

The Nolan Newsletter

People, Process, and Technology



ROBERT E. NOLAN COMPANY
MANAGEMENT CONSULTANTS

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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

THE NOLAN NEWSLETTER

People, Process, and Technology

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TEAMWORK: AN OLYMPIC CHALLENGE



Teamwork is a topic often written about, and the clichés can run rampant. So when I read a recent article about the world’s fastest human and multi-Olympic gold medalist—Usain Bolt from Jamaica—I was struck by his view of attaining personal excellence through teamwork. He recently talked to a graduating business school class in London and attributed the teamwork between himself and his coach Glen Mills as a key component of his success.

This reminds me of the record-breaking victories of this year’s US Olympic alpine ski team (eight medals), another example of individual achievement being reinforced by, and maybe even as a result of, the team element. There may not be two sports more individually focused than track and field and alpine skiing, yet the concept of teamwork and support teams was never more in the forefront of these athletes’ minds. Despite media interest in trying to create a larger-than-life feud between two US woman skiers, the more compelling stories were beneath the surface and revolved around the US women’s snowboarding team and the Norwegian speed skating team. The “tight” teams seemed to create an environment for the greatest number of individual feats.

The approach, the concepts, and the basic principles feed right into our challenge as leaders to help our management team and front-line employees attain their own personal goals while achieving success for the organization. Breaking down the silos between customer-facing departments and back-office operations is critical to realizing corporate objectives. Cross-functional teams deliver great overall accomplishments, and individual top performers usually are created in the process.

The goal is to energize the individual and, to do that, we need to surround them with high-performing teams. Success in business takes energy and a lot of input. Teams have demonstrated the ability to raise the performance of the individual members beyond what they can produce on their own. Teamwork breaks down walls, has the ability to reach new performance levels, and provides support to individuals who need help reaching their potential. Winning is contagious; as the team performance improves, it will stimulate individual accomplishments not thought possible when working alone. Start your own Olympic movement within your organization—at the top, in the middle, or at the front-line level. Teamwork is a winning strategy! ■

Dennis B. Sullivan

Dennis B. Sullivan
Chairman and CEO

A QUICK LOOK AT MANAGING CHANGE



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The past year has been fraught with economic challenges that have forced companies to deal with change at an accelerated rate with, for most companies, relatively negative undertones in terms of human and market impact. For many, survival mode has brought to the forefront skills untapped in recent years. With that in mind, a review of change management processes and practices provides a timely refresher on navigating through today's challenges.

Wilfried Krüger provides an excellent visualization of the various components involved in transformations with the “Change Management Iceberg.” At the surface, above the “waterline,” rests the issue management aspect of change; the part that garners all the attention and yet represents the smallest portion. Below the surface rests the bulk of the iceberg, consisting of three primary modules: the roles played by staff along the continuum of promoters to opponents; the management of perceptions and beliefs; and the management of power and politics. Taken together, these last three aspects represent well over two-thirds of the “iceberg” of change, almost entirely hidden from direct sight below the waterline of issue management.

The greatest challenge in managing change is below the waterline—at the interpersonal and behavioral level. It is here, outside the scope of simple process optimization, that one finds the complexities of power, politics, perceptions, and beliefs. The profound and often confounding elements of the “change iceberg” are defined by an organization's values, mindsets, and capabilities.

Most change management processes involve four distinct roles:

1. **Opponents** with negative attitudes and behaviors who require a controlling approach focused on minimizing impact.
2. **Promoters** proactively supporting the transition by providing a source of cheerleading and encouragement for all.
3. **Hidden Opponents**, or the “passive-aggressive,” offering support at the surface but playing an oppositional role at a deeper, less obvious level. As opportunists, they can be won over with care, patience, and respect for their perceptions and beliefs.

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4. **Potential Promoters**, or “fence-sitters,” have a generally positive attitude about the change but are not entirely convinced it is necessary or the right thing. Again, with care and carefully informative influence, they may become promoters.

The people aspect of change represents the bulk of the iceberg and is the most challenging because it requires dealing with emotions, beliefs, values, attitudes, behaviors, politics, and perceptions. Focusing solely on the process and technology of change management without in-depth attention to the human element ignores the bulk of where change occurs and increases the risks of failure. There are four models proven most effective in managing people through change:

1. **Empirical-Rational**, which assumes people change based on self-interests. The model requires that the individual impact be communicated and proper incentive be constructed to encourage them to be positive participants.
2. **Normative-Reeducative**, which assumes people change to fit the surrounding norms and values. Here, new norms and values must be consistent with the desired change, and time must be provided to allow staff to adjust and develop commitments.
3. **Power-Coercive**, which assumes people are generally compliant and will do what they are told to do. This overly-simplistic approach relies upon the use of authority and consequences to enact change.
4. **Environmental-Adaptive**, which assumes people initially oppose the loss and disruption caused by change but are able to adapt over time. This approach requires that the new organization first be established and then this group be assisted in their transition to it.

Most transformations leverage the full range of change management methodologies by blending the applicable parts of each model. The proportions are determined by how the organization is reacting to the desired change. For example, changes facing significant resistance require the strong hand of the power-coercive approach blended with the empathetic assistance of the environmental-adaptive one. For any given change, there is an optimal blend for addressing the diversity of roles played and beliefs held by the affected staff.

Focusing solely on the more simplistic aspects of changing processes and information systems should be avoided because that approach fails to consider deep-rooted cultural and behavioral impacts. Signs of a failed approach can be found in delays, failures, and sub-optimal solutions that require significant

investment of additional resources. Conversely, effective change management operates below the surface of processes and systems, looking deeper into the entrenched behavioral and cultural norms. The measures of success can be found in the timeliness of change, employee satisfaction levels, and shifts in productivity.

Change is inevitable. Effective change management demands the use of a rich methodology, incorporating transparent communication with participative techniques, such as employee-driven workshops and collaborative redesign sessions. Lasting change requires the direct involvement of affected parties and depends upon enhancing each employee's ability to understand the need for change and adapt to it in a way that allows them a sense of choice. Only through understanding, involvement, and choice can a successful transformation occur.

