The Nolan Newsletter

People, Process, Technology

NOLAN

ROBERT E. NOLAN COMPANY
MANAGEMENT CONSULTANTS

Fourth Quarter 2007 *Volume 34, Number 4*

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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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- Updates on industry, business, and technology trends
- Client case studies
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In Memoriam

Stephen B. Whitman

1950–2007

It is with great sadness that we inform our readers that Steve Whitman—our good friend, an outstanding Nolan senior consultant, and a wonderful family man—passed away in Maryland, where he was on assignment. Steve was a member of the Nolan Company for 17 years. His ability to get results earned him many accolades from clients and colleagues alike. More importantly, Steve was a devoted and loving husband to his wife, Martine, and a dedicated and proud father to his three children, Katherine, Philip, and Christopher. His energy, intellectual curiosity, positive attitude, and sense of humor will be greatly missed by all.

Don't Lose Sight From the Top

Dennis Sullivan
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Why is it that so often those who sit at the top "get it" the least? Here are a couple of quotes to make my point:

- "Everything that can be invented has already been invented." -1899, Charles Duell, Commissioner of the U.S. Office of Patents
- "There is no reason for an individual to have a computer in their home." -1977, Ken Olsen, Founder and CEO of Digital Equipment

Now for you quote sleuths, both of these citations have been challenged by researchers and may fall into the urban myth category. However, they conveniently make my point for this article, so I'm sticking with them. All too often, those at the top have drifted away from the day-to-day operations and have a point of reference that is dated. Especially if things have been going well, they begin to move on to new challenges. When you head a team, a department, or any significant part of an organization, it is wise to systematically conduct your own quality reviews on key aspects of those areas you are responsible for leading.

Top-performing leaders in our organizations are constantly pushing their teams to the next level of excellence.

Don't get confused with delegation and oversight. I'm not saying the leader should be micro-managing each of their areas, but I am saying that on a regular basis, leaders need to dive below 20,000 feet and be in tune enough to ask those questions and check those measures that ensure an operation is running effectively.

This regular, first-hand involvement in selected areas helps to limit those Friday afternoon blow-ups just before you are leaving for vacation. Delving into the details also keeps you sharp and better equipped to challenge your team to improve today's operation. Successful leaders are able to fly at 50,000 feet and know when and where to dive to 1,000 feet. Maintaining your skills and understanding the details will make you a much better decision maker when it comes to broader organizational issues that cross multiple functions.

Top-performing leaders in our organizations are constantly pushing their teams to the next level of excellence. It helps when they understand the challenges to be faced and some of the potential roadblocks. It is in removing these roadblocks and helping the team over some of the hurdles where leaders are able to run organizational interference and make the change process work. Don't lose sight of the ground activities. Stay in touch with your staff! Listen to their input. Then lend a hand, provide direction, and lead them through the organizational maze of cross-functional change. If you are comfortable doing this and build it into your normal management practices, chances are you are one of those top-flight leaders we all talk about who make a difference in your company. ▪

Coming Soon... 2007 P&C Survey

The Robert E. Nolan Company will soon launch its property and casualty industry survey. As management consultants to the insurance industry for over 30 years, Nolan is again conducting a survey to better understand, articulate, and compare the issues that insurers face. The study will highlight key issues and resulting strategies that property and casualty executives will confront over the next couple of years. These surveys are valuable for participants and for the industry because the results often shed new light on the future and on the factors that will shape it.

With our last summary report published in early 2005, this survey is conducted every two years. Nolan will mail the survey in October, and it will also be available on www.renolan.com. The survey can be completed and sent in by mail, fax, or online. Once the survey results are tabulated, Nolan will release a summary report in early 2008.

To register for participation in advance, please contact Deborah Ayers at deborah_ayers@renolan.com, or call 972.248.3727.

Ed Fenwick Promoted

The Board of Directors of the Robert E. Nolan Company is pleased to announce that Ed Fenwick has been named Senior Vice President in Nolan's insurance practice. His responsibilities include the development, design, and supervision of engagements with insurance clients. Ed is a member of Nolan's insurance practice management team, which guides the strategy, content, and delivery of our insurance services.

Ed joined the Nolan Company in 1984. He brings over 25 years of experience in designing and implementing change that improves organizational performance. In his tenure at Nolan, Ed has conducted and managed projects in the insurance, health care, mortgage, reinsurance, technology, and marketing industries. He has led change efforts both as a senior executive and as a consultant.

