The Nolan Newsletter

People, Process, Technology

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

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TECHNOLOGY GOVERNED BY PEOPLE

At the recent ACORD LOMA Insurance Systems Forum in Las Vegas, keynote speaker Daniel Burrus made an interesting observation regarding change. He said that change occurring from the outside-in is "crises management," and change occurring from the inside-out is considered "innovation."

His comments caused us to flash back to a consulting industry meeting we chaired a few years ago at Stanford University. A professor warned the audience, "No matter how innovative the technology is—remember—real people are still making decisions, and real people will continue to make mistakes in their decision making."

Hardly a week goes by that this admonition is not reflected back to us in real life. Check your own company's experience in selecting and implementing new technology, and see if it isn't true in your organization also. Is an imaging system getting only limited use because of a lack of scalability or workflow features? Is there an Internet portal that is ignored by over 50 percent of your field force? Is there a "never-ending" technology implementation project that truly will not end before the system is eventually replaced?

The purpose here is not to criticize, but rather to caution. Excellent companies have these unpleasant experiences in their background. Further, some companies work so hard to avoid the sharp leading edge of technology that they are impaled by the broken, jagged edge of certain technologies.

How well your company benefits from an investment in new technology is governed by the decisions made by people, no matter how innovative the technology. One way to avoid these potential pitfalls is for management to use a structured framework for decision making, starting with customer and business needs, and redesign processes that lead to systems requirements. This will usually help avoid missed steps and assure the investment is made properly in terms of time, money and human capital. ∎

Ben DiSylvester

Ben DiSylvester
Chairman

Mountain Blacksmithing and Team-Based Problem Solving

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Want to shed 16 pounds in 12 days? Get a 50-pound backpack. Take 15 teenage boys to the mountains of northern New Mexico. Walk on narrow mountain trails in the rain, hail, snow and fog. Sleep in a small tent with a loudly snoring man. Eat crackers and gourmet squeeze cheese for dinner. Enjoy Gatorade and gorp for lunch. Hike 76 miles.

This exercise program and diet is available at the Philmont Scout Ranch near Taos, New Mexico. Each year, 25,000 dads and lads come to this ranch that is twice the size of Rhode Island. They hike, learn skills, play, and compete in games and contests. They rappel and shoot muzzle loader rifles. They learn to deal with bears, bugs and non-compliant burros. They put their food in bags and fling them on ropes into tall trees, where neither bears nor the campers can retrieve them.

The most interesting activity we had was mountain black-smithing. A camp we hiked to (five miles, uphill, gentle falling rain and medium viscosity mud) had a working forge with a real blacksmith. None of us had much idea about what goes on in a forge. Blacksmithing is a primitive technology, far distant from our world of iPods, cell phones and webinars. If you had asked me what I associate with blacksmithing, I would have said horse shoes.

Listening to and watching a masterful blacksmith is fascinating. I heard that blacksmithing is one of the original manufacturing technologies, like pottery or weaving, and has a history going back thousands of years. And what a performance a master smith can make! Blacksmithing is pure theater. Flame and smoke. Sizzling water when he tempers the red-hot iron. Bang! Bang! Pound! Sparks and cinders flying. The smell of red-hot metal and coal smoke.

A skillful blacksmith can take a simple bar of iron and, using a flame and a hammer, make almost anything. Horse shoes, knives, forks, chains, door hinges, pump handles, toys. Nearly

anything metal that you would need in a pre-iPod world. And as I watched him work and listened to him explain what he was doing and why, the similarity between blacksmithing and team-based design became obvious to me.

Nolan clients know that we like to use team-based problem solving in many of our projects. And our key way to use a team-based problem solving approach is a workshop. We know the power and creativity that can be unleashed by forming an "interesting" group of people with different skills and experiences, giving them an interesting problem to solve and a Nolan consultant to work with. Many times the interesting problem is a design issue. In other cases it might be how to implement a design.