For more information on the tools and techniques that support dealing with the iceberg of change, please feel free to call or e-mail me at steve_callahan@renolan.com. There is a wealth of information and options available to ensure that your next change is effective, efficient, and successful. ▀



"It's a great idea, but we're afraid it might upset someone somewhere sometime for some reason, so we've decided not to pursue it."

WHAT IS UNIFIED COMMUNICATIONS?



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A Google search will return more than three million hits for the term “unified communications.” At first glance, you’ll see firms such as Avaya, Aspect, Nortel, and Cisco and probably conclude that the term has something to do with telephony. But on closer inspection, you also see IBM, Microsoft, and a host of other players. So what exactly is unified communications?

Unified communications (UC) is the integration of various communication media with business process management (BPM) and workflow. It provides users with a continuous “connected experience” to move voice, data, and other knowledge content across a variety of communication verticals. Services such as instant messaging, video conferencing, e-mail, Web chat, voicemail, fax, and text messaging can be seamlessly integrated into workflow and made available in real time when the user needs them. Workflow efficiencies traditionally isolated to contact centers, such as call distribution and intelligent routing, can now be deployed across the enterprise.

With the advent of the IP telephone, voice has converged with data to become one more packet of information moving along your network. When voice became digital content, opportunities to deliver voice at different points within a work stream to different applications and in conjunction with other information were now available in ways not possible with traditional PBX phone systems.

UC solutions don’t just focus on delivering voice; they also focus on providing “presence” information to identify a person’s status as *away*, *available*, *in a meeting*, etc. This feature is similar to the agent status in a traditional contact center where software indicators define the call state of the agents. Presence can significantly reduce time spent on inefficient communication activities, such as leaving voicemails and sending messages. If a presence indicator shows the intended person is *away*, you don’t waste time dialing the number. Reducing the latency between

Workflow efficiencies traditionally isolated to contact centers, such as call distribution and intelligent routing, can now be deployed across the enterprise.

communications and getting a real-time response is made possible when both parties are connected through instant messaging with presence.

Collaboration opportunities are boundless when team members have access to collaborative workspaces, desktop sharing, and conferencing tools. Virtual work teams and mobile employees can easily locate other team members and participate in meetings via audio and Web conferencing. Customer service teams can reach out to experts through IM text sessions, escalate the contact to a phone call or video session, and gather the necessary information to respond to customer inquiries quickly, without the need to call the customer back.

But the power of UC to improve product and reduce communication latency is not limited to person-to-person interactions. The next step for UC is integration of these services into the business process workflows in a way that the rules engines, workflow applications, and systems can initiate and respond to various types of communications across the process continuum. Businesses have only begun to exploit the UC possibilities. ■

© 2001 Ted Goff



"We want everyone in the company to have these devices implanted in your molars so you can all hear and speak with each other all the time."



Rod Travers
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Ship captains are trained to balance their attention between piloting their ship in the moment and preparing for what may happen in the near future—for example, changing weather. And sometimes things can change faster than you expect.

IT leaders face the same dual responsibility. IT has to perform a balancing act to support immediate priorities, such as cost containment and efficiency, while preparing for and helping to enable a return to growth. In the insurance arena, it will be some time before premium growth returns to pre-recessionary levels, but we know it will come. In the meantime, how can IT help carriers maximize profitability and prepare themselves to smoothly handle increasing demand as it returns? Here are some suggestions:

- Improving process performance should be a top priority in good times and bad. The cost savings potential is significant. IT can play a key role here by pushing under-utilized process automation tools, such as BPM and workflow, deeper into the organization. Seek and destroy manual workarounds and shadow systems.
- Taking steps to improve underwriting profitability will pay dividends now and in the future. IT can support this endeavor by helping to unlock and transform data that is currently too difficult or time-consuming to access. This can drive better risk-based pricing decisions, better risk selection, and greater throughput with less hands-on underwriter involvement. IT can also help bring improved analytics tools that help identify potential areas of growth. These might include specific regional areas, ethnic populations, and age groups. This represents a true partnering opportunity between IT, underwriting, and marketing.

*Providing
differentiated
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enabling growth...*

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- Providing differentiated customer service is absolutely essential to driving retention and enabling growth, and policyholders and agents continue to raise their expectations based on their non-insurance service experiences. IT is essential to providing high-level service through next-generation relationship management systems, continuously improving online self-service functionality, enabling online co-service processes that allow real-time personal support, delivering intuitive functionality on mobile devices, and improving agents' ease of doing business—to name just a few.
 - It's no surprise that the soft economy brought an increase in certain types of claims and that fraud has risen. Worker's comp, for example, is under increased scrutiny. IT can improve financial results by partnering with Claims to deliver stronger claims automation and better analytics from claims data. This can help identify cases with potentially higher losses, enabling early and appropriate intervention. One simple example is flagging low-severity soft tissue injuries. Such claims warrant a more senior adjuster to be assigned.
 - Strengthening IT management practices now will provision an organization for profitable growth with less drama when that time comes. Some potentials:
 - Adopt agile methodologies that result in leaner teams and more aggressive results timetables.
 - Take on fewer projects and emphasize ones that are more impactful on revenue and customer service.
 - Define project phases to deliver payback within a budget cycle.
 - Modernize talent management practices by supporting professional development; implementing flexible work arrangements, including remote worker programs; and introducing innovative compensation that rewards measurable upside impacts.

As the market recovers, competitive pressures will escalate and resources will be stretched. Insurers will have to respond quickly and flexibly. Those who have kept an eye on the horizon and used the lull of the downturn to streamline and retool will be ready. Through a combination of key technologies and partnering with the business, IT can help an organization prepare for smooth sailing ahead. ▀

2010 BANK PERFORMANCE STUDY REMINDER

The 2010 Nolan Bank Performance Study is underway, and United States banks or credit unions contemplating participation should visit www.bankbenchmarks.com to register as soon as possible to receive their input form and instructions. The study is conducted at no cost to participants, and the effort to organize company data is well worth the return. Participants receive current comparative line-of-business performance data.



