

Accenture Insurance

Running Your Business for Growth

Could Your Operating Model
Be Standing in the Way?



High performance. Delivered.



95 percent of senior executives are not certain their companies have the right operating model for today's world¹

Viable business opportunities—such as international expansion, and digital channels—are available for insurers to lower costs, satisfy customers, and pursue growth. Yet, could insurers' operating models be standing in the way?

Based on Accenture research and experience, top insurers manage two business aspects well: strategy and execution. They have a comprehensive business strategy enabled by an innovative operating model.

A sound business strategy sets forth the carrier's plan to generate revenue. Influenced by market trends, it articulates the insurer's deliberate decisions about multi-year business objectives, value to deliver, customers to target, products and services to offer, and go-to-market approaches. A robust operating model addresses the tactics an insurer uses to execute its business strategy. It defines how the business is organized, what processes and capabilities are needed, how workforce resources are allocated and which information technology platforms will enable operations.

Drawing on Accenture's experience, this white paper highlights how insurers can rethink and restructure their operating models for high performance.

Rethink your operating model

If growth is your aim, it matters.

Components of many conventional operating models constrain how effective an insurer can be in adapting to volatile markets, executing its business strategies and achieving growth. For example, silo'd strategies, organizations, processes, technologies, and data result in disconnected and inflexible sales, marketing, and service functions. This makes it difficult for an insurer to attract and keep customers. Data that is duplicated and stored in disparate units across the enterprise also prevents a unified view of the customer or risk, increasing operational complexity.

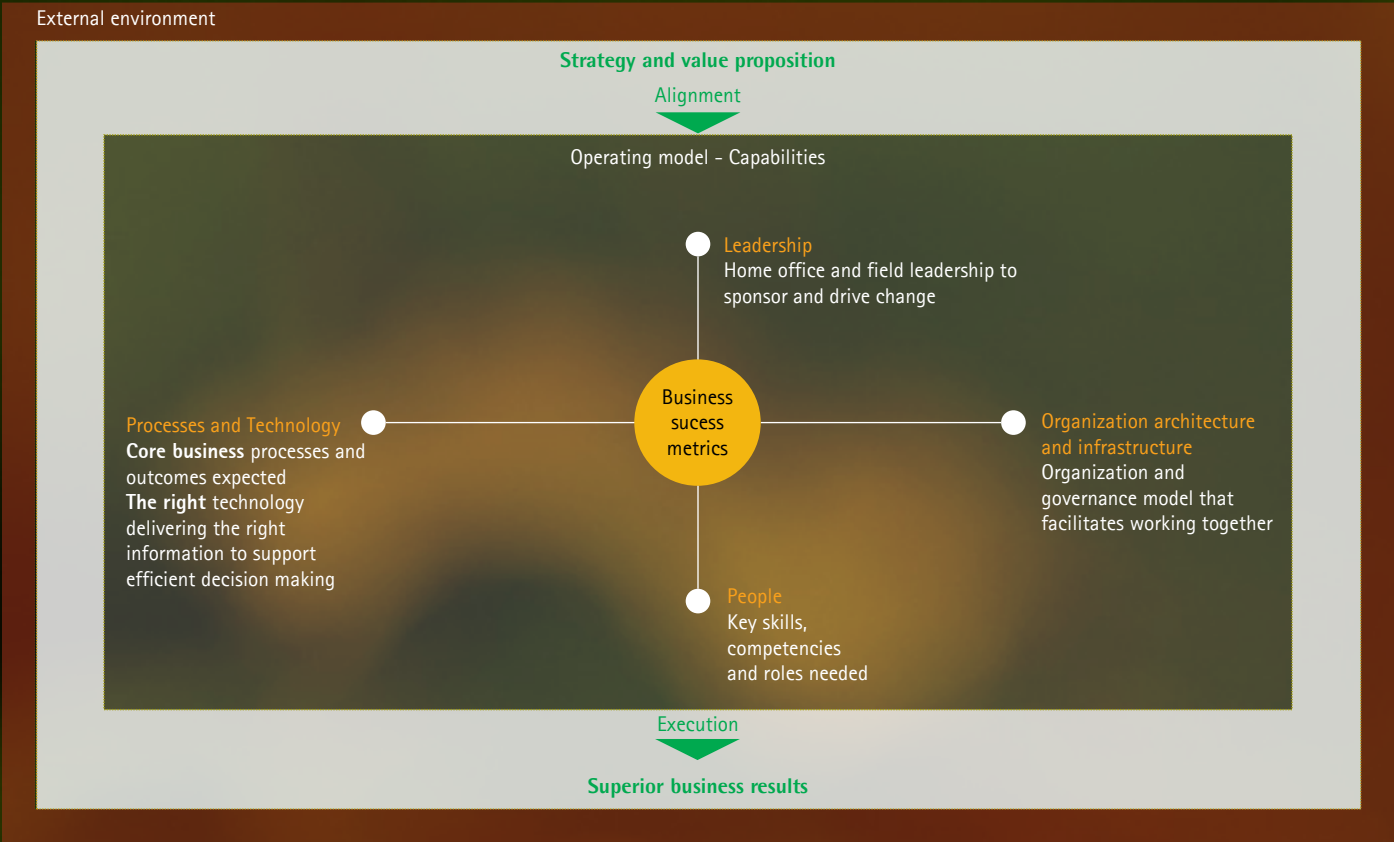
An innovative operating model, however, focuses on the kind of operational agility that delivers an exceptional customer experience. It connects the dots across four core business components to create value against specified success metrics (figure 1):

