

Outsourcing

# Operational Excellence

The new force driving insurance high performance through outsourcing

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Insurance firms today are increasingly relying on a broad range of outsourcing options to drive efficiencies and greater business value. Accenture's ongoing research into the characteristics of high-performance businesses continues to identify outsourcing mastery as a critical capability of the industry's top performers.

Achieving competitive advantage through outsourcing is no simple matter, however. The ability to drive business value through outsourcing is dependent on a set of industrialization principles. These enable rigorous, repeatable and high-quality methods and technologies to be applied to work sourced anywhere around the world in a blend of onshore, offshore and near-shore models. And at the heart of these industrialized principles is the core capability of operational excellence.

Today, operational excellence is becoming even more essential to an insurer's ability to drive greater business value through outsourcing, due to improvements in its impact and in its sophistication. Operational excellence now permeates the business of the top performers, dramatically raising the bar for every industry. No longer confined solely to the manufacturing sector, operational excellence is now found in the front

office, back office, IT and, of course, operations. Operational excellence has become a way to integrate previously-siloed functions to serve common business goals, such as customer-centricity. It doesn't matter, after all, if your service offering is great if you can't sell and support it well. Nor does it matter that your customer-facing functions are outstanding if you can't get your customers' contracts to them. High performance results when the operational whole is greater than the sum of the parts.

Operational excellence has also become richer and more robust in its second generation of development. When programs such as Lean/Six Sigma and Total Quality Management first appeared, they delivered a certain degree of immediate and welcome value to organizations. Such programs triggered better operating results as they drove down errors and undesirable costs such as processing defects.

However, that first generation of operational excellence programs soon became simply the price of doing business.

By contrast, operational excellence is now more forward-looking and more focused on generating value, not just on cutting costs. As a result of adaptations and refinements, the new generation of operational excellence is a comprehensive discipline that delivers measurable, repeatable and predictable business results through continuous improvements in effectiveness, efficiency and service levels.

Accenture believes that an essential requirement to reaping business value from outsourcing is an approach to operational excellence that moves beyond a focus on excellence in a steady state, to a focus on delivering competitively differentiated business processes in a continuously changing and fiercely competitive world.





# Developing next-generation operational excellence capabilities

What should insurers be doing to improve their capabilities in operational excellence as they expand their outsourcing models and scope of services? We believe there are six areas to consider:

## 1. Focus on the intended business value to be delivered

Insurers must work with their outsourcing providers to articulate goals that are expressed in metrics around improved business performance. This requires changing an organization's mindset from a transactional to a business-outcome focus. The goals of early outsourcing solutions were centered on companies' transactional needs. Today, executives must set their sights higher than one-time improvements or pure labor arbitrage.

The conversation about value to be delivered from an outsourcing arrangement should be about continuously improving an insurer's ability to achieve outstanding business results: increased net margin, reduced costs, more cash collected, improved combined ratio, accelerated audit process and so on. High performance as Accenture defines it isn't only about excellent business results now, but also about excellence over the life of the outsourcing engagement.

## 2. Take an optimized, industrialized approach

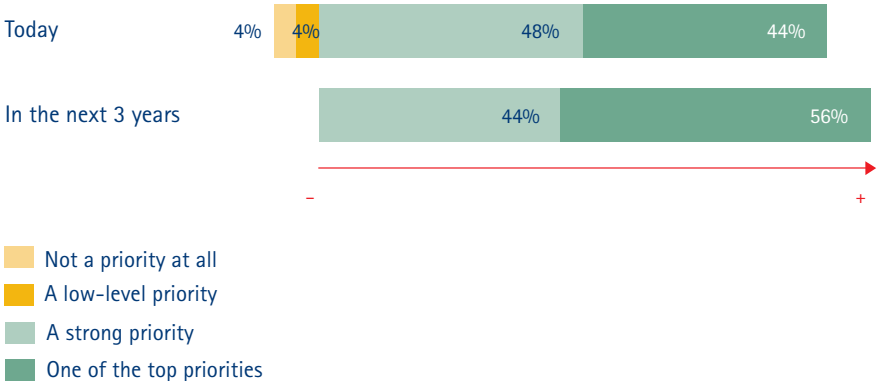
Make sure your outsourcing provider is bringing to the table finely tuned processes and industrialized methods that encapsulate optimized business practices accumulated through experiences with a large number of leading insurers.

