

The Best Company Wins

To say that the best insurance company is the winner in the marketplace might seem to be stating the obvious. But no company is so good that it cannot improve through skills development.

BY STAFFAN CANBÄCK

It has been stated, more than once, that insurance companies are facing a fundamental change to their business conditions. There is no reason to question this statement, because the time of change is now very close at hand. Look no further than the magical date of 1992. But quite apart from what will happen in Europe after that year, it is safe to assume that the 90s will be a revolutionary decade. In a series of three articles, Försäkringstidningen [*Insurance Journal*] will try to describe some of the factors that will play a significant role for companies wanting to succeed during the 90s. The first article is written by Staffan Canbäck, who works for the international consultancy firm McKinsey & Co.

During the 1980s we all learned one self-evident, fundamental truth: successful companies give their customers more value for money than their competitors can offer.

With this truth in mind, we set to work and did what was needed to give our clients what they wanted, at a good price. We kept an eye on our competitors to make sure that they were no better than we were.

There were, of course, many ways of making this equation work. By formulating the right strategy at the right time, we could dominate an expanding market. We could manage our business with a firm hand to keep costs and prices down. We could improve our products. We could buy IT equipment to enable us to make quicker deliveries.

But in the insurance industry these are merely the basic requirements for survival, they are not enough to make a winner. Nowadays all insurance companies are looking for new opportunities in the market, and are copying one another's methods quickly and efficiently. Everyone is cost-conscious. Everyone is overhauling their products. Everyone is investing in information technology. A simple conclusion, when everyone is behaving in the same way, is that no one stands out from the crowd.

If anyone is benefiting, it is perhaps the customer as everyone tries to attract him. But despite the efforts of the insurance companies, they are not generating much profit for themselves. To be top of the class you also have to have better grades than the others.

Skills Development is Worthwhile

There are, however, areas in which you can gain advantages that are difficult for your competitors to match. One of these areas is what we call organisational skills. This means all of the combined skills that exist at all levels of a company to satisfy the customer's requirements. Organisational skills go beyond – and multiply – the ability of individual employees to perform their daily tasks. We can use a football team to illustrate this concept: it is not enough to have several international stars – you can only win matches when the team as a whole works together.

For insurance companies the term 'organisational skills' is of vital significance: in few other industries does it have the same crucial significance in terms of the potential to generate and maintain success. In an industrial company the most important thing is to develop, manufacture and sell the product. Even if it continues to have the service and guarantee commitments, the company's involvement with the customer is reduced once the product has been delivered. For an insurance company, however, the sale of the insurance policy is only the first part of the product that is offered to the customer. The risk must be underwritten, claims must be settled and the premiums must be invested to achieve a good rate of return. All of this requires efficient, advanced organisational skills.

Skills can be defined as a company's ability to perform various tasks better than anyone else. For example, if you can identify an expanding customer group six months before your competitors do, you have an excellent starting position in the new market. Or if you can achieve a better balance between customer service and cost control within claims settlement, the customers will continue to be satisfied and you will avoid any unnecessary overpayments. This means major savings for your insurance company. The potential to develop these kinds of skills exists at all levels of a company.

By developing its organisational skills, an insurance company creates a profitability gap between itself and its competitors. This gap is difficult to bridge. Your competitors can quickly copy your product or spend equally large amounts on marketing. Skills, on the other hand, are firmly rooted in the organisation itself and its employees, and are therefore difficult for your competitors to copy.

Several Ways to Win

There are several ways to increase organisational skills. Training is the most obvious one, but even though it has an important role to play, it is not enough on its own. What is required instead is a total perspective involving a conscious, consistent development of the company's structure, procedures and its employees and their professional status. Only then do you create a whole that acts together to drive and prioritise high-quality customer service.

