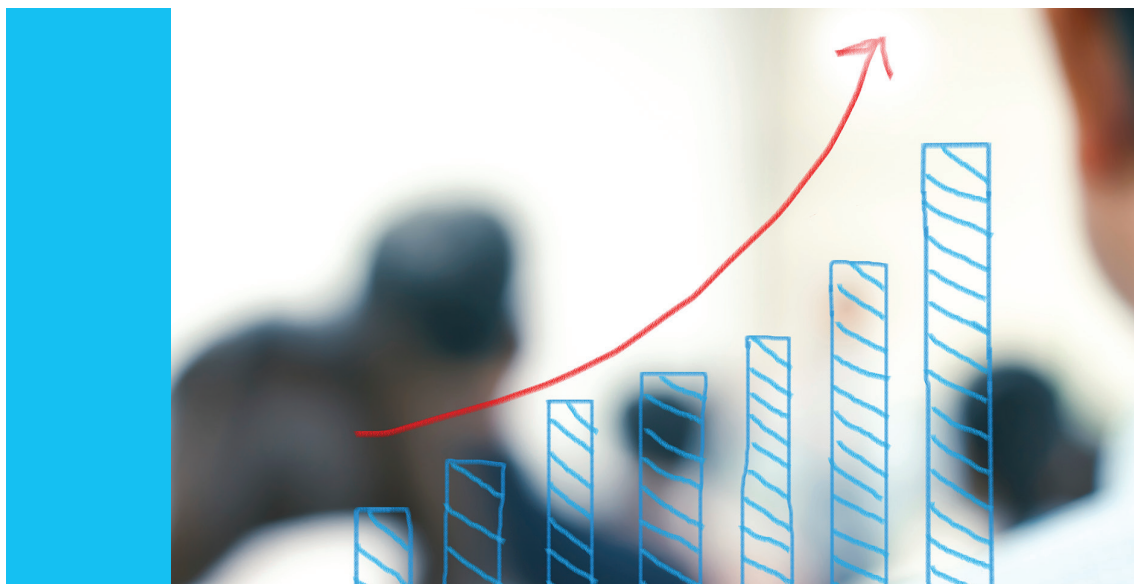Financial Services Practice

Building a Culture of Continuous Improvement in Insurance

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A Steady Stream
Of Improvement

After years of often intense change, insurers in North America are facing a new set of challenges that their previous investments may not be able to solve. They need more flexible technology—and tighter cost controls. They need higher performance from their workforce—and more employee engagement. They need to retain current talent—and acquire entirely new capabilities in data analysis, mobile technologies and social media. And they need to protect their current competitive advantages, while rethinking business models and launching new ideas.

Each of these challenges is essentially a question of capacity. In working with some of the world's largest insurers, McKinsey has found that the most reliable and sustainable forms of capacity increases come not from quick cost or performance initiatives, or even from redesigning business processes. Instead, capacity grows as a result of improvements that flow from a culture that continually assesses what clients value, how the institution can provide that value, and what changes it must undertake to make it all come together.

Getting to that point is not easy. But it is possible, as shown by the experiences of several leading institutions. These companies made targeted, sustained investments that improved how they serve their customers, develop their people,

> "I gradually came to see [lean management] as a broadly applicable management system. It doesn't matter what you are producing: it could be widgets, financial products, or—as in our case—analysis. It applies to any process that has inputs and outputs."
>
> —Mike Rollings, CFO, MassMutual

find new ways to work, and translate strategy into tangible outcomes. By transforming themselves in all of these dimensions at once, these organizations have achieved both short- and long-term success: increasing efficiency by 20 to 30 percent in the first two-to-three years, and continuing to improve by three to five percent annually thereafter. The increased capacity allowed them to enhance the customer experience, increase employee engagement, and improve collaboration among businesses and functions—results that can be worth two to three times the value of the cost improvements alone.

Three years into its lean management transformation, one of the largest U.S. life insurers is seeing lasting impact. Increases of 20 to 30 percent in productivity and return on equity are only part of a larger story. Across a wide range of functions and business lines, cycle times are between 15 and 20 percent faster. Error rates have fallen by over 90 percent. And customer satisfaction has risen by 15 to 20 percent (Exhibit 1, page 4).
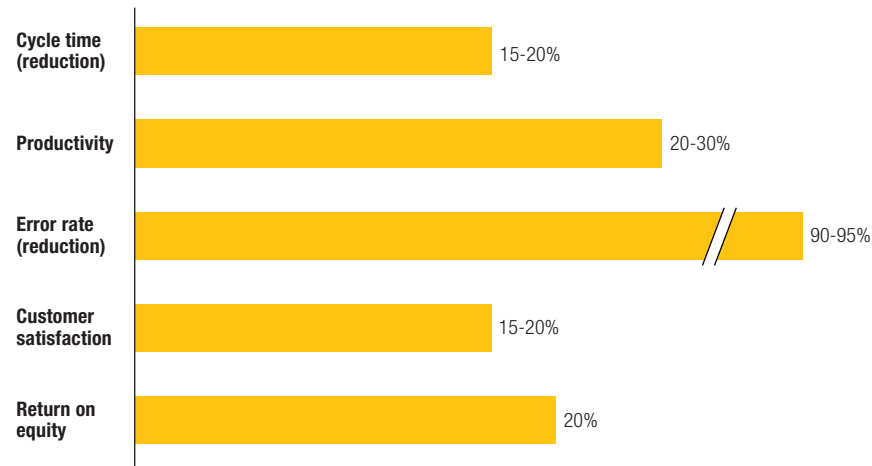
Beyond improvement initiatives