These optimized processes should reflect the work of process design experts and efficiency experts, and the application of innovative technologies.

At the same time, insurers must ensure that an industrialized approach is not simply applied without consideration of their unique circumstances and goals. Methods and practices should not be "one size fits all", but rather configured to support a company's business and industry requirements.

In Accenture's view, there are two key facets of industrialization: the sophistication of individual business processes and the extent to which these processes are automated. To be truly industrialized—and, thus, to generate superior benefits for the larger enterprise—a process must be both highly sophisticated and highly

**Figure 1. Industrialization will be a top priority for insurers over the next three years.**



automated. Highly sophisticated but mostly manual processes can enable a company to be extremely customer-centric, yet are typically costly, time consuming and difficult to scale. Conversely, processes that are highly automated but simple can generate cost efficiencies, but may force the company to take a “one-size-fits-all” approach to the market. In either case, the company is missing out on substantial opportunities to improve its top and bottom lines.

To shed light on where the insurance industry stands today in adopting industrialization principles, Accenture polled 30 C-level executives at Europe's leading property and casualty, life and multi-line insurance companies, the vast majority of which had annual revenues exceeding US\$1 billion. In this survey, Accenture sought to assess

While industrialization, coupled with greater emphasis on alternative sourcing, is a priority among nearly all European insurance executives, only a handful of companies can be called industrialization leaders,

how important industrialization is to major insurers and, more importantly, to gauge the progress these organizations are making in raising the level of sophistication and automation of key business processes.

Our findings clearly show that while industrialization is a priority among nearly all European insurance executives (see Figure 1), only a handful of participating companies can be called industrialization leaders.

# Industrialization a top priority for insurers

A key feature of the Accenture Insurance Industrialization survey findings was that 92 percent of insurance executives who participated said industrialization is a strong or top priority for their company today. In the next three years, that figure rises to 100 percent (see Figure 1), clearly underscoring that industrialization is the way of the future. As part of that strategy, executives responding to the survey indicated they intend to increase by three- or four-fold their use of alternative sourcing for core processes in claims management and policy services.

And why has industrialization become so important? According to survey respondents, cost reduction and service quality improvement are the main drivers of industrialization, cited by 50 percent and 25 percent of respondents, respectively.

Because one-half of the industrialization equation is automation, Accenture asked executives to describe the extent to which key front- and back-office processes are automated in their company. The results reveal that, with many of Europe's top insurance companies having automated a number of their back-office processes, automation efforts in the near future will focus on the front office.

Overall, the level of automation across the participating companies remains low. Just 26 percent of executives said their back-office processes are "largely automated" today, and only 23 percent reported the same for their front-office processes. That situation appears poised to change, as 66 percent of respondents expect their front offices to be largely automated within

the next three years, and slightly more than half (56 percent) see the same for their back-office processes.

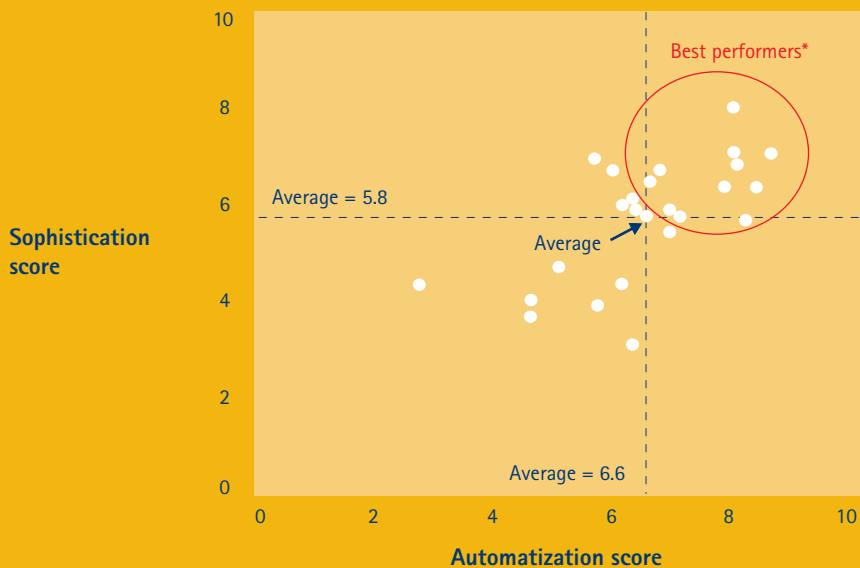
## Operational sophistication is relatively high

