The Nolan Newsletter

People, Process, and Technology

NOLAN

ROBERT E. NOLAN COMPANY
MANAGEMENT CONSULTANTS

First Quarter 2012 *Volume 39, Number 1*

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Nolan is an operations and technology consulting firm specializing in the insurance, health care, and banking industries. We help companies redesign processes and apply technology to improve service, quality, productivity, and costs. Our consultants are senior industry experts, each with over 15 years of specialized experience. Visit our Website at **www.renolan.com** to download articles, client success stories, and industry studies.

Through *The Nolan Newsletter,* we share with our readers:

- Updates on industry, business, and technology trends
- Client case studies
- Information on speaking engagements, conferences, and web seminars

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The Brave New Mobile World

Fifteen years ago I gave a speech at an industry event where I referenced a scenario about the speed of major shifts in technology. It was doubling every five years, then every two years and, ultimately, every six months. Apple's iPhone and iPad are contemporary examples and they portend major changes ahead. Accordingly, business leaders must now institutionalize a stronger planning process—one that demands innovation and that truly integrates business opportunities with technology strategy. This is no easy task.

If "reengineering" was the buzzword of the '90s and "innovation" the buzzword so far this century, then "creative design" will be the new focus for change in the insurance, healthcare and banking industries, among others. Technology, and mobile in particular, is the strategic lever that will enable aggressive companies to break away from the pack.

With its transformational potential, mobile technology is a prime example of underutilized technology. Combined with business analytics, the field is wide open for creative design. The challenge is not how to pay a claim faster or to process an application in a timely way, but how to delight a customer in today's context. It is not how to shorten turnaround time by a certain number of days, but how to integrate information and mobile technology to revamp service delivery. The challenge is to bring functionality and service to customers on their terms, while improving operational effectiveness at the same time.

We are hard at work helping our clients tackle opportunities and challenges around the proliferation of mobile technologies. This issue of *The Nolan Newsletter* offers a few of Nolan's perspectives and suggested tactics for the brave new mobile world. I hope you find it valuable. ▪

Dennis B. Sullivan
Chairman and CEO

Is Your Operation Ready for Mobile?

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What opportunities are you leaving on the table with your mobile investments?

It's happened. The total number of mobile phones in the U.S. has surpassed our population—well in excess of 300 million are now in use across the country. As most of us know firsthand, smartphones, tablets, and mobile apps are truly pervasive and changing lives, the expectations of users, and the business operations that support them. Similar to the personal computer, mobile devices are quickly evolving and changing our daily routines, but at a much faster pace. The unfortunate news for many businesses is that the actual operation behind the curtain is evolving at a much slower rate than the mobile environment. For the many companies unable to keep up, this is leaving money and service improvements on the table.

A common example is the mobile app that lets the user report a claim through a smartphone. Many insurers have rolled out mobile apps that allow an insured to self-report an automobile accident, with the app facilitating everything from taking pictures, exchanging insurance and driver information, reporting the location, calling a tow truck from the scene, finding a rental car and repair shop, and so on. Pretty cool stuff.

The reality is that many businesses are not capturing the value from this new mobile interaction. The mobile app might look and sound interesting, but the reality is that the operational processes behind the scenes remain largely the same. We've seen countless examples of this new technology supported by the same (or similar) old processes. In the example above, there's an opportunity to turn what we traditionally refer to as "first notice of loss" (or "FNOL") to "first and *final* notice of loss." Many of our clients ask, "Auto-adjudication in healthcare has been commonplace for years. When is it going to be standard in property and casualty?"

> *The unfortunate news for many businesses is that the actual operation behind the curtain is evolving at a much slower rate than the mobile environment.*

The truth is that few companies are truly preparing the end-to-end operational change needed in the mobile environment. The result: missed opportunity to improve service and cost.

To help our clients work through the issues when considering mobile technology initiatives, we share these top-line lessons:

- Don’t put a Band-Aid on top of the old operational processes, skills, roles, and service delivery. This will only drive up costs and create minimal improvement in service.
- Rethink the end-to-end processes, skill requirements and metrics, starting with the customer or end user.
- Plan and watch out for black holes from the customer perspective. The new mobile environment can be far more complex than the old when it comes to service delivery.
- Measure the success of the new end-to-end model—especially service, cycle time, and cost. There’s a lot more value to be had in mobile than just creating the perception of a better customer experience.
- Consider incentives to drive customer behaviors toward mobile. For example, the best customers (i.e., least likely to report a claim) may be best suited to self-report a claim. How would we incentivize them to use this more convenient, less expensive model? What about the customers who we would least prefer use the mobile environment?
- Consider other ways to capture value from the new end-to-end mobile environment. For example, should we bundle a new service experience with a marketing or branding campaign?
- What other initiatives underway are in conflict or need to be rethought as a result of the mobile model?

There’s no punch list or single best practice to follow in the new world of mobile—innovations are happening in near real-time. I would welcome hearing about your experiences with mobile, and I’d be happy to share more of our experiences helping clients to capture value from mobile investments. Please drop me a line at steve_discher@renolan.com. ▪

DAVID GUTWALD JOINS THE NOLAN COMPANY

We are pleased to announce that Dave Gutwald has joined the Robert E. Nolan Company as Practice Director for Government Programs within our healthcare practice. Dave has extensive Medicaid Managed Care and HMO payer experience combined with considerable IT management experience. For Nolan, Dave will focus on government programs including Medicaid.

