The Nolan Newsletter

People, Process, Technology

NOLAN

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MANAGEMENT CONSULTANTS

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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.

Through the Nolan Newsletter we share with our readers:
- Updates on industry, business, and technology trends
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Table of Contents

Getting Results from Technology in 2004

Over the past three years, economists and other experts repeatedly predicted that the economy would be getting better, and finally it is happening. With the improving economy, there will be an increase in spending on new technology projects. Not only are postponed projects now on companies' agendas for this year, but some technologies that were considered "emerging" in recent years, like imaging, workflow and ecommerce, are now in the mainstream and considered by many companies as a necessity.

Based on our recent survey of CEOs and CIOs in the financial services industry on the use of information technology, companies will continue to focus on improving customer service and reducing expenses. Further, they see these improvements as depending on the use of technology. However, the industry's track record for achieving the intended results through the implementation of new technology has not been good. Systems get implemented late and over budget, and with only a portion of the expected savings.

Here are ways organizations can ensure that they achieve the intended results from their information systems:

- Conduct a rigorous cost/benefit analysis, beyond what a system vendor will do when preparing their bid.
- Define business requirements in sufficient detail so nothing is lost between what the business units say they want and what IT says it will deliver.
- Prioritize the system implementation effort to roll out the most meaningful features first.
- Redesign processes to make sure the new technology is modified, not to meet the current way work is done, but to process work the right way.

All of this new technology work will drive the current trend back to focusing on process. It will truly be an exciting 2004 and beyond. ∎

Ben DiSylvester

Ben DiSylvester
Chairman

1

SMART USE OF BUSINESS-SIDE RESOURCES OPTIMIZES TECHNOLOGY ROI

Ed Fenwick
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While working with one of our insurance clients recently, we were involved in a discussion of their 2004 business plan. The items listed in the plan were almost exclusively technology projects.

I asked, "But where are the other projects?" The response I received was, "There are no other projects because our focus for 2004 is to recover technology ground lost due to constrained spending over the past three years." After the meeting I asked the CIO what the greatest challenge will be in achieving such an aggressive technology-based plan in 2004. He answered, "We'll need to have business-side resources that are capable of assisting with the projects."

Not all organizations will be pursuing such a robust technology plan in 2004. It does, however, appear that most will be significantly increasing their technology investments. It also seems likely that most will face the same challenge: The skills, experience and knowledge needed by the business-side partici-pants do not exist in sufficient numbers to meet the needs of the technology projects planned. This is one situation where "throwing bodies" at the problem is not an option.

These business-side resources will need to be used more efficiently and effectively. In most organizations, business-side participants involved in technology projects use their time ineffi-ciently and ineffectively. If you doubt it, sit in on a business requirements development session, or better yet, a requirements review session. In many organizations this is a process lacking a consistent methodology and adequate tools.

As you look to staffing the technology project teams with business-side resources, consider the following:

- A defined and repeatable methodology along with the supporting tools, such as a robust process modeling tool,

can significantly shorten the time needed to capture the as-is environment completely and accurately.

- A complete view of the as-is environment improves the quality of the to-be redesign.
- The data captured in the as-is and to-be modeling forms the structure and basis for the business requirements. This reduces the time and effort of producing them. More importantly, it improves requirement accuracy and completeness, which reduces the single largest source of delays and cost overruns related to technology projects.

The benefits of improving the efficiency and effectiveness of business resources assigned to technology projects go far beyond solving a staffing dilemma. It is central to optimizing the ROI of the technology investment.

If you would like to learn more about how your organization can improve the utilization of business-side resources on technology projects, e-mail me: ed_fenwick@renolan.com. ■

"Let's face it: you and this organization have never been a good fit."

COMPETITIVE IMPROVEMENT STARTS WITH INDUSTRY KNOWLEDGE

Robert Grasing
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Industry knowledge is only of value if it relates to how you compete from a marketing standpoint—or how you are positioned to compete operationally. It is on the latter point that many bankers go into 2004 unprepared. The knowledge needed for positioning includes both operational and management insights.