Organizational design, performance management, systems development, quality improvement, process design, and business transformation make up Ed's management background and operations experience. This extensive range of work has established him as one of Nolan's most accomplished senior professionals. Ed's achievements prior to joining Nolan included oversight of a national marketing field force of 15,000 employees as chief operating officer and the startup, growth, and sale of two successful service businesses.

Ed has a bachelor of science degree in management from the University of Massachusetts and a master's degree in organizational development from the Austin Barney School of Business at the University of Hartford.

Ed is based in Nolan's Simsbury, Connecticut, office. ▪

What Makes a Great CIO?

Rod Travers
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Recently, I was asked what makes a great CIO. I believe a great CIO is actually a confluence of innate *abilities, circumstances, and character* that form a highly-effective information technology executive. With regard to *abilities*, leadership is among the most important a CIO can possess. Too often, the role of the CIO is perceived to be manager of technology; in fact, truly successful CIOs focus on leading people and driving change, not managing technology.

An exceptional CIO can conceive and convey a practical vision for IT and then lead the organization to implement that vision. For example, it's not enough to say "Our IT department will be responsive and deliver high-quality results." A practical vision is more like "Our information technology will enable competitive differentiation for our company through measurably improved quality, service, cost, and customer satisfaction." It's a mouthful, but it's specific and measurable. Taking that example further, let's imagine that outdated technology is found to be a bottleneck in introducing new products and features. IT should step up, remove that bottleneck through improved technology and information management, and then prove its impact by objectively measuring (and heralding) results.

> *With regard to abilities, leadership is among the most important a CIO can possess.*

The best CIOs understand the key business drivers affecting their industry (for example, rapid introductions of product features) and continuously drive corresponding change in their organizations. In the insurance world, modes of customer contact have changed steadily, especially over the past five years. The most effective CIOs have partnered with their counterparts in underwriting, claims, and policy service to champion key enabling technologies, such as Web self-service, next-generation contact center systems, document management, and workflow. The same is true in banking, where IT has been instrumental in enabling secure Web-based customer self-service and integrated portfolio views, among many other customer-friendly capabilities.

In health care, the challenges are remarkably diverse. Disease management and treatment protocols (and, in turn, patients) have benefited tremendously from technology. However, patient recordkeeping (that is, medical records) is still in the Dark Ages technologically. Yet a few pioneering CIOs are pushing the envelope with electronic medical records (EMR), despite the industry dynamics that make this a huge mountain to climb. Imagine the competitive advantage and goodwill that will benefit the first organization to roll out a practical EMR.

In the area of *circumstances*, I think most great CIOs would have to acknowledge some luck. Some companies have a management philosophy, business model, culture, market conditions, and human capital that give them an edge. Eddies and currents in the business world can make that kind of magical environment tough to maintain over time. But a CIO who is fortunate enough to work in that kind of environment—or help create it—can go from good to great.

And in the area of *character*, a great CIO is a person of integrity and ethics, who has the same high standards for all of IT. A great CIO works hard to develop personal relationships at all levels of the organization and demonstrates a genuine interest in people, for they are the true lifeblood of IT.

> *A great CIO works hard to develop personal relationships at all levels of the organization and demonstrates a genuine interest in people...*

Finally, I'll say that great CIOs might, occasionally, warrant the title of Hero. Leading an IT operation can be thankless when things get tough, and things are almost always tough if IT is living up to its potential. And of course, there's no shortage of armchair experts to complicate things. Maybe a great CIO is also a glutton for punishment. ▪

TODAY'S WAR OVER TALENT AND WHAT TO DO ABOUT IT

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If there's ever been a time when we were all painfully aware of the war over talent, it's now. Nearly every client we work with faces the same challenge: that of attracting and holding on to their most precious resource—people. We see this in many functions within the sector we serve, with underwriting and project management topping the list.

It's not surprising that underwriting skills are a priority, given where we are in today's insurance cycle. In spite of all the investments in information technology, automated underwriting tools, rules engines and the like, the demand for senior and experienced underwriting talent is at its highest level in recent history. People remain critical in today's underwriting environment. And for many, underwriting talent within and across regional job markets is shifting.

A similar tightening in human resource demand applies for many of our clients' project management functions. Successfully leading and delivering large, complex business transformation efforts requires extensive project management skills. Most clients are in the midst of large transformation programs involving some combination of changes to processes, technology, and people. Nearly every client is also struggling to retain their best project managers, or is at least seriously concerned about retaining them.

Nearly every client we work with faces the same challenge: that of attracting and holding on to their most precious resource—people.

Another challenge we see is the changing needs of the work force. A balance between lifestyle and work is increasingly important to employees. As I've learned too well from my daughters, today's emerging workforce wants a more flexible work environment—certainly more flexible than most of us could have imagined. Yesterday's traditional, office-based work environment of 8-5, five days a week continues to change to meet evolving demands.

