

The Nolan Newsletter

People, Process, and Technology



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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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CHILLING WITH BRAD AND PREDICTIVE ANALYTICS



Over a brew shared after the Oscars, Brad Pitt and I discussed the merits of his movie “Moneyball” and the inherent challenge of changing the thinking process in a dyed-in-the-wool industry like baseball. Disappointed by the lack of recognition for the film, I told him “There is no crying in baseball” and, for that matter, I was experiencing the same challenge in the financial services industry. The question is: where do we go with this onslaught of predictive analytics capabilities, theories, and gurus creating a new industry for consulting services.

The premise in the movie is that *runs* are the key. If you can find the drivers that result in more runs, you have a new profile for players you want on your team. The other premise is that *value* is important. Don’t pay \$10M for a player who is only 20% better than a \$100K player at creating runs. If I look at the financial services business, we search to find attributes of profitable businesses that might not be obvious. Historically, in the property insurance industry, underwriting was based on a few key variables that were, for the most part, obvious and were captured before making a pricing decision. We looked at location, materials of construction, age of the property, and other indicators. In banking, commercial risks were based on cash flow analysis, collateral coverage, projected profitability, longevity of the firm, product life, industry concentrations (risk), continuity of management, and sources of repayment.

Although not specifically mentioned, Jonah Hill’s character was based on Beane’s assistant, Paul DePodesta, currently a VP with the Mets. What the two Oakland A’s executives had was a business problem. They have a set amount of money and needed to maximize the success of the product put on the field. Success is measured in wins and, maybe more importantly, ticket sales. Oakland did both; they won a lot of games and made a lot of money for the owner with their new strategy. They also opened the eyes of baseball executives all over the sport.

What does all this mean? It is somewhat of a cautionary tale about companies' investment in predictive analytics. The financial services industry is more complex than baseball. Know the problem you are trying to solve first. Start by determining if there are other unknown predictive levers to pull that can increase sales or increase profits. With the ability to mine loads of data, are there other attributes of our risks we have not realized? Although not shown in the movie, DePodesta was actually an advance scout in his early days and combined the statistical information with the traditional evaluation system to provide a better filter for evaluating talent.

Predictive analytics is not a be-all and end-all solution, but it can be a welcome addition to our experience tool kit.

Predictive analytics is not a be-all and end-all solution, but it can be a welcome addition to our experience tool kit. It can be that new capability we use to evaluate much more information and introduce those results to our decision-making process about which products to sell, which agents to reward, which consumers to target, and so on. It is not the new silver bullet. More specifically, it is the new refining device that opens our thinking to new concepts and better ways to evaluate risk, find untapped customer segments, and better highlight products we should be selling. Better yet, it can identify new products we could be developing. Explore its capabilities and leverage it for a better future.

As our conversation wound down, Angelina joined us. We all brainstormed the next great movie opportunity: "2012: A Consulting Odyssey," with a tip of the hat to Stanley Kubrick. Well, we're still working on the title! ▪



Dennis B. Sullivan
Chairman and CEO

GERALD SHIELDS JOINS THE NOLAN COMPANY

We are pleased to announce that Gerald Shields has joined the Robert E. Nolan Company as Practice Director, Healthcare IT. Gerald is an accomplished IT and business professional with deep experience in applications, infrastructure, IT management, employee benefits, finance, and materials management.



Before joining the Nolan Company, Gerald served as CIO and senior vice president at Aflac. Prior to Aflac, he served as CTO and director of IT at LifeWay Christian Resources and at EDS where he was the senior IT executive managing the Saturn (automobile) business systems unit which supported the manufacturing operations. Gerald holds a BBA in Computer Science and Accounting from Baylor University. ■

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DEVELOPING AN ANALYTICS CULTURE: MOVING FROM MORE REPORTING TO MORE ACTION



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It is generally accepted in many industries that the next frontier in competition will revolve around analytics. Companies that figure out how to leverage analytics will improve business performance by reducing costs, improving customer satisfaction, and understanding more clearly who their customers are and what they want to buy. Companies that know how to *act* on information developed through analytics will be the winners in tomorrow’s market. Most of the organizations that we work with understand the importance of analytics and have a pretty good idea of where and how analytics can be useful; the challenge is developing an effective applied analytics capability that allows organizations to act.

