SECOND QUARTER 2014 / VOLUME 41 / NUMBER 2

The Nolan Newsletter

MANAGEMENT PERSPECTIVES

HIGHLIGHTS IN THIS ISSUE

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Management Consultants

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MANAGEMENT CONSULTANTS

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The Nolan Newsletter

MANAGEMENT PERSPECTIVES

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MANAGING ADMINISTRATIVE EXPENSE IN AN EVOLVING HEALTHCARE MARKET

In this edition of *The Nolan Newsletter*, our industry experts share their insights on topics ranging from Technology ROI to Leadership Qualities. I hope you find their perspectives valuable. First up, I'd like to explore a topic of critical importance to the healthcare industry and, in turn, to our economy: managing administrative expense in a rapidly changing market.

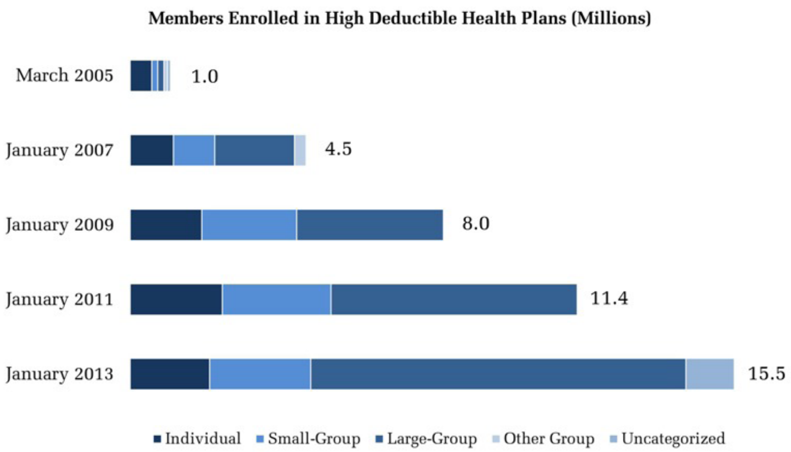
The health insurance industry has never been stagnant, but the changes going on today are perhaps more profound than ever. The industry must demonstrate that it can improve healthcare efficacy; that is, that it can control medical costs while it improves health outcomes. If it doesn't, we will likely see more government intervention. It isn't just the Affordable Care Act (ACA) that is driving the industry to improve efficacy—employer groups are also implementing innovative models. According to a 2013 Towers Watson employer survey on purchasing value in healthcare, nearly two-thirds of surveyed employer groups provide financial incentives for members to participate in health management programs; and 16% of those respondents, an increase of 6% over 2012, indicate that incentives are being tied to improvements in health status. Another 31% of respondents indicate they are considering tying outcomes to incentives in 2014.

Managed Care Organizations (MCOs) are taking several approaches to improve efficacy; but it is generally accepted that to truly impact efficacy, members must take an active role in managing their care, and providers must be rewarded for outcomes (not simply volume). MCOs must change how they work with members and providers:

1. *Engaging members as customers*. MCOs must support members at both the point of purchase and at the point of service. At the point of purchase, MCOs must help members understand what is available to them and assist them in determining which products and services best suit their needs. In addition, members should be guided at the point where they are accessing healthcare services to understand how their decisions are likely to impact their costs and outcomes. MCOs are implementing new product designs that require members to take a more active role in the healthcare process;

TO HELP CONTROL THE COSTS OF HEALTHCARE, PROVIDERS MUST BE ENGAGED IN SOME FORM OF A VALUE-BASED ARRANGEMENT.

between 2005 and 2011, enrollment in high-deductible health plans increased from roughly 1 million members to 15.5 million. With changes in product design, such as high-deductible plans, and the changes driven by the ACA, members are looking for more transparency regarding the cost of their healthcare. A 2013 survey by Transunion found that 55% of patients paid more attention to healthcare bills over the last year. Additionally, 75% of surveyed members indicated that costs are important in their decisions to enroll in or to stay enrolled with a health plan. Cost transparency is becoming more important to members and MCOs must help provide that transparency.



Source: America's Health Insurance Plans, Center for Policy and Research, 2013 HSA/HDHPs Census, 2013, ahip.org/hsa2013.

