
Small Business Insurance Dynamics Strategy Model

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Industry Background

Small business insurance carriers vie for position with independent agencies who broker the product for small business clients.

The insurance company's position with an independent agency determines the amount of new business written and is the focus of most business growth initiatives.

Most carriers are attempting to improve their position with agents by increasing ease of doing business with the carrier and providing a high level of customer service with the brokered client, often in the name of the agent.

Within the insurance company, each business function believes that their initiatives will be the most successful at increasing rank of carrier in agency, but in reality, the initiatives are inter-dependent and analysis requires a holistic view of the business.

- Marketing wants to grow the size of the independent agency channel
- Sales wants to maintain the existing relationships
- The back office wants a technology investment to make service seem that it comes from the agent
- Claims wants to differentiate with high levels of customer satisfaction
- Underwriting wants to limit the carrier appetite for risk, increasing profitability and be recognized by agents as the best carrier for specific liabilities.

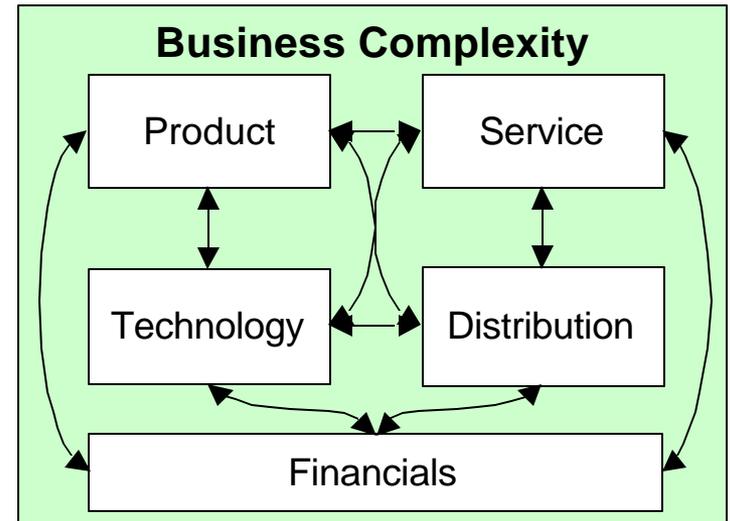
Why did we build the model?

Model is an outgrowth of the strategic planning process

- Need to validate high-level strategies across all small business insurance business functions
- Need to “guide” the appropriate tactical plans from the strategy perspective

Model helps get value out of our investments by recognizing interdependencies in complex business

- Investments to consider against the model include:
 - Workflow automation
 - Service centers (customer service centers)
 - Data mart and customer information investments
 - Sales staffing
 - Re-underwriting and cost control
 - Product launch and development
 - Channel management
- Business complexity makes linear thinking dangerous



Model helps answer key question: “Can we get to scale?”

- Given the current distribution strategy and initiatives under way: how much can we grow?
- What will we need to do to get to critical mass?

What did we build?

A tool to support decision-making

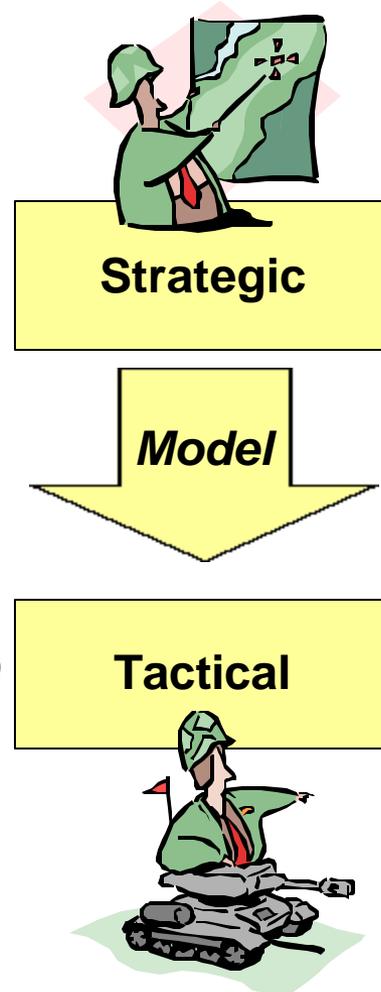
- Delivered “a piece of software” the client “owns” to test, validate and manipulate over time
- The model can be integrated with other tools (data mart), people and processes