Whether in underwriting, project management, or another critical area within the company, costs are also under pressure and, in many cases, continue to rise. This increase in costs will continue to put pressure on the softening pricing cycle. For many of these areas in which skills are in short supply, we see salaries inching up, and there appears to be a bidding war for the best and the brightest. At what point will this end?

What to do? The solutions are straightforward but often overlooked.

Make sure you are hiring people for their long-term fit. Too often, companies look at raw skills as the most important criteria for a new hire. And certainly, skills match is important. But equally critical is whether a candidate will be a good fit with the culture. Many of our clients conduct behavioral and cultural assessments to ensure that a potential hire is a good match. The extra cost and effort of hiring the right people are worth it in the end.

Offer flexible working arrangements to more of your work force. Working from home, flexible hours, and so on are all becoming more the norm than the exception. Not only does this work well for the employee's work/lifestyle balance, but it also helps the employer in terms of employee satisfaction and reduced office expense. Of course, you have to have the metrics, information technology, and management system to create this environment.

Maximize virtual office arrangements by hiring personnel outside your market, and use home-based workers to bring talent aboard. Of course, this works best for skills like underwriting, but it can also work well for service centers, technology development, and other functions that involve less face-to-face interaction.

Measure employees' satisfaction and make the effort to understand their likes and dislikes. This can be tricky, especially when no baseline exists. Clients who measure and act on employee satisfaction create a better work environment that continually improves.

While none of these ideas are new, they may serve as a strong reminder for some. Good luck in your ongoing battle in the war over talent. ▪

Identify Problems, Not Symptoms

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Most of my projects begin with a series of interviews with the client leadership. I've found it's always best to secure first-hand knowledge of the client's objectives and, most importantly, the problems they want to have fixed. Often, their view of the problems differs from my view. Determining the real problem is critical to setting expectations and achieving the proper objectives.

I recall interviewing a director of customer service who stated the problem I was to address like this: "The phones just recently started ringing off the hook, I'm missing my ASA times, our customers are really upset when they call, my service reps are ready to quit, and the objective of the project is to justify hiring more service reps on the phones. The place is falling apart, and I want to get my boss off my back (his real objective). I need you to help me get approval to hire more people."

He had diagnosed the problem as too many phone calls and not enough people on the phones to handle the volume. When I asked why the clients were calling, his face went blank and he said, "I don't know." Since he had no knowledge as to why the phone calls had increased, he had misdiagnosed the problem. Adding more people without understanding the cause of the increased call volume was not going to solve the true problem.

After a quick "tick and tally" study of the incoming calls, we were able to categorize the reasons behind the calls. We soon found many were the result of poor processing that generated mistakes which, in turn, produced irate customers who called to complain. A secondary problem was a processing backlog that resulted in clients calling to check status, often several times. Once we discovered these two primary drivers of call activity, we were able to take action in the processing areas to reduce errors and eliminate the backlog, which resulted in a decrease in call activity. Most importantly, we got his boss off his back, and we didn't add staff in the customer service department.

I see this type of problem identification often. As a manager, I probably did the same thing. If the director had acted on his analysis and idea for a solution to the perceived problem, only part of the problem would have gone away. He may have met his objective of getting more people, but there still would have been quality issues, a continuing backlog, and irate customers; and his cost of operations would have increased. Not a very satisfying result.

Identifying the root cause of a problem is not always as easy as a tick and tally study. Often, it takes time to do the research necessary to conduct a proper analysis. That requires crisis management and the use of an interim plan until the analysis is completed and a plan of action developed. While potentially painful, a thorough analysis lays critical groundwork to proper corrective action.

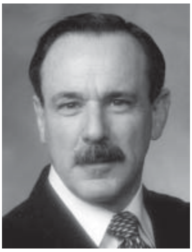
A few questions to consider when conducting an analysis might be:

- Am I looking at the real problem or symptoms of the problem? (Water dripping onto my carpet is a symptom; a hole in the roof is a problem.)
- How many customers does this affect? (Don't accept "I think…," even from yourself. That is perception, not reality. Get the real number.)
- How frequently does this occur? (Daily is generally a much bigger problem than once a year.)
- What is causing the symptoms? (Analyze the process—not the people—for causes.)
- Have I arrived at a solution before knowing what the problem is? (It's easy to do, but usually doesn't solve the real problem.)

It is often very difficult to complete an analysis of a problem and develop a proper solution when you're in the midst of damage control. Reacting without understanding is usually expensive, time-consuming, and not very effective.