In addition to polling executives on the extent to which processes were automated in their organizations, the survey elicited feedback on the current state of numerous organizational, process and technical aspects of their front- and back-office operations. Their responses enabled Accenture to determine each insurer's overall level of sophistication in managing its back and front offices.

In the front office, 19 aspects were listed—such as ability to work seamlessly with channels with different brands, event-driven pricing capabilities, and



Figure 2. The Accenture Insurance Industrialization Index.



personalization of product features by client—each of which executives rated on a scale of 1 (low ability) to 5 (high ability). In the back office, 16 areas were cited—including effective middleware, automated close of day, CMMI-based culture, and e-learning capabilities—each of which participants described as “have developed” (a score of 5) or “have not developed” (a score of 0). By tallying these figures, Accenture calculated a sophistication score for each company.

In general, we found a majority of companies had a sophistication score that exceeded the average of the total sample. This is good news for at least most of the companies in our survey, as the ability to tailor responses to changing market needs hinges in large part on the sophistication and flexibility of business processes.

### Industrialization leaders enjoy substantial benefits

While the survey findings related to automation and sophistication are interesting in their own right, they are even more powerful when combined. By correlating a company’s sophistication score with its respective automatization score (derived by assigning a 10 for each process that is described as “largely manual”, a 7 for “more manual than automated”, a 4 for “more automated than manual”, and a 1 for “largely automated”) we determined what we call the “Industrialization Index” for each company.

The results of this correlation are noteworthy. About two-thirds of European insurers participating in the survey could not be characterized as being industrialized—either because their processes were not sufficiently

automated or their operations lacked the requisite sophistication. The remaining third, however, emerged as the high performers in the sample: companies that had achieved a level of automation and sophistication necessary beyond that of the sample average, putting them solidly on the course toward true industrialization (see Figure 2).

With highly automated and sophisticated operations, insurers such as these “industrialization leaders” enjoy substantial advantages over other companies in the Accenture study—and, indeed, over all their less- or non-industrialized competitors.

Figure 3. The Accenture Life Insurance Platform.



### 3. Support end-to-end processes

The best outsourcing service providers offer end-to-end processes so that clients get maximum process efficiencies and highly effective business outcomes. Point solutions focused on a single function are no longer sufficient. Companies must now look to bundling multiple functions (e.g., policy administration, claims, finance, learning and HR), leveraging synergies among those functions to deliver greater value. Insurers that do not look end-to-end across their processes may end up optimizing one function or portion of a process, only to find that value counter-balanced by poor performance elsewhere.

For this reason, advanced insurance platforms need to do more than deliver efficient processing for every aspect of the business, from prospecting all the way through to final claim and payouts. They also have to integrate easily with existing systems, thereby providing true straight-through processing.

A key contributor to end-to-end processing is the platform's workflow system, which controls all activities in each of the processes. It should link all of the modules together in an uninterrupted process, a smooth succession of functions called straight-through processing. Efficiency benefits greatly from a sophisticated workflow system, as it routes tasks and information to staff members' inboxes according to criteria such as workload, responsibilities, proficiency, etc. This ensures that the right people do the right things at the right times.

One of the most important ways in which the market-leading insurance platforms enable end-to-end processing is their ability to integrate seamlessly with the insurer's existing systems as well as those of its business partners and vendors. Platform neutrality, a services-oriented architecture, and the ability to pass and accept XML are the features that ensure smooth communication with disparate upstream and downstream systems, allowing insurers to transact and share information with any number of approved external systems.



