The Nolan Newsletter

People, Process, Technology

ROBERT E. NOLAN COMPANY
MANAGEMENT CONSULTANTS

Third Quarter 2007 *Volume 34, Number 3*

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Nolan is an operations and technology consulting firm specializing in the insurance, health care, and banking industries. Since 1973, we have helped companies redesign processes and apply technology to improve service, quality, productivity, and costs. Our consultants are senior industry experts, each with over 15 years of specialized experience. We act as trusted advisors to our clients, ultimately expediting and magnifying improvement initiatives and we are committed to delivering measurable and sustainable results. Visit www.renolan.com to download articles, client success stories, and industry studies.

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NOLAN

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Plan Ahead, But Be Flexible

At the ACORD LOMA Insurance Systems Forum held in Orlando, Nationwide Insurance Vice President Mary Serian and Dennis Sullivan, Nolan CEO, presented a well-received session titled “Underwriting Innovation: A Long-Term Success Story.” In his remarks, Dennis reported a statistic from a recent technology survey conducted by the Nolan Company: “88 percent of companies conduct process design simultaneously with their technology implementation.”

When this statistic flashed up on the screen, it made us wonder. If we are doing process redesign simultaneously with the technology implementation, will the business designs and new technology look just like the current process? Further, if process design work is being done at the same time, will the designs be forced to fit the technology versus the other way around? Worst-case scenario, when schedules get tight and deadlines are missed, does design work get postponed or perhaps not done at all?

None of these scenarios is as effective as doing the process design work up-front, prior to the selection of the system. By doing the design work before the systems selection, the new designs help shape the business requirements and become an important element of the system specifications. Further, doing the design up-front pays for itself in multiples by eliminating non-value-adding processes. Productivity is improved and expenses are reduced. In addition, you also avoid spending time and money developing system features that are not needed.

Actually, Nationwide’s Project Focus scenario points the way toward how it should be done. Solid requirements were, in fact, developed in advance, but the Project Focus team did not allow themselves to be unreasonably shackled by those designs. The team maintained flexibility throughout, continuously improving on their original designs and modifying processes and functionality as each release enabled them to see the real-life impact of their original thinking. This model of “design and adjust” has formed the basis upon which information technology and the business units work together to continuously improve on their already impressive results. ▪

Ben DiSylvester

Ben DiSylvester
Chairman

The Powell Principles

Dennis Sullivan
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Recently, I had the opportunity to introduce General Colin Powell at the annual Insurance Accounting & Systems Association conference, where he was the keynote speaker. In preparation, I researched the man and his life and came across a business book, *The Powell Principles*. Author Orin Harari, a professor of management at San Francisco University, had interviewed Powell and plucked from the interview a series of business concepts he felt translated well from the military to business. He put these principles in a pamphlet that I've found to be a nice front-line manager's handbook.

It got me thinking about the fundamentals of leadership that go beyond the boardroom and into the military and our own personal lives. There are basically 24 principles, and I landed on a few that seem universal. Keep in mind that these are the words of a four-star general: 1) Check your ego at the door; 2) Listen to the front lines; and 3) Make optimism a top priority.

Simple and straightforward? Yes, but it is also good advice when applied to the subject of change. Leaders must be able to admit they don't have all the answers, gather input from the front lines, and be willing to take chances. However, the principle that really struck me was General Powell's view on building consensus. He says seek it, but don't be ruled by it. It is a unique view and one worth pursuing.

He ties leadership with consensus building. Consensus is not discussing until everyone gives in a little to make everyone else comfortable, which is how many people interpret it. He communicates in clear terms the direction he wants to take, then enlists input from everyone to refine the approach. He listens and works to gain a commitment from everyone on reaching the goal. Gaining commitment from each person to support the ultimate goal is the objective. Modifications are fair game, but analysis paralysis and diluting a prime objective so everyone is happy with the solution is not leadership. Powell would see this as abdicating his responsibility as a leader. It is certainly an arguable position, but too often in business we put consensus ahead of the ultimate goal and our solutions fall short because we let go of the goal to keep the peace. I guess that is why one of Powell's other principles is "be prepared to piss people off." All in all, it is a great read from someone who has accomplished a lot. Get a copy, read it, and you may want to share the tips with your staff. At ease! ▪

Highlights From the ACORD LOMA Systems Forum

The 2007 ACORD LOMA Systems Forum, held in May in Orlando, was a resounding success. This year the Nolan Company was proud to partner with ACORD and LOMA to sponsor the keynote presentation given by William Shatner. Here are a few conference highlights:

- The selection of William Shatner as keynote speaker was an inspired choice. Some expected to hear science fiction and others expected Denny Crane from TV's Boston Legal. Instead, the audience heard a presentation reflecting Shatner's personal experiences and visionary perspective. Some of Mr. Shatner's key points were: Allow yourself to make mistakes. Frequently, what might be labeled a mistake might actually be a stepping stone to opportunity and innovation. And, Shatner suggested that people should not blindly accept the status quo or follow directions without thinking in context. Choosing the best course of action for a company in a given situation requires an employee to use judgment and, on occasion, take a direction other than what superiors might choose.

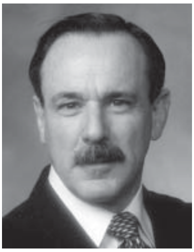
William Shatner greets Systems Forum attendees.

- Nationwide Insurance Vice President, Mary Serian, and Nolan CEO, Dennis Sullivan, paired up to present a case study with an unusual twist. The underwriting innovation project they described was conducted over four years ago, yet is continuing to deliver ongoing improvements for Nationwide Financial. One of the key elements of long-term success was a proactive partnering between process owners and IT.

- Nolan Chairman, Ben DiSylvester, presented findings and analysis from Nolan's most recent Life and Annuity Industry Survey. Changing demographics and service differentiation were two key areas of discussion.

To receive a copy of Ben's presentation and the full survey results, please email deborah_ayers@renolan.com.

The Most Common IVR Design Error for Health Plans



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Nearly every claim, member service, or health service project we do involves an interactive voice response problem. So we have a lot of practical experience with IVRs—the good, the bad, and the ugly.