Participant pools are organized first into size with \$1 to \$5 billion in assets in one pool and those greater than \$5 billion in assets into another. The nearly 1,200 total performance ratios developed provide participants with performance comparisons to the top quartile, mean average, and median in each line-of-business performance category. Organizations are provided with gap analysis that helps them to direct improvement initiatives, set organizational goals, or develop performance incentives. ■

DOING WHAT YOU SAY YOU WILL DO



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It might seem like a basic character building block to most, but the premise of doing what you say you will do often goes out the window in many organizations, replaced by a host of mechanisms that drain the effectiveness and directional ability of the company. How can leadership spot the problems, and what is the corrective plan? The best way to differentiate your organization may be to simply deliver on this promise: “We will do what we say we will do.”

Often senior management cannot understand why an important initiative or project does not deliver. The opportunity and investment were there, the people and technology were there, and certainly the commitment of the senior management staff was present—so what happened? Why can’t we turn this ship? Why did we lose our biggest account? How did that newcomer get so big in our market? Can your organization spot the failures in doing what you say you will do?

There are several ways this insidious problem manifests itself. One is through a catastrophic failure of a key component to deliver. Another is through a gradual decomposition of the intended goal, which falls behind or fails. Yet another is that a goal is parsed and then regrouped to end up in a different direction than originally intended. Some organizations may complete all high-profile initiatives, but their yields are unknown, watered down, or drowned out by new initiatives.

There are preventions and remedies, of course. The old saying that “It starts at the top” is true. If people at the top do not communicate effectively, are indecisive, or do not hold people accountable, their behavior permeates down through the organization and can kill organizational effectiveness. The remedy for this is to make short, clear communications a priority. Carefully think through your direction and strategy before communicating it. Insist on consistent messaging by senior staff and hold them accountable for results. Do not drown out the main message with unnecessary detail.

A potential cure for catastrophic failures is better, more intense risk management at all levels, including the board and C-level staff. Risk management programs are designed to identify, measure, and remedy the risks of the organization not reaching its goal. Risk management programs prevent catastrophic risks by addressing these potential failures early in the

process, when preventive steps are most effective.

Correct organizational design issues to curtail breakdowns and the failure to execute. The era of horizontal organizational charts resulted in many more decision-making points as teams replaced management hierarchy. Teams increase the potential for failure when they make decisions that change the intended outcome, no matter how small the change. Obtaining approval from a peer is always easier than going up the ladder, so teams tend to approve each other's changes. Often, results of extremely horizontal organizations have little relationship to the concept originally put forth by senior staff, which is perplexing and frustrating. There are steps within a horizontal structure that help correct this situation, such as stronger project management and governance; however, a more hierarchical organization with good leadership is sometimes more effective.

The nature of business organizations necessarily creates needs for self-protection, self-improvement, and control by the people working there. These are human characteristics that cannot be avoided, but if unmanaged, they can completely nullify an organization's effectiveness. A fearful environment often encourages sandbagging at budget time. Or, you'll hear people say, "I want to under-promise and over-deliver on this."

Sandbagging at budget time is feathering the nest by locking up capital. The practice is done out of fear that resources will not be given if needed or that some form of punishment will occur if a budget is not met. A budget is supposed to be the best estimate of resources needed to accomplish the goals of the organization. Managers should be rewarded for their forecast accuracy rather than how far under budget they can be at year-end. Dealing with this noise in the budget makes decision-making harder, riskier, and less effective at the corporate level. Preventing managers from needlessly locking up capital frees up money that can be better deployed in growth, development, or margin-producing activity.

"Under-promising and over-delivering" is a euphemism for taking control. Here is the breakdown: *I'll deliberately underestimate my ability to deliver to the point where I can easily perform the initiative in order to look like a hero at the end.* Obviously, this can kill organizational effectiveness, because the organization never truly knows its capabilities. Capability is hidden behind management's desire to not take risk. What businesses need is honesty in forecasting in terms of finances and ability to perform.

Business organizations reflect the values of their leadership. Incorporating the simple value of "We do what we say we will do" is a good premise in improving your organization's effectiveness. ■



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For many of us, our high school years were some of the most formative and memorable—both good and bad memories—and we can recall decades-old events in surprising detail. Recently, one high school flashback pushed its way up to consciousness as I sat in an operations review with a group of analysts, managers, and executives.

Father Ignatius, our freshman and sophomore English instructor, was an “old school” teacher. For weeks, he would drill us on the parts of speech, noun-verb agreement, sentence diagrams, and the horrors of dangling participles. He was a stickler for the use of active verbs as opposed to the passive tense; so much so that each week a class member was placed in front of the room and required to compose active and passive sentences, using subjects and verbs provided by Iggy. If the classmate stumbled, students were encouraged to shout out the error. The good priest was certainly not a “participation trophy” kind of fellow, but by the end of the semester, *everyone* had English language fundamentals down pat. More important, we learned the underlying lesson he wanted to convey: Passive has its place but is routine, often unremarkable, and not meant to inspire or compel a response; active is vividly descriptive, commands attention, is motivational and (within some contexts) risky. As I listened to the presentations and updates provided by the analysts and managers in the meeting and watched the reactions of the executives, it was clear that the latter weren’t getting what they needed and the former were being presented an opportunity.

Executives recognize the value of operational dashboards, financial summaries, and customer survey results. But, in an economy showing only painstakingly slow improvement, they are looking, more than ever, for solutions that assist measurable achievement of operational goals and to position their companies for eventual profitable growth. That search is an opportunity for managers of teams tasked with operations, market, financial, cost of care, and actuarial analysis to fundamentally change their accountabilities and transform their level of influence on a company’s strategy and business performance. That transformation enhances the perspective of analytics from one that’s primarily *retrospective* to one largely *prescriptive* based upon a solid understanding of the customer,

marketplace, and historical business results. It's moving from passive to active; continuing to provide operational performance results but elevating one's game by offering sound, fact-based, meaningful recommendations to address the company's challenges.

Developing increasing levels of influence with company executives demands trust built upon credibility. One way to create that relationship is to begin with tactical recommendations, comparatively small in scope, that are directly associated with company goals and have outcomes that can be quantified. The following objectives hierarchy is one tool to help target recommendations.

