–80% of earned premium. And while numerous studies have shown that good claim service does not guarantee high customer satisfaction, poor claim service is a primary reason that customers change insurance companies.

There are functions that lend themselves to outsourcing because of the expertise required or economies of scale, among other reasons. Traditionally, claim outsourcing opportunities focused on transferring functions such as:
- Call centers (full-time and after-hours)
- Field adjusting by independent adjusters/appraisers
- Fraud investigation
- Legal and medical bill review and re-pricing

Today, new technologies and vendor offerings allow us to unbundle the claim process further and outsource components such as compliance management, program management (such as direct repair programs), customer contact, and payment processing.

As companies consider their claim-handling outsourcing options, they should recognize that they may not be able to do everything well and instead focus on their areas of strength; weaknesses are natural candidates for outsourcing, both in the short and long term. Companies should also take advantage of vendor capabilities and economies of scale. Finally, any company considering outsourcing should know and understand their organization and define a strategy for efficient, effective claim handling.

The strategic objectives of outsourcing must be clear. Once they are, the internal cost of providing the activity should be determined and compared to the cost and benefits of outsourcing that function. If a favorable business case can been made, a Request for Proposal process that includes definition of business and technical requirements will help identify the most appropriate vendors.

Care is required in establishing and maintaining outsourcing relationships. Once a vendor is selected, the contract terms negotiated should include service-level agreements and other key performance guarantees. A transition strategy that includes mechanisms to manage the vendor should also be prepared. Develop an exit strategy in case the vendor relationship sours—this will be more or less important depending on the criticality of the outsourced activities to the overall performance of the claim function.

Because of the direct impact claim handling has on the success of P&C companies, outsourcing can never relieve management of the obligation to monitor the services and results achieved by the vendor, within the context of overall claim performance.

Applying the principles discussed above can improve the performance of in-house claims processing. However, in many cases, BPO, with its opportunities and advantages, can take this important function forward by great strides. And of course, the approaches and lessons learned can be extended to the consideration of BPO for other functions within insurance and financial service companies. ▪

WE NEED A NEW IT CURRICULUM

Rod Travers
Senior Vice President
rod_travers@renolan.com

Some of the most common buzz concepts in business today are about creating better linkage between business and IT. In fact, many operations improvement projects include work streams for instituting processes and practices that help IT and business work more effectively together. The payback is tremendous if you get this right. Yet many companies struggle to achieve an effective and suitably fruitful business-IT working relationship. While there are many reasons, of late I've begun to realize that there is a missing element in the core skill sets of many IT professionals.

IT professionals, in general, are trained as technologists. Academic degrees in fields like computer science are based on technology itself—hardware, programming, testing, languages, and so on. The emphasis is on technology, not how to *apply* technology to achieve a desired result. This reinforces the black box IT mentality that, if we are honest about it, still exists in many companies today. "Black box" refers to a device that accepts input, acts on that input with a singular purpose, and produces output that meets defined specifications. There is no provision for interactivity, beneficial improvisation, or creativity. To be sure, IT professionals need the solid grounding in technology, especially for those who aspire to become system engineers and true technologists. But we need better balance.

We need a new IT curriculum that teaches concepts and methods for applying technology and creating value. These include:

- Process analysis. A poorly designed process should not be automated—it should be redesigned, then automated. The redesign is typically the responsibility of the business side. However, in a redesign, IT participants often want to "jump to end of job" and search for a slam-dunk technology solution. With a better understanding of process analysis and design, IT

professionals could play a more active, valuable role during this phase of a business-technology project.

- Applications implementation and configuration. Much of the curriculum in IT undergraduate programs today centers on building software. Yet the trend is unmistakable: most companies would rather buy a system and configure it for their needs rather than build from scratch. Because many IT graduates know very little about building/interpreting business requirements, feature set analysis, cost/benefit analysis, and benefit-prioritized phased rollouts, they are not equipped to support their business counterparts with these high-value techniques.

- Change management. If you've ever lived through a major system change or process redesign, you know it can be traumatic for the people whose everyday routines are affected. IT professionals tend to be distanced from this. I contend that if IT professionals were schooled in the concepts of change impact and change management, their approach to introducing system changes would be much more user-focused and ultimately deliver more business value.

I'm sure I'll get an email or two telling me that much of what I am suggesting here is not within the core IT discipline. I agree. But it should be. In today's "agile business" environment, IT can no longer afford to operate like a black box, and one way to bring about fundamental improvement is to equip our IT professionals with the knowledge and techniques they need to engage more meaningfully with their business counterparts. I'll probably get some emails telling me that what I've described falls in the jurisdiction of the business analyst. This is true for organizations that have BAs. But think about where many business analysts began their careers: IT.

I would appreciate hearing your thoughts on this topic. Please send me a note at rod_travers@renolan.com. And before the IT people accuse me of being one-sided (keep in mind, I am an IT guy at heart), next quarter I'll share my thoughts regarding what business professionals should be learning about the IT realm. ▪