1. Leadership that takes ownership of the new model and champions the organization's movement towards it.
2. Organization architecture and infrastructure to guide how decisions are made and facilitate how the organization works together.
3. People who bring the necessary skills and competencies, working within the right roles.
4. Processes and technology, defining needed capabilities as well as how they will be performed.





Figure 1. Core elements of an innovative operating model.

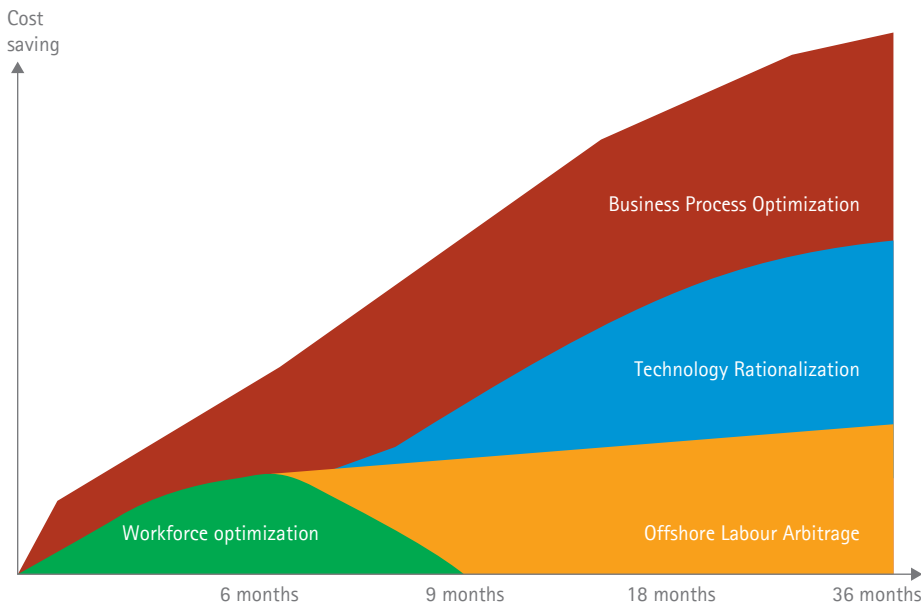


Executed well, such an operating model helps a carrier meet its growth and profitability goals by:

- Lowering operational and IT costs. Based on Accenture analysis, the most common areas of operations cost reduction and opportunity for exemplary improvements offer up to 30 percent in cost savings (figure 2).

- Providing additional underwriting capacity by eliminating the need for underwriters to perform certain functions, either through automating the function or shifting the role to another skilled (lower cost) resource.
- Increasing speed, efficiency, and agility in quoting and issuing a policy.
- Improving customer retention through enhanced customer experiences.

Figure 2. Key areas where an innovative operating model return cost savings.