IVRs stand between a health plan's clients and the plan's ability to provide service. Usually, IVR helps callers get the service they need. But let's be honest—in too many cases, IVR doesn't help. It's an irritating speed bump or a road block to service. We all know the symptoms of a bad IVR system: long menus, long delays, confusing menus, mis-routings, and the need to call back.

Recently, I had occasion to review Nolan's experience with IVR problems and design issues. It was eye-opening. At the start of my research, I thought I had a good intuitive sense of what I would find. I was right. What I expected to find in terms of problems, symptoms, and corrective actions was quite close to what I found.

But, when it came to the underlying design issue, I was wrong. If forced to bet on the most common design flaw, I would have put my money on having the selections in the IVR menus in the wrong order. By "wrong order" I'm referring to menus whose sequence doesn't reflect the frequency of the types of incoming calls (most common call type first, second most common next, and so on). But I would have lost my money.

The most common design flaw was even more fundamental. It was, as it turns out, combining business-to-business calls with consumer-to-business calls. We've all heard it: "Welcome to Slow Service Health Plan. If you are a provider, press 1. If you are a member, press 2." In this design, we are doing something that is stunningly silly. We mix provider and member calls together by our routing, then force callers to sort themselves out so we can talk to them! This deeply flawed design error leads to long menus, long delays, confusing menus, mis-routings, and abandoned calls.

Is your health plan making this error? Test call your IVR. But before you do, make a bet with yourself—you might be surprised. The good news is that an advantage of betting with yourself is that you nearly always win. ▪

It's Not How You Drive, It's How You Arrive

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The title is an old golf quip. Put another way, you can hit a 300-yard shot off the tee straight as an arrow down the fairway, but if you can't chip and putt the ball into the hole, the perfect drive is useless. This statement can hold true for redesign projects, as well. Too often, redesign projects begin with much fanfare and attention and produce very good recommendations, but they fail when it comes to implementation. The best recommendations are useless unless they are implemented. The following factors are a must if implementation is going to be successful.

Assign an accountable project manager. Too often, the employee with the most time on his or her hands is selected as the project manager. The project manager should be a respected member of the organization who can motivate employees to complete tasks and cut through red tape. Depending on the nature of the project, this may be a full-time job until implementation is complete. The project manager should have some type of incentive to complete the project on time and be held accountable if deadlines are missed.

The best recommendations are useless unless they are implemented.

Communicate the expectations of the project. Senior management needs to communicate the importance of the project and the idea that the project is not complete until implementation is successful. Lack of senior management involvement during implementation can send a message that the project is not that important.

Establish detailed project plans with completion dates. Many times, employees involved in a redesign project breathe a sigh of relief once the final report is submitted, happy that they can get back to their regular jobs. But the redesign is the easy part of the project—the implementation is what's hard (the devil is in the details!). Once the final report is approved, the fanfare and attention seem to ebb; when this happens, employees can fall into the "we'll-get-to-it-tomorrow" mode. And as we know, tomorrow never comes.

Most employees need to have detailed implementation plans established, so they can monitor and report the steps that are being taken and raise a flag when they hit a snag. Lack of detailed implementation plans and completion dates will more than likely cause this to happen. Employees should also know that their success or failure will be taken into account in performance reviews.

Establish a system of frequent reporting. Frequent reporting of implementation progress, because it ensures that employees are meeting the implementation schedule, is a strong motivator. It also gives employees a chance to report areas where they need help or to ask for resources required to stay on schedule.

Celebrate successes throughout the implementation phase. Celebration can take many forms: peer recognition, incentives, parties, dinners, you name it. The important thing is to recognize and honor success throughout the course of the project.

Conduct a postmortem once implementation is complete. Take a minute and review the results of the project. What are the lessons learned? Did we get what we planned for? What worked? What didn't work? If we had to do it over again, what would we do differently?

A company that adheres to the above guidelines will have a far better chance of arriving as well as it drives. ▪

Health Insurance: Opportunity Knocks; Who Will Answer?

Jack Sizer, MD, MBA
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As health care expenditures continue to rise from the current level of more than 16 percent of the GDP, the increasing cost of health care benefits will result in many employers declining to offer health insurance to their workers. The Futurescan National Survey published by the Society for Healthcare Strategy and Market Development predicts that by 2012, less than half of all employers will offer health insurance and that the cost of health benefits for employees will continue to grow at 5 to 10 percent per year.

A 2006 report by the Kaiser Family Foundation indicates that in 2005, 18 percent of those under the age of 65 (46.1 million) were uninsured, and only 5 percent (12.9 million) of the U.S. population is covered by individual health insurance plans. A continuing decrease in group coverage will add to the current pool of uninsured.

We believe that the newly uninsured from the group ranks and certain segments of the presently uninsured are a prime market for well-crafted, competitively priced, medically managed, individual health insurance plans. However, in order for these plans to be competitive, be profitable, and gain market share, close attention must be paid to the development, implementation, and management of certain critical components.

Product Development

Products should be affordable and attractive to individuals seeking health care coverage. They should provide a range of coverage choices along with built-in incentives for the insured to seek and receive high-quality, cost-effective care. Ill-conceived benefit plan offerings often result in higher-than-predicted costs, both for care and administrative overhead.

Underwriting

Accurate underwriting depends on benefit plans whose coverage is in sync with competitors' offerings so as not to become a target for unique adverse selection. They must also allow medical management and claim adjudication to easily and effectively manage the utilization of health care resources. Such a plan will detail coverage parameters in specific and understandable terms: what is covered, what is excluded, and when does coverage begin? If these questions are not clearly answered, efforts at medical management are likely to be ineffective, and the premium established for that product will be insufficient.

Understanding the risk posed by the applicant has to be a primary concern, since the individual health insurance market tends to have a disproportionate number of high-risk persons as compared to the group market. Evaluation of the applicant's clinical records by a physician experienced in medical management mitigates this risk and can deliver significant advantage in making waiver determinations and risk pool assignments, and in establishing appropriate premium levels. Premiums resulting from this approach will be competitive yet realistic. In states where the requirement for community rating leads to a risk pool that is skewed in its lack of low-risk, healthy applicants due to the higher premiums, one must rely on other means to gain competitive advantage in the marketplace.