And if you have been in a Nolan workshop, you'll recognize the similarities between a team working an issue and a blacksmith working in a forge. Things can get hot, even red-hot. The team will pound away on a part of the problem. Sometimes tempers flare and sparks will fly. It can be a noisy process. At some points we need to set the issue aside for a while to cool down before we work on it again. In many cases the team will be like the blacksmith, taking two things and working them into one strong combined item.

There are times that you need a blacksmith approach, and there are times when you don't. We know that a facilitated team-based approach works well in situations that have specific characteristics. These include complex problems that cut across many parts of organizations. Problems that are decentralized are subject to being done in different ways in different parts of the organization.

Teams also work well on design problems where a client wants to combine elements from different processes, technologies or organizations, like you might see after a merger. And having a well-led team is an excellent way to pound out a new and strong solution to those occasional problems which organizations encounter that seem to defy solution.

If you have a problem or opportunity, a team-based approach might be well suited to solving it. Or there might be another approach that will work even better in your specific setting. If

you'd like to talk about how to find a good approach to solving your problem, visit our Web site at www.renolan.com or give me a call at 877-736-6526.

So while hiking on vacation I learned a bit about black-smithing and got a new slant on how our workshops work. You can learn things in the oddest places if your mind is open.

Philmont was the hardest thing I have ever done in my life. Hard physically and mentally. But I wouldn't give up the experience for anything. Nor would my son Logan. Would I do it again? Perhaps. Would Logan? Take a look at eBay; he has a nice backpack for sale. ∎

"What you have is walking. This is hiking—hiking is different from walking."

CULTURE CHECK-UP

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Spirit, pride, determination, commitment, passion and integrity are the foundation of a strong company culture. Think about these qualities in your organization, and you'll probably spot areas for improvement.

- **Spirit**. Is there a spirit of innovation and service? Do employees adopt corporate causes with enthusiasm and willingly support one another's efforts?

- **Pride**. Pride builds upon itself. When a company attains industry leadership through exceptional products and exceptional service, it's easy to feel proud. Employees will go beyond selling products and services and actually help customers succeed. Pride generates a desire to maintain that leadership through exceptional performance. Are your employees proud to work for your company?

> *"Are your employees committed to each other and to your customers? Do they discover solutions to problems by reaching out to others? Do commitment and a helpful attitude prevail in your company?"*

- **Determination**. Are your employees determined to improve company performance by improving their own performance? Are your employees determined to work with your sales team to help them keep their customers by finding solutions rather than excuses?

- **Commitment**. Are your employees committed to each other and to your customers? Do they discover solutions to problems by reaching out to others? Do commitment and a

helpful attitude prevail in your company?

- **Passion**. This means an unrelenting desire to excel. Employees don't sit back, satisfied with what they've accomplished. They constantly look ahead to see changes that may affect the business. Is passion for the job one of the keys to your company's success? Passion also means caring about every aspect of what you do, how you do it and whom you serve. Is passion moving your business forward?
- **Integrity**. Does your company set high standards and abide by them, practicing ethical behavior? Do your customers define your company as reliable, trustworthy and honest?

I hope you didn't grade your company poorly on each of these qualities. But most companies probably have a problem with at least one quality. For example, a company with a long history of success could lack the passion to look ahead, relying on its history to determine its future.

The quality or qualities you rated low will give you a clear picture of what needs to be addressed in your organization. Can these qualities be improved? You bet. But you have to be willing to walk the walk. Make the commitment to your employees and they will return that commitment to you.∎

UNUMPROVIDENT CORPORATION: ACHIEVING OPERATING EXCELLENCE

"One of my earliest stated objectives after becoming CEO was to find ways for us to demonstrate 'operating excellence' on a continuous basis—in other words, to seek opportunities to better meet our customer, shareholder and employee objectives by improving the way we do business," said Tom Watjen, President and CEO, UnumProvident Corporation.

UnumProvident Corporation is the largest provider of group and individual disability income protection insurance in North America. UPC insures more than 25 million people and paid $5.7 billion in total benefits to customers in 2003. With primary offices in Chattanooga, Tennessee, and Portland, Maine, the company employs nearly 13,000 people worldwide.