There is a plethora of information available regarding analytics; it seems that every week (sometimes every day) notifications arrive in our e-mail announcing another analytics conference. What is missing is a framework that organizes a complex, n-dimensional issue into a succinct problem statement that allows the development of a conceptually comprehensible solution—one that translates analytics into action. In addition, most of the information being provided regarding analytics centers on three topics—tools, data, and data governance (we can refer to these three items as an “analytics core”). Although an analytics core is a critical base for developing an analytics culture, it alone will not solve the issue. We’ve observed many organizations with a reasonably solid analytics core that still can’t execute (apply) analytics effectively.

Although an analytics core is a critical base for developing an analytics culture, it alone will not solve the issue.

Nolan uses an *analytics maturity* framework when assisting our clients with applied analytics. Analytics maturity, in addition to the

analytics core, takes into account the people, processes, and technology that surround the core to make applied analytics work – it helps institutionalize an analytics culture. I will briefly touch on the key components of the framework that underlie an analytics culture.

Six main components of the analytics maturity model surround the analytics core and provide a basis for developing an analytics culture:

- Establishing Measures
- Reporting Measures
- Translating Business Questions
- Prioritizing and Executing Interventions
- Confirming Business Value
- Maintaining/Refreshing Analytics Infrastructure

Most companies conduct these activities, but they are often done informally and inconsistently across the organization. We believe that to develop a sustainable analytics culture, these activities should be formalized and performed consistently across the organization; everyone should speak the same language. A brief description of each framework component is provided below:



- **Establishing Measures:** Understand which measures are important to the organization. Do they tie into strategic and tactical plans?

Have targets been established, and does the organization understand what they are aiming for? If not, analytics initiatives can become intellectually stimulating exercises that don't produce business value. If you can't articulate the "so what," why do it?

- **Reporting Measures:** If measures are defined, are they actively reported on? Do people understand trends and know where there may be promising analytics-based questions to pursue? Not all analytics initiatives will be based on established measures, but some should be, and the organization should be keenly aware of where they stand with key measures and targets.
- **Translating Business Questions:** The process of translating a business question into an analytics question should be defined, including service-level agreements. Stakeholders often tell us that they are frustrated with the time and effort associated with executing analytics-based initiatives: a business question is asked; an analyst runs some algorithms; the original requestor, who has waited a week for a results, finds that the analyst didn't understand the question (or the requestor didn't understand what they were looking for); and the process starts all over again. Analytics-based organizations know how to ensure that business questions are appropriately translated and provide service-level agreements (SLAs) between requestor and analyst so that all stakeholders know what to expect regarding cycle times, etc. They make it easy to leverage analytics capabilities.
- **Prioritizing and Executing Interventions:** Once results are produced from analytics-based initiatives, are the results actually used to drive change? We see too many organizations discuss the interesting insights they've achieved through analytics; we don't as often hear how the results are used. The process of understanding the results, developing interventions, and tracking the progress of the interventions should be formalized. Reviewing reports, asking for more information, and having intellectually stimulating conversations about results don't improve business performance. Action does.
- **Confirming Business Value:** The actual value received via the interventions should be tracked to allow the organization

to understand where their investments are paying off, inject accountability into the process, and determine how the analytics process should be updated/improved. If it was decided that an intervention could increase customer satisfaction or reduce cost, the result should be measured on the back end. Understanding the actual result can help shape future initiatives and drive other interventions. Analytics isn't magic: like anything else, it takes rigor and accountability to produce results.

- **Maintaining/Refreshing Analytics Infrastructure:** I haven't touched on setting up the actual analytics infrastructure because my comments here center on what must be done on an ongoing basis to move toward an analytics culture. Improving the ability to effectively leverage analytics is an iterative process; some level of capability should be set up, the components outlined above should be defined and executed, and the experience should be used to reassess the analytics core, which will change as your organization and the industry mature. As people become more familiar with analytics, the way they interact with the process will evolve and their needs will change. Organizations that really want to compete on analytics should expect to assess and refresh their infrastructure on a regular basis.

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Obviously, developing a solid analytics core is critical to establishing an analytics culture—but it isn't enough. Organizations must make sure that the people, processes, and technology surrounding their analytics core are well defined. People have to know what questions to ask (measures), how to ask them (translation), and what to do with the answers (interventions) once they find them. Stakeholders must confirm that the actual results (business value) match what was expected of the answer (intervention) when it was designed. When these elements come together, you will have a winning analytics strategy and the enabling capabilities to realize the true business benefits of analytics. ▀

OPERATIONS IMPROVEMENT ROADMAP



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More and more of our clients are seeking large-scale change to their operating models—change that significantly reduces expense and enables growth strategies. This is driven by an assessment that incremental expense moves won't be sufficient. In addition, the existing operating model is often seen as overly complex and slow to change, more of a barrier to future growth than an enabler.