Dave has held senior management positions in several health plans, including most recently as Chief Operating Officer at Health Right, a health plan serving 40,000 DC Medicaid and Alliance members. He was also with Healthfirst Management Services in New York City where he held the position of Vice President of Operations. Dave holds a BS in Computer Science from the University of Maryland. ▪

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Health Insurance: Change in an Uncertain Market

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Earlier this year, the Nolan Company conducted a market scan of the health insurance industry through targeted interviews and reviews of public information. The purpose of the scan was to develop a qualitative understanding of what health insurers will focus on over the next few years. The scan included national for-profits, regional not-for-profits, and the Blues.

Areas of focus identified through the scan include:

1. **Healthcare Reform (ACA):** Although many of the major components of ACA haven't been finalized, implementation for some components is already underway (for example, revised EOBs and MMLR reporting). We expect spending on Exchanges and other major programs to begin in earnest during 2012.
2. **Compliance:** Most insurers are still working through 5010 and ICD-10, which continue to be major programs. In addition, given many politicians' stance on the health insurance industry and the number of new regulations that are being released (think State reporting requirements for Medicaid), there are increased pressures on the industry around compliance. In this environment, insurers do not want to make the front pages because of compliance-related issues.
3. **Member Engagement:** With changing benefits structures (high-deductible plans), product types (individual, Medicare, and so on), and the addition of voluntary benefits and health and wellness programs, members expect real-time access through multiple channels, including tablets and smartphones. Members need access to administrative and health and wellness management capabilities, and they need information real-time and in a way that they can make sense of it and act upon it.
4. **Provider Integration:** With members taking on more financial responsibility for their healthcare, providers need real-time access to member-related data. Also, providers are beginning to take on more financial risk—spurred in part by the ACO regulations—and will need help managing their risk. As health and wellness management programs are formalized, providers will need access to more clinical data that may be aggregated and stored at the health plan.

5. **Health and Wellness:** Many groups are now requiring health and wellness programs, as is the government for Medicare and Medicaid. The age-old question regarding whether there is an ROI associated with health and wellness programs has become somewhat irrelevant in today's environment; purchasers are requiring those types of programs.
6. **Business Systems Consolidation and Modernization:** With the amount of change resulting from product changes, the economy, shifting demographics, and the ACA, many plans are rationalizing their technology portfolios, such as by consolidating claims platforms. Many plans are developing separate budgets for this item (sometimes it is the single largest budget item) and categorizing it as a cost avoidance issue (vs. trying to develop a CBA based on the consolidation itself). Some organizations have other key business initiatives (such as member engagement) that will advance more briskly once their application environments are rationalized. Completion of this initiative will free up budget dollars and prepare the applications environment to support other programs.
7. **Infrastructure:** We include in this category things like mobile technology, analytics, and web infrastructures. Given the fundamental changes in the industry and the move to an on-line, real-time, information-based platform, many organizations are having to invest significantly in infrastructure, which has traditionally been transaction-focused and batch-based.

Health insurers have a lot to deal with and a challenging business environment to live in. In general, commercial membership is down and—although there have been membership gains in government programs like Medicaid—there is significant pressure on reimbursement rates.

> *Health insurers have a lot to deal with and a challenging business environment to live in.*

Most of the people we have talked to in the industry agree that it is unlikely that the ACA will be repealed; and all agree that even if the ACA were repealed, many of its key components would still move forward (for example, providers would once again move toward assuming risk) and there would be significant change in the industry over the next several years.

Insurers have to find a way to do more with less. One of the techniques being employed in the industry is to create a change enablement framework for the organization. Insurers that have been thoughtful about the future have prepared their organization for change by:

- **Getting their house in order:** assessing the integrity of their current environment to ensure that they have a solid foundation to build upon.
- **Documenting the current situation:** for insurers, ensure that the environment is well-documented to minimize the time required to understand where changes must be made and what downstream impacts will have to be addressed.
- **Defining how documentation will be managed:** many organizations have documentation that is out of date and hard to access. Determining how documentation will be curated can help save time over the long term.
- **Implementing standard program management tools:** it doesn't make sense for every executed initiative to define a unique project management approach and tools, documentation standards, governance model, etc.
- **Outlining guidelines and how capabilities should be acquired:** define the criteria that will drive the organization toward a build, buy, or partner strategy for acquiring new capabilities.

Health insurers can't afford to do nothing at this point. Making progress in the face of many unknowns about the future is critical. Developing a change enablement framework is one way to make progress without having to make a major bet on a program that still contains many uncertainties. ▪

A Framework for Managing Mobile Technologies

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While it may be too early to say mobile technology will be as disruptive as the Web, there are many similarities. Consistent with the early days of the Internet, demand is coming at IT organizations very quickly and requests for deployment have outgrown infrastructure in many organizations. To keep up with demand, many IT organizations are cobbling together solutions to support mobile technology the same way they did in the early days of the Internet. Many organizations will admit that they are still living with Web-based solutions that were supposed to be temporary. Web capabilities were deployed with few standards and often using one-off software or support solutions. Organizations that lived through the early days of the Internet do not want to relive the experience through the mobile technology boom.