2. *Engaging providers as partners.* To help control the costs of healthcare, providers must be engaged in some form of a value-based arrangement. Value-based arrangements range in scope from full risk delegation through risk sharing to cost and quality incentives, and their use is growing rapidly. According to The Advisory Board's 2013 Accountable Payment Survey, the adoption rate for value-based contracts rose from 14% in 2011 to 35% in 2013—an increase of 21% in just two years. In the same time, the adoption rate of bundled payments grew from 16% to 27%. Questions linger as to whether value-based contracting will work broadly across the industry. There was a trend in the 1990s to move providers to risk-based contracts. Despite some long-term success stories, generally, the move failed, and the (continued)

industry reverted to fee-for-service payment systems. If the industry cannot find ways to make value-based arrangements work this time, the federal government is likely to intercede again. MCOs must take an active role in ensuring that the value-based provider organizations are successful.

The managed care industry has worked to reduce administrative costs for decades and, for legacy operations such as claims and enrollment, significant efficiencies have been achieved. For example, claims auto adjudication rates in the 50% range were fairly common in the 1990s. Today, it is more common to see rates above 80%. Although increased use of technology has brought down the expense associated with legacy operations, administrative expense continues to rise and remains an area of concern for the industry.

If there have been productivity gains in legacy operations, why do challenges remain in managing administrative expense? Certainly, investing in new products (e.g., Medicare, Medicaid, and Duals) accounts for administrative expense pressures, but a good portion of the pressure comes from the new capabilities that are being implemented to support emerging requirements for member and provider engagement. The steps that MCOs are taking to improve healthcare outcomes and to manage medical expense are putting pressure on the administrative expense side of the equation.

To manage administrative expense now, MCOs must look beyond the traditional process design and automation techniques used to drive efficiencies in legacy operations. Techniques that MCOs can leverage to drive efficiencies in the current environment include:

- *Build on a solid base*. In many cases, new capabilities are being built on top of legacy operational foundations. Although the legacy foundations might be efficient in supporting the operations they were originally built for, they are not always positioned to take on new and different types of work. Take steps to ensure that the operating environment on which new capabilities are being built is mature and can support the weight of new functions.
- *Assess effectiveness, not just efficiency*. Review services from the perspective of the "customers" (for example, the members and providers). Are the services meeting their needs? Are they being delivered via the customer's preferred channel, be it phone, Internet, or some other way? Are all of the required functions available? Are functions being provided that aren't valued? Stakeholder expectations are evolving, and MCOs should ensure that their services are evolving too.
- *Implement a service management framework*. Confirm that service providers and consumers (internal and external) alike are aligned on what services are required, what service levels are expected, and how effectively those services are being delivered. An effective service management framework establishes a data-driven, fact-based method for determining who should be providing services, how much consumers are willing to pay for services, what service levels customers expect and which services should be discontinued.

- *Build mature operations.* Many times, organizations must rapidly build out capabilities to meet the timeframe demands of new market requirements. This is often accomplished in crisis mode, with little thought given to the long-term efficacy of the operations. The reality is there will always be requirements that must be met quickly, and the corresponding operations will typically be inefficient in startup mode. The key is to minimize the startup period and to ensure that the operations are matured over time. Make sure that you have a spec to build to, one that constitutes a mature, comprehensive operating environment. Start measuring operations effectiveness immediately. When we talk with operations executives who are in startup mode, they often convey a sense of flying blind. If you begin by measuring and reporting key metrics—even manually—those measures will identify where operations must be matured as the startup period transitions to ongoing operations.

The growth of the individual market, Medicaid expansion, and an aging population (Medicare) all present the healthcare industry with significant opportunities. However, to be successful, MCOs must develop new capabilities to engage members and providers to manage overall healthcare costs and improve outcomes. Successful MCOs are becoming proactive, solving the puzzle of building and deploying new capabilities, and simultaneously managing administrative expense. Is your organization taking these steps?

I welcome your thoughts on this and the other topics in this Nolan Newsletter. Please drop me a line at smcconkey@renolan.com.

KEVIN BERGNER, PRESIDENT OF USAA PROPERTY AND CASUALTY INSURANCE

The unabridged version of this interview originally appeared in the Fall 2013 Edition of IASA's Interpreter. It is the 31st in a series of interviews conducted for the publication by Nolan's Chairman & CEO, Dennis Sullivan and Executive Vice President, Steve Discher.

Kevin Bergner
President
USAA Property and Casualty Insurance

Sullivan: Most of our readers know USAA, but from your perspective, give us a little background and insights on the organization. How has it changed, and where are you today?