Coordinated Corporate Initiative

While operating excellence has been a long-term goal, UnumProvident believed the best way to achieve it was through a coordinated corporate initiative rather than each area independently doing a review (i.e., think like customers, not as a department).

Functional and cross-functional teams of employees would be charged with analyzing all of their processes, both core and peripheral, and identifying those that were not adding value to customers. The result would be an organization that

> *"'One of the reasons we selected Nolan was because their collaborative approach fit well with our belief that employee involvement is critical to making this a successful undertaking,' said UnumProvident President and CEO Tom Watjen."*

ultimately provides better customer service while gaining efficiencies and expense savings. The initiative would drive the development of an environment that embraces continual process improvement.

UnumProvident engaged the Robert E. Nolan Company to assist them in this effort. Nolan was selected for their veteran

industry specialists, more than 30 years of experience in assisting financial services organizations with improvement initiatives, and their collaborative approach to consulting.

"One of the reasons we selected Nolan was because their collaborative approach fit well with our belief that employee involvement is critical to making this a successful undertaking," said Tom Watjen.

Value Analysis

The goal of the initiative was to improve as many of the processes that UnumProvident relies on as a company so that they can better meet the needs of their constituents. With that in mind, Nolan recommended the use of their Value Analysis methodology, with both functional and cross-functional teams, to look at their respective areas of the business. The purpose was to identify opportunities for efficiencies while maintaining or increasing the level of support UnumProvident customers enjoy.

As part of this initiative, 13 Value Analysis workshop teams were formed, consisting of employees who were at the heart of the processes to be improved. The workshops identified opportunities for improvement within their respective areas. With assistance from Nolan, these teams reviewed the processes (i.e., acquiring a new piece of business, etc.) for improvement opportunities.

Through this process, the workshop teams developed over 70 recommendations that touched every business area of the company, although greater opportunities existed in some areas than in others.

"Through a number of other initiatives, we had already begun making tremendous progress toward our goal of achieving operational excellence, and I'm pleased to say that, through the hard work of the hundreds of employees who participated directly or indirectly in the workshops, we were able to build upon that progress and move closer to becoming a more customer-focused and efficient organization," said UnumProvident Executive Vice President and Chief Information Officer Bob Best.

Executive Vice President and Chief Financial Officer Bob

Greving added: "While expenses were not the primary driver of this initiative, lower costs are generally a byproduct of greater efficiency. Anticipated cost savings upon implementation of the workshop recommendations for these actions alone will be approximately $35 million in 2004, or approximately $80 million on an annualized basis."

Recommendations

Some of the recommendations coming out of the workshops have already been implemented, while others will be implemented over the next few months. Among these are a number of organizational changes designed to improve work flow, which, in some cases, include a reduction in budgeted positions over the next two years.

While in certain instances some current positions will be eliminated, the majority of reductions will be achieved in much the same way UnumProvident has achieved them historically—through normal attrition or turnover and by not filling vacant positions—which will be largely transparent to most employees.

Recommendations ranged from changing the way short-duration disability claims are handled (which will improve productivity and reduce medical record expenses, while enhancing service to individual claimants) to reduction of the corporate air fleet.

At the outset of this initiative, UnumProvident looked to some highly successful companies that demonstrate operational excellence, including Dell Computer, Southwest Airlines, Wal-Mart, FedEx and, closer to their industry, Progressive and Geico. Each of these companies possesses a strong customer orientation and a culture that is built on continuous improvement, "reinvention" of processes, and an appreciation for efficiency and optimum effectiveness.

UnumProvident's ultimate goal is to create a similar culture, and this initiative has started them down the path. Said Watjen: "It is my hope that, through this initiative, we can strive to create a culture that emphasizes continuous improvement and focuses on refining processes that add value to our customers and, ultimately, impact the profitability of our company." ∎

BUILDING AN INFRASTRUCTURE TO SUPPORT SERVICE AND GROWTH

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This year the banking industry continues to improve in profitability, and the small-business sector is benefiting from rising consumer confidence. We expect to see more M&A activity as the super-regional banks position themselves for even greater profitability through further consolidation of the marketplace.