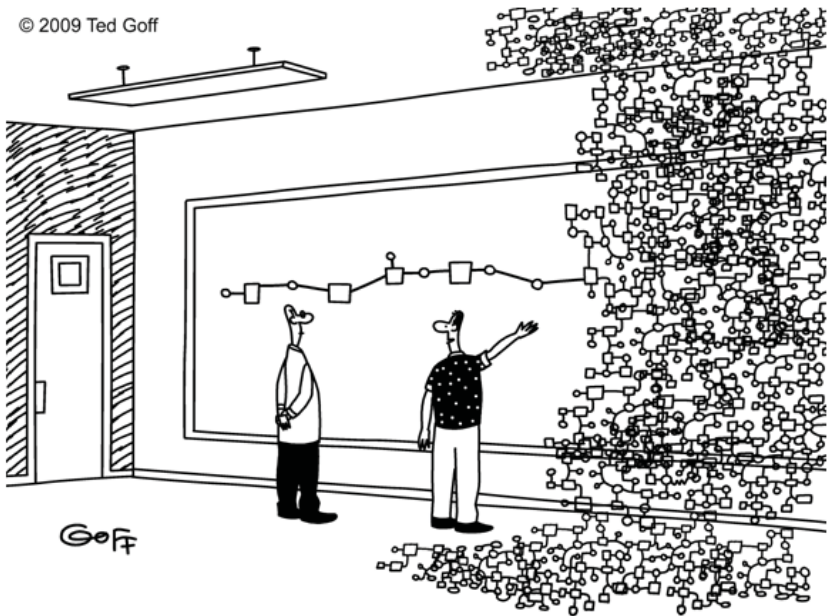


Based upon the work already performed by analysts, select an ops plan function, a deliverable category, and then one or more tactical deliverables that analysis points to as opportunities for improvement. Develop alternatives that will measurably improve performance, ideally resulting in achievement of expected goals, and then force-rank the alternatives in order of effectiveness.

And now, the risk: the presentation of recommendations within the context of sound business results analytics and other fact-based foundational elements. Starting small and targeting clear improvement opportunity areas

helps limit the risk, but it also improves the chances for recommendation approval and ultimately (following a successful implementation outcome) enhanced credibility. It's this precious organizational capital that is the critical ingredient for increasing influence within the company, allowing the targeting of higher levels on the objective hierarchy and multiplying—sometimes geometrically—the positive impact of recommendations.

In recent memory, there hasn't been a more perilous time for many businesses, but there also has never been a better time to improve performance and position a company for market leadership. Success will come to those willing to take thoughtful risk. The upside for the analytic function, analysts, and those who lead them is immense. All it requires is the willingness to stand in front of the class and compose sound, compelling recommendations in the *active tense*. ■



"This is where my idea gets a little complicated."

CLIENT SPOTLIGHT

Project: Operational Process Improvement

Client: Royal Credit Union (RCU)

Industry: Financial Services

Project Objective

The Nolan Company was retained to:

- Create a culture of process improvement focusing on the member experience and actual service and delivery cost;
- Utilize a highly-participative process to identify and implement the necessary changes;
- Achieve the results in a measurable way that provides for scalable delivery;
- Streamline the overall lending processes and increase bookings;
- Lower the cost of delivery of all loan and deposit products; and
- Develop and install tracking metrics to monitor the improvement.

Current Environment

Royal is a large credit union predominately serving a single

state in the upper Midwest that has recently experienced significant growth and projects continued growth and expansion over the foreseeable future. Executive management realized that their current operations were not scalable and undertook a company-wide initiative to review and modify all of their operational processes with specific emphasis on improving the member experience and lowering overall costs.

- Royal Credit Union (RCU) operates like a traditional community bank with a credit union philosophy.
- RCU enjoys an enviable share of market with long-tenured staff which leads to market stability.
- There is relative balance of assets between consumer, commercial, and real estate.
- The current Efficiency Ratio reflects an opportunity to capture improvements that can be translated into service

and capacity gains that are attainable while advancing steps to “provide friendly, accurate, and prompt financial services to Members.”

- RCU had recently completed a merger with an out-of-state credit union; raising assets to over \$1 billion and introducing them into a new state.

Project Scope

Nolan facilitated RCU's teams of employees through a series of major process improvement initiatives. Nolan consultants supported these efforts with independent diagnostic analysis and industry information. The teams analyzed the products and processes to identify opportunities for improving the service provided and to streamline member interactions. They recommended increased use of existing technology—specifically, imaging and workflow—to reduce paperwork and simplify processing.

Increased recovery of delinquent and charged-off accounts was anticipated through the strategic use of available technology. Additional consumer loan volume was anticipated from existing

members by closing holes in the product mix.

Project Results

The redesign team's recommendations, as facilitated by Nolan consultants, were enthusiastically approved by the executive management team and implementation began immediately. In addition to improved member service from reduced turnaround times and increased product offering, the following are in the process of being implemented and realized:

- Over \$300M in additional net interest income from increased consumer loan volumes;
- A reduction in operating expenses of over \$1 million annually from streamlined processes; and
- A reduction in net charge-off of approximately \$500M from changes in the process and the utilization of enhanced collection strategies (utilizing the existing staff).

2010 IASA Annual Conference

Agenda Highlights

The Nolan Company is proud to be the keynote sponsor of the IASA Annual Conference. Look for us at these events!