To illustrate this point, ask yourself the following questions:

- If your bank is a community bank between $1 billion and $5 billion in assets, why do top performing banks (based on the efficiency ratio by line of business) handle 1,267 loans per commercial loan operation employee vs. an average of 765 for banks that size? What is the differentiating performance factor that provides this leverage?
- Why do top-tier banks have an efficiency ratio in the branch system of 27 percent vs. the average of 47.5 percent?
- Why do the top banks churn fewer deposit accounts with new accounts representing 16 percent of the total portfolio vs. 20 percent for average banks?
- In deposit operations, why do top performing banks handle 62,130 transactions monthly per employee vs. 38,940 in the average bank? How much of the solution is technology-, management-, organization- or process-related?
- In direct consumer lending, why is the cost per loan $76 for benchmark banks vs. $144 for average banks? Why is the revenue per loan $847 vs. $531 for average banks?
- Why in top performing banks does the total administrative expense, including information systems, represent 14.8

percent of revenue compared to the average banks at 20.5 percent?

• On all of these key measures, how do banks from $5 billion to $70 billion in assets perform, and what is the key factor in their competitive advantage, technology or deployment?

Improving bank performance is more than simply addressing fee income, productivity, performance-enhancing technology and process efficiency on a bank-wide basis. Directing real improvement requires having critical data that shows what is out of line, where to direct improvement and how much income and expense potential exists if the resulting gains are equivalent to top performing banks.

> "Improving bank performance is more than simply addressing fee income, productivity performance-enhancing technology and process efficiency on a bank-wide basis."

In this issue of *The Nolan Newsletter*, we are once again promoting our annual Nolan Efficiency Ratio Benchmarking Study (see page 9). For the past ten years, participating banks have gained industry insights regarding the key areas in which their banks need to improve to be more competitive. Nearly 1,100 ratios are prepared to help banks understand operational benchmarks and areas for directional improvement. The seven insights and comparisons we referred to above represent just a small slice of the competitive knowledge gained by participants. The richness of these insights has become a management requirement for those banks that either target improvements to create their own competitive advantages or seek to reduce the operational leverage that their competitors currently enjoy.

Competitive improvement starts with relevant industry knowledge, and we encourage you to gain the level of insight that our clients and participating banks gain through the Nolan study. ■

IMPACT OF NEW TECHNOLOGY ON TOTAL BANK EFFICIENCY

Rob Keene
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One of the current areas of focus for many bankers is the review, selection and implementation of new core processing systems. With the new generation of technology available today, banks are seeking to improve efficiency with features-oriented, integrated automation.

Nolan has for many years studied the trends in total bank efficiency and how those trends are affected by the type, amount and deployment of technology. The results of our latest study concluded that the ability to effectively implement (deploy) technology has a greater impact on total bank efficiency than the vendor selected, system architecture, outsourcing or running systems in-house, or the cost of the system.

The following is a reprint of the Executive Summary from our 2003 Efficiency Ratio Benchmarking Study System Survey:

EXECUTIVE SUMMARY

This year was the first year that Nolan has included a Systems Survey in our Efficiency Ratio Benchmarking Study. Bank and thrift participants were invited to respond to this survey. Credit unions were not included this year.

A total of 23 Efficiency Ratio Benchmarking Study participants responded to the System Survey. The respondents represented a cross section of the total pool of participants in this year's study.

Participant Profile

The following is a profile of the System Survey participants:

- Total assets ranged between $1 billion and $51 billion
- Overall efficiency ratios were 34 percent to 156 percent
- Average asset size was $8.5 billion
- Average efficiency ratio was 66 percent

- Average information system efficiency ratio (total IS expense/total bank revenue) was 4.7 percent, ranging from .6 percent to 18.4 percent

Summary of Findings

In previous year benchmarking studies conducted by Nolan, there was frequently a correlation between highly efficient banks overall and the IS efficiency ratio. This year there was no discernable relationship between IS spending and overall ER, as depicted in the following chart.