The industry has compressed in the United States from about 13,400 banks and thrifts in 1992 to about 9,000 today. During that same time period, the average efficiency ratio has reduced from 64 percent to a current average of 60 percent. The pressure for banks planning growth through acquisition has been on making the delivery system smooth and consistent with each consolidation. Some banks have built their infrastructure to deliver excellent service and to absorb the growth, while others struggle with each new acquisition.

Building a bank's infrastructure to be scalable is no small task. It requires an analytical discipline to examine what will be required from technology, people, process and organization at two and three times the current assets. More importantly, the transaction volumes and time values need to be examined on each major new business and service process. Transaction values (service times, cost and error rates) logically should be lower through the synergies of a larger organization. But what is often not engineered is the logistics for making it happen in concert with the customers' needs and wishes.

This is why process engineering is so critical in making the broad changes necessary for growth without losing the often planned 10 percent of the acquired bank's customers in the bargain. It takes a focused team of professionals with keen insight to properly analyze the future requirements of a bank's processes. It is not a game for redesign amateurs.

As of the writing of this article, I am once again hooked on the "World Series of Poker" from Las Vegas on ESPN. The

tournament starts out with an even array of professionals and amateurs, but after gamblers are eliminated the final table is often highly weighted with people who play poker for a living.

The parallel here is that bank executives at times decide to go it on their own and redesign their major processes without the assistance of people who do it for a living. I guess they feel lucky, but as the industry continues to compress it won't be surprising to see who will be seated at the final table. ∎

NEW NOLAN WEB SITE OFFERS IMPROVED FEATURES

The Robert E. Nolan Company is pleased to announce the launch of our all-new Web site at www.renolan.com.

We are enthusiastic about launching this new, informative site for the benefit of our clients and site visitors. Our intent is to provide an engaging and information-rich resource.

Visitors will find that the new site offers valuable information and perspectives specific to the insurance, health care and banking industries. Visitors can quickly and easily:

- Download current and archived versions of *The Nolan Newsletter*, our respected quarterly publication.
- Read original industry study reports that have been featured in the national press.
- Sign up for free, industry-specific e-mail newsletters that are focused on current trends.
- Learn what other companies are doing to improve operations and technology.
- Browse recent articles and white papers by industry and area of interest.
- Submit a business process or technology question that will be answered by a Nolan expert. ∎

SUMMARY OF THE 2004 EFFICIENCY RATIO BENCHMARKING STUDY: SYSTEM SURVEY RESULTS

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2004 was the second year that the Robert E. Nolan Company has included a Systems Survey in our Efficiency Ratio Benchmarking Study. Bank and thrift participants were invited to respond to this survey. Credit Unions are not yet included in this section of the Study.

A total of 25 Efficiency Ratio Benchmarking Study participants responded to the System Survey. The respondents represented a cross section of all participants in this year's Study.

Participant Profile

The following is a profile of the System Survey participants:
- Total Assets ranged between $1.2 billion and $50.6 billion
- Overall efficiency ratios were 34.3 percent to 96.9 percent
- Average asset size was $8.1 billion
- Average efficiency ratio was 58.8 percent
- Average information system efficiency ratio (Total IS Expense/Total Bank Revenue) was 4.3 percent, ranging from .6 percent to 8.7 percent
- Of the 25 participants, 10 outsourced their core systems and 15 ran their core systems in house.

Summary of Findings

Over the past five years, Nolan has studied the relationship of the level of expenses and deployment of Information Services on total bank efficiency ratios. Prior to our 2003 study (for data as of 12/31/2002), Nolan frequently noted an inverse relationship between the IS Efficiency Ratio (IS ER) and the Total Bank Efficiency Ratio (TB ER). That is, the greater the percentage of IS expense to total bank revenue, the greater likelihood of a lower TB ER. Such a conclusion supported reasoning that prior to 2002 banks that spent relatively more on IS tended to gain efficiency by effectively offsetting the cost of technology through expense reductions in other areas and revenue enhancements.