A shared understanding of the business

- We mapped inter-dependencies across business
- We identified leverage points to amplify positives (or avoid negatives)

A base case around which to run alternative scenarios

- Base case gives probable business trajectory
- Alternative scenarios examine business risks or market possibilities



- Products: Comprehensive products
- Service: Outstanding service
- Technology: Ease of doing business
- Distribution: Strong and efficient channel

*The model looks at the entire business.
Interdependencies are mapped
Reinforcing and balancing processes
drive non-linear results*

- Products Levers:
 - Relative breadth of product offering
- Service Levers:
 - Rep hiring rate
- Technology Levers:
- Distribution Levers:

What will the model do for a client?

Links qualitative and quantitative analyses

- Qualitative variables include: ease of doing business, service center effectiveness
- Quantitative variables include: claims dollars, commissions, service center capacity

Model gives rigor to strategic planning

- Forces us to look at consequences of any single action
- Quantifies impact of initiatives (where do we get the most bang for the buck?)

Model helps get to tactical planning

- Agency management
- Service centers
- Technology investments

Model gives us benchmark for business growth that we can revisit over time

- Can review over time why did or did not hit targets?
 - Is the model wrong, were our assumptions off or did we not execute?

- With a change in market dynamics, are there ways to respond effectively and maintain

How did we build the model / How will we update the model?

Cross-functional model development team

- Core team of BearingPoint and client “owners”
- Extended team of subject matter experts (SMEs) by business function

Follow a basic system dynamics (SD) methodology

- Meet regularly with core team in iterative model building process
- Conduct two workshops with extended team to validate and revise model and assumptions
- Exercise model to verify reasonableness of results

Data sources

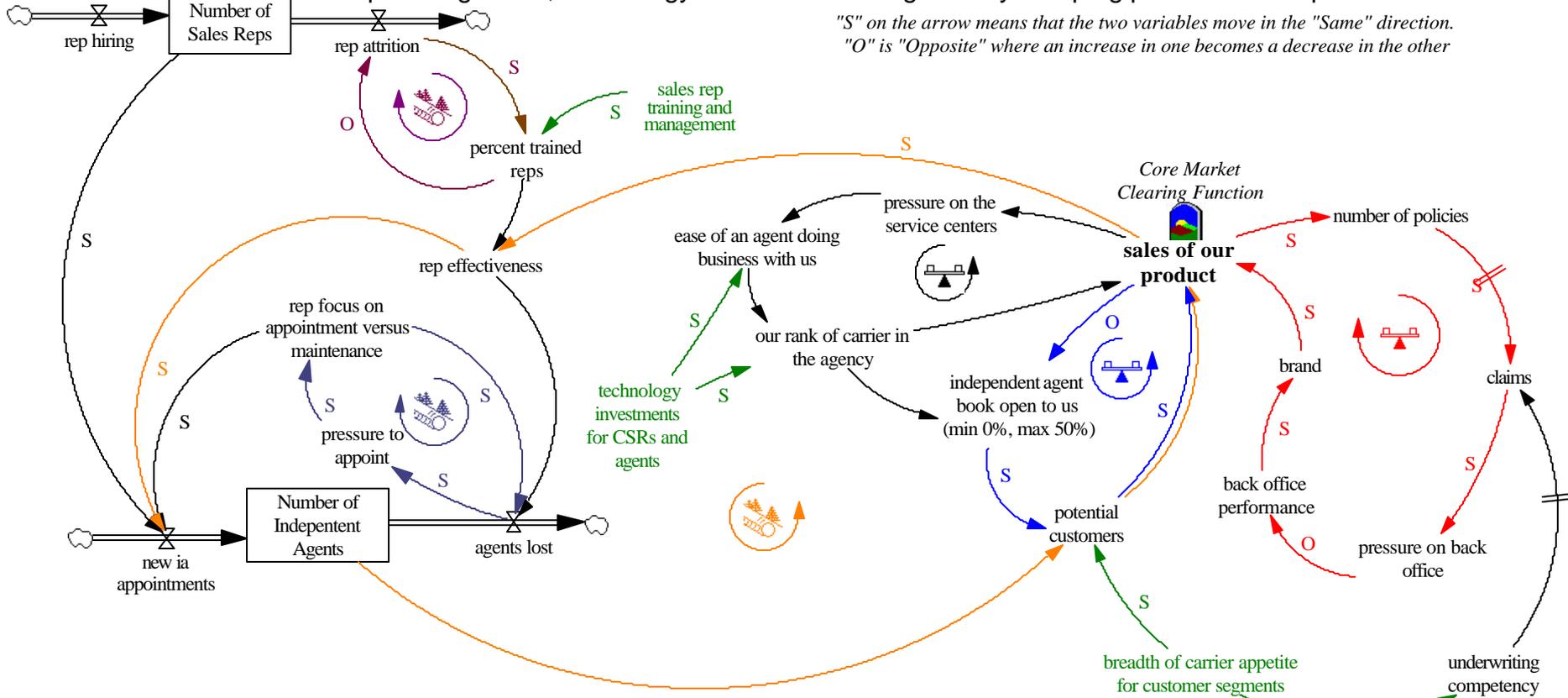
- Collective development team industry and specialized knowledge
- Management information systems
- Data marts for customer information, segmentation scheme and acceptance curves
- ...