Tot Assets ($)	ER	IS Tot ER	IS Tot ER / ER
50,570,856	53.7%	3.0%	5.50%
39,524,193	58.3%	3.7%	6.34%
23,884,709	54.4%	3.2%	5.90%
21,698,000	34.3%	0.6%	1.75%
12,179,650	65.6%	4.9%	7.40%
4,890,722	65.2%	3.7%	5.67%
4,816,175	68.2%	3.0%	4.40%
4,586,886	156.8%	18.4%	11.73%
4,410,802	120.3%	0.0%	0.00%
4,253,729	36.6%	1.0%	2.84%
3,581,640	68.0%	1.7%	2.54%
2,494,970	46.9%	4.9%	10.42%
2,125,214	50.9%	3.6%	7.09%
2,076,002	61.5%	5.6%	9.06%
2,050,443	51.4%	7.9%	15.46%
1,891,780	69.1%	2.8%	4.11%
1,761,698	89.7%	14.4%	16.02%
1,597,496	55.3%	2.6%	4.61%
1,552,826	58.4%	4.4%	7.50%
1,248,990	64.1%	5.7%	8.87%
1,239,677	65.9%	4.6%	6.99%
1,207,105	58.0%	4.2%	7.17%
1,002,728	67.5%	4.7%	6.95%
8,462,882	**66.1%**	**4.7%**	**7.14%**

Surprisingly, efficient banks (as determined by a low overall efficiency ratio) were as likely to spend limited amounts on technology as inefficient banks. This leads us to conclude that among the respondents, it is not the system selected or the total expense of maintaining systems that drives the efficiency ratio.

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

Some concentration of systems was evident only in highly specialized areas.

> "Surprisingly, efficient banks (as determined by a low overall efficiency ratio) were as likely to spend limited amounts on technology as inefficient banks."

Purpose	Vendor	Percent Using
Asset/Liability Management	Sendero	45%
Check Orders	Deluxe	61%
Trust Processing	Sungard	57%
Fraud Detection	Carreker	38%
HMDA Reporting	PCI	75%
Payroll Processing	ADP	42%

Conclusions

Implementation, work processes surrounding systems and appropriate management (reporting, staffing, scheduling) are more important than system selection in improving efficiency. The Robert E. Nolan Company has been assisting financial service companies in these areas for 30 years. ■

IDENTIFY LINE-OF-BUSINESS CHANGES TO IMPROVE YOUR BANK'S PROFITABILITY

Annually, the Robert E. Nolan Company conducts the Efficiency Ratio Benchmarking Study with banks, thrifts and credit unions over $1 billion in asset size. The study is a unique survey of income, expense, staffing levels and productivity by line of business*. The information studied goes well beyond the typical peer group comparisons commonly available.

Banks often estimate, but do not know for sure, how their institution's line-of-business efficiency and productivity compare to other banks of similar asset size. Additionally, bank management often lacks a structured process for identifying, quantifying and prioritizing departments and lines of business that have the greatest opportunity for immediate profit improvements.

Upon study completion, all participants receive an executive summary identifying the strengths and opportunities for improvement of their organization. Study participants also receive a CD-ROM containing charts for over 1,000 ratios measuring their efficiency and effectiveness compared to benchmark (top quartile), median and average performers in each business area. This information can be used to:

- Target improvement initiatives to reduce expenses and increase revenue
- Identify improvements in customer service
- Analyze employee productivity by department
- Identify performance gaps in business processes and technology

The study has no registration or participation fees. While we provide the results free of charge to all participants, eligible institutions that opt not to participate can purchase the results. We hold all individual participant data in strict confidence; therefore, we report only pool data in the executive summary.

To register for the 2004 Study or purchase the 2003

Study results, please contact Denise Feeley at denise_feeley@renolan.com or 972-248-3727.