Bergner: I think the most important thing to understand about USAA is that we've stayed true to our original purpose. In 1922, a group of about 25 Army officers got together in downtown San Antonio at the Gunter Hotel, and talked about the difficulties they all had getting insurance. They made an arrangement to insure one another in what was really an early form of reciprocal insurance. They trusted each other because they had a shared sense of values. This agreement was built on a very simple mission—to take care of one another.

So, here we are 91 years later, and USAA is a lot bigger and provides a full range of financial services. We're growing to about ten million members this year, and we still have that exact same focus on looking out for one another that our founders had back in 1922. Our purpose and identity have evolved as times have changed, but our fundamental focus of why we exist and who we serve is still intact.

Today, we still serve the military community and their families. The commitment to serve our country and the values that our men and women in uniform and their families ascribe to is what makes this association a special place. We have about 26,000 employees today who are highly committed, and we're a direct model, so our members get to know us on the telephone, by email, mobile, chat or face-to-face in our financial centers.

I'm frequently asked to give an example when I talk about the best members in the world. In one case, a long-term member's wife lost a valuable piece of jewelry and they filed a claim with us, which we promptly paid. A year later, he sent us a letter saying they'd found the jewelry, and attached to the letter was a check for the exact amount of the claim—a year later. His note said, "My deepest personal thanks for being the best and most professional insurance company around. We have been doing business with USAA for over 50 years—insurance, annuities, CDs, IRAs, mutual funds, etc.—and you have always been tops. Your integrity is unmatched." We are blessed to have members who are just tremendously moral, ethical and honorable people.

Another thing we keep top of mind, and our employees are acutely aware of, is that many of our members have been in really tough, far-away places, like Afghanistan or Iraq, doing the heavy lifting for our country. Keeping this in mind sharpens our focus on service and making sure that we are relevant to their current situation.

Sullivan: What about your military background has enhanced your abilities for running a business? Beyond the affinity with your membership, you've got to be profitable and grow premium.

Bergner: I would say it starts with my dad who was an Army colonel. I grew up in San Antonio and recall driving with him by the building where USAA used to be located. I remember him telling me, "USAA is one of those places that truly understands me as an Army officer." This was just after Vietnam, and our military was viewed much differently then. He had deep regard for USAA and wherever we moved, whatever post, camp or station, USAA was with us.

When I was commissioned as a lieutenant in the U.S. Army, my dad administered the oath to me. After I finished, he looked me in the eye and said, "Kevin, there's just one thing I need you to do. Take care of your soldiers, and they'll take care of everything else. Take care of the people you're responsible for, they'll take care of the nation."

Over the years, I have come to understand the importance of that charge, and I have worked really hard to fulfill that mandate to be a servant leader.

When I arrived at USAA, I found, and have been humbled by, a group of people who are just as committed in a very different way. My mandate is the same: Take care of the people here at USAA, so they can take care of our members and provide world-class service. I think that servant leadership is one of the key underpinnings of our management style at USAA along with our commitment to our workforce and our members. You'll also find tremendous accountability and understanding of being good stewards of resources among our management team.

Discher: What are your thoughts on the external environment in terms of how USAA continues to present itself to the market and effectively compete in the long run?

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MORE AND MORE THESE TECHNOLOGY-ENABLED SOCIAL DOMAINS ARE WHERE OUR MEMBERS PREFER TO HAVE THEIR CONVERSATIONS. WE'RE CHALLENGING OURSELVES TO BE IN THOSE PLACES FOR THEM.

Bergner: I think the biggest factors we are mindful of right now are the changes in technology. In particular, our members expect us to serve them and be relevant to them on mobile.

The speed at which technologies are developing and evolving these days is having a profound implication. For example, we've invested in a capability called Young Drivers Intelligence. It's a telematics device that a parent can put in their automobile to monitor a young driver's performance.

It allows the parent and young driver to have a better understanding of their driving habits in order to become better drivers. Ultimately, for us it's all about saving lives. At this point, we don't collect the data. We don't use it for rating purposes. It's free, and we make it available to young drivers and their parents. It's not about ROI. We put it in the category of doing the right thing.

Discher: How are you using technology to make members' lives easier while they're deployed?