Remember, when your ceiling is dripping water, it may take more time and money to buy buckets than it will to find the hole in the roof and patch it. ▪

The $2000 Trebuchet: Flying Pumpkins and Process Design



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There is a book that is truly dangerous, and I will not name it in the interest of protecting you from yourself and me from the author's lawyers. But it has a title something like Backyard Trebuchets. If you see it, do not touch it. Run away. Of course, you will not follow my well-intentioned advice.

The book tells you how to build a medieval catapult device in your backyard that can fling a pumpkin 1500 feet. By now, most female readers have gone on to another article, but guys are thinking "cool!"

Here is what you should know:

- Yes, Dad and college-bound son can build a functioning trebuchet.
- A trebuchet will fling a pumpkin-size object a truly amazing distance.
- Trebuchets are somewhat tricky to aim.
- Trebucheting can be expensive. Here is a representative cost based on one shot of a well-designed backyard trebuchet:
    - Materials for the trebuchet: $198.56
    - Neighbor's broken window: $843.31
    - Stain removal for neighbor's carpet: $135.00
    - Tropical fish replacement: $280.00
    - Neighbor's lawyer (category: brother-in-law, sub-type: shyster): $235.00
    - My lawyer (category: Yellow Pages, sub-type: shyster): $59.99
    - Flowers for my neighbor: $35.00
    - Flowers for my wife: $25.00
    - Flowers for my wife after she sees the florist's bill for my neighbor's flowers: $65.00
    - Total educational value of the do-it-yourself trebuchet project: $1,876.86

- Luckily, most backyard trebuchets are one-shot devices.

Many executives approach design of their core business processes like a backyard do-it-yourself project. You know the buzzwords that make up the drill: *cross-functional team*, *team-building*, *flip charts*, *vision*, *implementation coordination*, *project reprogramming*, and *legal fees*.

Trebuchet lessons for process design:

- When you identify a project or process that needs redesign, you may want to think twice before you do it yourself and launch your pumpkin.
- Many times, “well-designed” processes have unintended (but predictable) results.
- Unlike weekend do-it-yourself projects, gray hair helps in process design.

If you have an important process whose cost or quality might benefit from redesign, call us. We might be able to help you prevent a do-it-yourself disaster. By the way, if you call me, I’ll send you a harmless desktop trebuchet. ▪

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CLIENT SPOTLIGHT

Project: Enterprise Content Management Strategy Assessment

Client: A Leader in Individual and Employer Markets

Industry: Insurance

Products: Life, Annuity, Investment

Key Business Segments: Retirement, Life Insurance, Investment Management, and International

Key Stats: Our client has consolidated assets in excess of $100 billion. The retirement lines, which include individual annuities and employer markets, have their principal operations split between a central U.S. location and a northeast operation, with other functions serviced in two separate cities and facilities.

Objective

The primary objective of this project was to develop an enterprise-wide correspondence and content management strategy (ECM). The strategy would be used as a roadmap for implementing the business and technology support elements requisite to a consistent, high-quality, and cost-effective customer communications program. Components of the strategy included:

- Development of current- and future-state models of the business and technical environment;
- Definition of a framework for understanding context; and
- Jump start to enabling needed organization, process, and technology changes.

The state models were followed by a high-level cost-benefit analysis that would be used to guide the decision-making process for determining priorities and approvals during the implementation phase(s) of the project.

Current Environment

The Enterprise Content Management team had been working on an approved project for 18 months to build an enterprise-wide correspondence strategy. They identified the need for this specific project after uncovering various customer communications issues and associated inconsistencies. The communications issues encompassed e-mails, letters, prospectuses, confirms, statements, forms surrounding pre- and post-issue processes, and Web-based and CD-based information in support of sales and service. A variety of issues created challenges to productivity, service, quality, consistency, compliance, and cost management. These included: 11 different administration systems; a multitude of life and annuity application forms; the lack of a forms repository; questions about data integrity (which included client as well as producer addresses); multiple processing locations; lack of consistent use of the available tools for correspondence; and emerging use of e-delivery methods. While much work had already been done framing the issues, there was a growing sense of urgency to complete the strategy development portion. The company was eager to put the right business processes and systems into place and to begin realizing the benefits an ECM would generate.

Project Scope

The customer correspondence strategy development effort spanned multiple business divisions, a broad set of functional operations, and dispersed geographic locations. Product sets included group and individual life and annuity (including variable lines) from new business through client services and agency support. All end-customer-oriented communications—from sales materials to applications to bills—were reviewed. A four-step process was used:

1. Conduct information reviews to establish baseline;
2. Gather additional information to provide details;
3. Develop recommendations with the team; and
4. Present strategy and gain executive approval.