There are several tools and vendors available in the market to support mobile technology; however, there is the same Wild West atmosphere of new vendors popping up regularly—some of them here today, gone tomorrow. Like the early days of the Web, there are myriad design options, a variety of software components, new acronyms (e.g., MDM, MEAP, and MCAP), new programming languages, new skills, and new infrastructure that must be established. As with any new disruptive technology, companies must address many new security concerns. Highly regulated industries are again struggling to learn how to use this new technology while meeting auditing and regulatory compliance requirements.

Business leaders should revisit the past and explore their Web implementation journey; examining successes, failures, and stumbling blocks. They should also spend time looking at their company's Web environment to learn what is working well and augment those successes in the mobile world. Companies should identify examples where they mastered the Wild West of the Web and others where the Wild West ruled them.

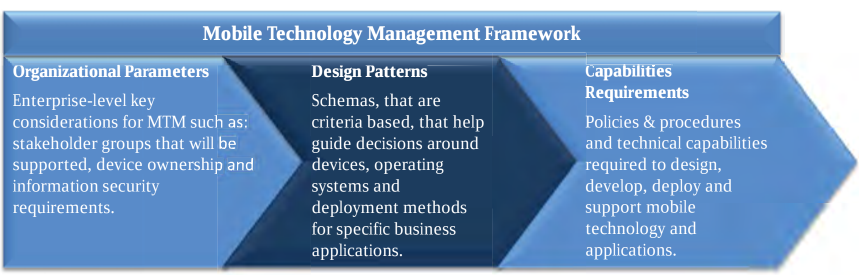
> *Business leaders should revisit the past and explore their Web implementation journey, examining successes, failures, and stumbling blocks.*

Many organizations have dozens of Websites that aren't integrated with each other—sites with conflicting information or that are branded inconsistently. Some companies have dozens of audience-specific Websites. Many companies have excellent processes and are in control of their Web assets, while many other companies struggle to manage those assets. Without careful forethought and integrated planning, the mobile world will exacerbate any Web management issues.

The Nolan Company is helping our clients get ahead of the game by implementing a Mobile Technology Management (MTM) approach. This framework enables a company to take a strategic approach to managing the entire mobile space. It encompasses infrastructure, security, support, application build, deployment, support of applications, and more.

> *This framework enables a company to take a strategic approach to managing the entire mobile space.*

Nolan's MTM framework consists of three components: organizational parameters, design patterns, and capabilities requirements. These components and the underlying detailed artifacts give a company the tools to successfully and economically build, deploy, and support mobile applications.



The old adage goes, "May you live in interesting times." We most definitely live in interesting times; in fact, we are fortunate to live in amazing times. As the world of mobile computing continues to evolve and expectations continue to increase, those companies that are truly committed to capitalizing on the power and benefits of mobile computing will manage it as a strategic differentiator. They will adopt the management practices and infrastructure (i.e, an MTM framework) to support that commitment. In turn, those companies will delight customers, employees, and shareholders by adding valuable, at-your-fingertips functionality while building cost-effective, differentiated mobile solutions. ▪

Thin Margins, Lower Fees, and Channel Shifts

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Ben Bernanke is on record as saying that the Federal Reserve will keep rates low until mid-2013, and there is speculation from large money managers that it will likely last until the end of 2014. This will continue to fuel retail mortgage refinancing churn. There is always hope of selling additional products to mortgage borrowers, and the efforts are ongoing—though, in many banks, the strategy for 2012 and 2013 is to reduce cost.

A focus on cost reduction at the end of a recession is nothing new. This time, however, it is coupled with little hope of relief from fee income which is under pressure from regulators and consumers alike. It leaves fewer options to provide positive income trends. You can review the many headlines in 2011 to better understand the approach to regain momentum: “Citigroup Eliminating 4,500 Jobs in Its Latest Effort to Cut Costs”; “JPMorgan Chase Consolidates Trading Platforms to Reduce Costs”; “B of A Tells New York of Plans to Reduce 324 Jobs in Manhattan”; and “Wells Fargo's Next Stage: Cost Cuts.”

The question is: how will banks achieve their cost reduction objectives? We believe there will be two primary trends in 2012. First, major process redesign initiatives will focus on integration and better use of electronic forms, imaging, workflow, and process automation. Second, bank acquisitions will be undertaken with the intent to reduce administrative and extraneous costs; this will largely depend on the market opportunities that exist. These two strategies are not mutually exclusive and, in fact, we have assisted many organizations capture post-acquisition/merger benefits, as well as establish process designs that make it easier to assimilate future acquisitions.

The shift in customer behaviors in retail banking is dramatic enough that rethinking the delivery channels and redesigning the supporting processes will be necessary to stay profitable in any event. Today, banks are cutting back on marginally profitable branches that were allowed to carry on in years past. The key is to target specific cost-of-delivery goals by making better use of business development staff and greatly reducing administrative burden.

We know that these improvement efforts in 2012 will bring about a downward shift in efficiency ratio that is necessary for the coming shakeup in banking. The cost of delivery will be lower through a variety of forms, and the approach to achieve it will require rethinking the delivery channels. ▪

How Versus Why

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Talking with the people who actually do the work is one of the most enjoyable parts of consulting. It is a great way to learn about an organization, how it operates, and the real scoop on what's going on behind the scene. To clarify, consultants don't walk around picking random employees and asking them questions out of the blue; however, when looking at a particular area or function, asking questions is a normal part of the discovery process—and it yields good information.