...by 2012, less than half of all employers will offer health insurance...

Member Contracts

Clear, concise language that is unambiguous concerning covered services and the level of reimbursement for professional fees, facility charges, medications, and durable medical equipment (DME) is an absolute essential.

Including example claims and calculations helps to demonstrate how specific charges would be impacted by site of service, plan deductible and co-payment amounts, and the insurer's contractual payment obligation. This tends to avoid subsequent misunderstandings and confusion by the insured when reviewing their explanation of benefits.

Payment levels for health care services should be established at plus or minus a percentage of reasonable industry standard benchmarks, not a discount off charges. Examples of such benchmarks include:

- Medicare professional fee schedule based on the Resource Based Relative Value Scale (RBRVS);
- DME reimbursement schedule for Medicare;
- Average wholesale price (AWP) or wholesale acquisition cost (WAC) for drugs;
- Manufacturers' wholesale prices for hardware, such as artificial joints, pacemakers, and defibrillators; and
- Medicare reimbursement levels for inpatient confinements.

While discount-off-charges reimbursement agreements are easy to come by, they supply a blank check to providers. A benchmark using usual and customary (U&C) data for professional fees is not a significant improvement. Since the vast majority of professional reimbursement levels are very closely aligned with the Medicare fee schedule, the U&C levels largely represent wishful thinking.

Network Contract

Whether you have a directly contracted network or rely on a rental network, there are certain important goals to be achieved. One is fixed costs that have some relativity to the reasonable price benchmarks cited above. Payment for access to a rental network is on a per-member, per-month (pmpm) basis, not a percent of savings. Also, reimbursement for covered services delivered by network providers is payment in full, and the insured is held harmless for balance billing.

Equally important is agreement that the insurer can employ standard medical management techniques, such as pre-certification, concurrent review, retrospective review, and industry coding and evidence-based guideline software. The insurer may also engage specialty companies to supply services and goods, such as utilization management, pharmacy benefit management, chiropractic care, home health care, and DME supplies.

Marketing

According to the Rand study in 2005 commissioned by the California HealthCare Foundation, a major barrier for potential purchasers of individual health insurance is the perceived effort of obtaining information. Therefore, devising innovative methods of reaching the uninsured is likely to pay large dividends.

Potential insureds should understand the details and limits of the health care coverage being purchased. There should not be any marketing hyperbole or direct or indirect suggestions that any coverage other than what is stated in the member contract will be provided. This approach is not always popular with agents and marketing personnel, but it results in lower back-end administrative and care costs.

...a major barrier for potential purchasers of individual health insurance is the perceived effort of obtaining information.

Medical Management

> *Crucial to the success of the Medical Management Program is the medical director.*

State statutes and mandates exert upward pressure on premiums and reduce opportunities to gain competitive advantage. Because the largest portion of the premium funds health care services for the insured, the management of these resources always allows a unique opportunity to create a sustainable competitive advantage. In order to capitalize on this opportunity, the insurer must employ knowledgeable, experienced medical professionals to oversee the delivery of clinical services to their members, with the focus being the quality as well as the cost-effectiveness of care.

Crucial to the success of the Medical Management Program is the medical director. The medical director must provide leadership, training, and mentoring to the other clinical personnel, take the lead in both development and acquisition of guidelines and policies used in making medical necessity determinations, and provide input and support across the organization. Medical management personnel—and the medical director in particular—must be capable of articulating certification decisions to physicians, institutional providers, and internal constituencies.

Claim Adjudication

Once a claim is presented, it is important that it be adjudicated according to the applicable benefit plan coverage, taking into account any medical management determinations and the appropriate reimbursement rate, all subject to benefit limits and applicable deductible and co-payment amounts. Special or extra contractual payments must require signed approval at a managerial level.

Summary

Development and execution of each of the aforementioned components are necessary to achieve profitability in the individual health insurance market. One cannot underestimate the importance of each component or fail to recognize the synergistic and codependent relationships among components. Such oversights will likely guarantee failure of the product.

The Nolan Company has helped clients develop, implement, and manage these components. Please feel free to e-mail or call if you have questions or would like more details.

Opportunity is knocking; are you prepared to answer? ▪

The Culture Culprit

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Some time ago, I had a friend who was a successful manager in what I like to call a Midwest Mother Mutual (a nurturing insurance company). He had worked his way up from junior underwriter to become the underwriting manager. He was liked by his employees, the sales staff, and his peers. So, when he announced he was leaving for an underwriting vice presidency at another company, we were disappointed that he was leaving.

A year later, we were very surprised to learn that he was looking to leave the new position and was willing to step back in order to expedite his departure. We all asked the same question: "How could someone labeled 'successful' in our company move to 'disaster' in less than a year?" Why had he failed in the move? I looked for an answer.

I concluded that there were three basic elements that must be considered in making a move to a new company. (As Andy Rooney might say, "There may be more, but these three are mine.") They are:

1. Skills and knowledge
2. Management/leadership ability
3. Culture fit

Technical skills and knowledge include industry knowledge as well as process and functional skills and knowledge. In insurance, this equates to being familiar with industry trends and the various products being marketed and sold. There is also a need for understanding the core insurance processes, including acquisition, retention, claims, customer service, and the various support services. And finally, functional (technical) skills and knowledge are necessary in underwriting, rating, claims, and/or other functions within the organization.

Often, the interested company will spend a great deal of time questioning the applicant's abilities along these lines. The company will want to be certain that the applicant does, in fact, have the skills and knowledge to be effective in the job under consideration.

In addition to the applicant's technical skills, the company will want to discuss the applicant's background in an attempt to develop a clear understanding of his/her management/leadership ability. They will want examples of the applicant's work in planning, controlling, and monitoring, as well as results delivered by the applicant. This continual probing over a series of interviews builds a confidence that leads to a job offer.