There are several examples of companies who, although they have similar strategies to their competitors, perform significantly better precisely because they have superior organisational skills. For example, in the field of marketing the best insurance companies conduct careful research into their customers' needs, and on the basis of this, they design their products, distribution and service to suit the customer segments that are most attractive to the company. Some of them also back up these skills with IT support, which gives their sales representatives valuable information about customers both when they first meet them and during any subsequent follow-up. Advanced tools of this kind provide a major advantage over competitors whose sales force still has to meet customers with significantly poorer preparation.

In the same way, other insurance companies have well-developed skills that enable them to draw up non-standardised risk policies and to cover risks that are difficult to assess. Even in the field of claims settlement, some international companies have succeeded in training their employees, with the result that they have achieved a better balance between service and cost control. Here success depends on that fact that they succeed in minimising overpayments while at the same time working on improving customer service.

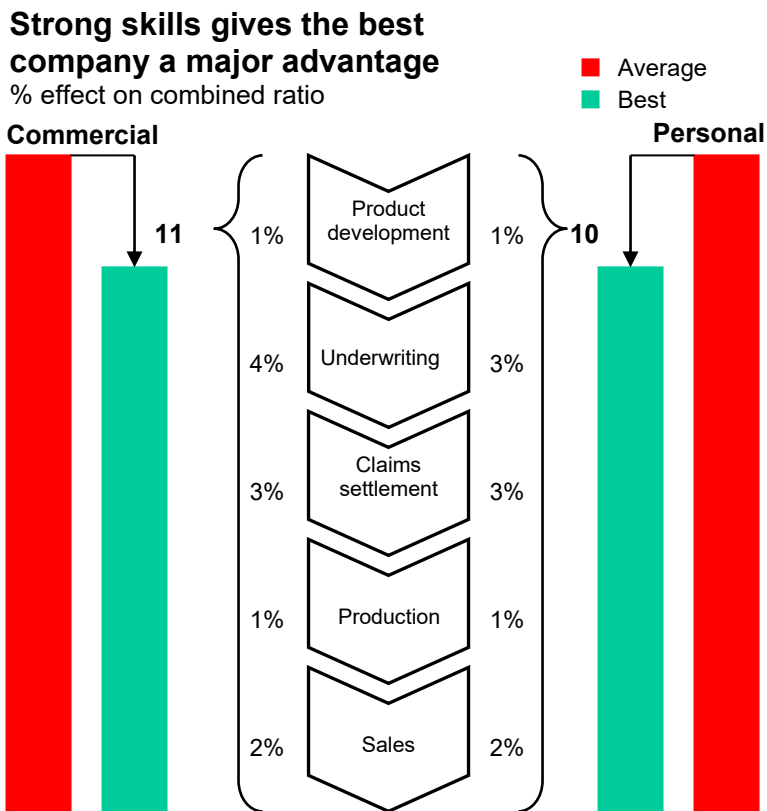
Major Benefits

Competent marketing, setting of premiums, underwriting and claims settlement generate major financial benefits for insurance companies. Even if the gap between a normal insurance company and a very competent one varies, depending on the type of insurance business and company, it is our experience that a high level of skills within key areas can reduce the combined ratio by more than ten percentage points (see diagram).

Let us take a look at two examples in which insurance companies have benefited from increasing their skills. A Nordic insurance company improved its skills in the field of underwriting civil insurance policies. It analysed its list of customers so closely that it could identify the ones that generated the best rates of return. When it had identified these groups, it directed its sales activities towards them and offered them lower premiums. During the 1980s this insurance company's combined ratio has continuously been ten percent below that of its competitors.

Another insurance company succeeded in breaking down its customer analysis to such a detailed level that it could identify customers with much greater certainty than its less systematic competitors. The result was a 70 percent response frequency, which can be compared with the normal figure for the insurance industry of 20 percent.

Companies that actively develop their organisational skills normally find that this leads to greater financial gains than other measures they undertake. It is time that insurance companies stopped neglecting this area and took up the challenge.