MONDAY, JUNE 7

8:00 AM - 9:00 AM

IASA Keynote Presentation by Malcolm Gladwell - sponsored by Nolan

Dennis Sullivan, Nolan Chairman and CEO, will introduce Malcolm Gladwell

3:30 PM - 5:00 PM

Juggling the Budget: Delivering Results While Controlling Costs (Session 277)

Co-presenter: Kim Wilkes, Nolan Executive Vice President

MONDAY, JUNE 7 AND TUESDAY, JUNE 8

IASA Executive Roundtables

Rod Travers, Nolan Executive Vice President, is Chairman for these senior-executive events

TUESDAY, JUNE 8

3:30 PM - 5:00 PM

Healthcare Reform (Session 603)

Co-presenter: Merit Smith, Nolan Vice President & Health Care Practice Director

TUESDAY, JUNE 8

3:30 PM - 5:00 PM

Reaching the Next Generation of Insureds (Session 676)

Panelist: Steve Discher, Nolan Executive Vice President

TUESDAY, JUNE 8

3:30 PM - 5:00 PM

A Practical Guide for Using Open Source (Session 675)

Moderator: Rod Travers, Nolan Executive Vice President

WEDNESDAY, JUNE 9

9:15 AM - 10:45 AM

IT Town Hall (Session 771)

Moderator: Rod Travers, Nolan Executive Vice President



THE BENEFITS OF PAYMENT ELECTRONIFICATION



James Dean
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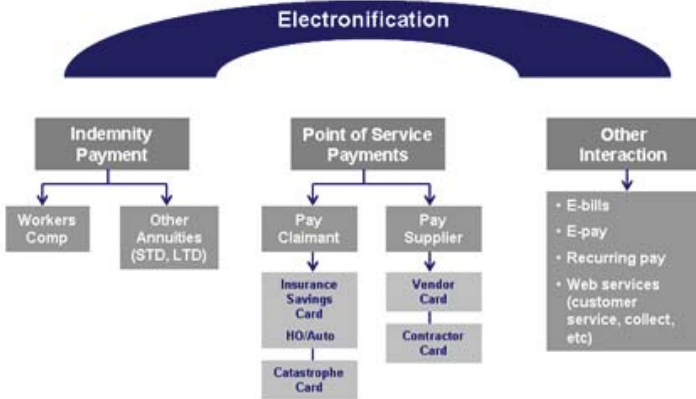
The electronification of payments across the enterprise provides significant opportunities to reduce payment expense, increase payment security, and improve control over disbursements for the banking, insurance, and health care industries. For banking, it also represents revenue-generating opportunities from services that can be offered to clients—both commercial and retail.

Costs vary by company, but consider that a single check can represent \$7.50–15.00 of direct and indirect costs—versus an average cost of \$0.15 per electronic payment. Now apply those savings to the hundreds of thousands (or more!) of checks written by a firm each year. It is a wonder that electronification is not one of the top priorities of every CFO.

Ideally, a company should have a multi-year strategy to drive the firm to a nearly checkless environment over time. There are many electronic payment methods—EFT, ACH, and Check21, to name a few—but a single method typically will not satisfy all the payment needs of a single firm. Therefore, the company (usually under the direction of the CFO) must examine and categorize the different types of payments made by the firm—vendors, customers, consumers, or governments; international payments; recurring and one-time payments—and determine the appropriate electronic payment methodology plus an implementation plan for each.

Prepaid cards are quickly becoming another mainstream tool in the electronic payment arsenal. Unlike credit cards, they have no credit lines and interest charges attached to them. Unlike debit cards, they use omnibus accounts (not individual accounts) thus reducing operational costs and overdraft fees. Today's prepaid card platforms use cutting-edge technology and provide much more control and functionality than credit or debit platforms. For instance, prepaid allows consumers to set triggers for text messages to be sent to their phone when card balances reach a pre-set level, a purchase occurs, or they have successfully received a new load of funds. As they cannot go over their limit, it helps consumers budget and provides an electronic record of all of their spending.

Sample Payment Electronification Options for Insurance



The best opportunity is to address electronification as a corporate-level strategy examining each LOB for an appropriate payment method.

As an indication of industry growth, there are now more than 30 different prepaid card products; whereas just a few years ago, there were about 10. The types of products range from the ubiquitous single-load gift card to payroll cards for the under-banked to insurance claim and catastrophe cards. The health care industry is also actively using prepaid cards for HSA, HRA, and FSA account management.

Demonstrating a broadening acceptance of the cards, many states now use them as child support payment tools. More than 27 million enrollees in food stamp programs carry the cards, and the cards have been approved by most states for use in worker's compensation indemnity payments by insurance companies. The U.S. Navy even uses the card technology for sailors' payments aboard ships. And prepaid cards are now the only payment method the American Red Cross relies on for distribution of emergency funds to catastrophe victims.

Certain prepaid products, such as the payroll card, are being heralded for their ability to bring the under-banked into the financial services industry, and there are now services to build credit scores through prepaid card use. President Clinton, the keynote speaker at the National Prepaid Card Expo this February, highlighted this valuable community service. It was well-appreciated kudos for the bankers in attendance. During this difficult time, it is rare to receive positive financial industry PR.

Adding further value to our consulting services on the topic of electronic payment of payments, Nolan was recently accepted as a member of the National Branded Prepaid Card Association (NBPCA). The mission of the association is to promote and educate the industry, government, and consumers about the benefits of prepaid cards. We are the only consulting firm to be a member and are looking forward to working with the leading card networks, processors, and banks in this field.

We have also teamed up with the NBPCA to conduct a survey of regional and community banks and credit unions. Through the survey, which will take place in the near future, we hope to determine to what degree these markets are offering prepaid card products and what the NBPCA and card brands could do to support the growth of this specialized market. Many of the products can be an excellent way for their issuers to capture additional deposits, win new customers, and offer additional customer and community services—driving both loyalty and revenues. If you are on *The Nolan Newsletter* mailing list and in this market, you will receive an invitation to participate in the survey and learn the results.

Prepaid cards are quickly becoming another mainstream tool in the electronic payment arsenal.

In the domains of payment electronication and prepaid cards, the Robert E. Nolan Company offers strategy development, feasibility studies, and implementation services to the banking, insurance, and health care industries. Please contact us if you would like to learn more about these services. ■

A SHARED WRONG VIEW



Robert E. Grasing
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In his book *The Age of the Unthinkable*, Joshua Cooper Ramo notes an observation by a Nobel Prize winner that “big science”—multibillion-dollar science programs—almost never produce meaningful discoveries. The notion is that scientists accept a “common picture” of how things bind together, which the author characterizes as a “shared wrong view” or more simply, a delusion. One of my Nolan senior executives has long classified this phenomenon in financial services as “honest wrong beliefs.” It is a tricky area to consult clients on since discovery must be absolutely documented and quantified to be presented.