Many insurers have undertaken transformation efforts in the past—enabling dramatic reductions in claim times and cost per transaction, for example. But these carriers often discovered that after an initial breakthrough—even one as noteworthy as processing claims in 15 minutes rather than three days—performance would plateau. At worst, many of the hard-won gains eroded.

In most cases, the benefits proved fleeting because the changes solved an

Exhibit 1

A U.S. life insurer achieved lasting impact through a lean management transformation

Change in performance over three years

Cycle time (reduction)	15-20%
Productivity	20-30%
Error rate (reduction)	90-95%
Customer satisfaction	15-20%
Return on equity	20%

Source: McKinsey & Company

immediate problem, but did not provide the ability to identify and solve similar problems in the future. Nor did the changes provide leaders and managers with the extra time and capacity they need to guide a constant process of evolution. In short, the solutions addressed the symptoms of performance issues, but not their underlying causes.

Organizations need the capacity to meet challenges as they arise: new regulations, capital-market volatility, aggressive pricing practices, or novel products and channels. The ability to do so rests on four disciplines that together form the lean management system, supported by a cohesive set of tools and management methods that nurture a culture of continuous improvement.
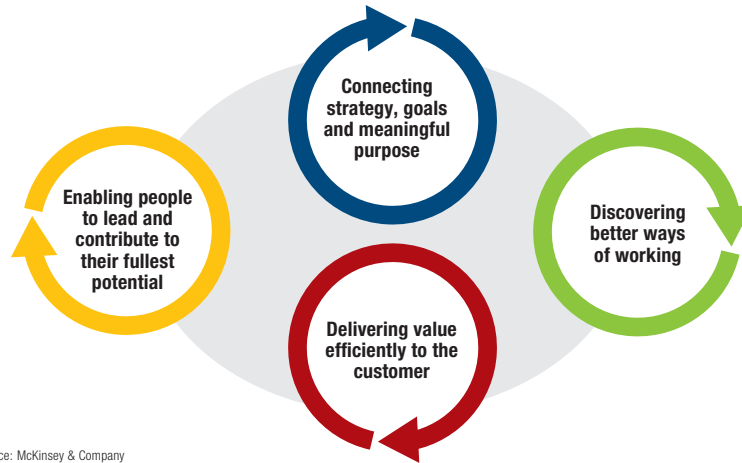
The Four Lean Management Disciplines

The lean management disciplines themselves are not new; any organization that has managed to survive for long is already following them to at least some degree. What is new, however, is an approach in which each discipline is applied consistently and thoughtfully so that they reinforce one another and strengthen the enterprise as a whole (Exhibit 2, page 6).

Exhibit 2

The lean management system comprises four integrated disciplines

Connecting strategy, goals and meaningful purpose

Enabling people to lead and contribute to their fullest potential

Discovering better ways of working

Delivering value efficiently to the customer

Source: McKinsey & Company

Delivering efficiently for customers

The first discipline, which typically gets the most management attention, concerns how an organization generates the

value that customers are willing to pay for. This is a continuous cycle of evaluating customer needs and finding new ways to meet them—either by using fewer

resources more effectively or by creating additional value that justifies new prices.

The companies that truly excel in this area hone their abilities to both recognize new delivery opportunities and take full advantage of them. For one P&C insurer, opportunity arose out of its attempts to turn around renewals pricing performance in one of its commercial lines, which it sold primarily through independent brokers. Measures designed to increase underwriters' awareness of inconsistent pricing had little effect. Instead, a series of conversations that a senior leader held with underwriters revealed that many relied almost exclusively on discounting to win renewals. They had never learned how to engage brokers fully in the renewal process, e.g., by pointing to service factors that made the carrier easier for brokers and policyholders to work with—flexibility in updating coverage, speed in handling claims, and so forth. Once underwriters

> "Whenever I go back to one of our sites, people will come up to me and say, 'There are things I can do now that I never thought I could do before.' It means we have a whole new base of skills."
>
> —Bryan Robertson, former director of lean transformation, Direct Line Group (U.K.)

reframed their conversations, the brokers proved more willing to promote renewals, because they could see how the carrier could help them improve their relationships with their customers.