30,000 Foot Causal Loop Map

Allocation by Priority (market clearing function) at the core of the model determining “sales of our product”

Market clearing function results each DT driving dynamics in other sectors

- Increased sales put pressure on back offices to service policies and process claims
- Investments in independent agent channel increases Alloc P priority, but increases need to be maintained through continued relationship management, technology investments and generally “keeping pace” with competition



Development of the Business Model – Approach and Methodology

A model building and validation process was used during two workshops.

Model building process (Workshop 1)

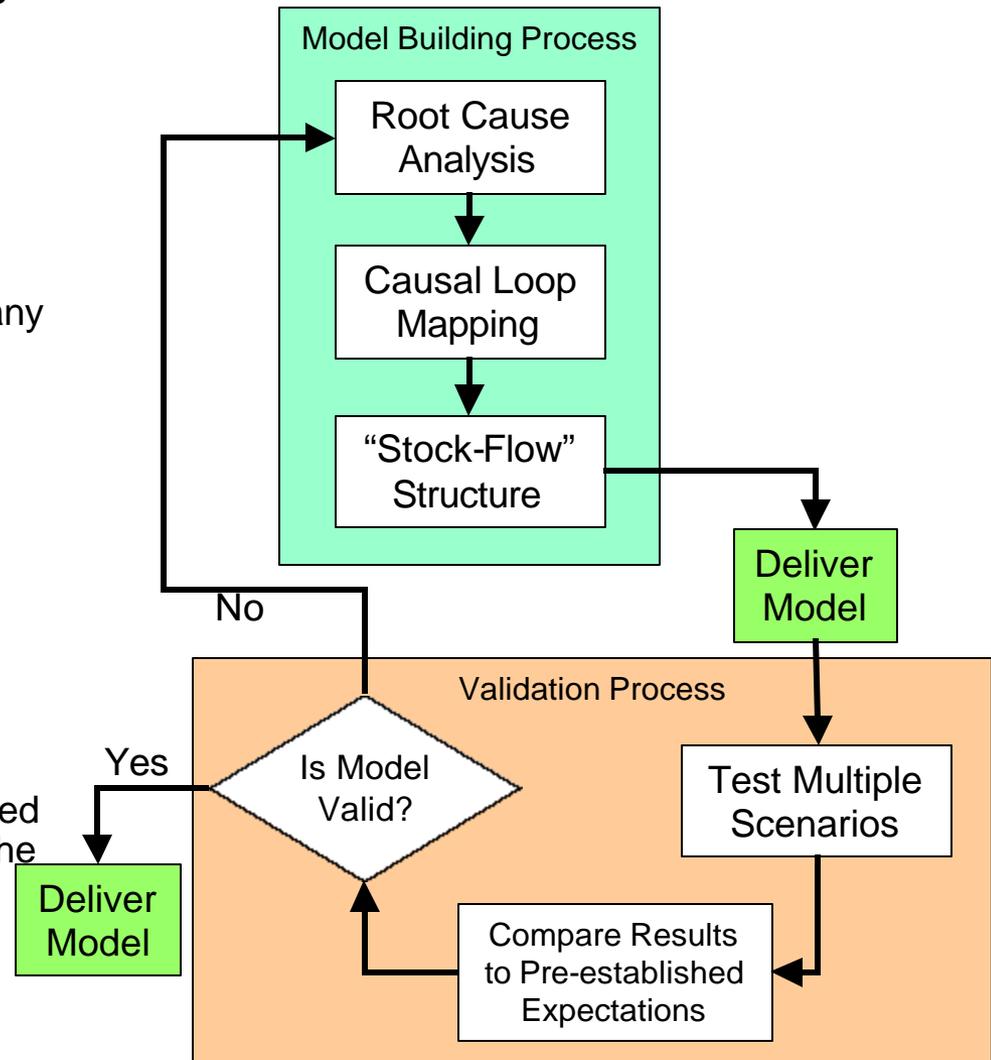
- Analyzed root-causes to understand the business and the factors that drive the performance we want to have (e.g. market share growth)
- Mapped causal loops in recognition that many of the factors are inter-dependent
- Built a simulation model with “stock-flow” structures