Bergner: The nature of deployment is that someone is overseas and someone is still at home. Our members are most likely to use social media as a way to stay connected, in particular, they use Skype. We challenged ourselves to meet members on their terms and created an interface that we call the Claims Communication Center. It's a place where members can post photographs or where we can answer their questions. There's a very comfortable feel to it, and it's very responsive.

More and more these technology-enabled social domains are where our members prefer to have their conversations. We're challenging ourselves to be in those places for them. Today, it's defined largely around the claim, however, we see it becoming the way we communicate over the lifecycle of the member.

Discher: You spoke about the notion of servant leader, and your philosophy of carrying that across the organization and leading by example. How do you permeate that across the entire culture of your organization?

Bergner: If you looked up the definition of servant leader in the dictionary, our CEO, Joe Robles' picture should be there. He is without question the most caring, the most employee- and member-centered person you could have running a business. Joe sets forth a very straightforward commitment to take care of the people we're responsible for. If you walked around our campus you would see that manifest itself. We engage with and listen to our employees, and that takes a lot of different forms. We use Gallup surveys as a mechanism for gauging, but I use a much more basic management approach—I walk around and talk to employees, listening to what they're working on and understanding whether the tools they're using are effective or not, where the glitches are. I use their input to hold us accountable to work on those issues and improve their capability to do their job.

Our employees ultimately are all about taking care of the member. Their engagement helps to shape innovation. Over 90 percent of them have been involved in some activity with innovation this year, and they are just generally committed to helping us be a better company. That focus on servant leadership has a real clear identity around it and it really does start with our boss. It's exactly what Joe expects us to do—take great care of those employees who in turn help us to better serve our members.

Sullivan: As you look at the future of the insurance industry, what are the challenges USAA is anticipating, and what are you doing to get ahead of the game?
Bergner: As we look ahead, I can't help but be struck by the potential changes technology could manifest. It's tough to even say what those might be. Five years ago, could you picture a smartphone that was going to do what it's doing for you today? Technology will continue to impact our business in many forms. Our challenge is to be agile enough to adapt to the right technology for our members benefit.

I think there are opportunities for much more control from a loss prevention standpoint in the home. On the other hand, we have some serious technology use challenges today with distracted driving and texting, which people don't take as seriously as they should. Having lost my mother to a drunk driver when I was 10 years old, I know all about the tragedies of preventable loss.

We're in a similar circumstance today, and I really do hope that we don't have to just rely on generational change to deal with distracted driving.

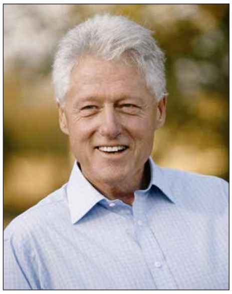
Sullivan: Do you have any final thoughts that you'd like to share with our readers?
Bergner: My last point is to encourage everyone to think about the commitment of the military men and women who are deployed around the world, serving and taking care of this country so you and I can enjoy a comfortable life with little concern for our security. USAA has made a commitment that 30 percent of new employees will either be a vet or the spouse of a vet. We are right on that target today.

Every company out there has the opportunity to attract these wonderfully responsible and motivated people to work for them. We really have an obligation as a country to take care of those young men and women. They volunteered to serve and protect us. We should volunteer to take care of them when they need a job. My hat is off to my peers who are making this a reality.

PUBLISHER'S NOTE: This article was originally published in the Fall 2013 issue of IASA's Interpreter.

CONFERENCE NEWS

2014 IASA Annual Conference, Indianapolis, IN



Nolan is honored to sponsor this year's keynote presentation to be given by former President Bill Clinton. In addition, Nolan is a sponsor of the Chief Operating Officer Roundtable, and Nolan consultants will present at several sessions as follows:

Monday, June 9
Nolan is a sponsor of the 2014 Chief Operating Officer Roundtable
Nolan Executive Vice President, Rod Travers, is Program Chair

Monday, June 9 - 1:30 p.m.
Analytics Maturity: Unlocking the Business Impact of Analytics (Session 102)
Speaker: Steve Callahan, Nolan Practice Director

Tuesday, June 10 - 9:15 a.m.
Effectiveness vs. Efficiency: Getting True Business Impact from IT (Session 376)
Moderator: Jim Strebler, Nolan Principal Consultant
Speaker: Gerald Shields, Nolan IT Practice Director

Wednesday, June 11 - 9:45 a.m.
IT Town Hall (Session 771)
Moderator: Rod Travers, Nolan Executive Vice President

Visit www.iasa.org for more information about the 2014 IASA Annual Conference.