Project Results

The benefits of the project included:

- Timely completion of the initial strategy;
- An approach heavily based upon involvement and participation of company-wide staff;
- A process that ensured issues were addressed, options identified, and a feasible strategy presented; and
- A cost-benefit analysis of implementation.

The resulting strategy document provided in detail:

- An executive primer on ECM, its meaning, and its importance to profit and service differentiation;
- A current-state map by location delineating over-lap and redundancies, pain points, and core issues;
- Three immediate foundational strategic issues that required executive intervention and resolution;
- A future-state map by location that showed any customer differences in solution or implementation;
- A technical architecture listing the software needed to achieve the desired end state;
- Organizational requirements and implementation challenges that would likely arise, with alternatives;
- Operating tenets for implementing the future state, along with a three-stage plan; and
- Nearly sixty additional issues and opportunities for improvement discovered and documented during the interview and discovery process. ▪

Transformations and Perceptions of Power

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Working with organizations undergoing transformation provides an excellent canvas upon which to watch the landscape of power being painted. Outside the formal authority of hierarchical power invested in managers lies the real world, where politics, ambition, initiative, and perhaps even manipulation come into play. It is interesting to note that while managers have authority, and certainly some power over individuals, their power has become rather limited in today's culture of predetermined salary ranges, preset average annual merits, "positive discipline" processes, inflexible budgets, and "feedback assessment" forms. What authority does a manager really have?

When you introduce the opportunity for change in a facilitated workshop with staff from all levels, it is interesting to watch the dynamics play out. Managers are typically quick to explain and defend: this is how we've always done it; here are all the reasons why trying to change this won't work; here are all the people who've tried to change it in the past millennium who have failed; and on and on. The managers are the ones who paint the worst-case scenario.

In managers' minds, they have no real power to change, only the responsibility to maintain the status quo. When a new process is proposed, they tend to voice opposition, naming all the people who would have to be involved and persuaded before the change could be made. And I have heard this position taken on items as mundane as the use of staples over paper clips and the color of a particular worksheet used in a workflow process. The manager actually did not feel he or she had the "power" to make these changes.

Now let's introduce the workers, who range from company veterans to new hires. In the workshop environment, when the personalities play out, workers fall into some interesting categories; however, focusing on the power dimension, what we typically have are risk-takers and victims. The victims' stories are very much like the managers': can't do it, here's why, here's who tried and failed, and besides, my manager (the one who feels powerless) will never agree to this change. And then, thank goodness, there are the risk-takers. Whether from some inner sense of confidence, a stronger self-esteem, being the first born in a large family, or some other reason, these folks are always willing to take a chance. Their perspective is more "let's just change it and see what happens." Although they do not have any formal authority or power to really be making changes, they have invested themselves with an informal sense of power based on their desire to make a change and a willingness to take a risk.

Working with these entrepreneurial spirits, we've been able to make changes in longstanding processes without so much as a committee review, often under the auspices of a "test." Frequently, the changes are made before any formal approval, and the results are used to validate the approval. Remember the colored worksheets? While the debate of using green versus pink raged on, one evening in a "midnight raid," every pink form disappeared. In their place the next morning was an equal number of green forms. Grumble, mumble, complain, and then move on—and the issue has been resolved. That kind of change, while mundane in nature, is an example of risk-taking that reveals the power assumed by the change agent. What gives them this sense of power while others wade in inhibitions?

... perception really does construct our reality, particularly in the realm of power.

What differentiates the long-tenured manager who is playing the victim role from the long-tenured junior employee willing to take the risk? The study of risk propensity and the underlying perceptions of power, and the ability to make a difference, get into the psychology of the individual. The important walk-away is that perception really does construct our reality, particularly in the realm of power. Being able to empower employees (manager or otherwise)—convincing them that they are capable of making a difference—is one leadership trait found outside the boundaries of formal authority, related more directly to charisma and influence. That is where the real transformations can be made. ▪

Higher Costs in Growth-Oriented Organizations: Are They Needed?

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Operating costs are higher in some banks that are growing both organically and by merger, but when are the ongoing costs too high? We are seeing a trend where banks build infrastructure to support growth but never seem to grow into that infrastructure; instead, they continue to add on, following a strategy of high growth.

It is perfectly logical to build call center staff, credit staff, and other direct functional staff related to expected work volumes in an effort to support sales campaigns. It is also acceptable to add to the branch network and expect a lower financial return on the branch system until deposits build and the branch becomes profitable. The key questions are: what is the standard for growth organizations and when does this additional cost lose its justification? It is like buying clothes two sizes too large for growing kids so that they will get more wear out of them, then continuing to replace them with even larger sizes so that they never look right. In this case, what do these growth banks tell investors when their efficiency ratio is higher than that of comparable banks?