Validation process (Workshop 2)

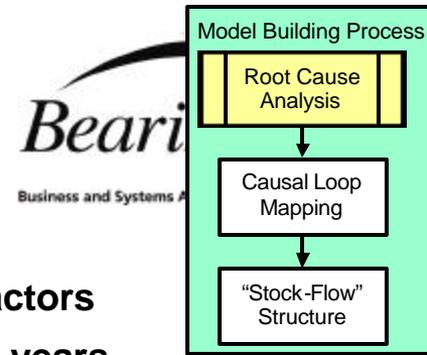
- Ran multiple scenarios through the model
 - Ex: Rapid independent agent appointment and expansion into large agencies
 - Ex: Delayed service center capacity expansion
- Compared results to expectations established before the simulation run and determine if the model is valid or if it needs a new model building effort

Revisited root causes, loops and stock-flow structure (Close-out meeting)

- Required if model is not valid, else close-out will focus on summary of findings.



Development of the business model - Root-cause analysis



A first-level analysis of sales revealed that they are a function of at least four factors
 These factors helped determine sales in each simulated period for the next five years

Looking to the left of *rank of a carrier in an agency*, we see that it is, in turn, a function of other influences

These influences help us get to “strategic levers” that can be used to drive the results with the greatest amount of leverage possible.

Width carrier differentiation with potential customers

Supply potential number of policies in our distribution channel

Potential policies is equal to total policies minus our appetite and agent's pct book open to us