BUSINESS PROCESS OPTIMIZATION

Standardized and streamlined processes and elimination of redundancies

Reduce multiple organization units doing same or similar work

Semi-automate processes with quick win tools (excel, access, etc)

15-20% Savings

WORKFORCE OPTIMIZATION

Organizational alignment, improved matching of work complexity to employee skills / cost

Improved pyramids and spans of control

Redundant employees are either moved to a different department or voluntary-retired

5-10% Savings

OFFSHORE LABOUR ARBITRAGE

Significant portion of redundant, high volume tasks can be done offshore

Outsourced activity will continue to move up the value chain complexity

20 -30% Savings

TECHNOLOGY RATIONALIZATION

Application rationalization to reduce technology footprint (policy admin systems, underwriting tools, etc)

Key enabler to industrialization at a regional level is the availability of genuine multi-country IT platforms

Reduces IT investment and maintenance costs

Integrated workflow and process automation

Multi channel capabilities including self-service

20 -30% Savings

Case Study

Large Global Insurer on target to reap 20 percent cost savings through new global operating model

After bringing in several businesses through mergers and acquisitions, a large global insurer ended up with a very fragmented operation. Disparate functions that lacked cross-pollination of resources, skills, and processes, caused the carrier to run its business most inefficiently. For example, underwriters spent a good amount of their time performing administrative tasks rather than pricing and underwriting risk.

To position itself for fast growth—targeted to be 200 percent over the next three to five years—the insurer decided to transform its organization by defining a new global target operating model with help from Accenture. The insurer redefined roles and responsibilities, streamlined capabilities, and implemented consistent, common processes regardless of geographic location. Non- or low-critical tasks, such as data entry and clearance, are now conducted through a single, centralized, shared administrative pool of lower-cost resources. Experienced resources who have deep industry knowledge and understanding of the business can now more easily lend their experience to critical functions. The implemented solution freed up 14 full-time underwriting resources to now focus on retaining existing business and generating new business. Capacity increased, allowing underwriters to devote more time to higher-value tasks—namely, risk assessment and pricing. And, the global insurer is on target to achieve 20 percent savings in overall cost from its new operating model.

Design the best fit for your business

If the operating model doesn't enable your business strategy and objectives, then it is not the best-fit model for you.

As business models change, so must operating models. An effective operating model is aligned with business strategy, guided by an ability to anticipate customer requirements and responds competitively to market changes. When defining their operating models, insurance executives should ask four critical questions:

1. What makes your company unique?
2. How should we change the way we connect with our customers, employees, and suppliers, considering today's market?
3. How do we structure our companies to take more effective decision making in an increasingly networked and globally dispersed organization?

4. How can we better penetrate new markets and defend against competitors without introducing unnecessary complexity?

Answers to these questions point to design options for the new operating model. While operating model design will differ by carrier, there are a number of leading design practices that all insurers should put in place to improve their efficiency and effectiveness (figure 3).

Figure 3. Leading practices for designing innovative operating models.

Across core model elements

- Keep it simple
- Map to the business strategy and promise to customers
- Be consistent across businesses and countries while maintaining the flexibility to refine and adapt to local needs

Leadership	People	Organization Architecture & Infrastructure	Processes & Technology
CLEARLY define leadership's role in managing the business	CLEARLY define and adhere to roles, responsibilities and accountability for process execution	DESIGN a formal governance structure for how employees and brokers/agents work together to serve customers	SIMPLIFY and automate processes
CLARIFY how key business decisions will be made, including resolution of any conflict	ADOPT demand forecasting to plan future resource requirements	STREAMLINE management structures for greater responsiveness, flexibility, transparency and accountability	ELIMINATE non-value adding activities
	LOAD-LEVEL resources to improve utilization, avoiding annual staffing peaks and troughs	ALIGN incentives across the organization with operational model objectives and tactics	CENTRALIZE process execution where there is no need for local market differentiation
		RETHINK traditional headquarters and staff locations to gain local knowledge and responsiveness	STANDARDIZE execution of processes performed in multiple locations
			CENTRALIZE repetitive and administrative tasks, and move them to lower cost resources
			RATIONALIZE technology to reduce total cost of ownership of systems
			HAVE single view of data and make it accessible
			INCORPORATE advanced analytics capabilities
			REDEFINE and integrate records systems

A large global insurer created a target operating model to increase global coordination, centralization and execution of activities across the enterprise. The model identified \$150 million in savings in the first 12 months with an additional \$300 million to \$500 million in savings possible over the subsequent four years.





Keys to a successful, holistic execution

- Support and sponsorship at every enterprise management level along with clearly articulated expectations of each role responsible for helping achieve the new operating model.
- Recognition that the new operating model is a critical component of the business strategy.
- Leaders and change agents committed to, responsible for, and empowered to deliver the cost/benefit goals.
- A program team capable of managing difficult transformation areas, including intense culture change.
- Emphasis on both cost savings and delivering the promised customer experience through process improvement initiatives that do not require major investments.
- Prioritized capabilities that order the sequence of operating model initiatives.
- Governance to facilitate easy decision making with the flexibility to course correct as needed.
- Transparency and shared success metrics.