Enabling people to lead and contribute to their fullest potential

Because performance in service industries—particularly complex ones such as insurance—depends more on the actions of individuals than machines, the organization must play an active role in people development. Striking improvements can come from changing how senior people spend their time. McKinsey's analysis of leaders' and managers' work patterns—summarized by the shorthand "day in the life of" (DILO) and "week in the life of"

"The single most surprising attribute of lean management is how it makes the invisible visible. As a senior executive, you may have no quick way to find out how many claims are in process at once—how big your inventory is. Now we have that sort of data at a glance."

—Carlos Zuleta Londoño, COO, Porvenir S.A. (Colombia)

(WILO)—show that, on average, people management activities such as observing work, providing feedback and engaging

in one-on-one coaching typically account for only 10 to 20 percent of the day, and significantly less in some cases. At higher performing organizations, the figure is 50 percent or more.

This level of improvement rests on a performance-management infrastructure that help leaders and managers set expectations and track results. Skills matrices, for example, summarize the capabilities of everyone on a team, highlighting training needs while enabling managers to adjust workloads dynamically.

Building these practices is especially important for insurers with aging workforces, as was the case at the U.S. life insurer referenced above. Several senior executives were starting to think about retirement, but as they reviewed the organization's succession planning they realized that large portions of the company had no plans at all. Because their transformation had made internal reporting of available skills more rigorous, the company could readily introduce a new indicator, "leadership readiness," to each person's skills record. Managers who were so identified became the top candidates for promotion. In effect, much of the company went from having no succession plan to having at least two names for every leadership position, reducing a significant risk to the organization's future health.

**Discovering better ways of working**

Organizations that evolve with their customers constantly reassess all levels of their operations. Crucially, they are willing
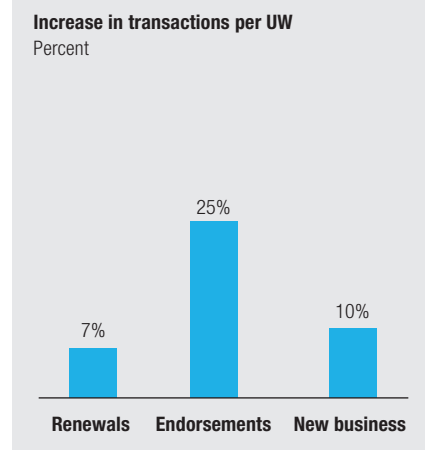
Exhibit 3

Increasing underwriters' responsiveness and productivity

Small commercial multiline insurance example, underwriter (UW) performance

Double-digit increase in client responsiveness

Reduction in cycle time
Percent

Renewals	Endorsements	New business
4%	40%	45%
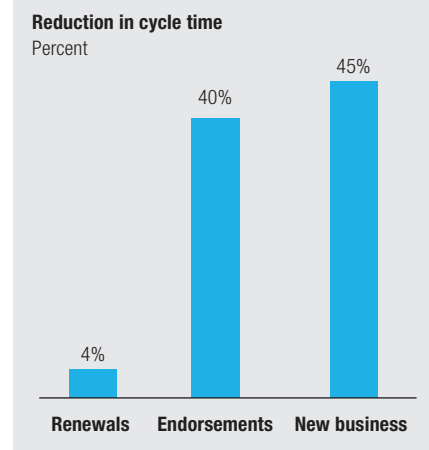
Approximately 15% increase in underwriting productivity

Increase in transactions per UW
Percent

Renewals	Endorsements	New business
7%	25%	10%

Source: McKinsey & Company

to recognize potential problems openly regardless of where they arise—whenever possible, before any direct financial impact. Once they identify a problem, they systematically search for its deepest causes, so the solution they design is lasting, and they provide sufficient time and resources for implementation. Finally, they view problems as unique chances to improve, awarding recognition and career advancement to people who contribute effectively to the problem-solving process. As one executive summarizes, "Our employees don't come to work to do their job, they come to work to make their job better."

At the regional unit of a large P&C carrier, back-office personnel had long worked nights and weekends to process applications with incomplete data. Although the organization's culture had tolerated these conditions as simply "part of the job," people began to recognize a long-term threat to morale. Taking advantage of a new focus on problem-solving, the back office made a few changes to standard operating procedures that reduced the number of incomplete applications, speeding completion time by 45 percent for new customers (Exhibit 3). That success brought company-wide attention: the top team cited it as the highest-impact solution for the quarter, even though its effects were difficult to quantify in purely economic terms.