## 4. Strive for agility by eliminating operational complexity

Many insurers strive to increase market share and financial returns not merely by trimming costs and pursuing organic growth, but more aggressively—through expansion into new markets and geographies, the modification of existing products and the launch of new ones, the introduction of new distribution channels, and the integration of merged or acquired businesses. To succeed with these approaches requires speed and agility. For many insurers, these attributes are sorely impeded by a complex infrastructure of disparate—and often poorly integrated—processing systems. For them, an optimized, simplified processing platform remains an elusive goal.

In a survey conducted by Accenture Research\* to determine the extent to which insurance companies in North America, Europe and Asia-Pacific have consolidated their business process platforms, we found that the proliferation of platforms is a widespread problem in the industry. The reported impact on business value is a direct result of operational inefficiency and the loss of market agility.

Of the 112 senior insurance executives who took part in the survey, 38 percent said they had already consolidated their platforms, 25 percent were in the process of doing so, and a further 27 were considering the move. Two out of three report using external service providers to help them with the process.

The business-value benefits of consolidation are impressive. Insurers that have successfully rationalized their processing platforms report an average 19 percent reduction in operational costs and a 25 percent reduction in IT application and

The benefits of consolidation are impressive: an average 19% reduction in operational costs and a 25% reduction in IT application and infrastructure costs. Speed to market is 35% greater, and efficiency, effectiveness and customer service are enhanced.

infrastructure costs. Speed to market is accelerated by 35 percent, and marked improvements in efficiency, effectiveness and customer service quality are reported.

While the immediate benefits of consolidation are gratifying, it is the longer-term impact that is most compelling. By eliminating the burdensome complexity that constrains the insurer's responsiveness and his range of marketing, sales and service options, and by replacing it with a simple, flexible platform, the organization is not only able to give customers the service and pricing they want. What is more, it is able to adapt rapidly to changing market conditions and demands. As the respondents who have already modernized their core processing systems have found, consolidation is a potentially decisive differentiator and a vital enabler of growth and high performance.

## 5. Drive toward greater scalability

Scale is another critical component of outsourcing solutions that propel operational excellence. There are numerous types of scale that are relevant to insurers, some of which are more obvious than others. No one needs to be convinced of the benefits of a business idea or an IT system that is scalable. But not everyone gives consideration to the scalability of their business processes. And the problem is: when business conditions are relatively stable, scalability is not a

priority; when the market is in turmoil and growth takes off, there is no time to implement scalability.

As one venture capitalist put it: "Once into the tornado, companies can afford to do nothing but process sales—no one makes it out by stopping to undergo an internal process review or change program." Adding to the problem is the fact that once embedded, processes can be extremely hard to change. This is partly due to the conservative nature of corporate culture; the tendency, when processes are taking strain, to double up or add on rather than implement new, scalable processes; and of course the reluctance to write off prior investments in systems and processes.

One of the biggest benefits that outsourcing offers insurers is scalability. This takes multiple forms. When transaction volumes fluctuate seasonally, the outsourcing provider has the capacity to manage them—relieving the insurer of the need to invest in his own, mostly under-utilized capacity. When the number of policies in a book of business changes over time—when a newly-launched product gains market acceptance, or a closed book declines—the service provider is able to keep the insurer's costs roughly in line with the size of the book. And when a merger or acquisition demands the rapid integration of policies or books of business, outsourcing is an effective way of scaling dramatically.

\*Accenture Life Insurance Platform Consolidation Survey, 2006/7



Truly global scale is what enables outsourcing service providers to deliver 24/7 service with a mix of highly qualified lower-cost workers, low-risk operations, and built-in skill and infrastructure redundancies. However, on closer inspection, not all large-scale solutions have the ability to deliver the same degree of business value. To achieve and then maintain operationally excellent business outcomes, an outsourcing provider must possess consistent technology architectures, process designs, training programs, culture, and client service capabilities. Repeatability and scale must be conjoined if insurers are to improve business performance over time through operational excellence and outsourcing solutions.

## **6. Ensure performance improvement will be demonstrated over the course of the relationship**

Here's a key question to ask an outsourcing provider: "In addition to showing me how you deliver operational excellence today, show me exactly what your processes are for continuously improving and driving toward even better performance over the course of our relationship."