In-House Core Processing		Outsourced Core Processing	
Total Bank ER (percent)	Info. Systems ER (percent)	Total Bank ER (percent)	Info. Systems ER (percent)
42.9	4.9	34.3	0.6
51.9	2.5	36.6	1.0
52.1	3.9	50.4	2.7
52.4	7.8	50.4	3.7
54.0	3.3	58.2	3.7
54.5	2.6	58.5	7.8
55.4	3.1	59.0	3.8
61.4	2.6	60.4	5.8
61.8	4.5	63.2	3.7
62.1	8.7	97.0	6.7
67.5	4.7		
69.4	5.8		
69.7	2.4		
69.8	5.3		
76.4	7.2		
Average Assets	$7.0 billion	Average Assets	$9.8 billion
Average TB ER	60.1 percent	Average TB ER	56.8 percent
Average IS ER	4.6 percent	Average IS ER	3.9 percent
Median TB ER	61.4 percent	Median TB ER	58.4 percent
Median IS ER	2.6 percent	Median IS ER	5.6 percent

Nolan's 2003 Study (data for 2002) found no such correlation between IS ER and TB ER. The conclusions were somewhat surprising, since efficient banks (as determined by a low total bank efficiency ratio) were as likely to spend limited amounts on technology as less efficient banks. This led us to conclude that among the respondents to the 2003 Study, it was not the system selected or the total expense of maintaining systems that drives TB ER.

This year's Study (2003 data) shows a shift toward a greater incidence of direct correlation between IS ER and TB ER, the opposite of our conclusions prior to 2002. While correlations between these statistics for the 25 respondents are not significant enough for us to conclude with certainty that higher relative expenditures on technology are leading to less overall efficiency,

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the data does indicate a shift in that direction. In addition, we are learning that those participants outsourcing their core systems processing tend to have lower average TB ERs (56.8 percent versus 60.1 percent) and lower average IS ERs (3.9 percent versus 4.6 percent). Asset size has little effect on these correlations. The table on page 13 summarizes our findings.

A wide variety of core-processing systems (Fiserv, Metavante, Jack Henry, Bisys, Fidelity) were employed in a variety of ways (in-house, outsourced, ASP) and, again, with limited correlation to the total bank efficiency ratio or IS efficiency ratio.

Some concentration of systems was evident. At least 1/3 of the respondents reported using systems from the same vendor in the following areas:

Purpose	Vendor	Percent Using
Accounts payable and asset/liability management	IPS Sendaro	32 percent
Fixed assets accounting	Best	40 percent
Loan document preparation (commercial and consumer)	Harland	48 percent
Payroll processing	ADP	36 percent
Check orders (primary vendor)	Deluxe	44 percent
HMDA reporting	PCI	36 percent
Email server/client	Microsoft	56 percent
Virus protection	McAfee	36 percent

Conclusions

Return on investment in information systems and technology may have peaked prior to 2002 and may now be contributing to lower total bank efficiency, as technology costs escalate without offsetting cost reductions in other areas or revenue increases. Information systems and technology costs are increasing as a percentage of total bank revenue, partly due to greater reliance on technology and lower net interest margins in the current

economic environment.

Implementation, work processes surrounding systems and appropriate management (reporting, staffing, scheduling) are more important than ever in this environment. Banks must focus their efforts on capturing the efficiencies promised and intuitively contributed by technology through the reduction in cost in the operations that benefit from automation.

Nolan has been assisting financial service companies in these areas for 31 years. Please contact me if you have any questions or wish to discuss any of our findings: rob_keene@renolan.com■

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"It's always 'Sit,' 'Stay,' 'Heel'— never 'Think,' 'Innovate,' 'Be yourself.'"

WHERE'S THE MANAGEMENT IN WORKFORCE MANAGEMENT SOFTWARE?

Bob Cecchini
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If you were planning to write a novel, using Microsoft Word would make your task much easier. But if you expected it to teach you to write, you would be in for a big disappointment.

The same is true for workforce management (WFM) software. WFM software makes tasks like forecasting, planning and scheduling much easier. But if you expect the software to manage the workforce, then like our prospective author, you will be deeply disappointed.