Neglected Skills

Why have so many companies neglected their organisational skills? Why are these skills the missing link in the management chain? There are four possible reasons:

- First of all, management in many companies has not fully realised the economic potential of organisational skills. For example, experienced underwriters within corporate insurance often manage books with a value of around 20 million Swedish Kronor. Most people with experience of the insurance industry agree that the difference in the cost of claims between a normal underwriter and a highly skilled one is at least five percent, which corresponds to one million Swedish Kronor per annum.

The same logic applies to savings that can be made by claims adjusters. As claims settlements represent enormous sums for all insurance companies, even minor improvements in the performance of claims adjusters can generate major financial savings. But the training and recruitment of claims adjusters have not been given enough attention, or have been far too traditional.

- Another point is that the potential career paths, salaries and organisational structure often do not stimulate the development of the skills needed on the front line. One example is that in many insurance companies the position of claims adjuster is unfortunately considered to have a very low status, despite the major financial benefit the company can generate by recognising and developing the skills and motivation in these employees. Also, salary levels are determined by time served rather than on merit. Furthermore, insurance companies have historically often isolated management from the employees whose daily work keeps the company going. Such an organisational structure blocks the exchange of ideas required for management to understand market trends and thus make the right decisions.
- Thirdly, underdeveloped organisational skills are often self-fulfilling. The role of an internal audit is usually to make sure that administrative procedures are observed, not to monitor the effects of decisions taken close to the customer. Information systems and incentives are aimed first and foremost at productivity and service rather than the technical implementation of the transaction. A claims settlement performed too late is noticed, but not one that is done well. It is important to remember that progress is made not only by correcting mistakes, but also by repeating what has succeeded.
- A fourth reason is that companies believe that the task of building up superior organisational skills is quite simply too great, perhaps impossible. Management is sceptical about its chances of managing and developing the behaviour of the whole company. Attempts to implement changes are instead often limited to technical improvements to information systems and processes.

The Skills Challenge of the Future

How can a company approach the critical challenge of building up and developing organisational skills? Both management and employees on the front line must achieve visible improvements in the value for money offered to the customer. Converting your company's skills base into profits usually requires that tens, hundreds and sometimes even thousands of employees are aware of which tasks are of greatest significance. For example, selling on value instead of price, listening instead of talking, building up relationships instead of taking orders, helping the customer solve his problem instead of routinely going through administrative tasks and control checks.

In order to deal with this challenge, insurance companies must:

- Develop focused strategies according to market segment, product types, distribution channel and geography – to simplify the expansion and renewal of organisational skills and to guarantee that it will excel at working with the selected customer groups. An insurance company that tries to do everything will soon become second-rate at

most things.

- Continuously identify and accurately measure the economic effects of the parts of the organisational skills that are most critical to achieve increased market share on a profitable, sustainable basis.
- Create simple organisational structures that enable flexible, cost-efficient support for those who make decisions on the front line, where the battle for customers is decided.
- Create terms of employment and promotion that reflect the economic significance, and therefore the importance, of decision-makers working close to customers. Recruitment, training, salaries and assessment must all combine to acknowledge the importance of those who have an effect on economic performance.
- Develop information systems that generate the information that employees need to do their job in the best possible way and that make detailed follow-up possible.

Take up the Challenge

First and foremost, insurance companies need the courage, decisiveness and ability to accept the challenge to build up organisational skills. They must fully understand and accept that a change process lasting several years is required. Developing skills is not easy, and it is an unglamorous job. The daily papers do not devote too many column inches to companies that are trying to build up their organisational skills; they prefer to write about bold strategic initiatives.

The effort can be extremely profitable. There must be a clear vision of what is necessary for success, a sharp focus on the economic possibilities, rewards to those who generate good ideas, quick broadcasting of the news of initiatives that succeed and a determination among senior management to attract, develop and retain competent employees.

Organisational skills play a very important role in a company's competitive strategy. For insurance companies, this means that during the 1990s development of skills must be one of the most highly prioritised development areas. Those that make the effort will be the winners – with satisfied customers, a strong competitive position and a good reputation as an attractive company to work for.