*Lines of business are functional areas including support and revenue producing activities. The study includes analyses of 80 lines of business within each of the following categories: Administration, Commercial Banking, Retail Banking, Direct Banking, Consumer Lending, Mortgage Lending, Credit & Debit Card, Trust – Managed & Custodial, Other Financial Services, Mergers & Acquisitions, and Total Bank.■
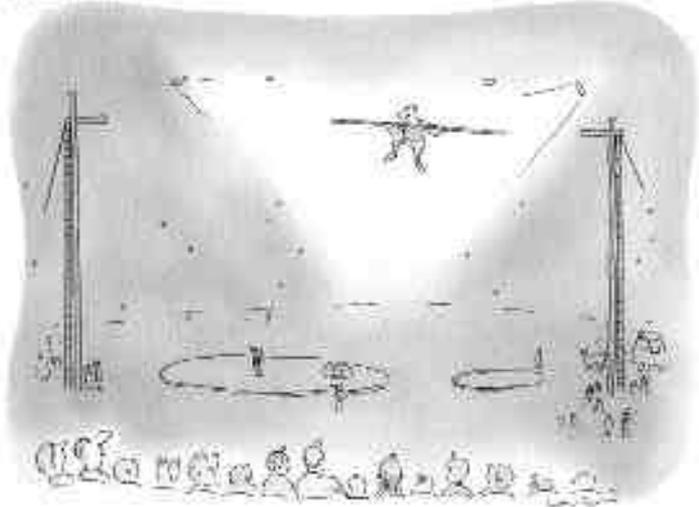
"It appears to be some kind of wireless technology."

A MIDWEST PROPERTY/CASUALTY INSURER:
INTEGRATING SIX SIGMA TO IMPROVE LOSS COSTS & CUSTOMER SATISFACTION IN CLAIMS

A common challenge facing property/casualty insurers is controlling expenses and loss costs in claims operations. Operations plans and redesign initiatives are often abandoned, and improvement programs sometimes fail to reach their goals. Attempts to reduce expenses can indirectly increase loss costs and vice versa. However, some business process changes can positively influence expenses and loss costs while improving customer satisfaction.

Background and Goals

Our client writes more than $250 million DPW in 36 states. Through a combination of direct marketing efforts and affinity associations, they have seen a consistent 20 percent growth rate in recent years. The market they serve demands better-than-average service and competitive premiums. The client is committed to high-quality processing and continuous improvement. They have a corporate Six Sigma program in place to help them reach these goals. It is part of their culture and strategy that all improvement initiatives use the Six Sigma methodology. This assures consistency in identifying opportunities for change and in measuring the opportunities and results.

The company established a goal to improve the performance of their claims operation while managing rapid growth and controlling costs. This would involve significant process changes to improve productivity and loss costs results. The company engaged the Robert E. Nolan Company to help them in achieving their improvement goals.

Integrating the Client's Six Sigma Program

Nolan consulting methodologies are similar to principles that mirror the DMAIC improvement technique of Six Sigma. This provided a common way for the Nolan consultant and the client to discuss root cause analysis and build improvement hypotheses, measurement points and other key parts of the improvement cycle. Engaging Nolan allowed the client to expedite the analysis phase by focusing on the metrics that were most critical to improving process performance. This was extremely beneficial to the client's Black Belts, who had a

tendency to gather more data, instead of effectively utilizing the data they already had.

During the definition phase, the teams defined their roles, stated the problems and established goals. They then enlisted support from the stakeholders and used tools such as SIPOC, a high-level process map.

Throughout the project, the internal Black Belt staff and the Nolan consultants worked together. As the project progressed, the Nolan consultants developed an optimal structure of the "claim life cycle" and compared it with the current cycle. They proceeded by collaborating with an internal Black Belt, and using tools such as Pareto charts, sampling and change management techniques. The Black Belts attended project and management meetings, monitored results and signed off on each phase including the final ROI. The change process, tools and data points were integrated into the client's Six Sigma program.

Nolan consultants helped to foster an understanding of the gaps between the old and new processes in order to motivate employees to venture out of the status quo. They designed and used a PDCA (Plan-Do-Check-Act) approach.

Results

The initial results of the project appear to be dramatic and solid. Specific results include:

- A 41 percent increase in customer satisfaction that is rated excellent.
- A 24 percent decrease in the average age-at-close of claims.
- A 30 percent decrease in mail cycle time.
- A 15 percent productivity increase.
- File results, measured by file audits, continued at the same high level.