Priority rank of carrier in agency

Alloc P

sales

Demand total demand for policies in our distribution channel

chg rep effectiveness

initial rep effectiveness

breadth of carrier appetite

chg ease of business

> Rep Effectiveness

relative degree of automation for agents

relative price

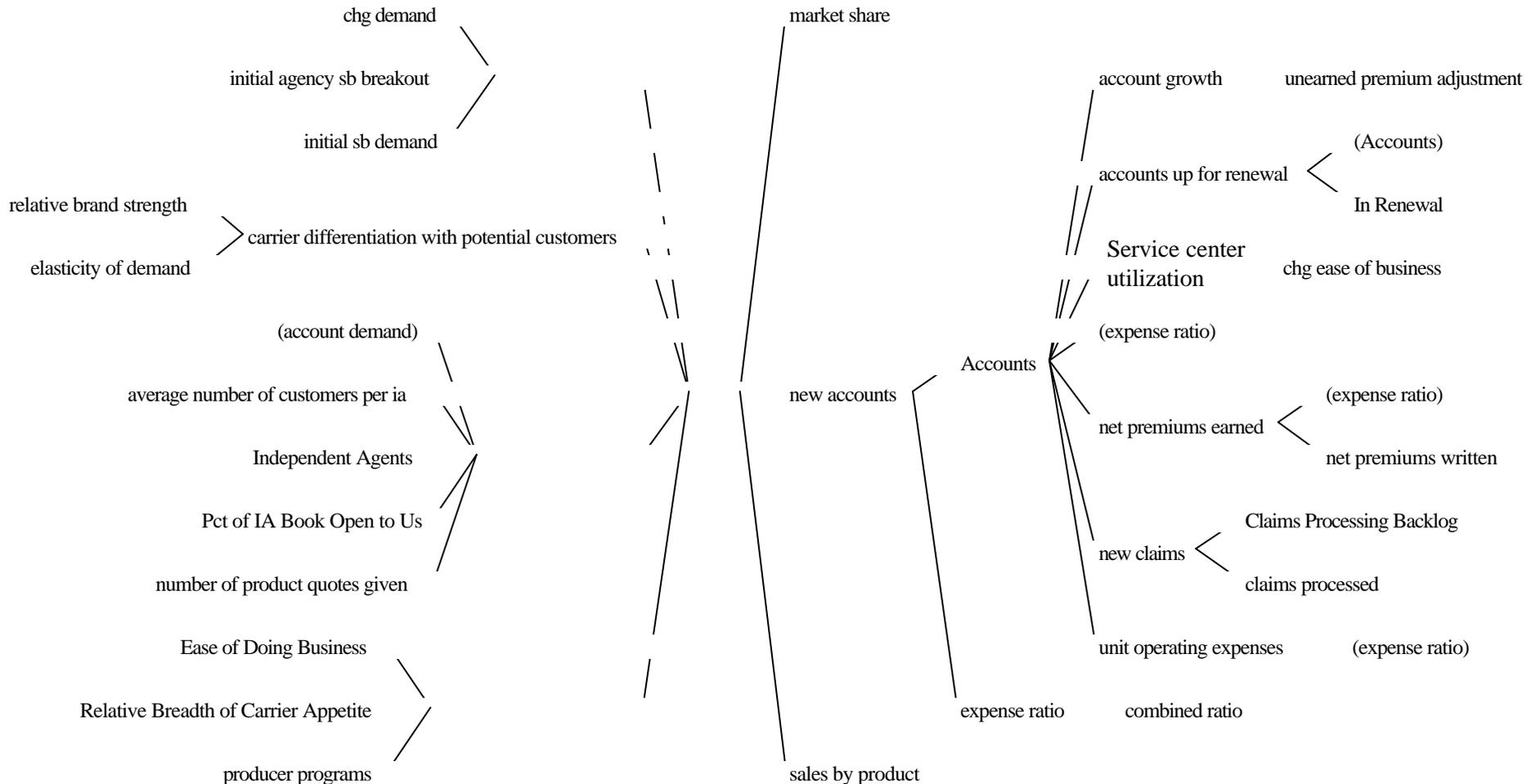
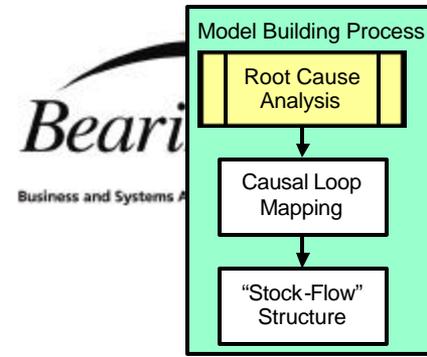
relative product offering