"What are you talking about? I manage my contact center now," you might say. What's the difference in managing with WFM? I think that most simply, the key differences are in management practices and disciplined communications. In addition to the manager, supervisors and call center associates, you'll have a traffic analyst or WFM analyst who maintains the schedules and monitors call center performance in real time. For WFM to be effective, you must change your management practices and you must be disciplined in your communications in order to keep each of these key players on the same page at all times.

Let's assume that you've installed WFM software; you have a forecast and a staff schedule, and you're actively using WFM to manage your center in real time. Here are four examples of some changes you may want to consider to put more management into your WFM efforts.

Attendance tracking

Typically, when associates come in late or need to leave early or want other time off, they ask their supervisor and permission is usually granted. In a WFM environment, you'll need to be certain the WFM analyst is aware of any schedule changes so the schedule can be updated to accurately reflect the associate's absence. Supervisors and managers are very comfortable with

granting these requests, and it's a change for them to be certain that the WFM analyst is informed.

This small change in communication and the discipline to do it every time are essential. This is because the WFM analyst updates the schedule and tells the management staff the impact of the absences. This could mean more schedule changes are needed to accommodate those absences and keep the scheduled staff in balance with the forecast need.

Daily planning meetings

Within an hour or so of opening call center operations, you should know several things: today's attendance; how closely today's schedule matches the forecast staff need; the inventory of non-phone work; which agents have high inventory; and who is available to help take calls during peak periods. The call center management team should get this data from the WFM analyst, and they should have a daily planning meeting.

"WFM software makes tasks like forecasting, planning and scheduling much easier. But if you expect the software to manage the workforce, then like our prospective author, you will be deeply disappointed."

The key items of this plan are to identify the time periods when the call center is likely to be over- or under-staffed, and then identify those associates who should be taken off or put on the phones during these periods. Then, those associates should be notified and the WFM analyst should be prepared to contact those people at the appropriate times. Your day won't always go as planned, but if you start out with a plan, it is much easier to respond later in the day.

Schedule adherence tracking

Almost all call centers use a coding scheme to track the state that agents are in: logged on, at lunch, doing non-phone work, etc. Since you'll be using schedule adherence as a primary measure of agent performance, it's important that agents

accurately reflect the state they are currently in. These codes are, in effect, a communication from the agents to the WFM analyst and management team that say, "This is what I'm doing right now." If that data isn't accurate, your schedule adherence data won't be accurate either, and you will have lost one of the primary benefits of WFM software.

Responsibility for meeting service goals

Many call centers expect all staff to be responsible for meeting service goals—managers, supervisors and associates. There may be message boards or other vehicles that give everyone real-time information about calls in queue and current service levels. Everyone is expected to keep an eye out for calls backing up in queue and falling service levels. Call center managers or supervisors may holler out, "Everyone take a call!"

With WFM in place, you've hopefully had a daily planning meeting and you already know what to do when calls back up. You also need to change responsibilities. The management team is responsible for meeting service levels. The only responsibility that associates have is to be where they're supposed to be when they're supposed to be there. If you communicate this regularly to your associates, they will eventually get the message, and you will meet your service level goals much more frequently.

I'll admit that these changes in management practices and communications may not sound like much, but I can assure you that these minor changes will make a big difference. So, if you've tried WFM software and were disappointed, why not give it another shot? These few changes just might make the difference.

Oh, by the way, your forecast had better be accurate!■

GETTING THE TEAM IN ORDER!

Dennis Sullivan
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Last weekend while I was looking through the yellow pages to find a mechanic, I was struck by the number of pages for attorneys (110) versus the number of pages for automobile-related categories (87).

I became curious and scanned the pages for other professions. My findings: insurance, 38 pages; physicians, 42 pages; real estate, 12 pages; churches, 11 pages; pizza, seven pages; and oh yes, consultants, a quarter of a page.

This made me think about the number of people who are there to "support" and how few are there to "DO." It reminded me of some organizations and their high number of support positions. Let's take a hard look at our organizations and ensure that each position and division is bringing value.