By redesigning the process, the client can now deliver superior customer service while controlling loss costs and expenses. Because the Six Sigma team had complete knowledge of the DMAIC components, they provided the long-term support and evaluation to sustain the gains made. ∎

Q. What are the two or three most effective ways to enhance productivity and quality?

A. While many experts have a laundry list of the top ways organizations can improve productivity and quality, these frequently can be too generic. Or they focus on basic techniques that most organizations already use and therefore are not much use to managers trying to make specific and meaningful improvements in the near term.

Our experience bears out that the uncommon techniques that offer the most effective improvements for organizations are:

- Blending process improvement with technology changes
- Having line managers take charge of scheduling staff according to the customers' needs

Blending process improvement with technology changes is a grossly under-appreciated technique that, when done well, smooths out bottlenecks, reduces costly programming and increases the effectiveness of automation.

Having line managers take charge of scheduling staff according to the customers' needs is exactly the opposite of what most customer service areas do. Typically, line managers will schedule employees based on tradition and employee need, not when customers need service. Changing this paradigm results in overall lower staffing levels and higher availability for employees to service customers.

Both of these uncommon techniques provide unit cost reductions and quantum leaps in improving quality.

— Greg Madson, Senior Consultant

Have a question to ask Nolan about improving service and profitability in the insurance, banking and health care industries? Send your question to expert@renolan.com. Your question will be answered and may appear in an upcoming edition of *the Nolan Newsletter*.

Is Service Coming Back?

Dennis Sullivan
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It was midnight, and I was walking off a delayed Delta flight from Atlanta. Actually, it was their commuter partner, Song. I was tired and had just spent three hours between a nervous senior who wanted to talk and a salesman who wanted to know my life story.

As I exited, the pilot made a sincere effort to say thank you to almost everyone, and he made a conscious effort to say thanks to me. Maybe it was my suit, or maybe he just saved a lot of money on his auto insurance! Whatever it was, he was going the extra yard to say thank you, and it struck me!

It may just be me, but with the economy beginning to turn and business activity beginning to grow again, I think there is a renewed positive attitude in the marketplace. After the last two years, we have all become a little more conservative in our decision making, a little less likely to take risks.

However, I am seeing a renewed positive attitude on the customer service side, and that translates into better business. Being positive and helpful to customers doesn't cost any more money, probably takes less energy and has the biggest payback. Skeptics may see it as just a sales ploy or the holiday season, but I think in this last economic slowdown we rediscovered some of the basics that differentiate the great companies from the good companies. It is fundamentals—and execution of those fundamentals—that make companies great.

Individual performance is the building block to team performance. Take it upon yourself to be that leader whom people recognize as someone who makes a difference. Whether your efforts are on the phone, in front of a client or in the mail room, positive attitudes impact organizational culture.

Back to the airlines! My recent experience with Song will make me add them to my list of preferred carriers—and my flight was even delayed! See the impact of thoughtful customer service? ■

UP NEXT

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Like many others, each year at this time I feel compelled to make a few predictions about the technology landscape in financial services for the coming year. Here are a few things to watch in 2004:

- **Untethered Computing.** The many technologies that enable truly mobile computing are starting to gel. We've had laptops for years but weight, battery life, and most importantly the tether of a phone line have always been hindrances to mobile computing. Four-pound laptops with seven-hour battery life are now commonplace, and in 2004 we will see the phone line tether start to disappear. Between WiFi hotspots and cellular data networks, there will be little need to hunt down a phone jack or deal with local access numbers. This trend will be further bolstered by tablet PCs, which are not yet ready for prime time but are getting close.
- **Process Renaissance.** It started in 2002—rumblings about the importance of process—as if it was something new. Process is nothing new to us, of course, but the renewed marketplace focus on process is being driven by the realization that business processes and enabling technologies must be aligned and tightly integrated. There were lots of lessons learned over the past five years. No longer can you just implement technology and expect improved business performance. That particular productivity boost already came in the 1980s and early 1990s. Achieving measurable improvements these days means improving operational effectiveness—doing the right things at the right cost with the most effective mix of people, business processes and technology. Fads are falling out of favor; fundamentals are back in vogue!
- **BPM and BPM systems.** The process renaissance is

15

manifesting itself in the form of process-oriented management practices known as business process management (BPM) and related technologies known as BPM systems (BPMS). The management practices involve analysis, requirements, design, modeling, metrics and continuous improvement. The supporting technology systems are designed to execute, measure and help manage processes by tying together other systems and human interaction.