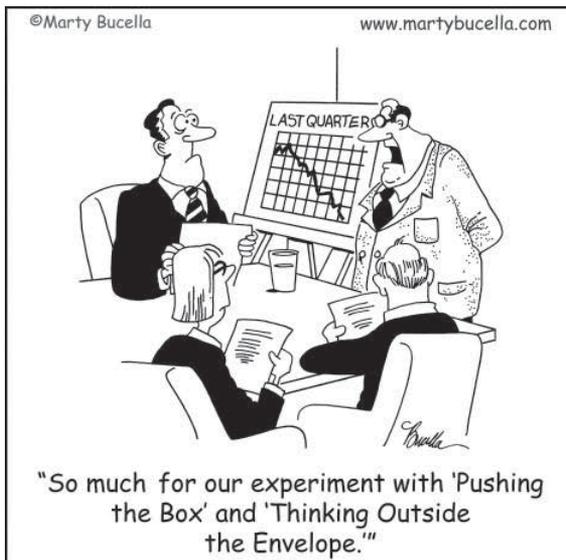
But large-scale change efforts are risky. More have failed than succeeded. A concise and well-thought-out improvement roadmap is key to de-risking this type of effort. This roadmap defines a rational path toward a goal state with phased deliverables funding future phases. It should describe the timing and sequence of improvements to be implemented in the next 12 to 18 months and a high-level outline of improvements with a longer tail.

Here is a plan to help you create an effective operations improvement roadmap that will result in significant change to your operating model:

- Your COO and CIO need to lead this effort jointly. It cannot reside with one or the other.
- Start by agreeing on the stratagems for the effort. These state the new and different desired business outcomes, devoid of solutions.
- Next, assess the current capabilities. Determine which are closely related to competitive advantage and which are just required. Which are important to growth initiatives, and which ones have the greatest opportunity to improve the expense structure? This is not a granular assessment. It is at the capability level and simply a matter of getting on paper the parts of the model that need to be targeted.

-
- Then, define a goal-state operating model. Knowing what your strategic goals are and what capabilities are important add competitive intelligence and best practice perspectives to create a high-level view. This view needs enough granularity that it can be benchmarked against key competitors and a reasonable CBA can be developed.
 - The next step is to close the gaps between your current state and goal state along the three main dimensions of people, process, and technology. Focus on the big ones. Don't let detail mask the critical things that need to change.
 - And, finally, you have what is needed to draw the improvement roadmap. You know where you want to end up, you know where you are starting from, and you've defined the bigger gaps between those points. This step is a little like sausage making: keep trying various combinations and sequences until you have a map for your journey that feels doable.

This is not a difficult process and does not have to take a lot of resources and time. It does create the information and perspectives needed to gain organizational support and to launch an effective implementation plan. ■



DISRUPTIVE INNOVATION IN BANKING



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The banking industry is experiencing dramatic technological change and disruptive innovation. The questions are: how many executive teams have recognized it; what is their strategy; and what will it take to manage in the new environment? Margin pressures are the norm, with projections that it will take another eighteen months to two years to trend higher. Also, consumers and regulators are applying significant pressure on fees and compliance, adding revenue stress and building a somewhat hidden cost of compliance. Even the media is beginning to change its focus—for example, a recent report that “HSBC is reporting disappointing costs for the period.” In this environment, there is a critical area of important opportunity for banks. Operating cost is the one lever that bankers can focus on since productivity gains translate directly to the bottom line when implemented effectively, offsetting some of the revenue pressures.

One key in capturing real gains is to understand your customers' preferences and the service elements that competitive bank customers embrace and support.

This is occurring at a unique time for banking—disruptive innovation is going to be a game-changer for the industry. There is still great opportunity to leap into prominence and increase market share as the reluctant adopters tiptoe into the new reality. The average efficiency ratio for banks has been lingering above 60% for nearly two decades. This is going to change dramatically in the next five years, with many banks we talk to targeting the mid-50s and below.