PCI Executive Roundtable

Nolan is proud to be a sponsor of PCI's annual Executive Roundtable. Nolan hosted a cocktail reception and sponsored a drawing which included a donation of $1,000 to the winner's designated charity. Nolan Chairman & CEO Dennis Sullivan and Executive Vice President Steve Discher were pleased to present the prize this year to David C. Cruikshank, Partner at Acceptance Insurance Company. The Nolan Company made a donation on behalf of David to Lighthouse of Manasota.

Since 1985, the Lighthouse has been advancing the individual growth and independence of children and adults with vision loss. The donation will help Lighthouse in its mission to provide quality education and specialized training at no cost to its clients. We congratulate David and are pleased to have been a part of contributing to this very worthy organization.

Lighthouse of Manasota
Shining new light on living with vision loss

To learn more about Lighthouse of Manasota, visit http://lighthouseofmanasota.org

MIKE MEYER / PRINCIPAL CONSULTANT / mike_meyer@renolan.com

PACKAGE ENABLED REDESIGN: GREATER ROI–REVISITED

Times have changed, but the need for change hasn't. More than fifteen years ago, I authored an article that highlighted the differences between a traditional "reengineering" effort (the popular term at the time) and one which is driven by a system conversion. The article also described a case study involving a mandatory Y2K conversion that was the catalyst for a successful business transformation initiative.

A recent client engagement reinforced that the concepts described in that article remain relevant today, perhaps even more so because many organizations are planning major efforts to upgrade systems and technology. In that context, I offer a fresh look at those concepts and how you might apply them in your next system replacement effort, including requirements development, system selection, and implementation.

Often, companies with cultures that dampen creativity and risk taking or that suffer from analysis paralysis struggle when they attempt to implement major change. Typically, it takes a burning platform or some other forcing mechanism to spur them to embrace fundamental change. A system conversion can provide just such a stimulus if the following are considered as part of the conversion process:

- Business impact is directly related to the robustness of the selected software and supporting platform. The selection process should objectively examine systems that enable more efficient and effective business practices—for example, fewer process steps, shorter cycle times, less paper, and automated decision making.
- Maximizing positive results demands a comprehensive knowledge of system functionality, user-driven configuration options (vs. customization), and core system interfaces.
- A rigorous software modification assessment and approval process is critical in preventing the organization from watering down the process improvements that are endemic to the new system. Without this, the organization runs the risk of modifying the software to replicate current business practices, which are often outdated and inefficient. In other words, too much

A RIGOROUS SOFTWARE MODIFICATION ASSESSMENT AND APPROVAL PROCESS IS CRITICAL IN PREVENTING THE ORGANIZATION FROM WATERING DOWN THE PROCESS IMPROVEMENTS THAT ARE ENDEMIC TO THE NEW SYSTEM.

customization of new software will likely negate many of the new system's benefits. Any proposed modifications must therefore be in sync with process redesign objectives, including new customer experience requirements, organizational structure, job design, management practices, and measure and reward systems.

- It is essential to understand the distinctions between the process and procedure steps that are system-driven versus those that can be designed independently of the system.
- The goal-state business model should be designed by applying business process redesign concepts, with a full leveraging of system functionality in mind.
- The redesign of the new operation should be integrated with system implementation time frames to ensure alignment and logical sequencing of events and time frames.
- The laboratory environment established for testing the new system should also be used to test new and improved processes, workflows, job designs, etc. Testing success metrics and goals should also be established.
- As with any redesign effort, business readiness is paramount. Every member of the organization must view the change not as a system conversion, but as a new way of doing business. Preparation in the form of change management, open communication, and risk/obstacle management must begin well in advance of the actual conversion.
- Human resource-related issues are among the trickiest and most influential of any change initiative. When combined with process redesign, a new system can make current knowledge and skill sets obsolete, especially when a conversion transfers workers from multiple standalone systems and departments into an integrated processing environment. Skills assessments, training plans, and revisions to hiring practices must be accomplished well ahead of implementation to mitigate risk and ensure the staff is prepared.

Nolan uses our proprietary methodology and toolset, called Package Enabled Operations Design, to help clients with their combined system replacement and operations redesign. This approach incorporates the concepts I described above to achieve the powerful combination of business and technology benefits when investing in a new system. As you embark on your next system renewal or replacement, consider the concepts I've shared here to maximize the business results of your technology investment.