Many of our clients have been going through a systematic review of the cost structures of their organizations. The review has focused on process and productivity in the transaction-laden areas and value analysis in the support areas. We are finding in many companies that this split is close to 50 – 50. Most productivity efforts focus all of their cost management on transaction-driven areas which often account for only half of the overall cost structure. Marketing, legal, finance, IT and HR are just some of the support areas which need to be part of any company-wide expense management process.

Top executives recognize the disproportionate amount of expense dedicated to traditionally non-core process areas. Highly paid and highly talented people are involved in these functions. However, the creative improvement analysis that is typically directed at operations is now being turned to help analyze the non-operations areas. We are seeing organizations trim waste and, more importantly, drive support areas to better help operations be more effective.

The future will require having a more integrated organization, with operations and non-operations areas working more closely to deliver low-cost, high-quality customer services.■

A MID-SIZE P&C INSURER: PREPARING FOR GROWTH THROUGH EXPENSE RATIO IMPROVEMENT

Our client is a mid-size property and casualty insurer based in the southern United States. The company provides personal property and auto insurance for individuals and commercial insurance for businesses. The insurer distributes its products through a network of independent agents and through professionally managed specialty programs.

Objective

Soon after a recent change in executive leadership, the CEO sought assistance from the Robert E. Nolan Company in reviewing and reducing operating expenses. Company management identified key areas of improvement, starting with Information Technology.

Current Environment

The company had already undergone a series of successful IT initiatives to improve its business, including:

1. Development and rollout of Internet-based agency selling and support tools;
2. Implementation of extensive workflow systems across most areas of the business, including claims and underwriting in both personal and commercial lines;
3. Implementation of various departmental computing initiatives; and
4. Effective support of its mainline legacy policy management systems.

The result of these initiatives was an effective set of existing systems, but at a cost which was not competitive when compared to industry peers.

In addition, changes in their executive management team brought to the surface a series of relevant issues to address, including clarity around what role IT needed to play in the future, the need for improved alignment in IT investment decisions, particularly applications, and the need for more

prudent spending measures across all areas of the basic IT infrastructure.

Engagement Scope

Together, the client and Nolan established five sub-teams to address the operating expense issues in IT:
- Equipment management and purchasing
- Desktop and server environment
- Telephony and network
- Mainframe processing
- Applications prioritization

Project Results

Results of the project include significant reductions in operating expense and delivery of higher value projects while maintaining service levels. Key benefits the client realized include:

1. Annual IT expense savings of 20 percent—nearly 1 percent sustained improvement in combined ratio.
2. Clarity around the processes, roles and decision-making for initiating and delivering projects.
3. A leaner, more efficient organization structure.

A high level of employee involvement greatly contributed to the success of this project. In addition, executive management participated in meetings and workshops throughout the project to facilitate process and content engagement.

This insurer is now better positioned to be more competitive and increasingly successful in the property and casualty marketplace. Having addressed their structural operating expense challenges, they can now focus on what most senior executives are looking for—growth. ∎

Second Nature

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A few weeks ago I was hurrying to catch a flight, and I ended up rushing so well that I arrived at the gate with 20 minutes to spare…plenty of time. But when I arrived, there were no passengers in the gate area. Thinking I had miscalculated my departure time, I asked the gate agent, "Where is everyone?" She said curiously, "They're already on the plane," and looked at me as if to say, "Where else would they be?" I had expected to see a line of impatient passengers enduring yet another inscrutable boarding process, but instead I was pleasantly surprised—the process was ahead of schedule and very orderly. You probably know what airline it was. If only IT projects were as dependable, economical and on-time as Southwest Airlines.

Actually, some companies *are* as good at IT as Southwest Airlines is at "turning" airplanes. It's second nature. How do they do it? What makes those great IT companies different?

There are several characteristics and competencies that great IT companies possess:

- Recent successes with contemporary technologies. Success is fun, and it breeds more success.
- Active business-side participation in major IT projects. Business domain knowledge is the critical difference in successful IT projects.
- Solid business requirements coupled with pragmatism—the ability to distinguish between "essential" and "nice to have."
- Process redesign integrated with new technology. Too many process owners abdicate responsibility for process improvements to the technology itself. The process improvements should be identified, designed and quantified before you ever apply the technology.
- Strong system integration skills. The power and benefits of

today's "open" technology lie in its ability to integrate and leverage other systems. Successful IT organizations are renewing their skills to emphasize integration over "build from scratch."
- Solid project management discipline.
- Senior-management support and engagement.
- A formal change-management program integrated with the technology implementation.
- Shared accountability for results between IT and business units.