The banking industry is facing profitability issues similar to what it saw two decades ago—declining revenue growth and higher operating expenses.

A recent examination of the top 50 commercial banks in the United States revealed that the average efficiency ratio is 64 percent as compared to the average of 60 percent for the rest of the industry. The banking industry is facing profitability issues similar to what it saw two decades ago—declining revenue growth and higher operating expenses. The best way to reverse this is through reengineering the core processes to ensure effective delivery at the right cost. Because of a lack of synergies between merging organizations and the difficulties in converting systems, recent mergers and acquisitions have not been as effective in wringing out cost.

Consumer and regulatory pressure on banking fees brings into focus big banks' need to harness their growth engines and focus on retaining their profitable customers. Some major banks have shifted strategy from pure growth to customer service and retention, including Washington Mutual and Commerce Bancorp. They have made substantive changes, including major commitments to process redesign and staff training. This shift toward "profitable customer retention" and away from pure growth allows these banks to increase profitability and get back to providing value to customers and shareholders.

The key to lowering these costs: design service excellence and scalability into the core processes so that the need for building costly infrastructure can be minimized. Growth is fantastic, but not at the expense of profitability year after year. ▪

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"Don't anybody move: this is a merger."

The ABCs of Web 2.0

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Last year, my son (a freshman in high school) came home and proudly announced that he had gotten into the Web 2.0 program at school. I really wanted to share in his joy, but the phrase "Web 2.0" was only vaguely familiar to me and my impression at the time was that it was another catchphrase invented to re-inflate the internet investment bubble of the '90s. In the year that has followed, a whole lot of people have learned and shaped what Web 2.0 is or may be.

"Web 2.0," coined by O'Reilly Media in 2003, refers to a perceived second generation of Web-based communities and hosted services that facilitate collaboration and sharing between users. Some of the better-known examples are eBay, craigslist, Wikipedia, del.icio.us, dodgeball, and AdSense, all of which derive their power from the human connections and networking effects they make possible. In other words, they offer genuine interactivity if you like, simply because people can upload as well as download.

The key to understanding Web 2.0 is to think about harnessing social network effects to create products or services that get better the more people use them.

It is not actually a new technology or even a new version of existing technology (as the 2.0 might imply), but rather a new use of the Web's existing capabilities. Many of the ideas of Web 2.0 were already in play well before the term "Web 2.0" emerged. Amazon.com, for instance, in a form of self-publishing, has allowed users to write reviews and consumer guides since its launch in 1995. The key to understanding Web 2.0 is to think about harnessing social network effects to create products or services that get better the more people use them. O'Reilly has identified core competencies of Web 2.0 companies:

- Services, not packaged software, with cost-effective scalability
- Control over unique, hard-to-recreate data sources that get richer as more people use them

- Trust in users as co-developers
- Ability to harness collective intelligence
- Leveraging the long trail through customer self-service (for example, the ability to develop products or services that individually may have low demand or have low sales volume, but can collectively make a significant revenue and profit stream, such as Amazon or Netflix)

So, what is the potential for the financial services industry? How might you harness network effects for your business? Here are some ideas:

1. Make it easier for people to sample or recommend your services.
2. Help your customers network. Is there some social networking angle to what you do? Let them annotate, review, and share information about your product or service. Amazon is a great company to study in this regard. They don't have a single big Web 2.0 competitive advantage like Google or eBay—they just work harder than anyone else to involve their customers in adding value to their product.
3. Build services that learn from your customers. If your product requires configuration or customization, document and export these cases so that it's easier for the second customer who encounters the special situation to use your product or service.

Wells Fargo bank recently announced that its "Internet services group has an internal Wiki where engineers, marketing, product managers, and operations teams all submit ideas … creating an open, inclusive environment where points of view are shared." This try-it-internally-first approach to stimulate thinking on how it may be of value to markets and customers will most likely be the early adaptor approach in our industry. While blogs, Wikis (variations of Web 2.0), and their ilk are now only at a few leading-edge companies, they will most likely become more common and eventually pervasive. In the not-too-distant future, organizations will use these tools to enhance collaboration and harness collective intelligence. Is it time to try one in your organization? ▪

The Prioritization Un-Dilemma

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Once upon a time, a TV station back home ran commercials for Mad Man Dapper Dan's Used Cars. Dapper Dan was quite a character, and his late-night sales stunts were the stuff of local legend among pre-cable viewers. Whether the following phrase was one of Dan's or not escapes my memory, but it sure sounds like something he would have said: "I lose money on every car, but I make it up in volume!"