I welcome your feedback and would appreciate hearing about your own experiences with system replacements and outcomes. Please drop me a line at mike_meyer@renolan.com.

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UNDERWRITING RIGOR: MORE IMPORTANT THAN EVER

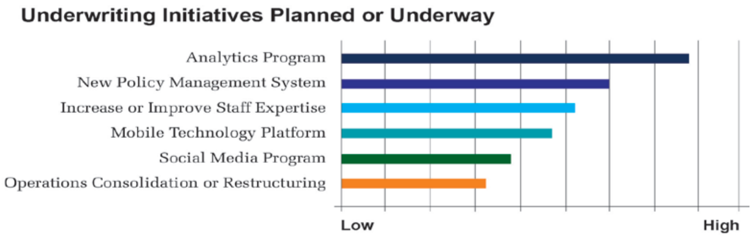
Underwriting Highlights from Nolan's P&C Survey

Emerging trends in the insurance industry, combined with an expectation of relatively flat market conditions, are spurring executives to embrace new initiatives to maintain their market share and create new means of growth in trying times.

In Nolan's most recent survey of P&C executives, 54% of the respondents indicate market conditions will remain as they are today. And 81% said that while there may be improvement overall, premium growth will be less than 10%.

The top three underwriting objectives were identified as increased profitability, renewal retention, and organic growth. Those obvious major issues put a priority on the key underwriting initiatives that were identified: analytics programs, new policy management systems, and improved staff expertise.

The companies responding to the survey are planning a variety of underwriting initiatives to address these objectives. Over 78% of the respondents indicated investing in analytics was a high priority, followed closely by new policy management systems, which accounted for 60% of the responses. It's not surprising to see analytics as a high priority—companies using analytics will have a competitive edge in evaluating structured and unstructured data essential to profitable underwriting and risk selection. One size-driven difference was that larger companies are more focused on usage-based insurance (UBI) pricing, with UBI trending upward with personal lines companies but less so for commercial lines.



THE TOP THREE UNDERWRITING OBJECTIVES WERE IDENTIFIED AS INCREASED PROFITABILITY, RENEWAL RETENTION, AND ORGANIC GROWTH.

A similar gap exists with social media programs because large companies are focusing more aggressive and broad-based efforts into this area. Social media is exploding in the market, affecting underwriting and other functional departments. As a result, social media is being leveraged more and more by larger companies that have ample available resources. These initiatives require considerable investments and resources to implement, giving larger companies an advantage over smaller carriers, especially during times of low returns.

Another high-ranking initiative identified in the results is increasing or improving staff expertise, which more than half of the respondents rated as a priority. As new tools become available, more information is added to the decision process, and as risk profiles evolve, keeping decision-making resources up-to-date is increasingly complex. What will be the role of the underwriter in the future, as predictive modeling deepens its impact? Some would argue it is only a matter of time before predictive modeling outperforms even the most experienced underwriter. Others contend that the future of underwriting is portfolio management. If this is the direction, then should portfolio management skills be the emphasis of skills development, rather than "advanced underwriting judgment?" These are among the core capabilities conundrums with which underwriting executives are grappling.

Interestingly, one-third of the respondents are planning an operations consolidation or a restructuring effort. This pairs well with an increase expected in mergers and acquisitions. Merger and acquisition activity—including consolidations—is certain to accelerate as some carriers seek to increase premium volume without relying on organic growth. Even with increased rates, companies are still barely outpacing claim costs.

Market Conditions in the Year Ahead	
Market Conditions will Improve	46%
Market Conditions will Remain As Is	55%
Market Conditions will Decline	2%
We Plan to Expand Our Risk Appetite	16%
We Plan to Reduce Our Risk Appetite	11%

Industry analysts expect the hard market to continue. Moody's predicts favorable pricing momentum and a gradually improving economy, along with minimal adjustment to loss costs trends, accident year-loss ratios, and underwriting margins (excluding catastrophes). Moody's also expects broad-based rate increases across the industry and stable retention ratios.

MANY OF THE UNDERWRITING INITIATIVES BEING PLANNED INDICATE THAT CARRIERS ARE AWARE OF THE IMPORTANCE OF SERVICE EXCELLENCE AND ARE TAKING ACTIONS TO STRENGTHEN THEIR CAPABILITIES.