The applicant, before deciding to accept the position, will often seek answers to questions that they feel are crucial before they can make a decision to accept the position. The answers they seek usually include descriptions of the job responsibilities, salary, bonus programs, benefit packages, job titles (a vice presidency always attracts), and moving packages. Too often, the job is offered and accepted with no consideration of the third element in a successful career change—culture fit.

In most screening and interviewing processes, the company's culture is never mentioned, questioned, or described. Too often, successful, qualified new hires quickly become failures because they were not able to understand and adapt to the culture of their new company. They assumed their skills, knowledge, and their past behavior (which got them where they were) would continue to make them successful. My friend had moved from a Midwest Mother Mutual, where he had been cared for and watched over by the company, to an East Coast Eat-Your-Young culture. What questions should he have been asking about the culture when he interviewed?

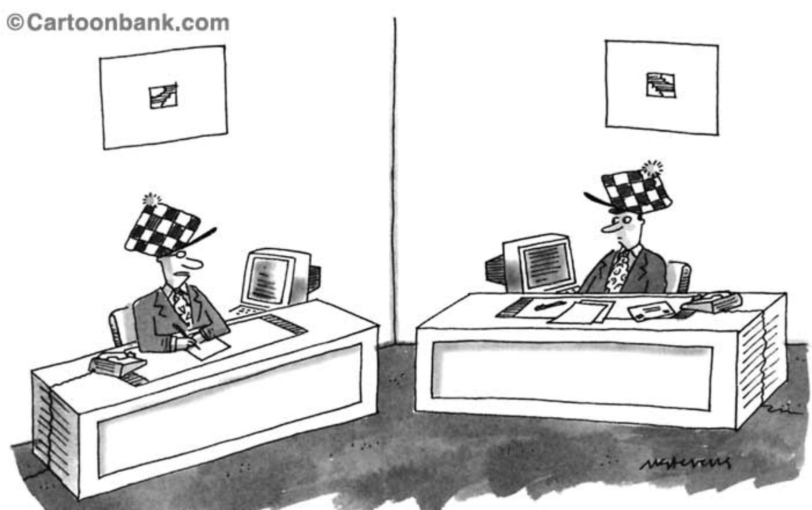
Too often, the job is offered and accepted with no consideration of the third element in a successful career change—culture fit.

Here are 10 simple ones:

1. Does the company provide insurance or does the company provide jobs?
2. Does taking risks bring rewards or punishment?
3. Are co-workers friends from 9 to 5 or 24/7?
4. Do employees (at various levels) interact and/or socialize?
5. How are decisions made? From the top down? By consensus? By no one?
6. How does the company define success? By real goals or making friends?
7. Is helping a co-worker in trouble a sign of strength or weakness?
8. Is the atmosphere more "Team" or "Me"?
9. Does the company culture assume that all employees are workaholics?

10. Does authority come with responsibility?

Had my friend asked these questions, he would have understood he was about to enter a culture completely different from the one he was about to leave. His decision would have been better educated and his chances of adapting to and succeeding in the new culture improved. And, had the company addressed these questions with him, they might have made a better selection or at least recognized potential culture clashes and provided help for my friend as he worked through the maze of his new company culture. Failure to discuss or ask questions about a company's culture can lead to disappointments for both parties. ▪



"I don't know how it started, either. All I know is that it's part of our corporate culture."

Minneapolis Hosts IASA Annual Conference

IASA's annual conference and business show was held in Minneapolis in June and attracted over 1,200 insurance and financial services representatives. The IASA team once again outdid themselves, putting on an event to remember. The Nolan Company participated in several sessions and sponsored the keynote presentation given by former US Secretary of State Colin Powell. Here are just a few of the many highlights from the conference:

- Nolan Chairman, Dennis Sullivan, introduced General Colin Powell, who gave a captivating and often humorous presentation on leadership. Among his key points: Make sure your team knows the mission. Everyone has an important role, from the President to the newest recruit.
- Prior to Powell's speech, the audience was treated to a stirring tribute to the brave men and women serving in our armed forces, several of whom were honored onstage. IASA also made major donations to two organizations that support our service men and women.
- Wausau Insurance Vice President, Francis Hyatt, teamed up with Steve Discher of the Nolan Company to describe Wausau's recent underwriting redesign initiative. With the guiding principles of focusing on the customer and thorough analysis, a dramatically redesigned process resulted in 40 percent greater capacity and a 65 percent reduction in cycle time.
- Michelle Harika of Health Management Corporation, Terri Butler from Nolan, and Jim Bright of Cisco Systems presented real-world case studies of VoIP deployments. Bottom line ... VoIP works today and can make your organization more flexible, but project discipline and a practical starting point are essential for success.
- Nolan Senior Vice President, Rod Travers, moderated the IT Town Hall, which is an open forum for the lively exchange of ideas and opinions on insurance technology. The diverse panel included Stan Dowd from Colonial Life, Ara Trembly from National Underwriter, Craig Lowenthal of NYMAGIC, and Rick Hoehne of IBM. Perhaps the most provocative topic was the insurance industry's continuing dependence on COBOL for the foreseeable future.

We extend our sincere thanks to all the Nolan clients who graciously shared their knowledge and experiences with IASA audiences. Next year's IASA conference will be held in June in beautiful Seattle. See you there!

CLIENT SPOTLIGHT

Project: Technology - Quality Assurance Assessment

Client: 150-year Old Midwestern Mutual Company

Industry: Insurance

Markets Served: Life, disability, annuity, and variable investment products

Distribution Channels: Dedicated career force of more than 7,000 financial professionals nationwide

Key Stats: Our client has served more than 15 million people and has over $1 trillion of individual life insurance in force. Financially, our client has total assets of $145 billion, with over $19.7 billion in annual revenues generated by 3.2 million policy owners who own more than 4.9 million policies.

Objective

The leaders of this respected life insurer had a clear objective. A major technological undertaking to convert their life and annuity business operations from paper processing of files to a fully automated, electronic workflow-based system had been outsourced to an offshore development company. Working in partnership with the offshore developer, Nolan was hired to conduct an objective quality assurance review of the project's design and analysis as part of the decision checkpoint for moving to the next stage in the project, the actual coding and implementation.