When it comes to project management, many companies also seem to apply the make-it-up-in-volume approach. It's a familiar situation—a nearly infinite pool of project ideas, each worthwhile, competing for limited resources. The result? Project managers scramble to move their projects to the front of the line. And in conference rooms across the land, a familiar lament is heard: "We've got a prioritization dilemma." The anguish is most visible (and audible) around budget time, when competition for funding is most intense.

> *In reality, what organizations typically face is a prioritization problem, not a dilemma.*

First, the good news: in most cases, there really *isn't* a dilemma. Now, the bad news: there usually *is* a problem. A quick trip to the dictionary explains this apparent contradiction.

The word "dilemma" is often used to describe a problem that lacks an easy solution. But the word, which comes from the Greek dilēmmatos, in fact, describes a situation that can be resolved only by choosing between two or more *unsatisfactory* options.

In reality, what organizations typically face is a prioritization problem, not a dilemma. That's because more often than not, there are too many appealing project choices. In a world where time and money are finite, it's never possible to do everything. It's essential to have an agreed-upon method to quickly and objectively identify the *right* things to do. Otherwise, project prioritization is like asking a specific things we *should* do—projects that deliver maximum value to the organization.

Fortunately, there are several proven ways to evaluate competing projects. Templates and tools on the subject abound. Despite the variety of approaches, almost all involve the same basic components:

- **Evaluation Tool.** A consensual way to measure cost, benefit, risk, and value.
- **People.** A knowledgeable team who can apply the tool, including the project manager, key business owners or users, and the system or technical lead, all of whom bring deep expertise along with their all-too-human fondness (or antipathy) for a particular project.
- **Balance.** The key to successful prioritization is finding the right balance between people and process, using a tool that facilitates objective evaluation and ranking of projects.

On the tool side of the equation, the list of options runs the gamut from simple (manual ranking using established criteria) to highly sophisticated (software with graphics and other automated features).

...engage people in an objective evaluation of the optimal combination of projects that will deliver value to the company...

What matters most is clarity. The point of the exercise is not to produce colorful charts and graphs. The point is to engage people in an objective evaluation of the optimal combination of projects that will deliver value to the company—in other words, the best way to invest the company's capital and resources.

The list of critical questions to be answered is fairly short:

- Are there clear (and agreed-upon) requirements that pinpoint the specific capabilities the project needs to deliver? Do these reflect specific customer or sales needs, or are they based on internal guesses?
- Do we understand the cost of doing the project (all costs, including people, equipment, space, software, and so on)?
- What measures will be used to quantify the benefits of doing the project (revenue, cost savings, return on investment, and so on)?
- Is there risk associated with doing the project? With not doing it?

- How easy (or hard) is the project to implement? Complexity may be in the eye of the beholder, but it's an important consideration when thinking about risks and rewards.
- How does the project line up with the company's strategy and value proposition?
- What is the return on investment from doing the project?

Unlike Dapper Dan, project managers can never make it up on volume. A disciplined, analytical approach reduces guesswork and removes emotion from the decision-making process. It also ensures that new project proposals are better aligned with the company's strategy and helps eliminate the ones that aren't, making room for more deserving ones. That's what setting priorities is all about. ▪

IASA Seeking Volunteers From Insurance Carriers

The Insurance Accounting & Systems Association (IASA) is a leading industry association dedicated to industry education, professional development, and networking. As you may know, IASA is supported by a large base of volunteers who share their time, knowledge, and expertise by serving on committees and workgroups at the local or national level.

IASA is now seeking volunteers from insurance carriers. Volunteers work on new and different projects that offer development opportunities not always available through one's day job. IASA volunteers can build an industry network that will serve them throughout their career. Employers also benefit when their employees volunteer and bring their newfound knowledge and contacts back to the workplace. This has certainly been true for the Nolan Company, a long-time supporter of, and volunteer for, IASA. If you are interested in volunteering with IASA, visit www.iasa.org or e-mail info@ iasa.org. ▪

The Strategic Impact of Poor Data Quality

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This is part one of a two-part article...

Overheard Conversation No. 1:

"Whatever happened to that systems integration project that was supposed to be finished this year?"

"It died a slow death due to data quality problems."

How does data quality have this kind of impact? Why does it continue to bedevil major strategic initiatives in company after company? Most importantly, what can be done to address this ongoing and growing problem?