Like the two consultants named "Bob" in the movie *Office Space*, the questions I ask are: "What do you do? How do you do it? How long does it take? How many transactions do you handle? What causes errors? How often do you do this?" and so on. (Consultants ask enough questions to make a district attorney jealous.) The employees are typically able to answer them as they relate to their portion of the processing.

> *We often discover that employees aren't sure why their work is important.*

One of the questions employees are *not* able to answer is: "Why do you do that?" I ask that question to find the value of a particular step. The response is always telling, and it shows how well the employee understands his or her job—not just *what* they do, but the value delivered by doing it. We often discover that employees aren't sure why their work is important. They are "good soldiers" who do the normal day-to-day transactions. The downside to having too many good soldiers is, when faced with problems outside their realm of knowledge, they don't know what to do next and have to engage a supervisor. But, when a supervisor is not available, transactions may not get processed in a timely manner.

To sum up, help employees understand why they are performing their duties by asking two simple questions: "What do you do, and why do you do it?" At a minimum, you'll find out how much employees know and understand about their jobs. Who knows, if you ask those two questions often enough, you might have a shot at becoming the third Bob in the next *Office Space* movie. ▪

The Simple Logic of Mobile Technology

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The advancement of mobile technology over the past few years is making a dramatic impact on the agent's most precious commodity—time. Agents are continually looking to increase their time and productivity. They seek speed of submission, speed of underwriting decisions, speed of quotes, speed of policy issuance, speed of inquiry response, and speed of claims handling.

Mobile technology—epitomized by tablets and smartphones—is changing the technology user's experience and expectations forever. Technology that allows a producer to make presentations and adjust illustrations in real time while they're presenting options to consumers is becoming table stakes. Gone are the days of illustrations printed in advance. Numerous surveys show an increase in policy placement when the speed of issue is improved.

As customers become more technology-savvy, they are naturally becoming more demanding. They expect their agents to be easy to do business with, have data at their fingertips and, increasingly, have smartphones to make inquiries, payments, and report claims as soon as they happen. When there is a property claim, customers expect claims adjusters to be able to do things such as confirm coverage, view policy limits, and print claims checks on the spot.

The use of smartphone and tablet technology, along with social media, are in their relative infancy. A few companies have staked high-ground real estate in this territory and are growing in a flat market. That is a testament to the value of these technologies. Others are scrambling to catch up. So despite the challenge and occasional mystery of mobile technology, the decision to embrace it is simple logic. It is a win-win-win for the policyholder, agent, and carrier. Customers are pleased, agents are empowered, and company efficiency and effectiveness are improved—and that's the bottom line. ▪

As customers become more technology-savvy, they are naturally becoming more demanding.

No One Said It Would Be Easy

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Several years ago a Nolan colleague and I were working on a cost-of-care improvement project. For the first two weeks, Jack and I met at the end of each day to compare notes, document current-state findings, and refine our work plans based on the day's discoveries. The conversation would always begin this way: "So, Jack, what did you find out today?" He would respond, "Dave, it's worse than we thought." I recalled those conversations when thinking about the challenges now facing healthcare executive leadership and managers.

While effective management of commercial or government-sponsored healthcare has always been problematic, new and impending regulatory changes mandated by the Affordable Care Act, modifications to Medicaid eligibility rules, a persistently soft economy, and government budget pressures have and will continue to increase and complicate the managerial burden. Here's only a sample:

- Beginning in 2011, commercial carriers were required to reach an 80% medical loss ratio (MLR) threshold for small group and individual business; for large groups, an 85% threshold applies. In 2012, plans not reaching those thresholds will be required to pay members a rebate in the form of a check or premium reduction. Profitability for plans is now in large part a function of both very precise MLR management—actual treatment dollars spent and proper alignment of internal clinical resources—and superior administrative expense management. Without a concurrent and consistently superior execution of both management imperatives, the plan's business results will suffer significantly. For many plans with historically low MLRs, becoming operationally excellent in a very short period is a daunting challenge.

  Another important concern: The advent of Exchanges presents new opportunities—but its own set of uncertainties—around product, pricing, and the individual mandate. Assuming this element of the ACA remains intact following 2012 elections, what is certain is that an operationally efficient, low-touch onboarding process and cost-effective member support capabilities will be critical to the profitability of this book of business.

- For Medicaid program administrators, the path to profitability is even thornier. According to a recent Kaiser Foundation study, Medicaid enrollment is projected to increase 27.4% by 2019—not surprising as states move to mandated income eligibility thresholds of 133% of the federal poverty level. However, Medicaid reimbursement rates continue to decline, and states are actively engaged in finding other ways to control costs. As an example, at least seven states have imposed annual ceilings on the number of allowed inpatient bed-days for specific Medicaid populations. Because little economic relief is on the immediate horizon, this combination of increasing enrollment and declining funding will put tremendous pressure on program administrators to maintain robust, geographically comprehensive networks; avoid situations where states reassert their control over certain revenue-enhancing programs, such as pharmacy; and increase efficiencies and automation in an environment of decreasing capital expenditure budgets. Administrators must do all this while generating sustained, adequate profitability.