- **Enterprise Architecture and Requirements.** The operating environment of today's companies is very complex. There are core administrative systems, support systems such as ecommerce and imaging/workflow, workaround systems, security systems and, of course, an array of customers, employees and business processes that depend on those systems. That is, in fact, a gross oversimplification of the environment at most financial services companies.

"Wouldn't it be nice if there were a way to capture all of the attributes and characteristics of systems and business processes, so that when improvements are undertaken, the requirements and implications of the related change would be clearly and quantitatively understood?"

companies. Improvement initiatives, by their nature, create change and thus impact these systems and processes. Wouldn't it be nice if there were a way to capture all of the attributes and characteristics of systems and business processes, so that when improvements are undertaken, the requirements and implications of the related change would be clearly and quantitatively understood? I'm talking about business rules, data attributes, job roles, skills, process flows, costs and so on—just to name a few of the salient data elements. Enterprise architecture and requirements

management tools and methodologies enable companies to do just that. We have already incorporated these capabilities into our service offerings, and we expect many financial services companies to be looking at enterprise architecture and requirements management as they engage in strategic improvement initiatives.

- **Data Management.** Many companies are drowning in data but starved for information to help drive management decisions. That statement has almost become a cliché but, unfortunately, not much has been done to address it. The tools and practices for managing data have improved considerably in the past few years, and 2004 will be the year many organizations make strategic investments in data warehouses and data quality initiatives that will deliver meaningful management information.

I predict 2004 will be the year of results because of the renewed focus on discipline and fundamentals. I'm looking forward to working with our valued clients this year on many of the issues I have mentioned here. I welcome your comments on these and other trends you see taking hold in 2004. Please drop me an email at rod_travers@renolan.com. ▪

MAXIMIZING RESULTS WITH TECHNOLOGY-ENABLED BUSINESS PROCESS REENGINEERING

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I've spent the majority of my career working in the gap (sometimes a chasm) between the technology side and the business operations side of organizations. This can be tricky, and sometimes a downright risky position.

I attribute this risk to the fact that both sides are highly committed to helping the organization, but sometimes have different ideas about what's most important in helping the organization to succeed. Some believe that the business should be adapted to take advantage of technology, while others believe technology should be adapted to support the business.

This slight twist in priorities often rears its head when companies begin to look at improvement initiatives. Many technologists will argue that you first install the technology, and then you change processes to take advantage of the technology. They'll say, "How can you improve the process if you don't know about the technology to be used and what it can do?"

Process purists will just as adamantly argue that you should improve the processes and then add technology to automate the remaining activities. Their point is that if you don't improve the process first, you will end up automating a bad process.

I think both arguments are correct. The technology industry has created some excellent technologies, and it is important to know what technologies are available and what they can do to ensure that you're achieving the maximum potential in an improvement initiative. It is also important to ensure that the focus remains on improving the business, not installing the technology. In order to maximize the impact of the technology and the improvement to the business, you must integrate the technology and the process. This type of initiative is what I refer to as "Technology-enabled Business Process Reengineering."

To succeed at this type of initiative, you first have to be clear about what you're trying to improve and why. Are you trying to improve service, profitability, quality or a combination of these?

If the endpoint is not clear, the path will be even less clear.

Next, it is important to know what technologies are available and how they can help to address the need. Should you select a specific technology (platform, application, vendor, etc.) at this time? This is an important point of distinction. How do you know which solution will be the most effective without knowing how you're going to change the process?

For example, we know we need to turn a paper document into an image, capture the data from the document and then automate the movement of the data throughout a number of steps in a process. Almost any combination of image, OCR and automated workflow technology can do this. Some vendors provide all three—others provide one or a combination of these technologies—but the important thing at this point is that the technology exists and that you maximize its use in the process. While you are redesigning the processes, you can begin your systems selection process. This will help you learn more about the technologies and potential vendors and allow you to begin narrowing in on those that will best fit your situation.