Consumers are shifting their preferences from in-branch to online for many banking services. Let's examine the changes that are taking place. Nolan's annual Bank Performance Study (analytics reporting line-of-business performance gaps and underlying factors) showed

that branch transactions were down more than 15% for the past two years, while overall industry studies show a steady 5% annual decline. This trend is not going to level out anytime soon. One key in capturing real gains is to understand your customers' preferences and the service elements that competitive bank customers embrace and support.

Nearly every target market customer has a smartphone or a tablet. The numbers are growing at a staggering rate in North America, and the “on the net” customers now expect feature-rich banking services. A recent survey by Fiserv indicates that the number of customers who used their phones to transfer money increased from 25% to 32% in one year. This, along with the expanding use of remote capture by businesses and consumers, is translating to less demand for in-branch transactions.

We have to develop ways to deliver our services to match our customers' changing behaviors.

It is time to rethink the sales and service components of the physical locations we have invested in to ensure that we are positioning for the dramatic change in customer needs. We have to develop ways to deliver our services to match our customers' changing behaviors. Executives do not like to hear terms like “radical redesign,” but this mature industry is in the process of a sea change. Just ask the publishing and news industry executives if they saw it coming. The shift is a reality, and the innovators in banking are hard at work right now provisioning their bank operations and technology to accommodate customers' new service requirements while lowering operating costs at the same time. ■

MARY HOOD JOINS THE NOLAN COMPANY

We are pleased to announce that Mary Hood has joined the Robert E. Nolan Company as Practice Director for our healthcare practice. Mary has an extensive background in health plan operations and technology, and deep subject-matter knowledge in Medicare, Medicaid, and healthcare reform issues. For Nolan, Mary will focus on government programs including reform and insurance exchange.



Most recently, Mary was a business solutions officer at DST Health Solutions in Birmingham, Alabama. Prior to that, she held executive-level operations roles such as vice president at Blue Cross Blue Shield of North Carolina and senior vice president of operations at HealthFirst, Inc. in New York. ■

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CLIENT SPOTLIGHT

Project: Teller Process Redesign, Scheduling, and Staffing

Client: First Commonwealth Bank

Industry: Banking

Project Objective

In early 2011, First Commonwealth Bank determined that the time had arrived to develop a laser-like focus on their strategic objective of being “easy to do business with” and begin a continuous improvement initiative.

In order to jump-start this initiative, the bank hired the Robert E. Nolan Company to assist with identifying and implementing those opportunities that held the greatest potential to improve operational effectiveness, productivity, efficiency, service, and revenue.

Current Environment

First Commonwealth Bank, whose banking charter dates back to 1880, has assets of approximately \$6 billion and is headquartered in Indiana, Pennsylvania. The bank operates in 15 counties in the western and central parts of the state with 112 branch offices, and it has a long history of servicing the banking needs of customers in small and mid-size communities.

Project Scope

The first initiative focused on the processes and staffing of the branch tellers. Collectively, the tellers repre-

sented the largest group of employees servicing customers—nearly one in three employees is a teller.

Project Approach

In order to quickly get at the improvement opportunities, the project was separated into two parts. One part was a cross-functional team tasked with examining ways First Commonwealth could enhance the delivery of products and services to customers. The focus was on identifying improvements to systems and processes to ensure that:

- We do only what is right for the customer
- We do it right the first time
- We do it on time
- We do it at the right cost

Over eight weeks, the team met for six hours a week to develop detailed recommendations to improve the services and operations that branch tellers perform in the normal course of their duties.

The second part of the continuous improvement initiative was a consultant-led project to address teller staffing. Working with key branch management, the project took a step-by-step approach to bring staffing

needs in line with customer service needs. This approach included:

- Resetting teller transaction times
- Using customer arrival patterns by day of the week and time of day
- Combining the two items above to determine the number of tellers needed to meet customer service requirements
- Testing the new model to ensure customer service would be delivered with minimal wait time and at the right cost
- Working with administrative and regional management to reset authorized staffing levels and move to greater use of part-time tellers
- Instructing regional support staff on monitoring changes in customer arrival patterns

Project Results

The cross-functional team made more than 20 recommendations. The more significant recommendations included:

- Improvements to the relatively new TouchPoint Teller System to enhance processing speed and reduce errors, such as:
 - Modifying the system so that the account numbers used to search for the customers would carry over to the transaction
 - Configuring the system to immediately display “special instructions” when the account is accessed

- Standardizing the availability of funds for customers regardless of the method of deposit
- Automating the posting of loan payments
- Modifying the routing and handling of external inbound calls
- Creating new customer survey and teller feedback methods
- Addressing problems with the automatic capturing of data

Together, these recommendations realized significant additional fee income. The result of the consultant-led second part of the continuous improvement initiative was that in less than one year, it was possible to trim the teller staff by nearly 20% without any layoffs or forced terminations. This resulted in lower operating costs of \$2.5 million on an annual basis for the retail bank.

