Policy Life Cycle Maturity in Insurance Agencies

Introduction

The Insurance players, their brokers and agencies have experienced a subdued growth over the last five years. Insurers today face the mammoth task of generating returns when the premiums are falling and claims are rising The industry has also faced increased competition from underwriters that provide insurance services directly to clients, threatening revenue growth. Increasing business compliance requirements and tougher regulations are hurting the margins. On an average, most intermediaries shell out between 5 to 10% of their revenue in E&O exposure and other penalties for non-compliance.

Association of British Insurers (ABI) reports that revenue leakage is the largest component of an insurer's expense base. FBI estimates that insurance fraud costs about $40 billion per year, which increases the average annual premium for consumers by an estimated $400 to $700. Deloitte reported a mere 3 percent decrease in revenue leakages would have saved $1.04 billion. Lack of standardized contracts, inconsistent terms and conditions, incorrect charges due to oversight and poor approvals cost about 6% of revenue losses.

US Insurance agencies and brokers need to implement systems that streamline their service engines and reduce administrative costs. To make a successful transition to a self-sustainable, affordable and profitable business, insurance agencies need to:

- Efficiently manage their cost structure
- Develop systems and process that ensure consistent response and quality of service delivery
- Streamline operations to reduce waste
- Build cost effective business continuity mechanisms

Managing an effective and efficient service operation is key to an agency's profitability and sustainability. Agencies and Brokers must begin an active assessment of where they stand and what future improvements are needed. Some organizations choose to leverage an outsource partner to manage some or most functions within the service back office. An effective Service Transformation strategy with the right operational model is a strategic arsenal for every future oriented insurance intermediary to drive superior customer value and higher revenues.

Service strategies need to be carefully modeled around the revenue that is coming in. Most agencies fail here primarily because they don't objectively measure service cost as a function of the premium revenue.

Such improvement programs require thorough planning and diligent execution based on an empirically derived framework. A maturity framework is a useful tool for insurance businesses and to analyze and measure their client administration process in the context of revenue effectiveness. The Lifecycle improvement program starts with evaluation of their existing systems and process, how business is run, how it is managed and monitored. How effectively the root causes of service failure are captured and knowledge routines are codified to ensure human intervention errors are limited? An as-is analysis serves as the health check and provides insights to what needs to be done to improve revenue realization and cost optimization.

ePLMM: a maturity framework for Policy Life Cycle Administration

Attributes	RUDIMENTARY	EMERGING	DEFINED	OPTIMIZED
Application Usage	Manual - Basic Demographics	Enhanced Policy Information	Standalone workflows, DMS	Integrated workflow
Service Standard Adoption	Subjective, No KM	Islands of Information	Comprehensive SOP's	Adaptive, Sense and respond KM
Service Efficiency	Undefined service measures	Core functions defined	Structured Service Management	Scalable, proactive service
Codification & Digitization	<15% adoption - low DR and BCS	< 50% adoption - Critical records only	>75% adoption, on premise DR	100% adoption, high DR and BCS
Revenue Loss Due to Non-Compliance	E&O not tracked, NOC not captured	Tracked, selective addressal	Reactive addressal	Proactive addressal with audit
Service operations Cost Per Client %	>55%	46 - 55%	35-45%	<35%

Based on analysis of a wide spectrum of insurance agencies across the globe and their consistent ability to deliver on client servicing, we identify four stages of policy life cycle maturity, like 1) Rudimentary 2) Emerging 3) Defined and 4) Optimized. Figure 1 presents the four maturity stages of Policy Life cycle Management in insurance agencies and brokers. The four stages of maturity are based on application usage, service standard adoptions, service efficiency, codification and digitization, revenue loss due to non-compliance and service operation costs per customer.

In insurance industry managing a product for optimum profitability requires a continuous and quick response analysis of large amount of data, as well as the ability to respond in real time. Application usage involves use of IT systems to capture complete information about policy application, escalations and follow ups, information about service allocation, audits, service completion time and post service feedback. Application usage reflects insurance service provider organizational effectiveness. Extensive application usage enhances organizational effectiveness, while basic usage may limit your company's growth and sustainability. It also refers to extent of integration across systems and process. This includes seamless integration of systems across the service engine and their partners. This includes device, application and program compatibility. Higher the compatibility more integrated and mature is the administration process, as data drop and creeping of errors could be minimized.

Service standard adoption covers the extent of formal SOP's, the reliability and codification of process including ownership of outcomes at various stages. Insurers with detailed descriptions of what is the service offering (what needs and wishes to be satisfied) and how this is achieved by aligning with their organization strategy and competitive intension outperform others. Higher service adoption entails detailed service concepts that are robust, scalable and evolve quickly with the demands of markets.