  Medicaid reimbursement rates continue to decline, and states are actively engaged in finding other ways to control costs.

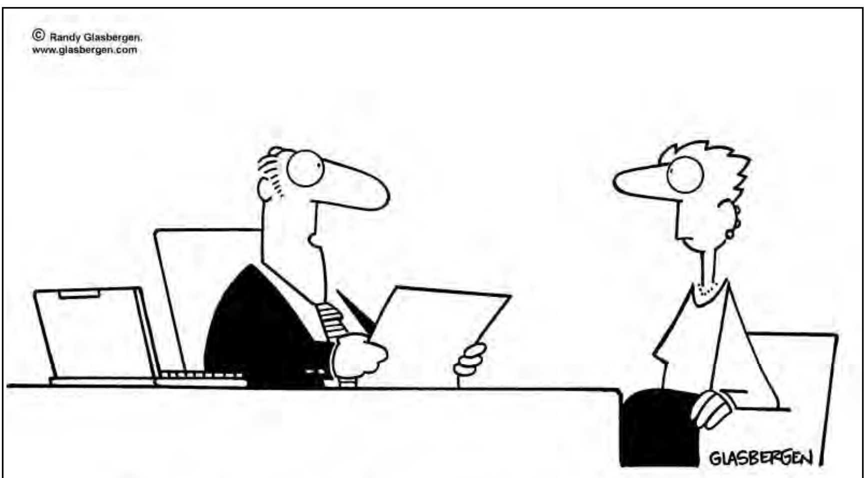
  Some companies are trying to mitigate these pressures by working more closely with the states to set fact-based rating structures; secure compensation for development and implementation of upstream programs, such as aggressive prenatal care; and establish more rigorous, comprehensive application of evidence-based utilization management guidelines. All of these efforts, however, carry significant development and impact timelines and must be combined with traditional operational improvement efforts in the near term to help maintain reasonable business results.

- Even Medicare Advantage carriers will not escape the confluence of increased regulation, a sluggish economy, and the relentless simplicity of elementary school-level arithmetic. Beginning in 2014, these carriers will be subject to the 85% MLR rule now in place for members of commercial large groups. The same health maintenance and wellness programs the industry has in place may remain but, for many companies, the available disposable revenue from which profits can be generated will be drastically reduced. Their business model will mirror commercials', demanding degrees of internal expense management skills simply not previously required.

What this admittedly gloomy outlook presents to carriers—commercial and government-sponsored programs alike—is a double-faceted opportunity. The first facet is strategic. The current business environment requires an elevated level of consistently superior operational management, provider relationship management, vendor relationship management, and interdisciplinary expense management from each executive and manager. The second is tactical, allowing time to focus managerial attention on the truly new challenges presented by our current operating environment. Ensuring that these fundamental needs are met in all divisions of the company provides a comfortable foundation on which new capabilities and relationships can be built. These needs include:

- Efficient processes and supporting automation;
- Optimized job role design;
- Staffing models and an operationally efficient organization structure;
- A comprehensive array of quantitative, actionable metrics and associated analytical capability; and
- A consistently applied improvement design, implementation, and assessment process.

As you make plans to address the current and impending challenges posed by competitive, regulatory, and economic challenges, please feel free to contact me or one of my Nolan colleagues. We'd be pleased to share with you our experiences and help you explore optional approaches and develop plans to act upon your decisions. ▪



"We can contain health insurance costs if you're willing to let your coworkers diagnose you with information they find on the Internet."

2012 Bank Performance Study: Sign Up Now to Participate

The Robert E. Nolan Company is once again offering the opportunity for all banks and credit unions with more than $900 million in assets to participate in our proprietary industry study, which is unlike any other. The analysis results in comparative line-of-business measures that help participating organizations identify gaps in income, expenses, staffing, and productivity. This study is organized into 80 distinct lines-of-business and provides comparisons of your bank to: the top-quartile (benchmark) participants; the averages of all participants; and the medians for all participants.

More than 700 performance ratios are calculated. **There is no fee for participation in the study, and all participants receive a tailored results report.**

What Participants Can Expect

The analysis will identify gaps in performance that quantify specific areas representing the greatest opportunities for improvement. The unique approach ensures that each bank accounts for its income, expenses, staff (full- and part-time), operational transactions, balance sheet items, and activities related to each line-of-business. In this way, a directional view can be developed to determine the underlying reasons for performance gaps. The comparisons are organized in pools, which maintain participant confidentiality while providing granular analysis of performance gaps.

Performance Gaps Identified

Each participating organization will receive:

- A management summary identifying the areas with the greatest opportunity for bottom-line improvement;
- A detailed report that prioritizes the opportunities by total organization and within each line-of-business;
- Bar charts for each of the 700+ detailed measures with comparison to benchmark, median, and mean averages; and
- Year-over-year comparisons for organizations who've participated two years or longer (being re-introduced this year).

You will truly value the results of this valuable performance study when planning for operational changes within your bank or credit union. To view a sample of the output that participants will receive and to register for Nolan's 2012 Bank Performance Study, go to www.bankbenchmarks.com.