Current Environment

A large investment had been made in the initial analysis and mapping of the processes involved in the life and annuity servicing operations. This effort was part of a strategic initiative based on a New Business Vision that had been developed by the executive team. The Vision targeted the development of foundational platforms covering new business, policy owner services, agency contracting, and claims for life and annuity lines of business. Multi-functional teams from across the organization and the systems departments had been involved in an interview-based design process run by an offshore consulting firm. The offshore firm brought expertise in process mapping, workflow and image systems, and development methodologies to the project, but it had limited practical experience in life and annuity insurance processing. Recognizing the opportunity that subject matter expertise would bring to the quality of the design process, the consulting firm and client contracted Nolan to conduct an in-depth review of the interviews, process maps, and design conducted to date to ensure thoroughness, accuracy, and comprehensiveness.

Project Scope

The scope of the engagement covered two separate quality assurance checkpoints held at different stages in the project. First, Nolan performed an extensive, detailed off-site review of all the project documents related to the design, flow, process maps, use cases, and solutions proposed. Supporting the initial review was a research phase that included an examination of industry best practices and the current state of document processing solutions, including the technological platforms involved. After the review and research were completed, Nolan collaborated with the business community, consulting teams, project team members, and the company's information systems staff during two on-site visits.

Our quality assurance review checkpoints focused on project details, as well as broader considerations involving strategy and approach. There were five areas of consideration with these steps and questions:

- Review completeness and consistency of the process model;
- Determine the solution's fit with the New Business Vision and related future projects;
- Evaluate the competitive impact to the company—what advantages and benefits will likely result;
- Review how well the scope is being managed, how well the solution leverages opportunities, and the organizational readiness; and
- Is the project organized for success? What are the strengths and weaknesses of the current structure and any recommendations for change?

Project Results

The quality assurance review gave our client and offshore consulting firm several new areas to consider. These areas would improve the project's likelihood of success, reduce risk factors, and improve overall platform functionality. The report did the following:

- Fifteen categories, each accompanied by specific details of areas that might improve project success, were described;
- Four assumptions that were constraining the possible solution were identified, with options suggested;
- Three changes to reduce project risk were profiled;
- Three major pre- and four major post-implementation revisions were suggested; and
- Technological options for improving the scanning and OCR solutions were provided.

The recommendations were incorporated into the final solution, and a full-featured design was put in place, positioning our client for success on an aggressive 18-month project window. ▪

Being a Good Team Player

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Design and implementation of any moderate or major process change requires the skills, talents, and experience of a wide variety of people. Many times, this is an unusual collaboration that includes staff and management from a variety of departments that do not work together on a daily basis. What are some of the behaviors and roles that must be embraced to form the teams required to make these kinds of efforts successful?

A typical process change is made up of three key phases: discovery, design, and implementation. The discovery phase is usually business-unit-centered in that current processes, technologies, and metrics are documented to identify key opportunities for improvement. The design phase often includes design workshops, with participants from the business, IT, and supporting departments such as administrative services and finance. Depending on the type of change implemented, the implementation phase may involve an even broader set of skills.

For this type of change to be successful, each participant must understand his or her role, the areas in which leadership is required, and equally as important, when being a good team player is essential.

What defines a good team player? A good team player understands when to lead, when to follow, and when to lend support (moral and otherwise) to the effort. Good team players put the interests of the project ahead of their personal needs. Good team players measure achievement based on the success of the project rather than the benefits it creates for them personally. And finally, a good team player does not need to be in charge in order to contribute.

An organization's departments need to display similar characteristics in supporting process and technology improvements. In most cases, the business unit should take the lead in making the changes because they have the most at stake if the change is not successful. To be a good team player, however, the business unit must take into account the capabilities, talents, and constraints of the other units involved.

In a similar fashion, IT must recognize that while technology may be the center of focus in a particular change, the department might not be the dominant player in the overall implementation. It is a difficult but nonetheless essential requirement that IT understand the steps in a project where they should take the lead and the aspects for which they should support the leadership and activities of others. For example, in installing a new policy administration system, IT would take a lead role in organizing and conducting requirements sessions, but it would need to be a team player when it comes to supporting the implementation of the change and its process implications to the business unit.

It is often difficult to be a team player. It means substituting group for individual goals. At the level of the organization, it means supporting initiatives and dedicating resources while giving up some elements of control. All business units must recognize that understanding team roles, supporting team/organizational objectives, adapting to changing needs within the project, and performing the actual work required are all critical to achieving the goals of the team.

Good team players, both individuals and departments, are highly valued by all organizations. Their willingness to do whatever it takes for the sake of the project ensures that implementation efforts succeed and the expected improvement is attained. ▪

"I don't have to be a team player, Crawford. I'm the team owner."

Overdraft Fees: Where Will Banks Look for Bottom Line Relief?

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Two major studies are being conducted to examine overdraft practices in the banking industry—one by the FDIC and one by the General Accountability Office, Congress' investigative arm. Federal legislation (H.R.946) introduced by Rep. Carolyn Maloney, D-NY, is intended to rein in the billions of dollars that bank customers are paying in "hidden overdraft fees" each year. A congressional hearing is planned for later this summer to highlight abuses of the practice. With an election year on the horizon, is there any doubt that there will be changes to the current fee generation practices?

When we examine the improvement in bottom-line profits in the banking industry over the past 20 years, we can see that it has come primarily through non-interest income. The question at hand is this: When legislative change limits fee income, where will individual banks find an offset to bottom-line profits?

Bank analysts have been commenting on this issue for the past two years, concluding that there are two ways that banks will compensate for the pressure on revenue. Mergers and acquisitions will offer an opportunity to lower cost through resulting synergies, and reengineering of the existing processes will provide cost and market relief. Neither approach guarantees success. So often we see banks struggle with acquisitions, trying to sort out the organizational, operational, and technology synergies.

After the last round of acquisitions, the 50 top banks in the United States have a higher efficiency ratio than the industry average (64 percent vs. 60 percent). Big banks have concentrated on building a larger footprint in many cases without realizing the opportunities afforded by their new scale. Retail customers are not staying put when there are inconvenient conversions and apparent lack of individual care. This has frequently resulted in higher customer attrition than projected. We have seen large acquiring banks like Washington Mutual shift their strategy from growth to service excellence in an effort to retain customers.