Codification and digitization refers to the level of conversion of tacit information to explicit information. It also cover covers the completeness, storage, reproduction and retrieval aspects of data. Designing protocols to capture data in a consistent and accurate manner ensures strong data integrity and reliability. This enables data driven decision making rather than subjective decision making. Higher codification also enables deep dive knowledge management systems that can work on customer and policy information in real time.

Service efficiency covers service definitions, moments of truth in service cycle, TAT, resources and capability, service failure and service recovery mechanisms of the policy life cycle. Service efficiency covers the complete policy life cycle process: right from application, underwriting, policy issue, claim, and renewal.

Revenue loss to non-compliance is the cost of poor quality (COPQ) of the policy life cycle. This includes E&O losses, revenue losses due NOC's and penalties, or lost business opportunity. Service operations cost per customer is the cost of serving a policy holder. This does not include salaries, commission & fee, marketing and administrative expenses, adjustments and losses.

In the maturity stage 1, agents and brokers, especially in the 3-15 employee categories, have no formal SOP's and documentation of the processes is weak. There may be a primitive Agency Management System in place or sometimes none. With only minimum standards on client service standards, service failure association is unavailable. Service Efficiency is very poor with selective and discretionary service parameters, mostly relying on individual knowledge and discretion. Companies in this stage are predominantly paper based and also a face a high chance of revenue loss due to non-compliance, NOC's and E&O exposure. The Service Operations Cost as a % of the organization's revenue is high and there are no measurements in place to control costs.

At maturity stage 2, the company's policy administration maturity is best described as "Emerging". At this stage there is some investment in organization, process and measurements. Basic documentation and SOP's exist, some key performance metrics are identified at this stage. Processes are largely reactive to client requirements and only key clients serviced with defined standards. No knowledge management initiative exists to codify and formalize root causes of service failures. At this stage, companies are cognizant of possible revenue leakages – E&O exposures are tracked but have not devised comprehensive mitigation plans. SOPs, though documented only focus on the required domain knowledge but fail to cover the system specifics. Employee attrition impacts the revenue due to poor repository practices. Service costs are still high between 45-55% of revenues.

With broader appreciation of the business and formalization of practices, agencies mature to stage 3. This stage, described as "externally focused" is when the intermediary builds client relationships on the basis of their delivery value and cost advantages. At this stage, companies have made significant investments in data capture and consolidation to drive planning and control of leakages and cost of delivery. The Agency management system is better leveraged but limited to basic workflows and in some cases a stand-alone Document Management System. At this stage, the SOPs are broader and richer encompassing not just the domain knowledge but also system level bringing in a formal knowledge management practice, though basic. Companies now implement a service level framework with defined lead times for all activities but adherence to these standards may be limited only for critical functions. While they meet a fairly good standard in maintaining a paperless office, their disaster preparedness is low. Service costs are close to optimal in this stage with about 38% (on an average) being the cost of servicing clients.

At this stage, companies use data analysis to identify causes of revenue leakages and would have put in place fairly effective controls are in place to arrest the leakage. Workflows are seamless and the Agency Management Systems are used throughout the entire policy life cycle and reach an ideal situation of "Straight Through Processing". Service Standards are client centric robust and adaptive. The Knowledge Management function operates predictively on a sense and respond mode.

Service processes are clearly defined for each "moment of truth" with focus primarily on customer delight on every activity with proactivity across the service cycle. The office is a paperless highly digitized environment offering powerful disaster readiness and business continuity systems with cloud based redundancy. Potential revenue leakages are preempted through continual audits and prescribed remedial measures. Service cost operations drops to a comfortable range of less than 35% of premium revenues.

Table 1:
Policy life cycle maturity stages and associated dimensions (to be aesthetically modified)

LEVELS	RUDIMENTARY	EMERGING	DEFINED	OPTIMIZED
Application Usage %	Manual Driven, Basic Policy information storage (Policy Demographics only)	Enhanced Policy Information Storage	Basic Workflow - Standalone DMS, limited use	Extensive, Seamless and integrated workflow
Service Standard Adoption %	No SOP's, No KM, Subjective assessments	Client facing SOP's only, Islands of Information	Comprehensive SOP's across process, basic KM	Client centric, robust, adaptive SOP's, sense and respond KM
Service Efficiency %	High rework , wastage, low TAT adherence, poor service measures	TAT defined for key activities only, service failure and recovery measured	Structured service process, focus on customer satisfaction, service measurement framework adopted	Strong client organization focus, One touch methods
Codification & Digitization	Predominantly paper based flow (>85%), high information loss, low DR and BCS	Paper based flow (>50%), basic data storage of critical records	Physical records (upto 25%), local storage, on premise DR	Completely digitized, high DR and BCS, cloud based redundancy
Revenue Loss Due to Non-Compliance	E&O not tracked, NOC not captured	NOC documented on a need basis only	E&O and penalties assessed, cause effect analysis in place	Proactive management of E&O and NOC's, continual audits
Service operations Cost Per Client % **	Very High above norms, very low margins	Higher than norm, margins lower than industry average	Above norms, margins closer to industry average	Below norm, Healthy margins