Registration Deadline: March 30, 2012

Input Deadline: May 4, 2012

Results Distribution: June 29, 2012

Life and Annuity Industry Outlook: Planning for Success in 2012

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At the start of 2011, the industry and economy were reaching the end of several tumultuous years. The coming months were seen with great uncertainty. At that time I wrote an article titled "Achieving Success in the New Normal" for Nolan's first quarter newsletter; employing the much-used phrase "New Normal" to describe the material shift in economic conditions seemingly here to stay. As far as accuracy goes, the year panned out just about as expected.

Entering 2012, it is again time to project how the life and annuity industry might perform. It is with humorous transparency that I have to admit that, in doing the research, I came across Lake Superior State University's 2012 List of Banished Words (www.lssu.edu/banished/current). Holding position #7 on the list? "The New Normal" which, according to LSSU, is banished because:

> "*…it is often used to justify bad trends in society and to convince people that they are powerless to slow or to reverse those trends… More often, it is used to describe the sorry state of the U.S. economy…*Robert Brown, Raleigh, North Carolina."

Last year, Nolan Chairman and CEO Dennis Sullivan wrote an introduction to this quarterly newsletter titled "Troubled by the New Normal?" and it included these comments:

> *"Are you as tired of hearing the phrase "new normal" as I am? The "new normal" is just another catchphrase that makes for good headlines and negative articles lamenting the glass as being half empty. You have two choices in business: accept mediocrity or find a solution to a better way."*

Dennis was right and perhaps his straightforward point helped put "new normal" in its rightful place on a list of banished words.

Whatever the label, 2012 brings many of the same challenges that, even with mild economic improvement, are equally difficult to deal with this year as last. Unemployment, a direct impact to available buyers, will continue to be an issue. Projections suggest it may take until 2018 to return to around 5% (taken from late 2011 White House estimates). Combined with expected economic growth under 3% and Fed Funds rates holding at 0% for the year, the pressure on earnings will remain intense as investment spreads continue to compress, especially as older portfolios mature and are replaced by lower returns. Amplifying the pressure is increased regulation, the impact of enhanced adequacy analysis, and cash flow testing.

No surprise to industry leaders, 2012 will bring strife coupled with tough decisions and measured trade-offs, even as economic conditions gradually improve. Consumers face lost asset value, investment uncertainty, unclear healthcare costs, and an increased need for retirement income as Baby Boomers find themselves with materially less than expected. All the while, as LIMRA research indicates, there remain over 58 million households underinsured. The net result is an industry that finds itself:

- Dealing with inforce blocks of business offering guaranteed rates higher than portfolio earnings;
- Searching for innovative, profitable solutions to market demands for stable and affordable life and annuity products with integrated guarantees; and
- Managing expense pressures that primarily consist of technology demands and workforce costs, while delivering on constant increases in service expectations.

Wise leaders know that sustainable growth is best achieved by a strategic focus on developing innovative sources of additional revenue; the top line offers the greatest opportunity for leverage. Still, the tendency for short-term expense reduction continues to drive some decisions, particularly in stock companies facing shareholder demands. Unfortunately, at this stage, more often than not additional reductions end up cutting more organizational muscle than actual surplus. Companies are already running lean due to several continuous years of process improvements, outsourcing, streamlining, vendor consolidations, and organizational flattening.

What alternatives exist to offset the pressure for expense reduction and create a sustainably profitable business? First, companies must recognize the strategic value of intellectual capital as the foundation of innovation and world-class service, an oft-missed reality when budget cutting time comes around. Market growth and consumer loyalty will come from sales and service experiences more than product features. Remember, insurance and annuities are still sold and not purchased, which means the intermediaries between carrier and client—like agents and service representatives—can direct attention towards the total value proposition versus simple price or feature trade-offs.

With that in mind, a number of factors should be thoroughly reviewed for potential inclusion in a life and annuity carrier's 2012 action plans:

- Evaluating global opportunities to swap books of business, selectively acquire or divest subsidiary lines, or enter into unexplored international markets;
- Developing innovative solutions targeted at the over 29 million Americans expected to retire in the next five years who, according to LIMRA research, control over $880 billion in assets;
- Leveraging new technologies to improve the profitability of established channels while at the same time creating alternative buying opportunities to reach untapped or underserved market segments;
- Investing in service operations to improve the knowledge, skills, and resources available to front-line staff, enabling them to deliver exceptional service that in turn creates a competitive advantage; and
- Imposing a rigorous discipline in determining where to invest time, money, and resources, and then incorporating multiple go / no-go milestones along with a hard validation of return on those chosen.