total utilization

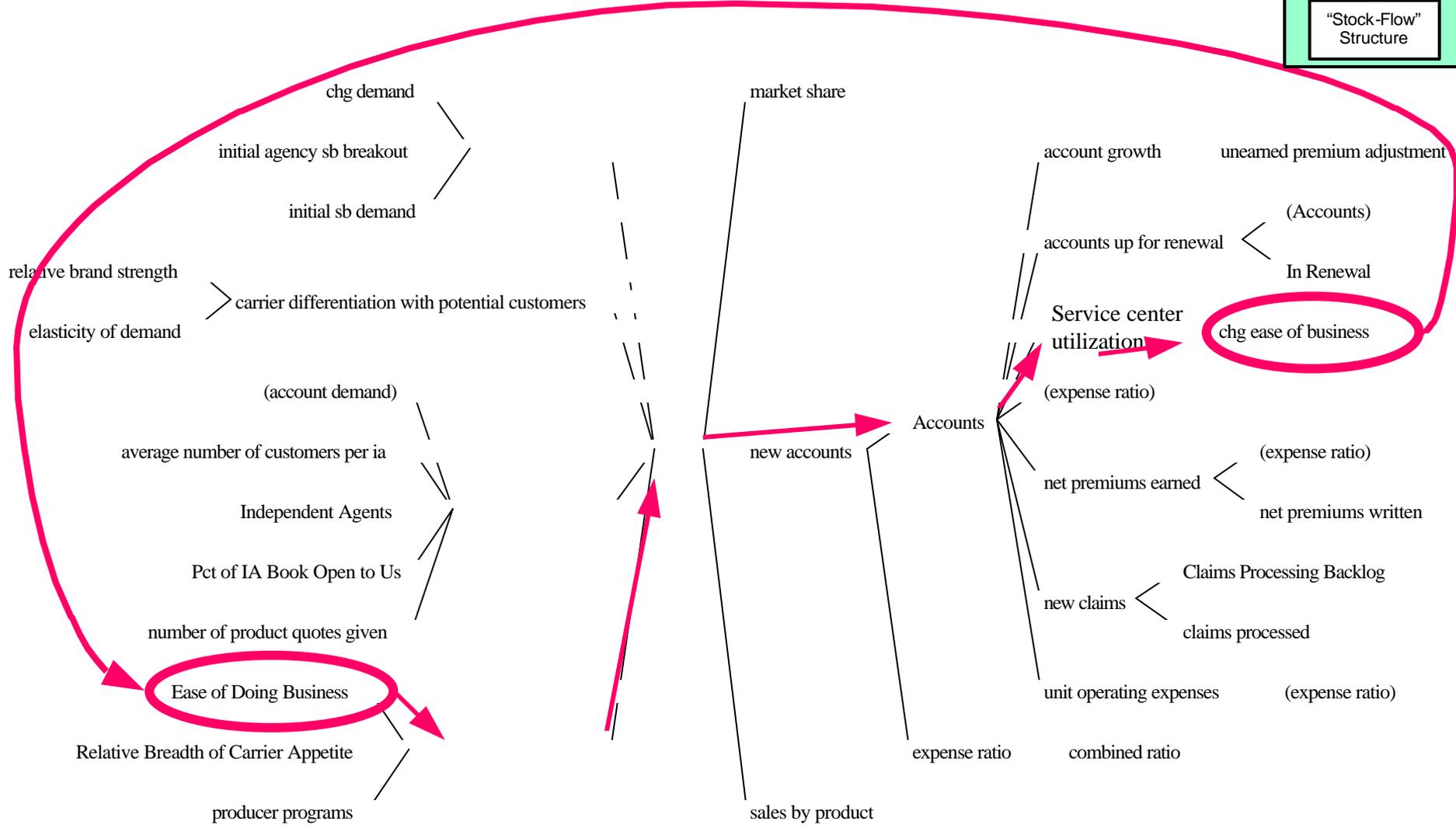
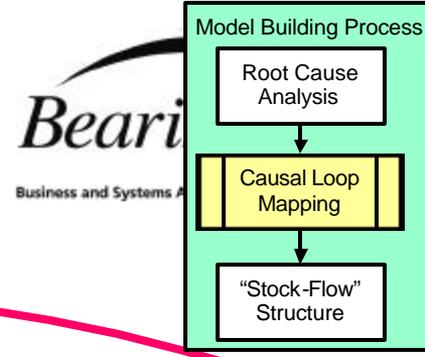
Ease of Doing Business

