FIRST QUARTER 2017 / VOLUME 44 / NUMBER 1

Nolan Insights

MANAGEMENT PERSPECTIVES

HIGHLIGHTS IN THIS ISSUE

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THE NOLAN COMPANY is a full service management consulting firm comprised of highly skilled and knowledgeable experts with hands-on management experience in the insurance, healthcare, and banking industries. We solve complex operational and technology business challenges by partnering with you to create practical solutions.

Through *Nolan Insights* we share experience-based perspectives and advice about business issues faced by leaders in the insurance, healthcare, and banking industries.

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Nolan Insights

MANAGEMENT PERSPECTIVES

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THE INSURTECH EFFECT

Paul Revere never said, "The British Are Coming." But if he were here today, he might be yelling, "The InsurTechs are HERE!" Or maybe he'd tweet it. Either way, it would be good news because the InsurTechs are bringing innovative concepts to the insurance world and beyond. And their influence goes well beyond technology.

There are perhaps hundreds of so-called InsurTechs – typically startups that offer point solutions (or concepts) using innovative designs and technologies. Here are a few examples:

Drive Spotter is targeted at vehicle fleets and uses real-time video analytics to help fleet owners manage and improve vehicle fuel usage, safety, and upkeep. With autonomous vehicles developing rapidly, this technology has interesting possibilities.

Roost makes smart alarms (water, freeze, smoke, and CO2) and smart batteries to retrofit older detectors, making them Wi-Fi compatible and adding functionality. One of their taglines is, "No more 3 AM chirps!" Many of us can relate.

FitSense uses data from apps and wearables and other devices to create specific customer and risk profiles. According to the company, it is intended to allow carriers to "offer the right kind of protection at the right price."

And there are many others – everything from drone-enabled analytics to driver safety apps. As is to be expected, some won't make it; others will. Some will pivot and reinvent themselves along the way. As this unfolds, their very presence is creating a wave of energy around innovation. In effect, this is crowdsourcing innovation for the insurance industry, benefiting carriers and policyholders.

You can see some InsurTech innovations in person at the IASA Annual Conference in June, where Nolan will once again sponsor the COO Roundtable. A new session called "Tech Tank" will offer a high-energy look at a few InsurTech participants from the Global Insurance Accelerator. Judges will select their favorites in a format similar to the TV show *Shark Tank*, and the audience will weigh in too. Join us in Orlando this June!

In this edition of *Nolan Insights*, my colleagues share their ideas on topics involving innovation and evolution. Enjoy!

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THE STEADY-STATE IMPERATIVE

Achieving steady-state operations may not be the most glitzy goal for a business leader, but it is a very necessary step towards competitiveness – and often a very challenging one.

As the health insurance market continues to change at a rapid pace, many payers are seeing the maxim, "Past performance is no guarantee of future performance," play out in their business operations. For health plans, this often means their previously well-running operations are being impacted in new and numerous ways.

News headlines across the healthcare industry tell a story that, in addition to regulatory and market changes, many impacts are self-imposed: expanding into new regions, standing up new lines of business, aggressively growing current markets, etc. Mature, well-performing business operations are being challenged, and many payers are finding that portions of their operating environment have become increasingly destabilized. Typical indicators include:

- increasing cycle times,
- increasing variability in outcomes,
- unclear service level targets,
- service and quality metrics not being met,
- compliance issues arising frequently,
- rising costs, and
- growing backlogs

Destabilizing Factors

In recent years, health plans are experiencing new and increasing destabilizing forces, including rapid growth in current markets as well as new and products and markets.
Source: kff.org

When payers lose predictability in business operations, external stakeholders often feel the pain – e.g. claims aren't paid correctly or on-time, service encounters are not handled effectively, etc. In the current environment, members and providers have more choice than ever before; and not meeting their service expectations has a real impact on the bottom line.

Is this a time to be bold and aggressive? The opportunity to take an approach that leapfrogs the competition with "market-differentiating capabilities" can be very tempting. However, a more effective approach to achieving market-leading capabilities may start with a more mundane first step: stabilizing your current operating environment. And that can be an aggressive goal.

The next step is understanding where the operational performance levels must be. While that sounds simple enough, it is surprisingly common to see management "dashboards" that report actuals only. Gaps and deficiencies in operations are indicated by discrepancies in actual versus target performance levels. And that provides actionable information.