The continuous improvement initiative established the beginning of a business transformation process within the bank that has continued to this day. New initiatives in Branch Platform, Deposit Services, Loan Services, Wire Room, Human Resources, Consumer Lending, and Collections are helping this seasoned bank to continue to be the bank of choice in its market. This effort has also helped to ensure that customers continue to find First Commonwealth “easy to do business with.”

INITIATING A PREDICTIVE ANALYTICS PROJECT



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Just reading the words “predictive analytics” can make executives break out in a cold sweat. Unless you have an actuarial background or are a Mensa-level data modeler, the concept of predictive analytics can be extremely intimidating.

While the P&C industry was an early adopter of predictive analytics—using credit scoring to predict auto claims rates—their life counterparts have been slower to embrace the opportunity. Yet one could argue that life insurance companies were among the first to rely on predictive analytics. The first actuaries began collecting and analyzing data that produced remarkably accurate estimates of life expectancy. Combining these aggregate mortality tables with underwriting techniques that assess the individual risk has produced a reliable risk selection process. Although this process is costly and time-consuming, the industry’s reliance on medical underwriting is the biggest impediment to the adoption of predictive analytics.

As companies compete for producers, a simplified, streamlined underwriting process will be a differentiator in the marketplace.

Predictive analytics offers hope for the future. As companies compete for producers, a simplified, streamlined underwriting process will be a differentiator in the marketplace. Enhancing underwriting efficiency with predictive modeling will help insurers generate and place more applications. In addition, underwriting resources will be better used as more routine work is completed by the model. Initiating a predictive analytic project requires strategic thought.

Target → Data → Model → Refine

Target (Start with focus): Many organizations initiate an analytic endeavor by gathering all available data before beginning their analysis.

This often leads to an overemphasis on collecting, cleaning, and converting data rather than understanding its potential uses. Companies embarking on predictive modeling should first define the insights and questions needed to meet the key business objective. Only then can they adequately identify the data needed.

Data: By defining the desired insights first, companies can focus on specific subject areas and use readily available data in the initial models. Studying the insights delivered through the initial models will identify gaps in the data infrastructure and business processes. Efforts can then be turned toward collecting the necessary data and making process improvements identified by the insights, thereby improving the model with each iteration.

Model and Refine: The predictive analytic model measures the quantitative effect of multiple simultaneous variables and associated outcomes in order to identify strong correlations. The best predictive models depend on rich sets of data from which factor variables can be mined. The model can then be built, refined, and fitted. Models may range from simple linear regressions to advanced techniques, such as decision trees, neural networks, generalized linear models, and generalized additive models. The deployment of predictive analytics is both art and science because the models must be chosen to get the best fit of data and factor variables to produce a strong predictive target outcome. The most common model variables include:

- **Application data** – any piece of data submitted by an applicant. The easiest data to work with is in a format such as multiple choice, yes/no, or numerical.
- **MIB** – Virtually all insurance companies belong to the Medical Information Bureau and screen all applications for MIB data that provides details on insurance applications submitted to other companies.
- **MVR** – The Motor Vehicle Report provides details of an applicant’s driving history.
- **Third-party marketing data** – Several firms have started collecting consumer consumption data. The most relevant example for life underwriting is the prescription databases. Due to the protective value of this data, it is becoming a standard underwriting requirement.

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- **Lab tests** – Traditional underwriting requirements (blood, urine, EKGs, etc.) provide significant data for risk evaluation but are costly to incorporate into predictive models. The ultimate solution will most likely involve developing a scoring algorithm to drive the correct decision criteria.

Once a model is developed, it must be validated and calibrated. In the life underwriting environment, this is generally done by comparing the modeled decisions with underwriting decisions for cases that went through full medical underwriting. Therefore, we can state that predictive analytics is not a replacement for underwriters. Underwriters are indispensable contributors to the model—development through refinement.

An effective way to use predictive analytics is to run all applications through the model to get a “risk score.”