There is another characteristic—self awareness—that good, not great, IT companies share. Good companies recognize when they are missing too many of those important characteristics, and they are realistic about their limitations. They compensate by hiring to fill the voids, conducting skills development and seeking outside assistance when needed. They don't embark on important IT initiatives without provisioning themselves for success. And eventually they become great IT companies, because they experience success and learn by doing.

Next time you are embarking on a major business improvement initiative that involves IT (don't they all?), take a good look around. Give yourself a report card on the aforementioned characteristics and your IT track record, and assess your chances for success. If you have second thoughts, then don't start the project, but don't cancel it either. First compensate for those weaknesses and then proceed with cautious diligence. Your odds of having a successful project will be dramatically improved. All it takes is one big success to create lasting organizational competencies. In time, you'll be implementing successful systems with the same dependability as Southwest Airlines' on-time departures.

If you've had unique experiences overcoming IT project challenges, I'd like to hear your story. Please email me at rod_travers@renolan.com. ∎

Nolan Events & Media

September 2004: Golf Classic Benefiting the Lewisville Special Olympics

Nolan was a proud sponsor of the 10th Annual Golf Classic held in Carrollton, TX. This sponsorship honored Sarah Hunter, daughter of Nolan employee Scott Hunter, an inspirational 16-year-old cancer survivor who wears a prosthetic leg. We wish Sarah the best of luck as she competes in the swimming and basketball Special Olympics events this fall!

October 2004: TechDecisions

Look for quotes by Rod Travers, Nolan's senior vice president of technology, in the October issue of *TechDecisions.* He contributed to Michael Voelker's story that discusses Business Process Management (BPM) and the relationship between process and technology. Visit www.technologydecisions.com to read the article.

October 27 – 28, 2004: LOMA Contact Center Workshop

This fall LOMA's Contact Center Workshop will be held in Toronto, Ontario. Nolan and Anthem Blue Cross Blue Shield will co-present a case study on contact center optimization, including hints on how to maximize productivity and deliver excellent service to customers. Online registration can be found at www.loma.org.

November 2004: Insurance & Technology Magazine

Nolan was chosen to serve on the Consultants Advisory Board for the special Elite 8 awards issue. The issue honors eight effective and visionary technology executives in insurance. To learn about the Elite 8 honorees, go to www.insurancetech.com.

November 14 – 16, 2004: ISOTech

Nolan client Shelter Insurance Company will discuss achieving straight-through processing with process improvement and BPMS. If you plan to attend ISOTech 2004 in New Orleans, stop by the session to speak with Nolan and Shelter representatives. Register online at www.iso.com.∎

FREE WEBINAR: ACHIEVING OPERATIONAL IMPROVEMENT— LEVERAGING BPM AND CONTENT MANAGEMENT

In order to remain competitive, insurers must continuously improve their ability to manage customer loyalty, profitability and risk in an increasingly complex market. In response to these demands, insurance companies are exploring innovative ways to improve underwriting, claims and policy service processes to achieve increased capacity, higher customer satisfaction and reduced operational costs.

In this free webinar conducted by National Underwriter, Nolan will discuss business process management (BPM) and describe what successful insurers are doing to improve and automate core operational processes by combining business requirements analysis, process design automation and content management.

When: Wednesday, November 10th, 2004 at 1:30 p.m. EST. If you cannot attend, a replay of the event will be available at www.renolan.com.

Moderator: Ara Trembly, Senior Technology Editor for National Underwriter

Speakers:
- Rod Travers, Senior Vice President, Technology, Robert E. Nolan Company
- Gordon Sellers, Vice President, Fuego, Inc.
- Frankie Basso, Vice President, Systemware, Inc.

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