How can health plans effectively address these challenges? By focusing on stakeholders – specifically, the stakeholders' expectations. The key is to define those expectations in quantifiable terms. For example, if a plan is experiencing disruptions in new member enrollments, how would your target member population define a positive enrollment experience? It may begin with receiving an error-free first bill within a week of enrolling. Timeliness and accuracy are measurable terms, which is a start.

There is no one single answer for target performance levels. Rather, the targets should be set at viable levels based on the current operational environment. Consider a staged approach that will:

- Focus on stabilizing the environment first with target performance levels that are viable given the current environment;
- Next, ensure operational performance and service delivery levels are, at a minimum, on par with the market;
- Then enhance the capabilities that will differentiate the health plan in the marketplace – finally, this is what the payer can compete on!

Stabilization is a progressive process that includes safeguards against future destabilizers.

Evaluating a health plan's operations in this manner overcomes one of the

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ONE OF THE MORE SUCCESSFUL TECHNIQUES FOR ENSURING THAT STABILIZED AND ADVANCED OPERATIONS DO NOT DEGRADE IS EFFECTIVE USE OF DASHBOARDS AND REPORTING.

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biggest roadblocks to improving performance: understanding the problem in a manner that is actionable.

An important consideration that must not be overlooked is how to sustain the improved performance. If operations leaders are not attentive, performance levels will decline. One of the more successful techniques for ensuring that stabilized and advanced operations do not degrade is effective use of dashboards and reporting.

- Reporting should be customized by level (Operational/Management/Strategic) and perspective (Operations, Service, Financial, Compliance, etc.).
- Dashboards should only display those key measures that indicate whether you're performing well or poorly.

Without the visibility and clarity that focused reporting and dashboards create, our experience has consistently shown that health plans struggle to sustain improved service and performance levels.

With the multitude of current change imperatives (new regulatory requirements, the move to consumerism, commercial and government healthcare market growth, new markets opening up, etc.), all health plans are being impacted in new ways. Payers will find that what has worked in the past is no longer good enough, even for established lines of business. For those plans that are already experiencing disruptions in their operational environments, they must pursue a path that enables them to:

- Clearly understand, define, and frame what must be addressed;
- Deliver long-term solutions while providing near-term relief; and
- Prevent regression.

When coupled with a measured approach to achieve stability first, health plans can protect their current operational performance levels while providing a platform for growth with improved quality, costs, and stakeholder relationships.


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REBOOTING CUSTOMER EXPERIENCE

Insurance, at its core, is a service industry. Good customer service has always been an industry imperative. Given that backdrop, what is driving today's hyperfocus on customer experience? It's a combination of intense competition for premium dollars, innovative service designs, pervasive technology, and comparative experiences.

Insurers are competing against the best service providers across a host of industries. Customers are accustomed to "new era" service from all kinds of businesses (e.g. Uber, OnStar, FedEx), which automatically raises their expectations regardless of industry. So when a customer receives disappointing service, it really stands out. And with today's social media platforms, it's easy for customers to trumpet their disappointment. All it takes is two minutes and a click of a button to post a scathing review.

Complicating things further is that the convenience enabled by technology has also made customer allegiances increasingly brittle – it's easier now to switch to a competitor who has a better Yelp reputation or a better app. To combat all this, businesses are investing heavily in customer experience innovation. Insurance is no exception.

By Design

Delivering a superior customer experience is a powerful differentiator that builds allegiance and drives growth and profitability. But designing that experience and delivering it consistently is remarkably complex, especially in our highly-regulated industry. We can attest to that, having designed many customer experience programs for insurers. Here are some guiding principles:

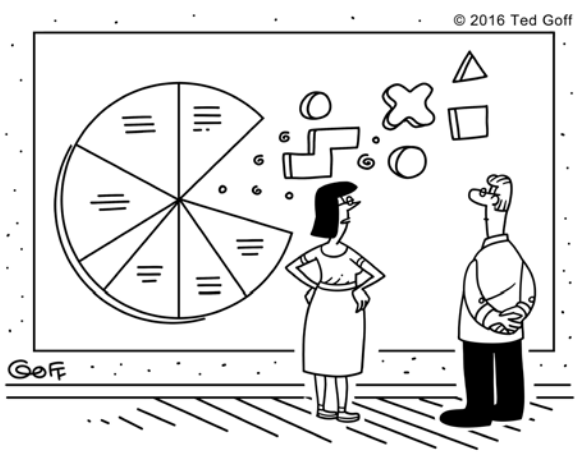
- Customer service is transactional; customer experience is strategic.
- Customers want an emotionally satisfying experience. Ironically, the core transaction can often be secondary to the overall experience. Ask a Lexus owner about this.
- Customer experience is by design. It's not just good faith, culture, process, technology, people – it's all of those things and more – orchestrated within a tailored customer experience model.