An effective way to use predictive analytics is to run all applications through the model to get a “risk score.” Low scores (high face amounts, older ages, MIB codes, etc.) will be routed for full underwriting, with targeted requirements identified. Moderate scores may be routed to a junior underwriter or senior case manager for validation (i.e., labs are

clear; otherwise, the case is routed for full underwriting). High scores are jet-issued without human intervention.

The goal of predictive analytics in life underwriting is to reduce cycle time and underwriting costs. Applications that pass through untouched can be issued in one to four days, depending on outstanding requirements (MVR, MIB, Rx profiles). This can also have a significant impact on underwriting costs. Using typical requirement costs, predictive analytics can reduce underwriting cost between \$125 and \$200 per application. ▀

IS YOUR DATA WORTH THE COST?



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Increasing consumerism, greater cost and revenue pressures, and a rapidly changing regulatory environment have left many healthcare organizations (HCOs) wondering where and how to maintain successful operations. Often, decisions must be made without a full understanding of the forces, trends, and potential sources of profits. While many HCOs recognize the value of superior information as a source of competitive advantage both in operations and in quicker decision cycles, they often find that raw data is either lacking, not tracked, distributed across the enterprise with no central single source of truth, or simply wrong.

HCOs then must choose how to develop the data and analytics necessary to meet their information needs. Implementing basic analytic guidelines can help HCOs achieve the greatest returns from their analytics efforts. The following can serve as a starting point for such analytic guidelines:

- **Analytics should focus on actionable business objectives.** Information for the sake of information has relatively little value whereas information that increases revenue, reduces cost, reduces risk, or reduces deployed capital has high intrinsic value.
- **Analytics should be rooted in business fundamentals.** Each business will have a handful of drivers that matter in business decisions. Good analytics will focus on these drivers at a level as close to the drivers as possible. Derivative information is less valuable than information that is directly obtained from business activity.
- **Capturing, analyzing, and distilling data to valuable information requires time and effort.** HCOs should ensure that the value of the information acquired easily exceeds the time and cost of these efforts. A budgeting tool that requires multiple data sources and an army of business support professionals with

advanced modeling and statistical training that yields a 1% or 2% forecasting improvement over taking last year's number and adding 5% will not prove worth the effort.

- **Acquiring data beyond that needed to resolve business issues is a costly waste of resources.** Building large databases with multiple data marts, myriad variables, and a plethora of data collection points could be overkill if a publicly available industry source is sufficient for the business objective at hand. Frequently, a few phone calls rather than a full POS data collection system will be enough to understand market dynamics.
- **Analytics should be built into operational decisions.** Recently, a client was surprised to learn that it had a single 800-number for every employee. Perhaps the increased access afforded by more than 10,000 toll-free lines is necessary; however, tracking and analyzing the utilization and traffic on all these 800-numbers would require several FTEs and open the door for fraud and unwarranted utilization.

This list is not a comprehensive checklist of "shoulds" and "should nots;" rather, it is intended to prompt critical evaluation of analytic activities. The guiding principle of good analytics should be "only as much as needed and no more." ■





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Many health plans are making investments in analytics that are becoming solutions in search of a problem. If executives don't engage their analytic staffs on critical issues, the result can be "analytic drift." The analytic staff is adrift when they are spending their talents—and the plan's money—on "interesting" problems not connected to real-world problems facing the plan.

Symptoms of analytic drift can be both subtle and obvious. Here are some self-diagnostics:

- Can you cite three examples where analytic technology and staff have played a meaningful role in understanding or solving an important problem?
- Do you know the topics and issues that your analytic resources are focused on?
- Do you know how these priorities are managed?
- Are these priorities relevant to the problems you are working on?
- Is the staff working to improve depth of understanding of known issues, or is it engaged with developing basic, early, and actionable points of view about emerging issues?

Executives can counter drift by using a framework to refocus their analytical resources. The key parts of Nolan's method for refocusing analytics include:

- What is the pattern, problem, or potential that the plan needs to resolve?
- What capabilities need to be created, modified, and redirected to help resolve the issue?
- What key dialog does the plan need to have to understand how to change its capabilities?
- What question(s) do we need to ask and answer to drive action?