For example, many senior executive teams believe that their branch networks are the backbone and key interface with their customers, but many banks are selling more than 50% of their retail and small business new products through alternative channels at a lower cost. Some management teams still believe that human interface and attention is what their customers want. In fact, 70–80% of inquiries are either electronic or Web-based. With the advent of mobile banking, we see the percentage increasing in the near future. Excellence in banking does not need to be about more human interaction with the customer; it needs to be about making the service (human or electronic) easier and more convenient.

Another area where there is a possible common wrong belief is on cross-sell ratios. Many marketing executives focus on this as an area of improvement and, if designed effectively, it may be a good area for revenue growth and anchoring valued customers. The fact is, there is evidence that, in many banks’ *unprofitable* customer segments, the number of products per customer is as high as or higher than that of the most *profitable* customer segments. This leads us to believe that a purely sales focus may lead to higher cost when incentives are included for those campaigns if not properly targeted at break-even customers who will become profitable with the new product or service.

There are honest wrong beliefs in nearly every company that limit organizations from realizing true profit potential. Why else would banks in the same market with similar products and the same labor pools have wide gaps in profitability? There is no crime in having strong beliefs, only in limiting your search for breakthroughs based on those views. ■

SELF-SERVICE ADOPTION



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Self-service is a growing strategy for more and more insurance companies. The push has its roots primarily in expense reduction but increasingly, it has an element of responding to customer demand. However, there is one significant issue haunting the business case for most of these efforts—adoption rate.

Recent studies have shown that durable adoption rates in our industry are hovering around 15% with some achieving as high as 25%. That is either good or bad, depending on what the going-in expectation was. Either way, it is a long way from shutting down the call center and pocketing that entire expense savings.

So what are the barriers to adoption and what can be done to overcome them?

Ownership

A mixed bag of capabilities with varying degrees of usability and complexity will kill adoption. The chaos you often experience as a consumer with Web self-service is rarely a technology issue; rather, it is almost certainly the lack of a single, coherent approach and leadership in the organization that put it together.

Cross-functional process ownership is minimal table stakes for development of an adoptable self-service capability. If the self-service is aimed at producers or agents, ownership across the various functions is even more important. If it is simple to get their underwriting status but impossible to figure out a commission issue, they will default to the phone, where they can have all of their questions answered—even if it takes a transfer or two.

Customer ROI

The organization's ROI on self-service will never happen until the customer's ROI is high. Customer ROI is a simple formula—the certainty of benefit has to exceed the anticipated effort; the higher that ratio, the faster and more durable the adoption of self-service will be. That formula has to work with each and every engagement, from sign up to initial use and through repeated use. Companies with self-service capabilities are

getting about a third of their new customers to sign up but lose more than half who never move into the user category. At every aspect of the offering, tight focus needs to be given to the customers' perception of benefit and anticipated effort to maximize adoption.

Cross-Service Channel Consistency

A consistent way to access and use all of your service channels will help self-service adoption, but the consistent way has to be customer-oriented and easy. Requiring a policy number (a 10-digit, random set of numbers) to access services is *not* customer-oriented or easy. Opposed to completing a transaction over the phone, the website requires you to download a form—neither consistent nor easy. Companies with high self-service adoption rates have worked hard on these consistency and ease-of-use issues. For example, at one company, customers can choose their unique user ID and password which are used to access any service channel. The ease of use encourages customers' utilization of self-service systems.

Training

One airline made a bold decision when they implemented self-service kiosks. They took people from behind the counter working the traditional long queue of passengers and moved them out to the kiosks, helping customers learn how to use them. The traditional service lines grew longer, but self-service adoption took off. This airline staffed the kiosk training heavily for over a year after introduction and as a result, they have the highest adoption rate of any airline and the shortest, lowest-staffed traditional service stations of any US carrier.

Your self-service strategy has to include strong capabilities for providing live help. In the short run, this may drive up call center demand but it is critical to high adoption rates.

Conclusion

Self-service can work but it takes a solid, comprehensive approach. In successful companies, it is not just an IT initiative; rather, it is more about bringing together process management and customer experience management—*that* is the winning formula. ■

SHOULD YOU CARE ABOUT FAIRNESS?



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Should you care about fairness? More precisely asked, should you care about the *perception* of fairness? Most everyone works in groups or teams at their place of employment. You may even head a team or manage multiple teams. Should you pay any attention to how you and others gauge fairness? After all, we all know that the world is not fair.

Let's start with the premise that good managers and good teammates want to be fair and equitable. There are times that we consciously decide that a situation is unique and should be treated differently. Accommodations are then made to avoid situations that would result in an inequitable outcome—this can be perceived as unfair.

Theoretically, we should focus on our own work, not what our co-worker in the next cubicle is or is not doing. However, we tend to assess if we are being treated fairly. Studies show we possess an internal fairness check and that when events go beyond the norm, we have a response that affects our behavior and, in turn, our relationships.

In the book *Sway: The Irresistible Pull of Irrational Behavior*, authors Ori and Rom Brafman tell of an interesting experiment. Groups of people are divided into teams of two, with each team consisting of a “decider” and a “receiver.” The decider will split a sum of money between the pair, and the receiver can choose to accept or not accept the split. Two key patterns emerged: 1) not all cultures responded the same way—for example, Americans and Russians had diverse responses in their view of fairness, and 2) there is a point where some participants chose to receive nothing if they thought the split was unfair. (In the Brafman's study, most deciders split the money 50/50).

From my observation and experience in the workplace, *social accountability* and *effort accountability* are the two distinct categories to pay attention to. In the social accountability category are the behaviors of attendance, promptness, interpersonal exchanges, task avoidance, etc. When one's behavior reaches the point that things are “swayed” to the unfair side, either direct or passive resistance from the teams will likely occur; this is where many managers have a hard time seeing and addressing these behaviors.

In the effort accountability category are the work product traits of production and quality. When unfairness is perceived, the team or individual tends to adjust their own work downward. In what appears to be an attempt to reestablish fairness, there is a rebalancing of efforts that sometimes results in lower performance; in turn, impeding progress toward the team's established goals.