Those banks who opt for internal reengineering have had mixed results, as well. The term "reengineering" is frequently misapplied to traditional work improvement techniques that result in incremental improvement without producing quantum gains in capacity and cost. Reengineering, in its pure sense, rethinks the underlying purpose of a process from the perspective of what the customer wants. At the heart of the approach, design teams include only work effort and elements that provide value and advance the decision or action. It is often difficult to differentiate traditional techniques from true reengineering due to marketing techniques that mask the differences in approach. It is important to look for 25 percent to 70 percent gains in productivity as evidence of true reengineering and not the 12 percent to 20 percent that traditional methods can generate.

When legislative change limits fee income, where will individual banks find an offset to bottom-line profits?

It is clear, that in the short run, Congress has control of what the limitations to fee income are, but bank management does have control of how to design delivery processes and channels to overcome the lost revenue. It will be interesting to see which banks emerge and make the right choices. ▪

"I'd like to bounce a check."

A RECIPE FOR LEADERSHIP

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Industry is made up of people of diverse cultures, interests, and experiences who are stirred together for success. But people still need leadership! They need someone to buffer all their fears and anxieties—someone who can lead in a way that makes things happen, who brings positive ingredients to the swirling winds of change, who demonstrates quick and cool thinking, who delivers results, and who operates well in ever-shifting conditions.

Mom, God rest her soul, was a wonderful cook. When asked how she made a certain dish, her standard reply was "Don't know exactly, but it has a pinch of this and a dash of that, and all the ingredients are put in a pot and stirred." The same is true of leadership—ingredients are important, and with a pinch of this and a dash of that, we have seen organizations soar. Yet, if an ingredient is left out or too little incorporated, the organization under performs or goes out of business.

Leaders need to be aggressive in setting goals for an organization.

My recipe for leadership would include:

- **A pinch of self:** The reason it is just a pinch is that a leader today has to know who he or she is and must avoid the ego that can accompany success. A leader must be able to look in the mirror and understand the importance of strong self-worth. In *The 7 Habits of Highly Effective People*, Stephen Covey writes, "I am what I am today because of the choices I made yesterday." It is important to understand that you have to take responsibility for yourself before you can lead.
- **A dash of skill:** Vision is not some esoteric idea that floats in a cloud and comes to only a few. Vision comes from hard work and education, but not necessarily a college degree. Vision comes about through reading, thinking, and exposure to new ideas and trends. You must have a picture of where you are going, because that enables and energizes everyone to get there. A leader has to believe that it can be done.

Leaders need to be aggressive in setting goals for an organization. Not the micro-management goals you often see, but goals that stretch and challenge an organization to go further and higher. It's the leader's job to challenge standard incremental thinking. If you don't push the organization, it won't push itself.

The ability to delegate is crucial to the success of an organization.

A leader must focus people on the results. If you have supplied a vision and goals and have driven these things throughout the organization, hold people accountable for progress every day in some way.

The ability to delegate is crucial to the success of an organization. Think about it: every day, we ask employees to hang up their brain and ideas and do what we say when we say it. That's why so many people look forward to leaving work at the end of the day—to return to a place where their abilities and desires are appreciated. The people who report to you might not do something exactly how you would do it, or write it how you may write it, but if they believe in what they have done they will make it happen.

- **Add good people until the flavor suits, then stir:** When you stand in front of a large group, do you see a single mass or do you see each individual with his or her dreams, needs, and aspirations? A good leader will see the individuals and will help them reach their goals. Be there with them and among them. Leaders who hide behind closed doors or are always away cannot connect with the people and will always have trouble creating visions and goals.

Surrounding yourself with a good team is critical. Look for positive attitudes. Coach them on the business, not just their jobs. Provide education and training. And challenge them to think and use what they've learned. Development takes time, but it pays off.

Directions: Combine these ingredients into an organization, stir until it simmers, then serve hot to the marketplace. It is guaranteed to delight! Don't ever lose sight of the main ingredient in leadership—it's not the pinch of you or the dash of skill, but the large measure of good people. Without people, there can be no leader. ▪

Strategy-Driven Operational Change

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The business press and Wall Street analysts are great fans of strategy-driven organizations. And for a good reason: strategy-driven companies are the organizations that consistently post the best numbers and build shareholder value. No CEO in today's world is going to be heard in a quarterly earnings release saying, "We really didn't have a strategy in mind; we just tried some things and it worked out." At the corporate level, strategy is without a doubt a key concern of the C-suite in most organizations, and it is often centered on markets, products, and distribution.

In our work with clients, we are finding that what works at the corporate level for markets and distribution is just as key in successful operational improvement efforts. Operational strategy is as important to process improvement as marketing strategy is to market share gain. More and more of our operational improvement work with clients involves setting or resetting operational strategies. It requires time up-front on a project, but consistently has had significant payoff as the project moves forward. A quote from Sun Tzu seems to fit well: "Strategy without tactics is a slow route to victory. Tactics without strategy is the quickest way to defeat."

Any change effort that is going to succeed will be goal-driven—lower the error rate by "x" percent, improve the cycle time to "y" days, lower the unit cost to "z" dollars. A strategy-driven change effort is deliberate about the whys behind those goals and takes a balanced perspective. Often, we use the four elements of the Balanced Scorecard concept as a framework for developing operational strategy—Financial, Customer, Process, and People. We aim to produce an operating strategy document that has about 10 bullet points covering those four areas, clearly and concisely describing the desired future state. Attached to those bullet points should be the stretch goals or metrics of success.

...strategy-driven companies are the organizations that consistently post the best numbers and build shareholder value.

Charging an improvement team with producing change that will achieve a new operating strategy and related stretch goals is invigorating for the participants. It creates a much more impactful dynamic than that dreaded Dilbert-like statement "think outside the box." It outlines a new box and asks the team to build it out. It leads to operational change that is more often transformational than incremental.