Here is a specific example of how the framework can focus resources on a practical problem created by healthcare reform. The Medical Loss Ratio and rebate provisions make health plans rethink cost allocations across functions and products. Although plans have well-established processes

Executives can counter drift by using a framework to refocus their analytical resources.

for cost allocation, the allocation game has changed. Functional allocation now has a more significant importance to the plan. Allocation methods need to change to help the plan manage a new requirement: rebate calculation and management. The key topic of inquiry is “Can we allocate process costs at product level to more accurately calculate product line MLRs and rebates?” The specific

actionable question that analytical resources can ask and answer is “If we allocated call center expense based on total talk time expended by product line, rather than product line membership, what would be the impact on our product lines?”

Nolan has developed a tool kit of methods that will help plans improve their analytics. These services range from a comprehensive review of how the analytic resources are managed to narrower technical reviews concerning specific data analysis. We focus on helping plans use their analytic capabilities to solve new problems and opportunities created by reform. Want more information? Call us or send an e-mail to analytic_management@renolan.com. ■

Framework	Example
What issue is involved? (e.g., pattern, problem, potential)	» Reform requires us to re-think cost allocation for new regulatory uses: MLR calculation and rebates
What capability is involved?	» Revision of cost allocation » Creation of new capabilities for MLR Calculation and rebate management
What topic do we need to explore?	» Can we allocate expenses other than by traditional membership ratios?
What specific question(s)—if asked and answered—can move us to action?	» Can we allocate call center expense to product lines based on total talk time rather than membership? » How would this change the MLR and rebates to members in various products?

PATTERNS OF OPPORTUNITY



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Technology and equipment changes almost always dictate an adjustment in routine. For example, the invention of the cell phone created new patterns of communication. The advantages of the cell phone were obvious; the “pattern” was the way people communicate, and the cell phone provided the “opportunity” for improvement.

Many times, the patterns within a company are more subtle and go unrecognized because they have become part of the fabric of the organization. Yet once they are recognized, existing solutions can be applied. In these situations, there is no need to wait for a new technology to come along before advances in productivity, quality, and customer service can occur.

For example, consider the following:

- A company has several departments that receive faxes, use the information on the fax to make an informational change to a database, and then archives the fax by sending it to another department for imaging.
- On another set of desktops *in the same company*, processing clerks receive e-mails, print them, and use the documents in a similar fashion (a “pattern”) to the faxes described above.

When these and similar processes are repeated in more than one area of an organization, a pattern of opportunity emerges. The opportunity? Keep the original image as an image and stop converting images to paper and then back to images. Some well-known solutions can be customized to improve the situations noted above. The possible solutions include:

- Have the originator of the fax/e-mail make the change to the database.

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- Have a system take the information on the fax/e-mail and automatically make the update.
 - Equip the clerks who are using the fax/e-mail with a second monitor so that the information never needs to be converted to paper.

Patterns of opportunity are everywhere. For example, take the process where the work is broken down into smaller and smaller tasks and moves along in assembly-line fashion. No single person completes the whole job; the pattern here is the common practice of breaking whole jobs into pieces to simplify tasks. While the intent may be efficiency, the reality is the opposite because of an increased number of process handoffs, errors, delays, etc.

When this pattern is identified, several improvement opportunities can be considered, such as:

- Combine the tasks into logical groupings and assign each grouping to a single individual/owner.
- Group the employees into teams and have them organize the work among themselves.

Sometimes a pattern of opportunity will be revealed within a company's culture. In this next example, consider a situation where errors are rampant throughout an end-to-end process all the way to "the last stop," which is tasked with finding and correcting errors by default. This type of process creates a mentality where front-end functions are less concerned about quality because they assume that errors will be corrected on the back end.

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A similar pattern is when no one is held accountable for quality. This non-accountability creates a culture where the problems are ignored and a lack of trust is widespread. Each touch-point in the process feels the need to check the work received before processing. Both scenarios negatively impact efficiency, effectiveness, and cost and result in a "not my problem" attitude.

The key driver of this pattern is often how people are measured and rewarded. If, for example, front-end personnel are rewarded for sales only, they are likely to focus on new business and give minimal attention to the quality of information submitted to the back office. The opportunity here is to establish measurement of and accountability for errors early in the process—ideally, at the source or the initiating function.

Seasoned business managers may know the generic solutions, but business managers raised in a culture that ignores or continually moves problematic work across functional areas may be either at a loss as to how to reduce the errors or feel handcuffed by the culture, unable to make any meaningful change.