When unfairness is perceived, the team or individual tends to adjust their own work downward.

There are three simple steps to address the perception of fairness:

1. Be clear about all expectations;
2. Be aware of the gap from actual to expected; and
3. Actively close the gap by using metrics, scorecards, reviews, one-on-ones, and dashboards.

As you can see, communication is critical. And just as critical—and more difficult—is knowing when there is a variance in behavior that needs to be addressed and then addressing it. That, of course, is the age-old challenge of managing people and working as a team. ▪



"Fairness... fairness... I've heard that word somewhere. What does it mean?"

ALIGNING CONTACT CENTER STRATEGY



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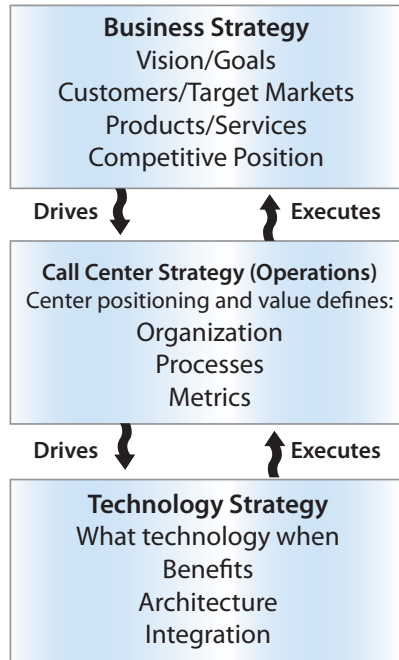
Most business operations are guided by three levels of strategy: 1) business strategy, 2) operations strategy, and 3) technology strategy. When these strategies are aligned, the business strategy guides the operations strategy and the operations strategy guides the technology strategy. In turn, the technology strategy enables operations to meet the established objectives that support the execution of the business strategy.

Since contact centers are operations centers, we can substitute contact center strategy for the operations strategy outlined above. However, many organizations do not think about contact centers (call centers, service centers, etc.) within such a strategic framework.

As companies differentiate themselves on the basis of service, the contact center becomes a key strategic partner. Enlightened leaders understand the critical role the contact center plays in meeting customer satisfaction, acquisition, retention, and growth objectives. These leaders make the contact center a major component of the overall strategic vision.

The guiding vision is set by senior management through the business strategy. This defines target markets, products, services, and distribution channels. It also provides direction for every other aspect of the business as well as the appropriate allocation of people and technology resources.

The contact center strategy (a.k.a. “the operations strategy”), in turn, defines the organizational structure, processes, and metrics necessary to meet operational targets that support the defined business strategy. It is imperative that the contact center management team understand



the business strategy and link their initiatives with the issues that senior management deems important. When done successfully, this will enhance the center's strategic importance. In other words, every aspect of the contact center operations supports the execution of the defined business strategy.

Only after the business and contact center strategies have been developed and aligned can we realistically discuss the technology strategy. The technology strategy must translate the contact center strategy into reality. Contact center technology alone is not going to provide a sustainable competitive advantage because it is available to everybody. However, technology is an enabler, and when it is configured around unique processes and integrated into other systems and management practices, it can become a source of competitive advantage.

Understanding the strategic value of the contact center will also drive the level of technology needed to support the business. A center that is expected to play a significant strategic role in the business will typically need advanced or leading-edge technology. Similarly, if the center is providing only fundamental services, basic technology is all that's needed; investing in advanced technology would be a waste of money and introduce non-value-added complexity. Therefore, knowing how you will use the technology should be a guiding principle in what to buy.

Understanding the strategic value of the contact center will also drive the level of technology needed to support the business.

The first step in developing a strategy is to understand where you are today. Then, you can identify the technologies necessary to get you where you need to be tomorrow.

The Nolan Company has helped many clients improve their contact center operations over the past 36 years with:

- Strategic planning
- Strategic alignment
- Contact center design
- Contact center operations
- Contact center management practices

If you would like to discuss ways to improve your service center, give me a call or shoot me an e-mail. ▀

I LOVE JARGON: IS THAT A "BAD THING"?



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I do love jargon. I just love funky words that closely knit groups create. And I love to see what happens when a bit of jargon moves from the group in which it started to other groups.

Several years ago, the term “Bad Thing” seemed to magically appear in American popular culture. (I know this because my teenagers gave me that blank look used to imply my total paternal cluelessness when I asked them about it.) Last week I saw a fellow in an airport with a T-shirt that read, “You say ‘psycho’ like it’s a Bad Thing.”

It turns out that “Bad Thing” is jargon borrowed from British programmers in the mid-‘90s. A “Bad Thing” is something that cannot possibly improve the situation. For instance, “Bert’s desk seems to be on fire; that’s a Bad Thing.”

Two points about its correct use. First, it must communicate an obviously obvious fact. Second, capital letters are appropriate: Bad Thing. There is, of course, the symmetrical “Good Thing.” A Good Thing is something that is self-evidently wonderful to anyone in a position to notice. Like, “Bert managed to deal with the fire before the sprinklers came on. Good Thing, that.” The same two points about correct usage apply to Good Things.

English programmers didn’t stop with Bad Thing and Good Thing; they went on to evolve the wonderful phrase “Bad and Wrong.” Bad and Wrong is used to describe a program that is badly designed and wrongly coded. And they use all the other combinations of the four words to describe projects or programs: Good and Wrong; Bad and Right; Good and Right.

This jargon is quite useful for Nolan management consultants. When a company wants us to look at their operation, we never quite know what jargon we see. Our initial assessment is based on what we find in terms of “design” and “management practices.” By “design,” we mean the way the client is knowingly—or perhaps unknowingly—using products, technology, processes, human resources, and information resources to deliver service. We use “manage” to mean the way that the organization plans, resources, directs, messages, measures, monitors, rewards, and improves their service design and operation.

Often, an on-site survey tells us we are seeing a “Good and Wrong” situation. The client has a sound design for their operation, but they are having trouble operating it. In this case, a Nolan engagement will emphasize improving management practices. This type of engagement is often of a very short duration, with high impact for clients who benefit from being better able to manage their existing operation.

