

# BPO Benchmarking & Adoption

# Areas for Discussion

- Introduction
- Profile of BPO adoption in insurance sector
- Role of process benchmarking in process and vendor selection
- ACORD standards and risk management

# Methodology

- Joint survey with LOMA of 90 insurance companies
- Process benchmarking of life companies
- Market analyses of life and P&C BPO markets
- BPO contract database
- Case studies of BPO adoption by life companies

# Profile of BPO Adoption in the Insurance Sector?

# Key Issues for Insurance Sector

P&C Companies: Issues	Highly Important (%)
High level of price competition	97
Need to reduce administration costs	92
Need for precise risk assessments of small market segments	67
Reducing cost of replacement costs & services	57
Need to automate risk assessments online	30
Need for improved underwriting	28

Life Companies: Issues	Highly Important (%)
Need to reduce administration costs	90
Need to introduce new investment products	77
Need to administer wide range of investment products	67

## Shared Services Initiatives in Insurance Sector

P&C Companies	Highly Important (%)	Life Companies	Highly Important (%)
Reduce the cost base of shared service centers	90	Reduce the cost base of shared service centers	60
Migrate the cost base of these centers to low cost locations	67	Migrate the cost base of these centers to low cost locations	40
Improve level of service provided by centers	45	Improve level of service provided by centers	20

# Profile of BPO Activity in Insurance Sector

Process	Contract Value (\$Bn)	Proportion (%)
Customer management services	0.2	2
Industry-specific processing	8.1	88
HR	0.8	9
F&A	0.1	1

Financial services accounts for 23% of BPO TCV with the insurance sector accounting for 12% of BPO TCV

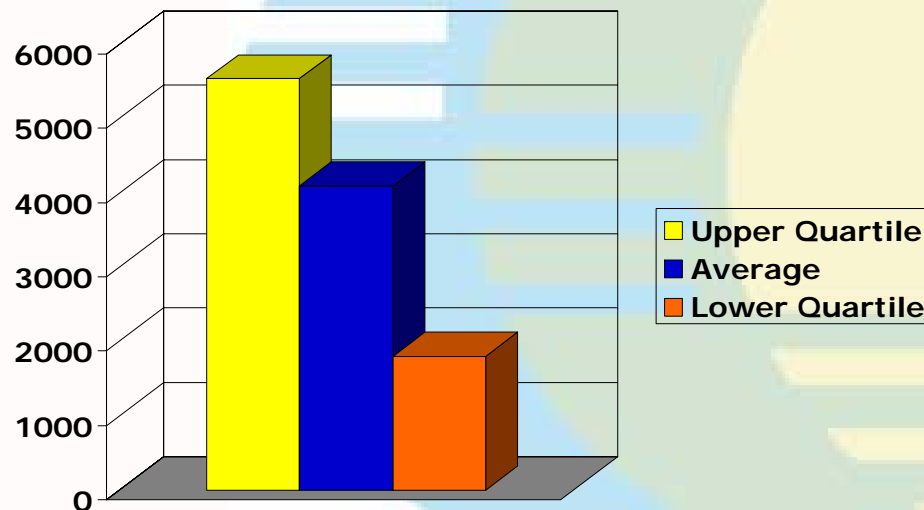
# Role of Process Benchmarking in Process & Vendor Selection

# Objectives of Insurance Process Benchmarking

- To assist companies in comparing their cost and customer service metrics with industry averages and “best practice” levels
- To assist companies in achieving a quantitative view of the maturity of their processes
- To indicate financial implications of achieving “best practice” levels
- To indicate determinants of best practice
- To identify rate of progress

# Relative Cost Structures & Determinants of Performance in Life Insurance?

Policies handled per policy services  
FTE



## Determinants of Performance

- Operational management including staff supervision and training
- Optimal levels of staff turnover
- Availability of customer files in image format