- Customers can be the source of innovation – listen carefully!

A major part of customer experience design complexity is integrating it into core technologies. Consider these best practices:

- "Keep the customer in the room" throughout the technology deployment process – from design through testing through operational rollout. This responsibility should be assigned to specific individuals with clear accountabilities.
- Incorporate analytics that identify which customers drive the most value and what's uniquely important to them.
- Build in measures, feedback mechanisms, and control points that feed a formal continuous improvement program across your service channels. The goal is for customers to consistently say, "I got what I needed, it was easy, and I felt good about it." This is the secret sauce of retention, referrals, and brand strength.
- Don't allow security and privacy requirements to dominate the customer experience. Strong security and streamlined authentication are not mutually exclusive.
- Make it just as easy for a customer to access a service agent as it is to access web self-service.

Given the trends in customer expectations and competitive differentiation, a question of strategic importance to every carrier is: Is your organization doing the right things to deliver a satisfying and competitive customer experience?



"Those are the parts that don't fit into our old way of thinking."

CONFERENCE NEWS

IASA Annual Conference
June 4, 2017 – June 7, 2017

Nolan EVP, Rod Travers, is honored to serve as President of IASA for 2016-2017. Rod will be on stage and participate in sessions throughout the event.

Monday, June 5 – 1:00 p.m.
COO Roundtable
The Nolan Company is sponsoring the Chief Operating Officer Roundtable. Nolan EVP, Steve Discher, will participate in the Customer Experience Audience Workshop.

Tuesday, June 6
Session 671, IASA Tech Tank
Nolan EVP, Rod Travers, will serve as a judge in this unique session focusing on startup technologies in the insurance industry.

ALL SYSTEMS GO
IASA 2017 EDUCATIONAL CONFERENCE AND BUSINESS SHOW
JUNE 4–7, 2017 • Orlando World Center Marriott, Florida

PCI Executive Roundtable

Nolan is proud to be a sponsor of PCI's annual Executive Roundtable. Nolan hosted a cocktail reception and sponsored two drawings which included a donation of $500 to each of the winner's designated charities. Nolan Executive Vice Presidents, Steve Discher and Rod Travers, were pleased to present the prizes this year to Ray Pickup, President & Chief Executive Officer at Workers Compensation Fund, and Ed Largent, President, CEO, and Board Chair at Westfield Group. The Nolan Company made donations on behalf of Ray to Neuroworx in Sandy, Utah and on behalf of Ed to United Way of Medina County.

Congratulations to both our winners of this year's drawings.

Ray Pickup *(right)*
President & CEO
Workers Compensation Fund

Ed Largent *(center)*
President, CEO, and Board Chair
Westfield Group

NEUROWORX

www.neuroworx.org

United Way

United Way of Medina County

www.unitedwaymedina.org

MICHAEL MURDOCK / PRACTICE DIRECTOR / michael_murdock@renolan.com

THE PROMISE — AND CHALLENGES — OF DIGITAL INSURANCE

The insurance industry is going through an unprecedented shift in terms of buyer behavior, marketplace dynamics, and technology. As a result, integrating core insurance functions with innovative technology has never been more important – or impactful. To grow and compete in the digital insurance era, innovators are unlocking the value of advanced mobile applications and platforms, UBI and telematics, autonomous vehicle technology, machine learning and robotics, advanced analytics, and tightly integrated core systems.

What is Digital Insurance?

As with other important tools and approaches (for example, analytics), a hype wave has engulfed the term digital insurance. It is being hijacked to fit specific products and technologies, and is touted as the solution to many of the industry's ills. In the no-hype world, digital insurance is a broad term connoting the use of technologies to integrate processes and information among core insurance functions including:

- Product Development
- Customer Acquisition
- Distribution
- Underwriting
- Claims
- Service Operations
- Finance
- IT

The payoff from digital insurance comes from capitalizing on data and processes across core functions. While the impact on key performance indicators can be dramatic (e.g. improved risk selection and loss ratios), the most important outcome is transforming the customer experience to improve satisfaction and retention, and ultimately growing the business.

