



Capacity Constraints – A Good Problem

By Hugh D. Pinkus

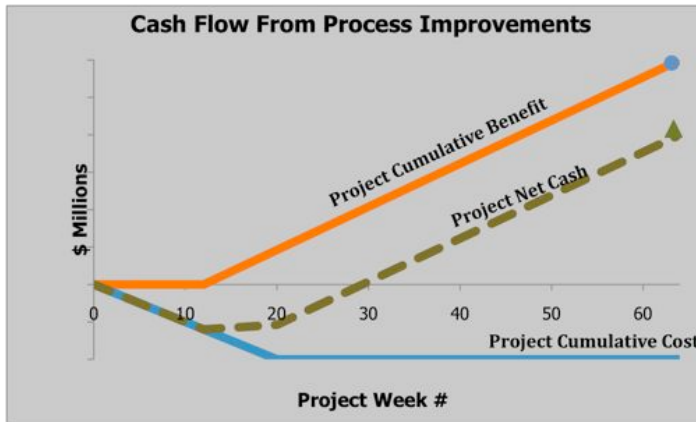
There are two types of problems: Good Problems and Bad Problems. Good problems are byproducts of strong business, such as too many desirable applications coming to your underwriters for evaluation. Bad problems are just the opposite – for instance, a shortage of quality applications that fit the company niche. The recession has forced companies to match revenue declines with reduced costs – a bad problem. As the economy improves we face a good problem: How to increase output for a minimum of cost and risk?

Calling for increased resources can be damaging if the economy dips while the request to hire is fresh. Yet missing growth opportunities does not help either your company or your career. You can't go on indefinitely at recession-level output levels – so when and how do you change?

The first step is to identify the constraints in your production. All of us produce goods and services by having people do things with tools. In insurance, we conduct risk analyses as part our overall production process. Producing an analysis takes people (e.g. underwriters), tools (IT), and processes (That thing we do!)

Business is up so you face a choice. Should you focus on people, tools, or processes?

1. People: Adding to your work force is expensive. Even more critical to the insurance industry is that underwriters and analysts take years to become truly valuable. New people often cost their employers unneeded losses as they gain rating experience.
2. Tools: Investing in IT consumes valuable cash, raises scrutiny, and takes time to implement. Disruptions can occur just as your people are dealing with added volume. You risk losing the friendship of your CFO by paying for both for the “temporarily” added staff and the technology in the same period.
3. Process improvements: Implementing process changes provide relatively quick results with minimal cost compared to capital expenditures. Most process improvements take three to six months to implement with a payback period of about the same span.



Source: Cedar Analysis

A Massachusetts property and casualty insurer, looked at the three options and saw their experienced underwriters as key assets. Hiring new employees due to a business upswing can expose insurers to avoidable risk. Underwriters experienced in their employer's niche can quickly cull out applications that do not fit. At best, inexperienced underwriters waste time analyzing proposals that are sure to be rejected upon review. At worst, they commit companies to significantly more risk than they appreciated.

The knowledge of an experienced underwriter is critical to identifying risks that need to be avoided as opposed to those risks that the company has expertise in evaluating and pricing. An insurance company's challenge in a period of growth is to increase productivity by working smarter.

How would an underwriter know if they were working smarter than before? Are there measurable facts about identifying constraints, or do decisions rest on personal opinion? We all have different judgments about assessing quantities of work yet senior executives must stake their careers every day on calling it right.

Senior executives need facts. How many policies were quoted last week? How does that compare with prior weeks? What was different about last week? How many applications were analyzed compared to the number of quoted policies? Why were some not quoted? Should the policy application ever have been put in front of the underwriter in the first place?

An often-heard refrain in the industry is: "You can't measure my work. No two applications are alike!" Leadership is told that the differences are out of an underwriter's control. This one is a bad customer, that one has a business unlike any other. They all have varying situations requiring special attention.



The truth is that most work can be grouped into categories broad enough to encompass most of our work and yet narrow enough to be useful. We can then look at each category, identify major problems, implement solutions, and measure whether our solutions worked.

One method to improve underwriter productivity is to stop working on applications immediately upon once they are no longer viable candidates. The insurer began assessing in real time so that the process stops upon catching a trip wire. (e.g. Will the account revenue be greater than the preset minimum?) Similarly, applications can also be scored on many factors. (e.g. Does the application correspond to the prospect's website or commercial literature? How long a lead-time is needed? How big is the potential for future account growth?) The answers to each assessment question are scored. Applications failing to meet a target score are terminated. Poorly scoring applications are ripe for secondary review.

Working smarter means getting the right information in the right place at the right time. A sample of the underwriters and clerical staff were objectively observed to see what was consuming their time. The point was not to yell at people to work faster but to identify barriers they faced every day to getting more output.

It turned out that a significant portion of underwriters' time was spent reviewing applications that had insufficient data or obviously wrong data. These applications should never have been in the underwriters' work queues in the first place. Underwriters would spend time on the application, realize the data problems and send it back for rework. Cases were even observed of underwriters having an application in front of them for the third and fourth times!

The insurer attacked the root causes of bad data and incomplete data by focusing on training and adjusting some processes. Using objective observations and activity measurements, they created teams to identify the processes requiring revision or re-implementation.

No major IT project was needed and no additional people were hired; working smarter made all the difference. Because no capital projects were involved, this project could be done quickly: measurable financial impact began within four months of the project's kick-off.



Measuring the output of its underwriting group demonstrated the increased throughput. By measuring the profit impact of an increase in additional quotes, any insurer can understand the financial impact of additional quotes and additional business. Critical to the financial impact is that the revenue from additional quotes was obtained at no additional fixed cost!

The project started with the top management explaining the purpose of the observations and measurements to everyone in their company. Everyone wanted the project to be successful and knew that if they could quote more relevant business then they would bring in more business. With the purpose understood, the underwriters were highly cooperative.

The need for increasing output without large investments can be critical when the future is unclear. The measured financial benefit provides justification and vindication for the project champions. The speed of implementation allows for customer creation without the disruption frequently caused by large-scale technology changes.



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