We work with many clients who have a “Bad and Right” problem. In this case, management practices and techniques aren’t the issue. Our client has a basic problem: their design will not provide acceptable service. These clients will have detailed management reports and tools that can tell them the operation is not performing correctly, but it is hard for them to understand how to change their service design to improve performance. Often, these clients have made incremental, piecemeal changes to their design. Each change in product, process, or technology made sense at the time but, taken together, the design has drifted far from acceptable performance.

Determining whether your issue is “design” or “operation” is essential to improving your situation.

For these clients, our work will focus on helping them rethink their operational design. This involves understanding the external customers’ needs and wants, going deep into actual processes that deliver service, matching technology and staff talent to these processes, clarifying current operational issues, and helping the client see how to actually implement a new design. Once the basic design is improved, we work to make changes in management practices

to support and sustain the redesign.

What about the other two situations? Executives who have a “Good and Right” situation don’t involve us in their operations, but they do ask us to help expand their market and strengthen their revenue streams. And those potential clients who have “Bad and Wrong” situations can’t seem to find our website or phone number.

If your service operation is not meeting your expectations or your clients’ needs, perhaps we should talk. Determining whether your issue is “design” or “operation” is essential to improving your situation. ■

LEAD WITH THE PROCESS



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If you are a frequent reader of *The Nolan Newsletter*, you have probably noticed that one of our tag lines is “People, Process, and Technology.” These three subjects must be taken into account equally during redesign efforts, but too often the process part of the equation is handcuffed by organizational or technology constraints.

To optimize a process, the supporting organization and technology must enable rather than constrain. Case in point: think of the processes entailed in underwriting an insurance application (either life or P&C), issuing the policy, and the subsequent activities associated with keeping the policy in force. To truly redesign these processes, they should be looked at as two pieces: policy acquisition and policy retention. Policy acquisition is the process that lasts from receipt of the application to issuance of the policy to application of the payment. Policy retention includes the processes that are necessary to keep the policy on the books and satisfy the customer.

Too often, these processes are divided among various departments and multiple systems. This can create an environment where quality becomes an issue because of the multiple hand-offs; the “right hand, left hand” syndrome; multiple workarounds; and/or unacceptable service standards. Over the years, many of these issues may be exacerbated by multiple reorganizations or partial systems enhancements. Any meaningful process redesign should analyze the process steps for minimal hand-offs and optimal quality and service—doing the right things at the right time and for the right cost.

Once the process is thoroughly reviewed for improvements, it’s time to determine the most appropriate organizational structure to support it. Segregating redesign by the departments in which the processes currently reside will sub-optimize the intended results and limit the visibility of what is truly possible. ▪

*Any meaningful
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INCREASE ACCESSIBILITY AND PROCESS



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Those who introduce new concepts are not necessarily still around to see their ideas fully accepted into the marketplace. Remember way back when dot-com companies were springing up all over the place and telling you to “Transform your business model or cease to exist”? Most organizations scoffed at this admonition and continued going about their business, successfully.

Yes, it was the dot-com companies that ceased to exist. However, the concept of using the Internet to improve our business models continues to evolve to this day. Is every financial services organization there yet? Not by a long shot. Do they recognize the need to get there? You bet! In our recently completed survey of industry executives, we asked respondents to rate their company’s focus on various operational strategies. One of those choices—expanding accessibility through phone, Web, e-mail, and voice response—received a 100% “most likely” response. Accelerating service delivery (an element related to accessibility) received a 96% rating.

It turns out that increasing accessibility is just that—*increasing* versus *substituting*. This evolution to increased access, while good (and necessary) for the customer, often increases complexity and costs for your organization. Before, there were two possible ways to get items into your company: hard copy or phone requests. Now there are a half dozen: the two aforementioned ways plus e-mail, fax, Internet, scanning into work flow systems, and combinations thereof.

As companies make major investments to expand accessibility for the customer and distribution system, streamlining the supporting processes becomes even more important. Overlaying these systems on cumbersome back-end processes might eliminate mailing time, but it will often result in increased operational expenses unless the interfacing processes are streamlined as well.

Whether you are doing business through one or several channels, redesigning your supporting processes and using main sequence straight-through processing to match this new technology will deliver service, productivity, and cost improvements you expect. ■

NOLAN EVENTS

PIAA Marketing Workshop

April 7-9, 2010 - Washington, DC

Nolan Executive Vice President Rod Travers will be presenting "Marketing Strategies: What's Behind a Brand?" on April 9 - www.piaa.us.

LOMA/LIMRA Life Insurance Conference

April 13-15, 2010 - Washington, DC

Nolan Executive Chairman Ben DiSylvester will be presenting "Trends in Life Insurance Operations and Products" on April 14. Nolan is a proud sponsor of this conference - www.loma.org.

NAMIC Personal Lines Seminar

April 26-28, 2010 - Chicago, IL

Nolan Executive Vice President Steve Discher will be presenting "Product Innovation and Increasing Speed to Market" on April 27. Nolan is also a sponsor of an afternoon break at this seminar - www.namic.org.

LOMA Financial Inforum 2010

May 16-19, 2010 - Bonita Springs, FL

Nolan Practice Development Director Steve Callahan will present a "State of the Industry Address" on May 17 - www.loma.org.

ACORD LOMA Insurance Systems Forum

May 24-26, 2010 - Las Vegas, NV

Nolan Senior Consultant Tim Lauer will co-present with Gail Halterman of ESSENCE Healthcare. Join them for their presentation "Enterprise Risk Management Through the Lens of the Strategic Plan" - www.loma.org.

LOMA Customer Service Conference

June 2-4, 2010 - Orlando, FL

Nolan Executive Vice President Steve Discher will co-present with Jackie Morales, Senior Vice President Service Operations, AXA Equitable Life. Nolan is pleased to be a break sponsor at this event - www.loma.org.

2010 IASA Annual Conference

June 6-9, 2010 - Grapevine, TX

Nolan Executive Vice President Kim Wilkes will co-present "Juggling the Budget-Delivering Results While Controlling Costs." Nolan is proud to once again sponsor the keynote presentation - www.iasa.org.

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