Outsourcing service providers can be invaluable allies in the quest for improvement and innovation. Many work with a spread of clients, from various industries, and this exposes them to a steady flow of ideas that could be of benefit. Look to partner with an organization for whom continuous improvement is an imperative,

not an option. This will expose you to new ways of doing familiar things as well as new things that are less familiar.

The kind of innovation that outsourcing service providers specialize in is continuous incremental innovation. This is most often internal, and therefore not always obvious. The impact of each improvement might appear small, but taken together they not only add up; they also create a vibrant culture of improvement that attracts the best people and ensures clients gain the full benefit when big new ideas do emerge. Part of this culture is an emphasis on the importance of implementing innovations. The leading service providers have developed methodologies for managing this, ensuring not only that the implementation occurs, and that it is of good quality, but also that it is directed at the creation of enduring business value.





Accenture's research confirms that for many experienced outsourcers, continuous improvement over time becomes the real value-add from outsourcing. Insurers must increasingly look to service providers to continuously upgrade, tune and enhance both their front- and back-office operations. Certain providers claim that their processes are Six Sigma-compliant, yet few demonstrate how their training, culture and management are helping clients secure process outcomes that drive superior business results. Truly great outsourcing business partners embed a culture of continuous improvement and operational excellence throughout their organization.

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# Outsourcing to achieve operational excellence and high performance

Accenture discovered, through its survey of European insurance executives, that industrialization leaders have developed alternative sourcing practices—including outsourcing—more quickly than other companies. This applies across a number of key business processes. For instance, 63 percent of leaders, as opposed to 46 percent of average performers, have developed alternative sourcing for local distribution. In IT, alternative sourcing is even more prevalent among leaders: 56 percent are using alternative sourcing for IT application development and maintenance and 78 percent for IT infrastructure and operations. This compares with 46 percent and 64 percent, respectively, of average performers. In addition to IT and distribution, industrialization leaders are further along than average performers in adopting alternative sourcing in every other major business process—as Figure 4 shows.

The benefits received by companies that consolidated their platform using BPO were, on average, 17 percentage points greater than those that did not use BPO.

The correlation between market leadership and the use of outsourcing is explained in Accenture's platform consolidation survey. Of all the respondents that have completed consolidation, 43 percent outsourced some or all of their business processes. The benefits received by these companies were, on average, 17 percentage points greater than those that did not use BPO.

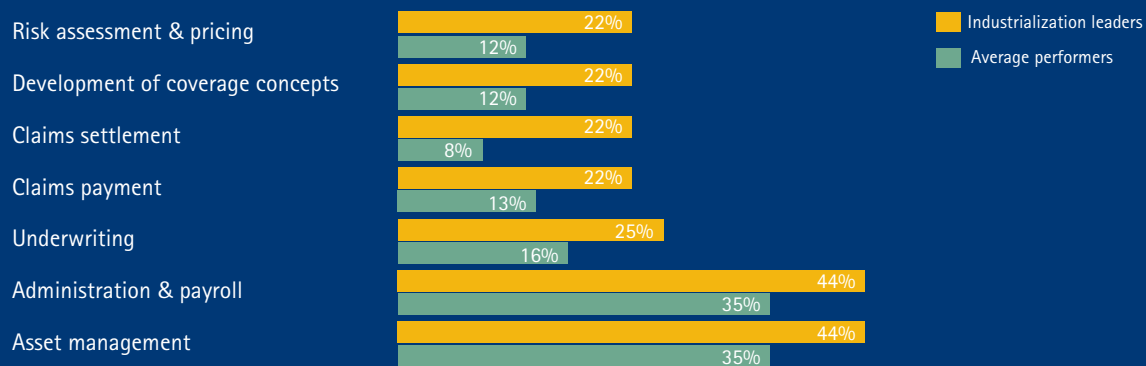
Overall, industrialization leaders are capable of doing what most insurers dream of: scaling their business while cost effectively tailoring offers to and interactions with customers as needed. This enables leaders to choose and sustain a distinctive strategy, better

manage across the boom-bust cycles that inevitably come, and have an in-depth understanding of the right levers to pull to optimize business performance—all of which Accenture research has identified as key characteristics of high-performance businesses in the insurance industry.