Connecting strategy, goals and meaningful purpose

Recent research has found that the strongest organizations are those whose employees find the greatest sense of meaning in their work. Accordingly, the

> "[Our transformation gave us] a common language to run the business, to solve problems, to share best practices and to improve results."
>
> —Bryan Robertson, former director of lean transformation, Direct Line Group (U.K.)

fourth discipline bolsters the linkage among an organization's defining purpose, its strategy, and the goals its people pursue in their daily responsibilities.

A large life insurer defined its purpose as helping families achieve financial security. It then translated that purpose into a new approach to meeting performance targets that was both simpler and more ambitious than its previous efforts. The simplicity came from color-coding: red for below-target performance and green for performance that is above or on target. The greater ambition came from a new mandate: if the company was serious about helping families find financial security, especially when financial returns across many asset classes remained low, simply avoiding "red" results would no longer be good enough. For policyholders' sake, the company also needed to avoid "green" results that weren't improving—or, as they came to be known in the company, "stagnant green."

How Insurers Transform Themselves

Few organizations manage to follow all four management disciplines with the rigor and consistency that continuous improvement requires. Many insurers instead make occasional investments whose results naturally regress to the mean—as was the case for the North American operations of a global life insurer.

Despite earlier improvement campaigns, an assessment of the unit's long-term financial and operating performance capacity produced only middling scores: slightly above average for six of nine major indicators and below average for the remaining three. Facing new pressures from

competitors and regulators, the organization recognized that it needed fundamental change. Its story illustrates the essential steps that enterprises must undertake in order to keep their momentum once the initial push ends.

Redefine "leadership commitment"

One of the standard recommendations for any change program is to make sure the leaders are committed. But pressed for time, leaders too often yield to temptation and make their commitment more symbolic than real: a speech at the official kickoff, attendance at a few steering committee meetings, and maybe a couple of well-publicized visits to operational centers.

The global insurer in this example redefined leadership commitment in two ways. First, the North American CEO took the lead on a major portion of the work. Much as executives and managers further down the line would have to do as the transformation took hold, the CEO underscored the importance of the changes required in every meeting and personally invested time in critical discussions to propel the transformation. Second, the company created a rigorous governance plan that involved virtually the entire executive leadership team in designing, implementing and monitoring the initiatives that comprised the transformation. This unusual degree of leadership engagement meant that the changes spread rapidly and deeply across the organization. Within the first two years, the

net financial impact of the changes had already passed the $5 million mark (as part of a broader plan to achieve more than $50 million in impact).

Rely on "showing" instead of "telling"

Most executives and managers think that the organizations they lead must be doing reasonably well, or they would not have remained leaders or senior managers for long. Only by seeing a truly high-functioning lean management system in person will they begin to grasp they how much improvement opportunity they actually have. The global insurer's leadership team made a point of taking their colleagues to visit several organizations in other fields—including a global bank and a European health insurer—to see what a transformed organization achieves each day.

Start small and smart, then expand

The conventional wisdom in a transformation is to start from a small base, building confidence that will help "sell" the changes to the rest of the organization. But that is only part of the story. A business (or function) that is too small or unusual may fail to persuade skeptics who think that the lessons do not apply to the rest of the enterprise.

One common strategy is to start with a few teams in claims processing, a function that is highly visible to customers and often shows significant improvement potential. A major U.S. P&C insurer, for

example, started with an auto claims office. New team design and improved processes reduced customers' wait times by more than 25 percent while increasing productivity by 5 to 10 percent.

The North American unit of the global insurer took an even bolder decision. For the initial design stage, it chose its largest business line, and its IT team. Both groups had high-impact potential, along with engaged management and excited employees. And they allowed the company to explore many different types of impact: revenue increases, cost reduction, customer satisfaction improvement, greater risk control and higher employee engagement. The results were impressive, with IT alone creating almost $2 million in estimated value over the first few months.

Assemble an A-team

For a transformation to achieve scale in a reasonable time, senior executives must be willing to assign their best leaders to the team overseeing day-to-day implementation. These are the people who will train and coach managers and team leaders on the new tools and practices that will profoundly change the way everyone works each day. Because those managers and team leaders will in turn train people further down in the hierarchy (using a train-the-trainer structure), the transformation's success depends to a great degree on ensuring that the right people are at the top of the pyramid. The North American unit's leadership team built a highly selective recruiting process involving case studies to test applicants' problem-solving skills, behavioral interviews to understand their coaching ability, and the promise of rapid advancement for candidates who showed the best results.

■   ■   ■

These stories illustrate that for insurers, the next improvement opportunity is to build a management structure that will enable them to keep improving. Creating the right processes and habits requires a deep commitment, but the resulting transformation leaves an institution far stronger for the future.