Survey respondents overwhelmingly agree there will be a hardening of the market, with 82% planning rate increases. The challenge will be maintaining competitiveness as increased rates stimulate competition, bringing a sharp focus on balancing these increases against the potential loss of customers to competitors with lower rates.

In the Coming Year, We Plan to Do the Following Across Our Book of Business	
Increase Rates	82%
Reduce Rates	2%
Take Neutral Rate Action	14%
None of These	2%

The survey results are in line with Nolan's observations that the industry continues to see price increases, particularly in commercial lines, along with a slow decline in reserve releases, compared to prior years. As a direct result, carriers may be faced with claims costs that outpace rate increases. This, combined with low interest rates and minimal investment yields, places more pressure on underwriting profit. Even with the market continuing to harden, rate increases may not be sufficient to sustain acceptable margins.

We also observed that customer satisfaction and service will be sources of differentiation and a foundation for growth in the coming years. Many of the underwriting initiatives being planned indicate that carriers are aware of the importance of service excellence and are taking actions to strengthen their capabilities.

The complete summary report is available for complimentary download at www.renolan.com/pcsurvey. We'd be happy to discuss these and other findings in more detail, just contact us at george_krempley@renolan.com and eugene_reagan@renolan.com.

ROBERT E. GRASING / PRESIDENT / bob_grasing@renolan.com

ANALYTICS POSITIONS BANKS FOR MARKET CHANGE

"JPMorgan Chase plans 8,000 layoffs"
"Bank of America announces another round of layoffs"
"Barclays to cut up to 12,000 jobs"
"Wells Fargo announces 6,400 layoffs"

Headlines like these reflect a trend that metrics have been indicating for some time: with a shift in customer behaviors and a fall-off in mortgage demand, some segments will become less profitable.

This has not been unexpected by the top banks in the country, nor should it come as a surprise to anyone in the industry who has been following mortgage trends over time. The need for staff to close loans in a demand environment leads to frantic hiring and training. At the end of the cycle, the ramped-up staffing can result in layoffs, particularly if the staff cannot shift into other business lines.

The fact is that all the big banks have extensive metrics to let them know when they need to hire and train in addition to scenario planning to project resource requirements as the business curtails. Metrics and modeling are becoming even more important as customer behaviors continue to influence service needs. Analytics projected on a macro level can calculate staffing needs using the rate environment to inform; on a micro level, they can indicate whom to retain in a down cycle based on individual performance factors.

On a macro level, Nolan's annual Bank Performance Study shows that there is a performance gap of 415% in total mortgage line of business between the top quartile and the average banks. (The line-of-business efficiency ratio ranges from 7.62% to 39.13% for mortgage banking.) This indicates that many banks were concentrating on top-line revenue and not line-of-business profitability. As demand falls off, as it has in the past 10 months, those banks with the higher efficiency ratio will see profits eliminated and losses incurred, resulting in dramatic layoffs.

We are also seeing banks beginning to shift their focus to commercial lending to replace revenue that is drying up in the residential mortgage sector. Modeling will help them better understand how to compete and what level of performance they

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METRICS AND MODELING ARE BECOMING EVEN MORE IMPORTANT AS CUSTOMER BEHAVIORS CONTINUE TO INFLUENCE SERVICE NEEDS.

should expect. The gap in commercial lending between the top quartile and the average banks is currently 58% (the line-of-business efficiency ratio ranges from 14.31% to 22.61%). The detailed level of individual performance can help a bank determine the differences between their lenders regarding new relationships per lender, average loan per lender, and new loans as a percentage of portfolios.

Analytics, when integrated into regular business reporting, provides a current and forward look at performance, which so many community banks need as the competitive landscape changes. Understanding how to apply analytics is of paramount importance in today's dynamic banking marketplace. They will help you get an objective understanding of what is possible and of realistic goals for your professionals to adopt as banks become increasingly mobile and competitive.

"Did I mention that the deadline is approaching at twice the speed of the available resources?"

NEW FACES AT NOLAN

Mike Bondura has joined The Nolan Company as P&C Practice Director. Mike is responsible for evolving and expanding Nolan's operations and technology consulting services for P&C carriers. Mike hit the ground running and has already been instrumental in expanding Nolan's Claims Health Check service offering.