Key factors to keep in mind in pursuing a strategy-driven operational change effort:

- Strategic thinking is, unfortunately, scarce in many operational areas. They will need senior executive help in this fuzzy area. Spend the time; the ultimate impact on the business will make it time well spent.
- There is always an operational strategy in effect. It may not be on paper or on the walls in poster format, but it is there and probably so deeply engrained that it is called "our culture" or "the way we operate." Depending on how long that strategy has been in place, you may have to first back up and document it in order to move forward.
- Two-day, off-site meetings produce meaningful strategy only by accident. Lots and lots of conversation and debate go into the blueprint of any impactful strategic change.
- When it comes to operational improvement efforts and strategy-driven change, size does not matter. We have seen it work in a 10-person producer licensing and contracting function, a 900-person call center, and a Fortune 500 company's cross-functional, enterprise-wide effort.

Lots and lots of conversation and debate go into the blueprint of any impactful strategic change.

Our view is not that strategy-driven operational change effort is the new silver bullet. It has been happening in many organizations for years. Tightly focused change efforts around essential metrics have their place in the portfolio of the many ways to produce change. But the next time you're thinking about attempting an operational change, if you are not already doing it, consider resetting the operating strategy as part of the effort.

If you would like to further this discussion, e-mail me. ▪

15 + 15 = 26?
Learning to Love Call Center Math

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No, it is not a misprint. It's call center math, and if you're interested in reducing the cost of running your call center, it is math you need to understand.

The basic principle behind this strange math is that if you combine two small call centers into one larger one, you could handle the combined call volume at the same service level using less staff. It is called the *pooling principle*. Here's a simple example to illustrate the point.

	One Small Call Center	*A Larger Call Center With Twice the Volume*
Offered Calls per Half Hour	*65*	*130*
Call Handle Time (minutes)	*5*	*5*
Service Level Goal (x% of calls answered within y seconds)	*80 / 30*	*80 / 30*
Seated Staff (logged in and available to handle calls)	*15.0*	*26.0*
Calls per Person per Half Hour	*4.3*	*5.0*
Occupancy	*72%*	*83%*

The first call center receives 65 calls per half hour, and the second call center receives exactly twice as many. The handle times and service levels are the same. If you had two call centers, each receiving 65 calls per half hour, you would need 30 full-time equivalent (FTE) staff—but if you combined them into one larger call center, you could handle the same call volume with only 26 FTEs. That's a 13 percent savings in staffing cost.

The potential cost savings are even greater with smaller call centers, especially if you can consolidate several of them. In the example above, if there were three small call centers, you'd need 45 FTEs, but if the calls were pooled into one larger center, you'd need only 38 FTEs. The savings would be increased to 16 percent. If the small call center took only 40 calls, you'd need 10 FTEs. And if you consolidated three of them, you'd need 24 FTEs instead of 30, a savings of 20 percent.

In the table, you can see that staff productivity improves from 4.3 calls per half hour to 5.0 and that occupancy increases from 72 percent to 83 percent. For those of you unfamiliar with occupancy, it's the time spent handling calls as a percentage of total time available to handle calls. So, at 72 percent occupancy, the staff spends 28 percent of their time in available mode waiting for calls to arrive.

As you consolidate small call centers into larger ones, the occupancy increases and you need to be careful. If occupancy gets too high, agent stress increases. Sustained periods of high occupancy will result in agent burn-out and increased turnover. Even minor turnover increases will likely negate any consolidation benefits. Typically, you want to keep occupancy below 85 percent. In fact, if you are running an extremely large call center with occupancy that's consistently in the upper 80s, you may be able to reduce turnover by splitting it into two or three smaller ones to get the occupancy below 85 percent.

So, if you are responsible for two or more small call centers, you now know the upside of consolidating them. The downside normally involves training staff on new systems, products, or call types, but sometimes it's as simple as removing arbitrary geographical boundaries that separate the smaller call centers.

If you don't have the tools to do the call center calculations above, please contact us. We'll be able to give you an analysis in just a few minutes. ▪

The basic principle behind this strange math is that if you combine two small call centers into one larger one, you could handle the combined call volume at the same service level using less staff.

The Case for Balanced Measures

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It would be hard to have missed the headlines about the recent difficulties faced by one of the largest home improvement chains. As is often the case, there are good lessons to be gained from the experience of others. Here the focus will be on the use of metrics and measures.

From the perspective of a consultant (an outsider to an organization), the handoff process is that final critical element in the overall success and sustainable value of the project to the client. That is where the client takes on the full control for running the process, and, candidly, this is also a step where many clients underestimate the effort that will be needed.

Project fatigue sets in: the organization is anxious to get back to business as usual. This sometimes moves the design and implementation of the metrics and measures to be used onto a list of future things to do; after all, the company may have just implemented a new and improved process, new applications, or updates to the call center management system. They may have redesigned positions, shifted job duties, or added new service channels. They also may have adjusted the supervisory/management organization to accommodate these changes. So, it is understandable that some fatigue may set in. Neglecting to address the final metric and measure component of a project, however, is usually a mistake.

What can we learn from the complex events that have unfolded so publicly for the national retailer? When you have more than 2,000 stores and more than 300,000 employees, a little leverage can have a big impact. One of the key metrics they used at the store level was controlling payroll hours—a reasonable cost control (and cost control is a reality in every business). What is measured is acted on, so payroll costs were reduced. You know the rest of the story: long lines, reduced aisle staff, frustrated customers, and disgruntled employees. Initially, Wall Street rewarded the retailer's tight expense control, but this was to be followed by a fallout.

> *...the handoff process is that final critical element in the overall success and sustainable value of the project to the client.*

The lesson here is the lack of *balanced* measures. The idea of viewing performance in a multi-dimensional way has been proven again and again. It was best put forward in the concept of the Balanced Scorecard (Kaplan and Norton) with its four dimensions or "perspectives." In our example, only one of the four was used—the financial measure of cost reduction. In a balanced approach, every organization also needs to look at three other measures that are critical to success.

The three other measures seem very obvious: customers, internal process, and employees. In our example, it would appear that these three were not balanced against the financial measure. It can also be inferred that there was no proper linkage to either the vision or long-term strategy, and such linkage is needed when interpreting the measures.