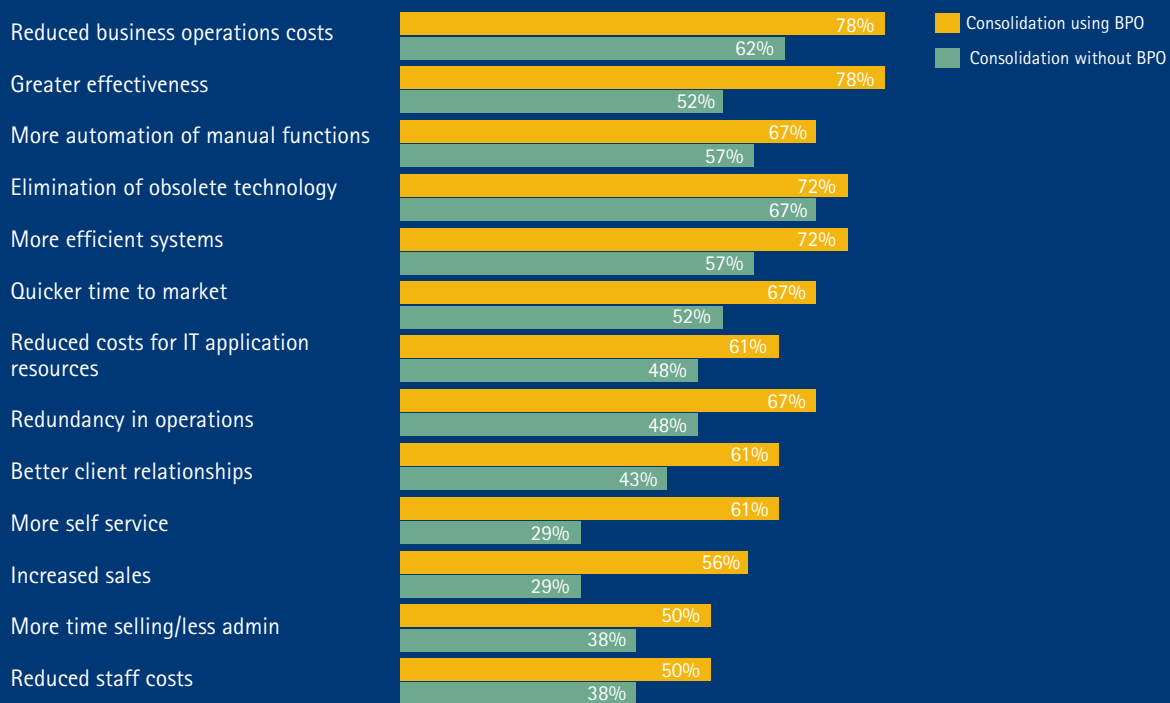
**Figure 4. The best-performing industrialized insurers have developed alternative sourcing faster than their competitors.**

Percentage of insurers who use alternative sourcing, including outsourcing.



**Figure 5. Insurers who use BPO in their consolidation process report benefits that on average are 17 percentage points greater.**

Q: As a result of the consolidation process, which of these benefits have you achieved/are you starting to achieve?



# Operational excellence drives business value

Operational excellence has evolved and matured over the years. It's no longer merely a collection of metrics to be monitored, but a means of driving better business value. Operational excellence has also become a common ground on which insurers and their outsourcing providers can work together, continuously improving their entire range of business functions and services. What's working and what could be working better? How might we bundle certain common functions together in a better way that both lowers cost and improves our business performance? What have we learned in one part of our business and how can we get those lessons throughout the entire business?

Operational excellence, due to improvements in its impact and in its sophistication, is becoming even more essential to an insurer's ability to drive greater business value through outsourcing.

These are the questions driving the long-term journey toward operational excellence. As pressure on CEOs increases—as shareholder expectations and increased competition push insurance companies toward ever-higher levels of return—outsourcing will be an increasingly dominant market force. That means that developing next-generation operational excellence capabilities will be a key to achieving high performance.



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