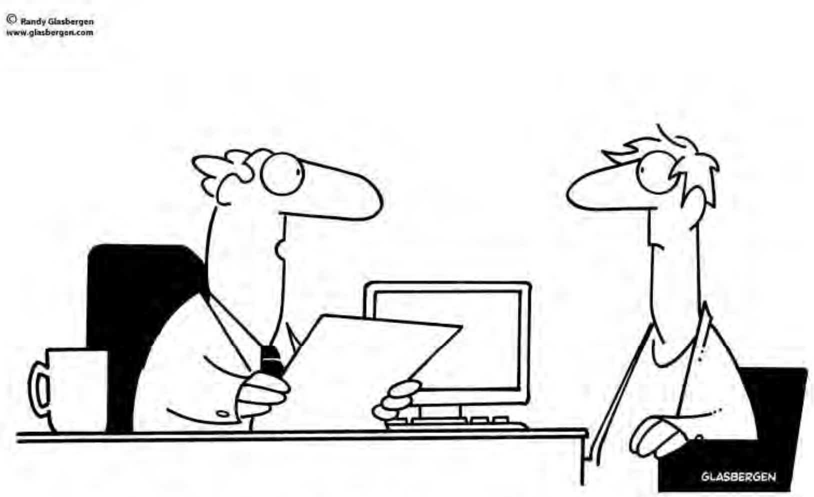
Some of these factors may be easily dismissed at the surface, such as the regional carrier who immediately dismisses the global opportunities arena. However, it would be wise to keep an eye out before becoming a target of interest to an international company which does employ this strategy. Similarly, expending material efforts on redesigning term life products, for example, would be inconsistent with the second factor given the real potential is in universal life and retirement annuities. Better yet, via the third factor; find a way to affordably deliver coverage to the underserved middle market utilizing new technologies in conjunction with trusted advisors cost effectively.

The drumbeat for competitive advantage being achieved by excelling at service continues to beat louder and louder—companies failing to hear this demand will miss the chance to build market loyalty through individualized, exceptional service experiences. Lastly, sifting through myriad new technologies, balancing these needs with legacy systems demands, and determining how to optimize the ever-limited technology budget to maximize impact on business value will require even greater attention than ever. This is especially true as the visual appeal of all the options can be overwhelming. Rigor, discipline, and focus must be applied to carefully select and then stay the course through implementation of the chosen solutions.

In his opening address at LIMRA's 2011 Annual Meeting, Bob Kerzner clearly stated the industry's greatest challenge given all of the above: innovatively changing the way insurance is communicated, sold, and serviced. In 2012 the focus must move towards true innovation despite the chaos of challenges and competing resource demands. Time moves fast. 2013's market leaders will be those who find a way to look to the future while tending to the present; no small task.

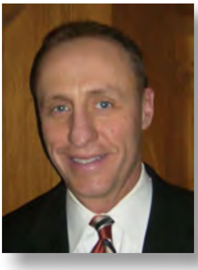
By the way, being a persistent Type-A, I took some time to see if I was the only colleague to fall prey to catchphrase use. While I admit it is a bit of a stretch, one much esteemed top executive, known for being ahead of the knowledge curve, used the term "Cone of Uncertainty" in 2008, a phrase at Position 6 on *Time Magazine's* 2011 Top 10 Buzzwords. Having been three years ahead of the curve, he should be in the catchphrase hall of fame.

Interested in greater detail on the life and annuity industry's 2012 forecast? Take a look at the January 2012 edition of LOMA *Resource Magazine* for "Forecast 2012: A Closer Look." I would be pleased to provide additional insights and background on the projections, as well as ideas on how best to address the challenges our industry faces. Please contact me at steve_callahan@renolan.com. I would enjoy the exchange. ▪



"A sensible retirement portfolio should include mutual funds, stocks, bonds, lottery tickets, magazine sweepstakes, returnable cans and bottles, money under the sofa cushions, loose change in your junk drawer, anything you find in the coin return of a vending machine, pennies left in old loafers...."

Mobile Technology: Bank on the Unexpected



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As technology continues to evolve at the speed of light, mobile technology is an incredibly hot topic (several topical articles in this newsletter are a case-in-point). Mobile even eclipses the ubiquitous and ethereal "cloud computing." When you hear "mobile technology" in the banking industry, your first thought is probably related to mobile banking services, such as providing account alerts, account balances, funds transfers, and transaction verification. The growth in these services in the United States has been steady, with 2011 reported to be over 35 million users. Forrester predicts that one in five adults in the U.S. will be using mobile banking in three years.

What will change is the functionality that will be employed on mobile devices. When we incorporate the change in business processes, mobile technology will have an impact on service delivery by allowing bankers, branch staff, and lenders (with appropriate interfaces) to significantly improve process efficiency and effectiveness. The rapid growth of this technology is driving additional innovation. Having the ability to travel to multiple sites with such devices to meet with customers will allow loan sales, loan origination, and loan document capture to occur at the point of customer contact. Specifically, having such computing power in the field provides a significant competitive advantage and improves cycle time as follows:

- Information needed to accompany an application can be obtained and captured on the spot and submitted along with the application, making paper processes requiring later data capture in the back office unnecessary;
- Clients will be provided with quick loan decisions through automated underwriting capability in the field;
- For manual underwriting, the underwriter receives information more quickly and completely, resulting in immediate decisions; and
- Minimize unnecessary communication and non-value-added touches between clients, branch staff, and underwriting.

Mobile computing will take on additional forms in the next few years beyond the current client self-service view. The real value-add will be to provide functionality to maximize convenience for clients and banking personnel alike. It will be the next tool to improve process efficiency, effectiveness, cost, cycle time, and the overall customer experience. ▪

Improving Self-Dispatch with New Tools

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The healthcare and insurance industries have many roles that can be aided by new, inexpensive tools to solve the classic routing problem: how can I determine the most effective sequence of stops to optimize time and/or distance? While the delivery companies, such as FedEx and UPS, have long used on-board computers to plan and change route optimization, the use of such tools in healthcare and insurance is at an earlier stage of adoption. Also, within the large delivery companies, there is a dispatch function that determines master scheduling. In our experience, property/casualty claim examiner routing typically has some automated support, for example, with tools that are part of broader services such as those provided by Mitchell. However, within most healthcare and insurance companies, route determination is typically made by the individual who conducts the work (i.e., self-dispatch).