Going Digital

Every insurer is at its own stage on the digital transformation curve. No matter where you are, it's important to have a blueprint to guide your efforts and invest-

INSURERS MUST UNDERSTAND THEIR CUSTOMER — INTERESTS, PREFERENCES, BUYING BEHAVIORS — AND MOVE FROM A COMMODITY PRICE-DRIVEN APPROACH TO A CUSTOMER-DRIVEN FOCUS.

ments. Fragmentation among departments, siloed customer data, data quality woes, budget constraints, and scope-of-authority issues have saddled many insurers with piecemeal projects that don't deliver their potential.

This time it's different. Given the competitive marketplace and ever-increasing customer expectations, insurers no longer have the luxury of "figuring it out as they go" at a casual pace. Insurers must understand their customer – interests, preferences, buying behaviors – and move from a commodity price-driven approach to a customer-driven focus.

Every insurer should have an operational blueprint that depicts where digital resources can add value or reduce cost across the enterprise. That blueprint should also define high-level approaches and time frames for achieving those results. You might be tempted to call that a "digital strategy," but that would understate the magnitude of the issue. Your overall business strategy should prominently incorporate the principles of "integration," "technology-enabled," and "data-enabled" to drive those priorities throughout the organization.

In terms of the digital insurance impact on core functions, here are some of the ways that traditional insurance functions are evolving:

- Customer self-service is being transformed using advanced mobile applications for customer acquisition; claims reporting and inquiry; billing functions; and non-core functionality such as home automation, property inventory, etc.
- Data is being mined using social media, UBI telemetry and other telematics, wearables, and other sources to price and underwrite risks more accurately and manage claims more effectively.
- Customer trends are being deeply analyzed and correlated through social media, predictive analytics, and "big data" analysis to create insurance products and processes that are more aligned with customer needs. Those same resources are being tapped to sell more effectively, cross-sell existing customers, and retain customers over the long-term.
- Robotic Process Automation (RPA) technology is being used to emulate human activities in processing claims and other service encounters to automate frequent and repetitive multi-step tasks.

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“GOING DIGITAL” IS NOT EASY, BUT IT’S TABLE STAKES FOR ENABLING FASTER ADAPTATION TO MARKET SHIFTS AND SUSTAINING LONG-TERM GROWTH AND PROFITABILITY.

- Machine learning and artificial intelligence are being integrated into insurance operations. Machine learning data can be used to predict current or future outcomes producing reliable and repeatable decisions and results.
- Home sensing is being used to develop homeowner insurance premiums.

Start With a Blueprint

Most companies have a technology plan, and typically these focus on infrastructure, applications, risk mitigation, prioritization parameters, etc. Two areas that are often underrepresented are data and integration – specifically, how data is consumed and applied, and how technologies are integrated throughout the business value chain – across departments, across systems, and across revenue and cost domains. Your technology plan – your blueprint – should include these elements. Be prepared for push back as this will likely portend organizational and cultural changes. But such clarity around data and integration is essential for capturing the value of digital insurance. Some organizations are not equipped to make this kind of shift due to a lack of business or IT resources with the relevant experience. This may require engaging third parties as strategic business partners, or possibly a strategic acquisition.

And while you are refining that blueprint, take a hard look at your leadership ranks. Technology-driven organizations require leaders who are educated and experienced in advanced analytics and data analysis in addition to technical insurance experience. This is a paradigm shift from the traditional insurance resource requirements. There must also be a balance of insurance and technology expertise at the technical and professional levels. Do you have the right talent in the right places?

The insurance industry is changing more rapidly than most had anticipated, with technology as a primary catalyst. “Going digital” is not easy, but it’s table stakes for enabling faster adaptation to market shifts and sustaining long-term growth and profitability.

ROBERT GRASING / PRESIDENT / bob_grasing@renolan.com

FINTECHS ARE RESHAPING BANKING IS ANYONE LISTENING?

The transformation of customer needs has largely outpaced the systems banks have in place to support them. Those customer shifts have been driven by innovations in connectivity, social media, and devices such as smartphones and tablets. Innovative banks are indeed rethinking channel options in response to evolving customer expectations, but much of the change is being driven by FinTech innovations capturing market share.