Once you have redesigned your processes using a technology-enabled business process reengineering approach, you are now ready to select the specific technologies and vendors that will best fit your design. In fact, knowing how you are going to use the technology will allow you to be more specific with vendors as to what your needs are, and those who are most qualified to fit your needs will rise to the top. Those that are really interested in improving your business and maximizing your value will likely be able to suggest additional enhancements and further refine the design.

Improvement initiatives are usually difficult and complicated. Going in, you should have as many elements in your favor as possible, and try to achieve maximum benefits. Will a technology-enabled business process reengineering approach—or anything else—guarantee that your initiative is successful? No, but anything short of this integrated approach will decrease your odds of success and will reduce the overall benefits that you achieve.■

Nolan Media and Events

CPCU Society's Information Technology Newsletter
Nolan Senior Vice President Kim Wilkes' article "Engage in Process Redesign Before Seeking Technology" is featured in CPCU Society's *Information Technology Newsletter*.

The Wireless Way Mobile Newsletter
Nolan Senior Vice President Rod Travers is quoted in the article "Getting to Lift Off: Why Organizations Won't Commit to Wireless" from *The Wireless Way Mobile Newsletter*.

AMIfs Journal of Bank Cost and Management Accounting
Nolan President Robert Grasing's article "Branch Performance by the New Numbers" appears in the winter issue of *AMIfs Journal of Bank Cost and Management Accounting*.

NAII Executive Roundtable Seminar
Nolan Chairman Ben DiSylvester will lead an executive roundtable discussion on Tuesday, January 27 at 10 am. He will discuss "Technology: The Delicate Balance Between Cost and Benefit."

Two Cultures in the Insurance Industry

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In 1959, British scientist and author C.P. Snow decried the separation of academic life into two cultures, one devoted to literary and artistic subjects and the other to scientific studies. The thrust of his argument was that this separation made it difficult, if not impossible, to communicate within the intellectual community. It also fractured the educational process into segments, making it harder to become well-rounded intellectually. Over the last 45 years academia has seen this trend accelerate. Specialization has become more acute. Each of the two cultures has split into a multitude of even narrower cultures.

The insurance industry has long faced its own version of this dichotomy. In this case, the gap is not between humanities and science, but between technology and operations. For many years, there has been a perception that the people who understood the insurance business didn't understand the insurance technology, and vice-versa.

This was not always the case. Like the gentleman scholar idealized by C.P. Snow, early insurance technologists were grounded in the business. In the 1960s, there were few computer geeks or gurus. No one had a computer science degree. The people who worked in the computer room or with data processing were people who transferred from operational or financial areas, bringing industry knowledge with them. These individuals knew the business and had to learn about the technology. However, as systems became more varied and complex and new programming languages were developed, it became necessary to hire and develop technology experts who would learn the details of the operation.

It hasn't always worked out as planned. It is difficult and time-consuming for technology personnel to manage existing systems, stay current with changing technologies, address the detailed operational processes being supported and develop a broad understanding of the big picture—the overall corporate

strategy and its relation to the insurance industry. As a result, over many years, senior IT managers became better and better technologists while frequently losing sight of the overall business operation.

If the growing complexity of the technology made things difficult for IT personnel, it totally confounded the operational and financial managers who had the business needs. As a result, communication deteriorated from awkward to impossible in many cases. In order to further develop expertise, the technology function in most organizations came to be organized by hardware or system rather than line of business or customer. This also added a layer of difficulty to communication. There was little motivation or opportunity for the technology expert to expand his or her horizons beyond a specific system which might only support one processing function.

IT departments developed their own bureaucracies and issues. In many organizations, IT strategies were developed that were separate and distinct from any overall corporate business strategies. The resulting communication problems often degen-erated into political battles and turf wars. A common example of this situation was the recurring tension over project priorities with the implicit clash between users' needs and IT's resource shortages and conflicts.

In many companies, these communication problems existed from the lowest ranks of the organization (supervisors and programmers) to the highest levels (CIO, CFO or other senior officers). However, a study conducted by Nolan in 2003 suggests that these communication issues are being improved as senior managers develop a greater understanding of insurance technology and its support of the overall business.