Building a measurement and metric system, or installing a Balanced Scorecard system, is a significant effort for most organizations...

Building a measurement and metric system, or installing a Balanced Scorecard system, is a significant effort for most organizations, one that requires some difficult but important discussions and decisions. That is one of the reasons some companies decide to postpone it. The lessons learned from our example would indicate that deferring issues of balance can be a costly decision.

Does any of this apply to your organization? Here are a few questions you can use to check:

1. Is there <u>continuity</u> from the line employee's measures to the highest level of the organization?
2. Are the things that are said to be important (such as vision and strategy) <u>linked</u> to the measures?
3. Do you find you have to manage "<u>gaming</u>" of the measures? (ASA is often in this category: getting Friday's ASA down to three seconds so the week looks good, for example.)
4. When you talk to the line management and staff, do they express a <u>connection</u> of their efforts to the company's performance, and can they explain what that is?

Whether yours is a fact-driven culture or more intuitive by nature, these questions should help determine whether you have work to be done in this area. ▪

What Does "Ease of Doing Business" Really Mean? It Starts With Knowing Your Customer.

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A theme we hear across all the sectors we serve is "we need to be easier to do business with." It's easy to say, harder to do, and even harder to know you are doing it well. Whether you are in P&C, life, annuities and investments, health, or banking, we are all trying to attract and retain the same customers—and we are all using "ease of doing business" as a key to deliver. But what does that really mean? Here are a few thoughts and lessons from our recent experiences that you may find helpful.

First, know and agree on who your #1 customer really is. This can be a challenge, especially in the complex world of insureds, direct sellers, career agents, independent agents, general agents, brokers, wholesalers, intermediaries, and so forth. Unbeknownst to many of our senior clients, there is still great confusion and debate deep within the organization as to who their #1 customer really is. It's often clear to the CEO, but the clarity becomes obscured the farther down the organization you go.

Take, for example, the head of Marketing and Agency Management. Obviously, his or her view is that agents are the most important customer. On the other hand, the head of Operations and Service believes the insured is number one. Both use the term "customer" but the meaning is obviously very different. Both are also communicating to their respective audiences and employees their version of who is #1 and how they need to be easier to do business with. For this company, neither version of "the #1 customer" believes the company is all that easy to do business with. This lack of clear definition has led to inconsistent priorities, conflicting resource allocation, an overly complex servicing model, and an underwhelming experience for customers. For this company, both sets of customers needed to be clarified, including a consistent corporate vocabulary, before ease of doing business could be enhanced.

Second, define and prioritize your customer segments and their service needs. We can't be all things to all people. Segmentation of your customers, their needs, and what creates an advantage versus what are "table stakes" needs to be clear. A simple framework to consider using appears in the next table.

Customer Service Segmentation of Success Factors

Relative Competitive Position	*Differentiator*	*Needed*
Advantage	*3. **Target Zone** - creates competitive advantage and potential for growth*	***No opportunity for competitive advantage***
Parity	*2. **Target Zone** - prevents market share erosion*	*1. **Target Zone** - avoids over / under delivery of services*
Disadvantage	*Under delivery or misalignment of services fails to retain customers*	*Under delivery or misalignment of services drives customers away*
	Creates an Advantage	*Necessary but Not an Advantage*

Third, communicate to your customers what you are going to do well, then really deliver. Putting yourself on the hook for what you really intend to deliver provides focus for the organization. A good example is a client who communicates turnaround time expectations to its agents for quotes and new business applications. Better performing clients consistently communicate what they are trying to achieve. Of course, you need to ensure that you have the business model design and resources to deliver. But setting expectations your customers understand and appreciate can quickly align management, staff, and resources.

Finally, measure, communicate, and improve. Many clients measure their customer satisfaction levels, share them with staff, and constantly look for ways to improve. Still, there are others who need to spend more time studying their customers' experiences. If you want to improve ease of doing business, make sure you have consistent and thorough customer satisfaction measurement systems, transparent communication of results, and continuous improvement programs to respond to customer needs.

Yes, ease of doing business is hard to define, and it's different for every company. If you want to improve, make sure you agree on who your customer is and what they need before jumping to solutions. Also, you might want to ask this question around your organization: "Who do you think is our #1 customer and what do they need to be successful?" You might find the answers revealing. Good luck, and let us know if a conversation on the subject would be helpful. ▪

Nolan Events

Live Audio Conference
Medicine & Health's Managed Care Report
July 26, 2007

Nolan Heath Care Director, Merit Smith, will present at a **Live Audio Conference** on July 26 at 1:00 p.m. ET. In this session, "Managing the Total Cost of Health Plan Inquiries," Mr. Smith will speak on the most effective ways to manage the total cost of inquiries using an "inventory for service management" that helps service managers see their operation from their callers' perspectives and their CFO's point of view. For more information, go to www.audioeducator.com.

Canadian Insurance Accountants Association Annual Conference
September 16-19, 2007

Steve Discher, Nolan Senior Vice President, will present at the CIAA's Annual Conference on September 18 held in Scottsdale, Arizona. Visit www.ciaa.org for more details.

ISOTech 2007 Annual Conference
October 28-30, 2007

Ben DiSylvester, Nolan Chairman, will present with co-speaker, Charles B. Harding, CPCU, AU, the Director of Personal Lines Underwriting at Germania Farm Mutual Insurance Association. They will speak on "Automating Underwriting - The Incredible Journey" on Monday, October 29, at 10:45 a.m. ET. The conference will be held in New Orleans, Louisiana. Visit www.iso.com/conferences/isotech07 for further information on this event.

Congratulations to Powell Book Winners

The Nolan Company and IASA teamed up to sponsor a drawing for signed copies of General Colin Powell's book, ***My American Journey***. Congratulations to these winners:

- John Anderko, American Agricultural Insurance Company
- Walter Bird, Commerce Insurance Company
- Bob Hein, Progressive Insurance
- Jodi Heins, Texas Mutual Insurance
- Amy Lincoln, Deseret Mutual Benefit Administrators