# The Economics of BPO

## Client delivery-specific & multi-process

- Still the main approach for complex/industry-specific multi-process services
- Highly tuned client delivery facilities have lower value than believed
- Largely onshore to start
- Sub-processes can be gradually moved offshore
- Target 20% cost reduction from process improvement after transition
- Target service improvement simultaneously
- Typically used for customer service reengineering without investment

## Sub-process offshoring

- Client-specific sub-processes only
- Target 40% from labor arbitrage after transition
- Limited process improvement initially

## Multi-shore utility delivery

- More limited in process scope than client-specific
- The future lies in integrated multi-shore delivery not pure offshore
- Target 20% cost reduction from process improvement
- Target 40% from labor arbitrage within offshored elements

## How Benefits Currently Achieved from BPO

Now:

- Operational focus
- Technology as an enabler not the prime focus
- Continuous improvement approach
- Offshore labor arbitrage

Largely Unproven:

- Economies of scale

## BPO Vendor Selection Criteria in Insurance Sector

P&C Companies	Highly Important (%)
Day-to-day operational expertise	97
Offshore delivery capability	95
Ability to add business value	95
Strong customer service ethos	95
Ability to reduce transactional costs	85

Life Companies	Highly Important (%)
Offshore delivery capability	100
Proven insurance experience	97
Ability to add business value	93
Day-to-day operational expertise	90
Existing utility service delivery capability	77

# ACORD Standards and Risk Management

# Sources of Risk

- Financial Risk
  - Understanding of client & vendor cost bases
  - Dependence on third parties
  - Dependence of your customers' behavior
  - Timing of cost reduction
- Service Risk
  - Process complexity
  - Introduction of new technology
  - Cost of achieving service levels
  - Morale of acquired personnel
- Relationship Risk
  - Partnership and governance
  - Client/vendor empathy
  - Lack of perception of business value/relevance

## BPO Service Management

- Day-to-day operational management is the key requirement
- Continuous improvement is arguably more important than major change
- Start with the possible not the impossible
- It takes time to stabilize operations & to change operations
- Offshore services take time to introduce within complex multi-service contracts

## Use of Technology

- Be pragmatic. A single platform is not always necessary or appropriate
- Do not under-estimate the complexity embedded in legacy platforms and processes
- Systems integration projects are still often late and over-budget, even within BPO contracts
- Channel change means changing customer behavior as well as technology
- Technology is only part of the answer. People management is ultimately more important
- BPO means that there are alternatives to technology

# Role of ACORD Standards

- Usage to increase
  - 61% of organizations surveyed used ACORD standards for business processes
  - 78% plan to extend their use of ACORD standards
- Important mechanism for supporting integration of outsourced services
  - 45% perceive ACORD standards to be important as a means of integrating enterprise data & processes with those of an outsourcer
  - 92% believe outsourcers should develop web-based services based on shared ACORD standards

## Partnership

- Work towards common goals, not hidden client or vendor goals
- Improve strategy alignment
- Challenge one another to achieve best solution e.g. imaging paper vs. moving to Internet
- Vendor should disclose cost & profitability forecasts as well as current costs & margins
- Introduce lean sigma to improve service quality and staff motivation
- New services will emphasize partnership aspects more than cost reduction

# Conclusions

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## DO's

- Be prepared to take partnership approach from bidding onwards
- Be creative on risk transfer
- Recognize importance of adding business value as well as reducing costs
- Understand the cost base and the cost drivers
- Recognize the reality of technology change
- Recognize the importance of strong governance
- Maintain a "can-do" ethos
- Show long-term operational commitment
- Listen

## DON'Ts

- Adopt adversarial approach
- Adopt over-aggressive or unrealistic cost targets
- Rely solely on labor arbitrage
- Expect technology to be the "magic bullet"
- Expect that you thought of everything up-front – you didn't!
- Under-estimate legacy process complexity
- Adopt a project mentality
- Take a short-term approach

# Q&A and Contact Details

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