producer programs

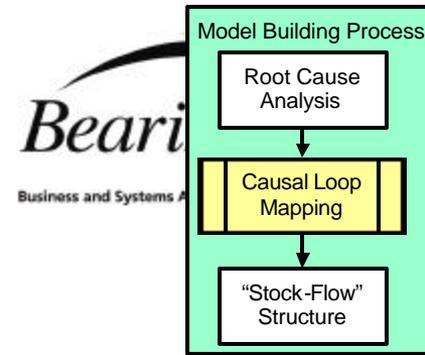
The “two-way” fishbone for sales. Going the other way in the “fish-bone”, sales influence other variables. Obviously, sales increase new accounts, and new accounts grows Accounts



The sales fish-bone shows a causal loop that is more clearly delineated on the next slide



Part of the sales fish-bone has been converted into a “causal loop map”

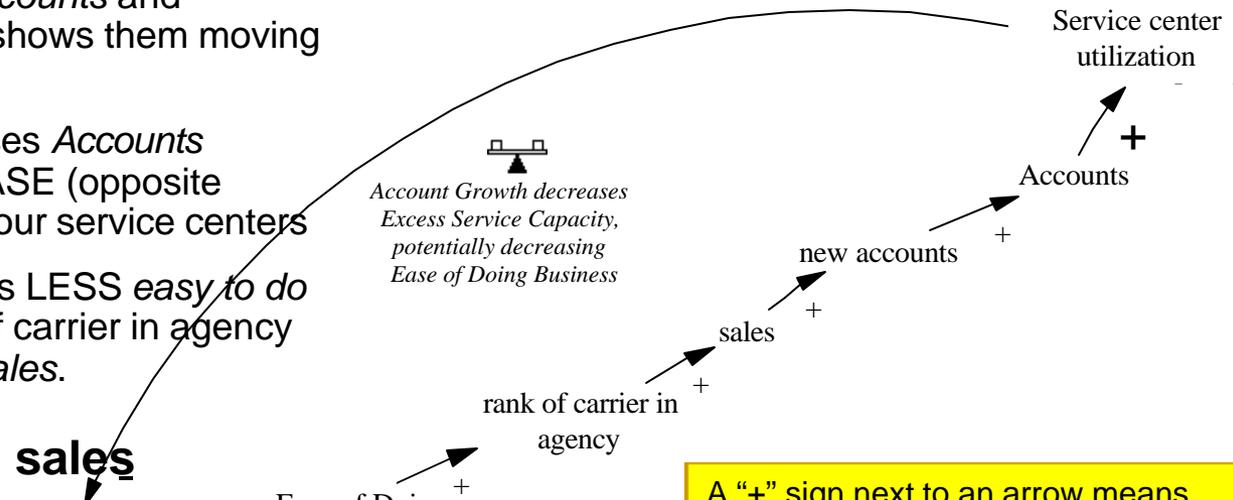


Looking at the loop below, if we want to increase *sales* by increasing our *rank as a carrier in an agency*, the “balancing” nature of the loop will ultimately restrict / limit our success as follows:

- If *sales* increases, so do *new accounts* and *Accounts supported* (a “+” sign shows them moving in the same direction)
- Increased *new accounts* increases *Accounts supported*, but this will DECREASE (opposite direction “-”) *excess capacity* in our service centers
- With the decreased capacity, it is LESS easy to do *business* with us and our rank of carrier in agency goes down, finally decreasing *sales*.

Now, follow it around with *sales* decreased:

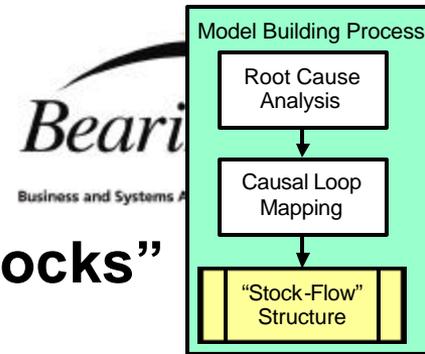
- Accounts down
- Excess capacity up
- Easier to do business
- Sales up!