In this last example, the solution starts at the top of the organization. Senior management needs to insist that personnel within the organization take responsibility for the quality of their work. Middle management needs to ensure that an appropriate balance of performance metrics is in place such that their staff know that, in addition to other areas (productivity, revenue, etc.), they are responsible for the accurate completion of work. Further down in the organization, work defects need to be identified, quantified, and fed back to the source so that they can be integrated into performance reviews.

Once the defects are identified and quantified, you can begin to choose which generic solutions to apply. Generic solutions like feedback loops, automation, system edits, once-and-done processing, and assignment of responsibility can be considered alone or in combination with one another.

Again, patterns of opportunity are everywhere. They can become invisible or a fact of life to those in the organization. Sometimes new technology or new equipment will dictate a new pattern. But there are plenty of other patterns waiting for improvement through well-established solutions. ■

CULTIVATING A DATA CULTURE



Ben DiSylvester
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As you think about data analytics and its application in your organization, your response (or that of your people) will be influenced by company culture or style. We've conducted data-gathering interviews with executives, managers, and supervisors in over 500 companies over the past 38 years, and we are always struck by how some companies manage by numbers, while others manage by "feel."

A favorite lead-off question to department managers and supervisors is, "How many employees are in your department?" The answer to this seemingly easy question is a good predictor of how other questions requiring data-based answers will be handled—either confidently, with a report to back it up, or with uneasy estimates needing updating later.

There is an adage in management: "You can only control that which you can measure; the degree of your control is based on the quality of your measurement." That adage is just as useful if you substitute the word "control" for "understand(ing)." Even if your culture isn't typically oriented toward data-driven management and decision making, today's competitive environment could put your organization at a disadvantage if decisions are based on anecdotal evidence or "honest wrong beliefs." Rather, it is an imperative to improve the data collection and analysis skills that enable your organization to better understand customer behaviors, what products and features will best attract customers, and how well your processes are working to help you retain the customers you have.

A few years ago, during a briefing session conducted by one of our senior consultants, the client asked how the consultant was able to find useful data in his organization that he and his staff had been unable to uncover. The consultant replied that he and the internal team were guided by the mantra, "In God we trust—everybody else bring numbers." That could be a useful mantra to adopt as you begin to develop or build on your data-driven culture. ■

NOLAN EVENTS

The Life Insurance Conference

April 23 - 25, 2012 - Orlando, FL

Nolan practice director Steve Callahan will be attending this event held at Walt Disney World Resort Hilton - www.loma.org

Auto Insurance Report 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

Duck Creek Insurance Forum

May 7 - 10, 2012 - Savannah, GA

Nolan senior consultant Craig Loughrige is the general session speaker at this forum to be held at The Westin Savannah Harbor

Physician Insurers Association Medical Liability Conference

May 9 - 12, 2012 - Washington, DC

Nolan executive director Ben DiSylvester and executive vice president Steve Discher will be attending this event at the Marriott Hotel - www.piaa.us

ACORD LOMA Insurance Systems Forum

May 15 - 17, 2012 - Orlando, FL

Nolan is a sponsor of this year's forum. Nolan practice director Steve Callahan will be attending this event held at Rosen Shingle Creek - www.loma.org

IASA Annual Conference

June 3 - 6, 2012 - San Diego, CA

The Nolan Company is honored to be the keynote sponsor, a roundtable sponsor, and session presenter at IASA's annual conference held at the San Diego Convention Center. See center insert in this newsletter for more details - www.iasa.org

America's Health Insurance Plans Institute 2012

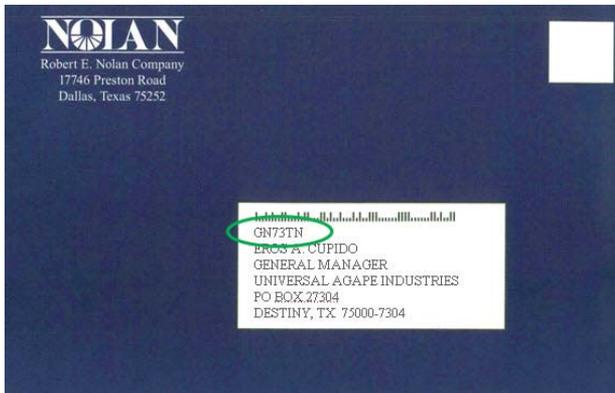
June 20 - 22, 2012 - Salt Lake City, UT

The Nolan Company is a sponsor of AHIIP's annual Institute to be held at Calvin L. Rampton Salt Palace Convention Center - www.ahip.org

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