* Does not include sales and marketing costs, commission and fees, penalties for non compliance

From an industry perspective, Policy Lifecycle maturity stages are closely related to the performance of the agency. As shown in Table 2, application usage, service efficiency and standard adherence, document codification and digitization, Revenue loss and service operations costs are poor at stages 1 and 2. As the companies evolve to stage 3 and 4, investments in process, technology and people help them to realize improved performance metrics.

Table 2:
Policy Administration performance metrics at different stages (to be aesthetically modified)

	Rudimentary	Evolving	Defined	Optimized
Application Usage %	55%	70%	90%	100%
Service Standard Adoption %	45%	75%	90%	99%
Service Efficiency %	50%	70%	85%	95%
Codification & Digitization %	45%	60%	85%	95%
Revenue Loss Due to Non-Compliance	Very High	High	Minimal	Negligible
Service operations Cost Per Client % *	>55%	46 - 55%	35-45%	<35%

* Does not include sales and marketing costs, commission and fees, penalties for non compliance

Emerging agencies have a comprehensive plan in place though they are impacted by poor turnaround times on certain elements of the service cycle – typically certificates, timely renewals are impacted areas. Defined billing companies have a higher document accuracy that helps them to get to the root cause and proactively address/prevent non-compliance scenarios. On the other hand

Optimized agencies have a platform based service delivery approach. They have a seamless integration across the workflow and leverage systems to ensure high redundancy and disaster preparedness. The ability to leverage structured data through analytics gives these companies an edge in being able to be proactive in determining their service structure as a function of their premium revenue. Such organizations clearly realize that the Pareto rule applies to them with over 80% of their revenue coming from 20% of the clients and optimize their service costs and capacity to cater to this.

ePLMM framework based service transformation process

Service Strategy improvements start with a vision - what is it that needs to be achieved? Setting a clearly defined scope and context is the key for the impactful changes. Goals, both short term and long term, how the activities at each stage are connected and lead to the next broader goal need explicit enunciation. Assessing current organizational capabilities, customer pain areas, and benchmarking of competition is critical to define value levers of service reengineering. Identify key capabilities that may have to be harnessed further with investment and capabilities that may have to move towards the mooing phase. Spell put capability improvement roadmaps that would be targeted in this year detailing the initiatives, investments and ownership. It is neither desirable nor practical to completely overhaul systems and procedures. While considering the transformation program think of a bimodal mode: one to sustain current operational requirement of the business and other that brings agility for future business requirement. We propose a clear 3 step methodology for analyzing each performance element as shown in the below figure, in order to shape a robust value creation strategy for your clients.

Figure 1: Service transformation roll out

- Evaluate process
- Owners, capacity
- Workloads
- Challenges
- Areas to improve

- Rationalize process
- Build capabilities
- Governance structures
- Right person for right job

- Deploy
- Measure at all levels
- Communicate success

The first step involves conducting a comprehensive “as-is process maturity audit”. This helps to identify current processes, gaps and scope for improvement. The process audit also focuses on distinct “moments of truth” interactions between the agency and the insured. This encompasses evaluating the current service levels in two phases. One from an internal service quality level - input quality, quality of data management, policy quality, SOP adoption, ensuring that the client is involved through the process, opportunities beyond the current business, certificate quality, quality of data currently being tracked to predict/prevent revenue loss exposures etc. Data quality in this context primarily refers to the quality and accuracy of client policy information recorded by the broker. Service and customer support are the key drivers in building strong client relationships and sustained market leadership in the insurance market. Effective management of the “moments of truth” becomes crucial to reinforce brand experience and service quality. Agencies must align employees at all levels to be aware of the organizational goals and also be able to keep a keen eye on cost to service at every stage of the policy. The second phase is an evaluation from a business level – business models, commissions, service costs at a an individual process level, gross margins, revenue leakage due to internal and external factors, and current client satisfaction levels.