Some characteristic roles for which we suggest new and inexpensive route optimization tools are applicable include:

- Scheduling nurse visits for health assessments for patients in various communities; and
- Sequencing the visits of agency/broker sales and sales support staff.

Often, the approach to self-dispatch is represented as follows:

By making the Route selection the last step in self-dispatch, the optimization of time and distance is subject to the schedule that is based on accepted offers.

We suggest that some inexpensive tools can facilitate a better approach for self-dispatch as follows:

While conducting a recent project for a healthcare client, we looked at the full population a nurse needed to visit in a typical month's workload of assessments. Using an online tool, we developed the optimal route for the full population and then grouped potential visits by day to provide a basis for offering times to meet. Even when the person conducting the work had good knowledge of the local geography, the route optimization tool provided an improved result. The savings in this case were minutes per day per RN; when multiplied by the number of nurses doing this work times the number of working days per year, the benefits were clear.

The increasing use of mobile technologies that allow professionals and service and support staff to have constant access enables many opportunities to re-think not just routing, but also how information is exchanged and services are provided in the field. I would appreciate hearing your experiences in applying mobile technologies to dispatch and field service scenarios. In turn, I can describe other scenarios where mobile technologies are truly making a difference in field service. Please drop me a line at don_himes@renolan.com. ▪

A Toast to the New Year

Ben DiSylvester
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The ringing in of the New Year is a perfect time for reflection and resolution. Whether you are a CEO, a team leader of just a few people, or somewhere in between, we think you'll find it useful to make two lists for the past year. Title your first list *Meaningful Accomplishments* and your second list *Disappointments / Failures*; these should include only things within the scope of your responsibility.

Listing accomplishments creates a positive mindset shaped by what went right last year. These items typically include increased sales, new hires, implementation of new technology, significant improvements in processes, higher measured productivity, reduced expenses, higher quality ratios, faster service for agents and customers, and other meaningful and measurable improvements.

The list of disappointments/failures is an honest reflection and acknowledgment of plans not achieved, goals not accomplished, programs delayed or seriously behind schedule, unexpected losses of talent, budgets missed, escalating expenses, declining productivity or quality, failure to solve a known problem, or other shortfalls.

Both lists should be prepared and then reviewed with your team. This discussion should result in additions to both lists. Also, it is important that the disappointments/failures list not be presented as criticisms of an individual's or team's performance. Rather, it should be an open and honest acknowledgment of what went right and what did not go right. It is also an exercise in leadership and team building. The leadership part comes in because the exercise communicates where your expectations were met and where the organization fell short. The exercise should engage the team in a meaningful discussion of what is needed to build on the accomplishments and avoid the same disappointments and failures in the coming year.

This process is not meant to be a formal, time-consuming "program." An hour or two should do it. The review and discussion should be part of a regular team meeting. Properly used, this reflection and resolution will contribute to a focus on results and continuous improvement and a happy new year. ▪

2012 IASA Annual Conference

The Nolan Company is proud to sponsor keynote speaker, **Tom Peters**, at the upcoming IASA Annual Conference in San Diego.

Nolan continues the tradition of sponsoring interesting public figures at IASA's opening day keynote address, including Rudy Giuliani, Colin Powell, John Glenn, Malcolm Gladwell, and Al Gore - ***www.iasa.org***

PCI Executive Roundtable Seminar
January 22-24, 2012 - Scottsdale, AZ
Nolan is pleased to be sponsoring the Opening Reception on January 22 at the Property Casualty Insurers Association of America's Roundtable Seminar to be held at the Fairmont Scottsdale Princess - ***www.pciaa.net***

BAI Payments Connect 2012
March 12-14, 2012 - Las Vegas, NV
Join Nolan president Bob Grasing at the Bank Administration Institute's conference to be held at The Mirage Las Vegas - ***www.bai.org***

LOMA Customer Service Conference
March 14-16, 2012 - Las Vegas, NV
Nolan senior consultants Gerald Shields and Steve Murphy will be presenting "Mobile Computing in the 21st Century" at this conference to be held at The Mirage in Las Vegas - ***www.loma.org***

CLM Annual Conference 2012
March 28-30, 2012 - San Diego, CA
Nolan is pleased to be a silver-level sponsor at the annual Council on Litigation Management conference. Join Nolan executive vice presidents Steve Discher and Kim Wilkes at this event to be held at the Sheraton San Diego Hotel - ***www.theclm.org***

Nolan Events (cont.)

PIAA Marketing Workshop
March 28-30, 2012 - Charleston, SC
Nolan executive director Ben DiSylvester and executive vice president Rod Travers will be attending the Physicians Insurers Association Marketing Workshop to be held at Charleston Place Hotel **- *www.piaa.us***

AIR National Conference
April 29 - May 1, 2012 - Monarch Beach, CA
Nolan executive vice president Steve Discher will be attending the AIR National Conference at St. Regis Resort **- *www.riskinformation.com***

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