Mike is an accomplished property/casualty expert and has held leadership positions with QBE and Capitol Insurance. He also had a successful tenure with CNA where he held positions including Division Claim Manager, Branch Claim Manager, Vice President of Claims Service Center, and Regional Vice President. Mike has extensive P&C experience and has managed just about every aspect of the claims process as well as other functions. He holds CPCU, CLU, ARM, and SCLA designations and is trained as a Six Sigma champion from the Juran Institute. Mike holds a BBA from Penn State. We are pleased to welcome Mike to the Nolan team!

Stacey Cellier has joined The Nolan Company as Director of Operations, specializing in project management and operational process improvement. Stacey has over 20 years of experience in operations, strategic projects, and business development.

Prior to joining Nolan, Stacey served as a consultant for Ryan, managing tax recovery programs, and established and led project management offices for Invitation Homes, Authentix and for the Clinical Operations group at Tenet Healthcare.

Stacey holds a PMP credential from the Project Management Institute, a Master Certification in Applied Project Management from Villanova University, and a BS in Business Management from Western Governors University, as well as a CMMI SCAMPI team certification, which focuses on continuous process improvement. We are very pleased to welcome Stacey to the Nolan team!

DENNIS SULLIVAN / CHAIRMAN AND CEO / dennis_sullivan@renolan.com

STEPPING BACK: A TRUE LEADERSHIP SKILL

Each year, The Nolan Company conducts industry surveys to gauge the pulse of a specific industry, be it banking, healthcare, or insurance. Some are comprehensive, others are just flash surveys. Nolan uses these surveys to gain insight into what topics are hot, where people are spending their time, and what challenges face the industry.

Last fall, I had an opportunity to sit down with a few of our client CEOs to get their perspective on what keeps them up at night and where they are focusing their energy. Some of the feedback was surprising. It was not the day-to-day operational issues or market forces or financial challenges you might think would top their worry list. People were number one. Their primary concerns were topics like staff development, the needs of up-and-coming leaders, whether their people were challenged enough, and employee satisfaction.

These leaders left day-to-day operating issues in the capable hands of the front lines. They told me stepping back and observing their team in action—their decision making, their ability to operate on their own, and their skill at developing and challenging others—gave insight into how these leaders themselves had developed their direct reports. Being patient and allowing decisions to be different than their own was sometimes difficult, but by engaging with the team and coaching during the process, they helped the next generation grow.

It is fascinating to watch a management team operate. It takes patience and a careful mix of guidance, direction, and stepping back. Incorporating all three of these leadership skills in your own style strengthens your company. More important, it helps to develop the next group of leaders. Today's business world needs new leaders who are on their way up. They will not come from a seminar or leadership course. They will be developed on the front lines by making decisions and being accountable for those decisions—by building teamwork and using the skills of their direct reports to get things done. Perhaps the most difficult of all leadership skills—and the one with the most lasting benefits—is stepping back.

NOLAN EVENTS

IASA Michigan Chapter Conference | April 16, 2014 | Detroit, MI

George Krempley, Principal Consultant, will present on Underwriting Discipline at this event.

– www.iasa.org/IASA/EventDetail?EventKey=MICH42014

Interactions 2014 | June 2-5, 2014 | Indianapolis, IN

Nolan Practice Director, Steve Callahan, is speaking on the topic of Operational Efficiencies at this year's Interactive Intelligence Global Conference, Interactions 2014, being held in Indianapolis, IN.

– www.inin.com/interactions/Pages/default.aspx

AHIP Institute | June 11-13, 2014 | Seattle, WA

Nolan is a sponsor of this year's AHIP Institute 2014 in Seattle, WA. Members of the Nolan team will be onsite for the event.

– www.ahip.org

IASA Annual Conference | June 8-11, 2014 | Indianapolis, IN

Nolan is honored to sponsor this year's keynote speaker, former President Bill Clinton. In addition, Nolan will sponsor the COO Roundtables and Nolan consultants will present at a number of track sessions. See page 10 for complete details.

– www.iasa.org

AHIP Medicare Medicaid Conference | September 28-October 2, 2014 | Washington, D.C.

Nolan is a sponsor of this year's AHIP Medicare Medicaid Conference in Washington D.C. Members of the Nolan team will be onsite for the event.

– www.ahip.org

LIMRA Annual Conference | October 26-28, 2014 | New York, NY

Nolan is pleased to be a sponsor of LIMRA's 2014 Annual Conference.

– www.limra.com/Events/Conferences/2014/2014_LIMRA_Annual_Conference.aspx

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