In the second stage, define standardized process, create and configure appropriate process changes based on the ePLMM frame work. People capability gaps need to be addressed through extensive training and on the job learning. Put in formal governance structure that can capture process deviations, report service deviation ratios and provide comprehensive control of the middle and back offices processes. Focus on process flows and technology adoption. With change management taken care of, the scope is gradually increased with small wins at different levels to sustain motivation through the transformation life cycle. On the process front, reduce manual intervention, identify bottlenecks, and bring in reliability. Gather intelligence to drive SOP adoption, train users about the new SOP steps and do assess how much has been internalized and implemented. Standardize inputs and output formats. Roll out standard service delivery frameworks. Create and track agent or operator level process adherence and productivity. Implement real time monitoring of production and capacity implementation. Finally, schedule appointments to review and detect revenue leakages, service deviations and customer complaints.

In the 3rd stage, deploy company-wide process and system changes with common objectives across different units and measures. Clearly articulate performance measures that reduce revenue leakages reduce wastages and improve first time right outcomes. A clear roll out plan is defined with key change owners at every level and defined milestones and time frames. A continuous review mechanism is put in place with appropriate incentives for driving change at all levels. The end goal would be to continuously assess and refine at all levels.

What must you remember when adopting ePLMM

Our transformation programs experience has taught us few do's which are presented below.

Do's

- ✓ Phased approach to automation, with priority on service variances pays huge dividends
- ✓ Service improvement that deepens end customer visibility has high payoff
- ✓ Create process, product and change owners at all levels
- ✓ All process must be redesigned from customer perspective
- ✓ Top management team has to consistently create the sense of urgency
- ✓ Keep challenging the assumptions, ask for data
- ✓ Service Structure re-engineering and the resultant cost savings can be obtained through outsourcing that yields quick & significant impact
- ✓ Hold frequent reviews/touchpoints with the partners and customers.
- ✓ Improvisation is a continuous process and sometimes it is necessary to tweak certain areas after the implementation has been done.

Conclusion

Exdion's strategic ePLMM framework can help agencies re-claim their competitive edge in the highly penetrated intermediary market. Stage-wise maturity helps companies establish an effective client focused service strategy. While it helps unlock hidden value, benchmarking against maturity models help agencies refocus operations on customer 'moments of truth' in order to sustain customer satisfaction while lowering cost to service on each policy managed. Complete focus should be on customer perception, process maturity and cost position. With data made available in the "Optimized" stage, a perception analysis can help differentiate themselves from competition.

The ePLMM framework presented is a proven and effective tool in transforming the service center from a cost center to a profit center. Each agency may be at a different stage of maturity but challenges remain the same – increasing competition, reducing margins, compliance requirements and insufficient technology platforms and the threat to be pushed out of the race. ePLMM lends itself an effective framework with the right activity roadmap for every future-oriented agency and broker to drive superior customer value and higher revenues.

About EXDION

Exdion comes with over 15 years of Property and Casualty Insurance expertise.

Exdion services clients ranging from Fortune 500 to small and medium sized carriers and brokers. Exdion is ISO 9001 certified for Quality and ISO 27001 and HIPAA certified for information security.

The company thrives on Business Excellence and leverages models such as Kaizen and Six Sigma along with technology enablers, to continually enhance value to customers. Exdion lays great emphasis on Accountability, Integrity, Innovation, Transparency and most importantly Customer Focus. Exdion continually strives to deliver transformational excellence through technology-centric process optimization and continual knowledge enhancement. Exdion is also closely associated with "The Institutes" and 1 in 8 of its staff today are certified in various US and UK Insurance programs.

Exdion's solutions include Transformation Consulting, Business Process Management, Analytics and Policy Lifecycle Maturity frameworks that leverage CLOUD FIRST technologies.

References

Acharya, V.V., Philippon, T. and Richardson, M., 2016. Measuring Systemic Risk for Insurance Companies. The Economics, Regulation, and Systemic Risk of Insurance Markets, p.100.

Bawa, S.K. and Bhagat, N., 2015. Determining the Factors Affecting Profitability of Life Insurance Companies. Asia-Pacific Finance and Accounting Review, 3(1), p.141.

Moro, O. and Anderloni, L., 2014. Non-Life Insurance Economic Performances-an Empirical Investigation. Journal of Economics & Management, 18, p.159.

Nourani, M., Devadason, E.S., Kweh, Q.L. and Lu, W.M., 2016. Business excellence: the managerial and value-creation efficiencies of the insurance companies. Total Quality Management & Business Excellence, pp.1-18.

For more information visit us at

www.exdion.com

or

info@exdion.com

Follow Us on