Let's use recent headlines to examine the major banks and how they have reacted to the continuing downward shift in physical branch transactions. *"JP Morgan to close 300 retail branches*," "*PNC to close over 200 branches*," "*Bank of America to close over 10% of its branches*," "*Regions to close 63 branches*." When you listen to the rationale provided in each story, it sounds like a reaction to a shift in customer behaviors (i.e. away from branches). It does not sound like a proactive approach to finding better or innovative ways to serve customers. In other words, we are hearing, "The definition of a branch is changing" instead of "We are creating new and improved ways to serve the retail community."

Where does this leave the nearly 6,900 banks and 6,300 credit unions in the United States? With those kinds of branch trends, the message should be loud and clear: Banks must become more innovative and customer-focused in the design and delivery of banking and related services. And they must have a sense of urgency in doing so. Yes, there are innovative banks including USAA, Umpqua, BBVA Compass, and City National to name a few, but the vast majority are not responding adequately to this unprecedented time in banking history. Every bank should understand its unique differentiators (e.g. regional commitment, industry focus, products, affinities, etc.) and completely rethink where the customer delivery must be today and five years from now. A recent study by TransUnion shows that FinTechs outpaced banks, credit unions, and traditional finance companies for loans to prime and near-prime borrowers. That's an eye opener.

It is time to engineer the future of banking and to redesign the underlying systems and processes that will make banking as easy, efficient, and exciting as the FinTechs.

DENNIS SULLIVAN / CHAIRMAN / dennis_sullivan@renolan.com

THE FUNDAMENTALS AND CUSTOMER EXPERIENCE

It's 2017 – time for a new round of prognostications from today's "business thought leaders." Beware! Whether it's business school journals, white papers, or trade magazines, new management "philosophies" are everywhere. As consultants, we are right up there with the business school gurus throwing around the latest jargon and catchphrases – digital transformation, autonomy, customer experience, TOTAL Customer Experience! Call me a cynic and you'll be correct.

Some say it's the millennials that compel us to think a new way and manage a new way and come up with new strategies. That's true in part, but it's not that simple. I have a group of millennials whom I regularly observe – my nieces and nephews and some of their friends. They include business people, teachers, lawyers, nurses, wall street wannabees, and undecideds. It turns out they can't be defined by a nebulous term such as "millennials." They are individuals with unique and often fresh perspectives. And they have many of the fundamental attributes that successful people have always had. They question the status quo. They want to raise the bar, improve, and create successes. Some in business, some in art, some in lifestyle – just as those from earlier generations. And they are willing to work hard to do those things.

Can those individuals help us with one of today's most-hyped management topics? In the '90s, there was a tidal wave of business writings about "quality." The core concept then was redesigning business models "from the outside in" – from the customer's perspective. Today's customer experience "breakthroughs" sound very familiar. That said, there are fundamental differences today that have changed the game, for example: personal technologies, ubiquitous connectivity, mass personalization, social norms, globalization. Who better than next-generation leaders (millennials included) to help us understand and capitalize on these changes?

At Nolan, we use some not-so-secret formulas to help our clients grow, evolve, and navigate change. Those include focusing on the fundamentals (analysis and design among them), and incorporating diverse ideas. As you embark on strategic change efforts this year, resist the temptation to get caught up in the NEW "silver bullets." Instead, prioritize on what matters most to your customers AND to your emerging leaders. We're here to help.

NOLAN EVENTS

PCI

PCI Executive Roundtable Seminar | February 12-14, 2017 | Naples, FL

The Nolan Company is pleased to again sponsor the opening reception for this annual event in Naples, Florida. Executive Vice Presidents, Steve Discher and Rod Travers, will be onsite for the event.
– www.pciaa.net

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JUNE 4-7, 2017
ORLANDO, FLORIDA

IASA Annual Conference | June 4-7, 2017 | Orlando, FL

The Nolan Company will be attending the 2017 IASA Annual Conference and Business Show in Orlando, Florida. Nolan Executive Vice President, Rod Travers, is the current president of IASA and will be present at many of the sessions and activities.
– http://www.iasa.org

Chief Operating Officer Roundtable

IASA COO Roundtable | June 5, 2017 | Orlando, FL

The Nolan Company is sponsoring the Chief Operating Officer Roundtable at this year's IASA Annual Conference. Nolan Executive Vice President, Steve Discher, will participate in the Customer Experience Audience Workshop.
– http://www.iasa.org/conference/Coo

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