Improved Understanding

This study, "Technology Strategy and Implementation in the Insurance Industry," surveyed insurance company CEOs, CFOs, COOs, CIOs and other senior officers on their views on the role of insurance technology. One key finding was that senior execu-tives seem to have a solid understanding of the role and

importance of technology. In particular, two-thirds of all respondents indicated that leaders from operations and financial areas have a "good-to-excellent" understanding of technology. Similarly, two-thirds of the respondents feel that CIOs have an equal level of understanding of the business operations.

Much of this improvement can be attributed to the Y2K crisis that forced executives to focus on the impact of information systems on business operations. Another contributing factor has been the attention given to a range of new technologies, such as CRM, including agent and customer support systems; contact center systems; rules/expert systems used in underwriting and claims auto-adjudication; new administration systems to support new products such as variable life and annuities; ERP; and robust E-business systems. Although the levels of knowledge have improved, the impact on the actual success of these technologies has been mixed.

The bottom-line impact of technology costs on overall results has also forced management at many levels to become more actively engaged in system development and purchase decisions. Successful companies have learned to integrate individuals from all the key disciplines in the planning and budgeting process in order to realistically allocate resources and set priorities.

While the improvements in this area are important, it is still troubling that one-third of respondents indicate that knowledge levels are less than "good." In particular, there are gaps at key leadership positions. When asked about their chief operating officer's understanding of technology, just under half (47%) of the IT respondents replied "good, very good or excellent." However, when business leaders were asked the same question, 70% rated the COO's understanding as "good" or better. This represents a significant difference of opinion regarding a key decision maker's understanding of technology.

Surprisingly, only 36% of the IT respondents credited their chief financial officer with a "good" or better understanding of technology. This is somewhat unexpected due to the long history of IT-finance reporting relationships in many companies. In comparison, respondents from financial and operations areas

felt more strongly that CFOs do have an adequate under-standing of technology issues, with a 63% positive response rate to the same question.

A similar gap was identified in relation to the chief marketing officer. Only 10% of the IT respondents felt the CMO has a "good" or better understanding of technology. Almost 42% of the business respondents replied with "good" or "very good." (No one indicated their CMO had an "excellent" understanding of technology.) This difference in perception indicates that marketing areas are probably not making the most effective use of technology.

Strategic Impact

In the past, IT strategies have often been developed at least somewhat independently of the overall business strategy. There was an unspoken assumption that better technology always supported and improved the business strategy, but many times this assumption proved to be incorrect. Operational users have often felt that the focus and direction of the IT staff was not necessarily the same as the rest of the organization. Fortunately for the industry, this trend seems to be changing. In this study, approximately 80% of both IT and business respondents agree that the business strategy drives technology. This improvement addresses a major senior-management issue.

However, there remain instances of poor coordination. One executive remarked, "Our approach is too technology-driven, instead of [being] driven by business or process innovation." Another said, "Our most common mistake is letting the 'tail wag the dog.' I am fearful that IT is driving the decision-making process instead of the functional departments driving IT."

Almost 92% of those responding agreed with the statement, "Technology is essential to our ability to compete and differen-tiate in the marketplace." In an age of key enabling technologies, this may be stating the obvious. However, it indicates that technology must be considered along with other traditional differentiators (e.g., products, price, etc.) in order to be compet-itive.

Having agreed about the overall importance of technology, study respondents then revealed mixed views about its actual performance. Only 49% of the IT leaders and 43% of the business leaders surveyed believe that their current technology gives them a competitive advantage. So, almost everyone understands the need for a technology advantage, but more than half of those responding believe that their current systems are not providing it. The high expectations of technology have not been met with correspondingly high results.

Positive Trend

When taken as a whole, the study results indicate that two distinct cultures inside insurance organizations are starting to speak a common language, although some distinct dialects remain. Even when there is disagreement, executives understand the need for more effective communication and collaboration between business and IT to ensure that technology initiatives successfully support all elements of the corporate strategy. Those companies that continue this favorable trend, by strengthening ties and accountabilities between business and IT, will be the ones who reap the greatest competitive advantage from their technology investments. ▪

"Technology Strategy and Implementation in the Insurance Industry" can be downloaded at www.renolan.com.