Achieving high performance

Find and strongly execute a tailored transformation.

Transforming an insurance operating model can be complicated. The approach for some companies will be a series of small initiatives for continuous improvement, while others will choose targeted intervention, with big changes implemented one at a time. A third option is a complete reinvention of the operating model, with large shifts in the organization's structure to sync up to the business strategy. In any case, transformation impacts almost every aspect of a company and every employee. Without commitment from the top down, game-changing shifts in the operating model will not happen. Inadequate change management or follow-through also puts successful change at risk. P&C insurers can simplify their transformation by taking a holistic approach to change that addresses related issues (ranging from corporate culture to IT) and sets the context for all actions enterprise-wide.

Equally important to simplifying the transformation is clarifying and managing the incremental value of the change. Benefits should match or outweigh costs, depending on the sequencing of activities as shown in figure 4.

An innovative operating model goes beyond just implementing a new policy administration system or even reducing expenses. It combines all of the company's core components—strategy, people/roles, processes, technology, data—that are up for consideration to create an environment that propels growth. By shifting to the “best fit” operating model, P&C insurers greatly improve their position to save money, attract more share of customer wallet, get ahead of the competitive pack, and reach the profitability they want.

To transform its cost structure, a large Property and Casualty (P&C) insurer developed an operating model that aligns to a now clearly articulated corporate strategy and enables future growth. The model identified some \$800 million in potential cost savings across the enterprise.



Figure 4. Incremental benefits and costs of implementing an innovative operating model.



To integrate and improve processes across two of its merged companies, a large global insurer adopted a new operating model that transformed its sales and service, claims, underwriting, and information systems functions in the United Kingdom, Ireland, and Canada. After the first year of implementation, the carrier achieved annualized savings of more than £190 million and improved its ongoing combined operating ratio from 96.8 percent to 94.0 percent.



Accenture

Helping insurers run their businesses for growth

Accenture brings a unique set of capabilities to help insurers improve business performance by aligning their operating model with their business strategy.

This process incorporates a number of innovative assets, including a suite of tools and models to identify areas of concern or opportunity and drive transformation. These “accelerators” provide a framework to identify and define particular operational components along with tools to analyze and present solutions. By using these field tested, pre-defined methodologies and approaches, Accenture could reduce both time and resources required to design and implement an effective insurance operating model.

Some common accelerators used by Accenture consist of:

Insurance Capability Blueprint - defines insurers' key capabilities and which of those capabilities should be priorities for the insurer, depending on its market profile and producer channel. By helping to identify the support required for key processes and create a common vocabulary for business and IT, the blueprint jump-starts design of a new target operating model and reduces delivery time.

Insurance Process Reference Models - drills down into each of the major insurance company capabilities to reveal the key requirements for high performance in core functions. It helps illustrate the overall business process architecture for insurers, assess the strategic impact of the proposed operating model, and lower costs by up to 30 percent.

Insurance Scales of Mastery - features more than 100 core insurance capabilities described at three levels of mastery (Basic, Competitive and Leading Edge) to help benchmark a client's existing capabilities against peers, and quickly identify and define top priority improvement areas in which to invest.

Accenture also brings a mix of experienced resources, technology-enabled solutions and a field tested track record in creating successful target operating models. This consists of:

- Deep industry knowledge and experienced professionals who understand the insurance business. For more than 30 years, Accenture has worked closely with many of the world's leading P&C insurers. We currently serve 34 of the top 40 carriers, including the 10 largest in the US.
- A business-centric approach to advancing insurance target operating model, drawing on our framework and methodologies to demonstrate business value and drive measurable results.
- Rigorous execution with staying power, going beyond defining the model to assist clients throughout their transformations and help steer quantified, predictable, desired business outcomes.
- Global presence to help insurers shift their operating model to a more global structure, while maintain local significance
- Willingness to share risk with our clients.

In essence, we collaborate with our P&C clients to help them plan and implement the business and operational changes needed to run their business for growth in a volatile insurance market.

Accenture's Insurance Business Process Reference Models have helped more than 50 global carriers to rapidly transform their business for high performance, including up to 50 percent faster time to complete process analysis and business architecture projects; and up to 40 percent faster time to complete the technology requirements phase

About the Authors

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About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 249,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US\$25.5 billion for the fiscal year ended Aug. 31, 2011. Its home page is www.accenture.com.

Reference

¹ Accenture, "Are Emerging-Market Multinationals Creating The Global Operating Models of the Future?," 2009.