At insurance companies around the world, systems have historically been developed to support a particular user or to handle a defined function—in other words, to address a specific need. This was efficient, in terms of both systems development and transaction processing. The result, however, has been a "silo effect," with systems unable to speak a common language. This has complicated the already complex problems that result from poor data quality within the systems themselves.

In order to grow their revenue bases, insurance companies are using customer relationship management (CRM) systems, data warehouses, and data mining techniques to manipulate existing customer data to market new products. These initiatives can be extremely cost-effective revenue growth strategies. However, the data involved must be accurate, complete, and usable.

Often, the discussion of data quality is limited to the common problem of differing definitions of the same term in different systems.

Often, the discussion of data quality is limited to the common problem of differing definitions of the same term in different systems. This causes difficulties when the data is integrated into a new database or warehouse. However, the real underlying problems resulting from poor data quality are much deeper and widespread.

These problems fall into three broad categories:

- First, data quality problems can be symptoms that point to underlying defects in existing operating processes.
- Second, data quality problems highlight current system problems that cause errors and extra work while reducing the effectiveness of the system itself.
- Finally, when data is combined or moved from one system to another, quality problems can arise and be compounded. This last situation is common with the transition to many new database technologies.

Obviously, there is no “magic bullet.” No single solution addresses all these possibilities. What approach, then, should be taken?

While the symptoms of data quality problems are varied, they can be attacked in an organized fashion. Recall the broad definition of quality: “meeting or exceeding customers’ expectations.” When discussing data quality, this definition is complicated by the fact that there are at least three sets of customers—information collectors, information custodians, and information consumers. These customer groups and their issues may or may not overlap, and they may have completely different priorities.

Information Collectors

Information collectors are the individuals and units who create, input, or otherwise manage the capture of data. They normally operate the systems and are often the business owners of the application systems. Frequently, they input data for use in transaction processing.

Collectors usually have a strategy built around operational efficiency. They want the data to be formatted so that it can be input quickly, easily, and uniformly. They also want it to be complete for all transactional purposes, including customer service responses. As transactional users, they want easy access with a minimum number of security obstacles.

Information Custodians

Information custodians are the information manufacturers or processors. They are primarily systems staff responsible for maintaining the data and the systems infrastructure.

Custodians have quality expectations built around technical efficiency (for example, storage, access speeds, and programming ease), maintainability, and security. Often, there is little real understanding of the meaning of the data. The custodians are largely interested in keeping the data available and secure for the information consumers.

Information Consumers

Information consumers use the end information product in their work. Consumers may be operational staff who use the data from one system for transactional activity, or they may be executives using data from many systems to make strategic decisions or execute broad initiatives. Consumers may be the transactional users who use one system to perform one task (for example, processing and underwriting applications through a new business system). Their data quality requirements have normally been defined during the development of the primary system.

While the symptoms of data quality problems are varied, they can be attacked in an organized fashion.

Many data quality issues arise from a different type of information consumer—one who creates a new function that does not currently exist and requires data from multiple systems. A typical example is a marketing initiative that will need to process customer information from separate systems that handle different products or transactions. Since these systems were developed for different purposes, there has been no effort to standardize format or definition. ▪

The second part of this article will cover
"The Approach to Data Quality"

Look for it in
The Nolan Newsletter - First Quarter 2008

UPCOMING NOLAN EVENTS

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. CDT. The conference will be held in New Orleans, Louisiana. Visit www.iso.com for further information on this event.

IASA Mid-South Chapter Annual Conference
October 28-30, 2007

Ben DiSylvester, Nolan Chairman, and Charles B. Harding, Germania Farm Mutual Insurance Association, will also present “Automating Underwriting - The Incredible Journey” at this conference which runs simultaneously in New Orleans during the ISOTech Conference (mentioned above). Attendees can hear the presentation on Tuesday, October 30, at 9:15 a.m. CDT at the Royal Sonesta. Visit www.iasa.org for more details.

RECENT NOLAN EVENTS

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

Nolan Senior Vice President Steve Discher presented at CIAA’s 44th Annual Conference held in Scottsdale, Arizona, on Tuesday, September 18. He spoke on the topic *Challenges Facing P&C Insurers from a Consultant’s Perspective*. Go to www.ciaa.org for highlights from this conference.

Silanis Technology Webcast
September 20, 2007

Don Himes (Nolan Senior Consultant), Steve Callahan (Nolan Senior Consultant and Practice Development Director), and Michael Laurie (Silanis Technology Vice President and Co-Founder) presented during a free Webcast reviewing the state of electronic signatures in the insurance industry. They answered the most common questions from organizations considering e-signatures. For webcast highlights, go to www.silanis.com.