Other factors impact Ease of Doing Business: Agent happiness, technology use, etc.

A “+” sign next to an arrow means that the variables move in the same direction. A “-” sign means that the variables move in the opposite direction. Follow the arrows around and understand why the loop is “balancing”

Development of the business model - “stock-flow” structure.

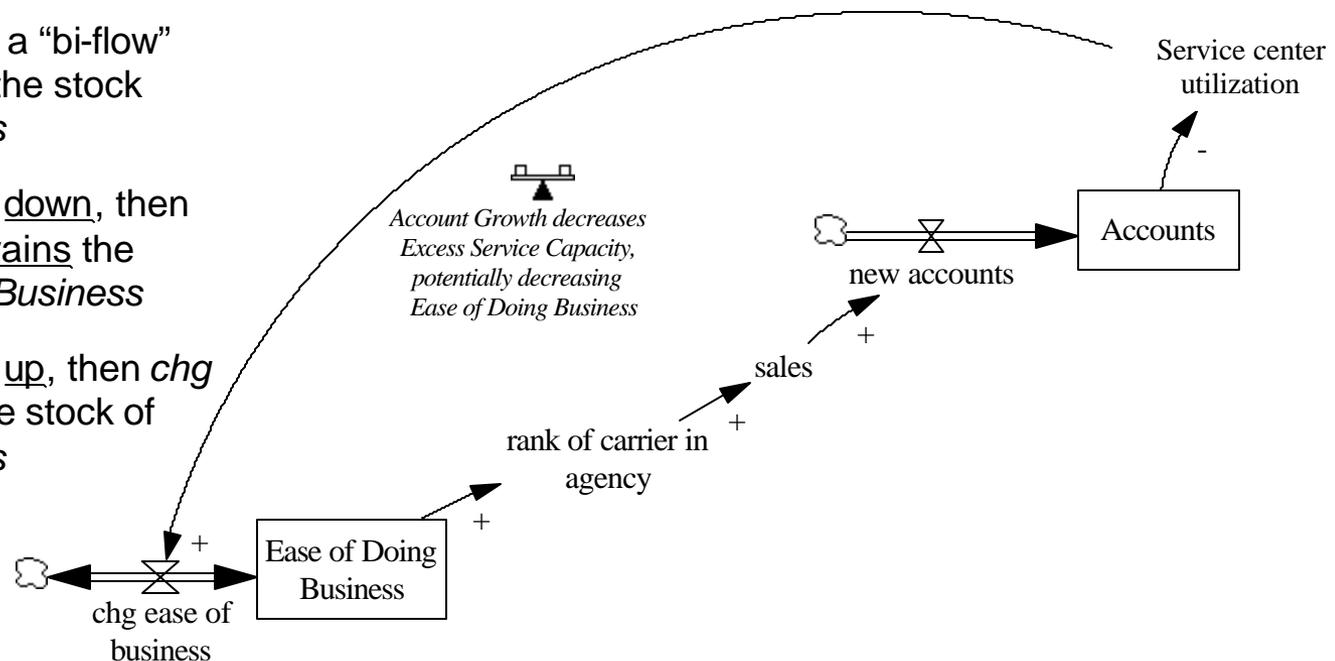


***Ease of Doing Business* and *Accounts* became “stocks” that go up and down over time.**

- *Accounts* is like a bath tub that is filled by the incoming pipe *new accounts*
- The *Accounts* bath tub is drained by an *accounts lost* pipe (and flow rate) that is not depicted here (and in fact is a renewal process)

***new accounts* and *change of ease of doing business* are flow rates (or pipes) that fill stocks**

- *chg ease of business* is a “bi-flow” that can fill OR DRAIN the stock *Ease of Doing Business*
- If excess capacity goes down, then *chg ease of business* drains the stock of *Ease of Doing Business*
- If excess capacity goes up, then *chg ease of business* fills the stock of *Ease of Doing Business*



Setting Expectations

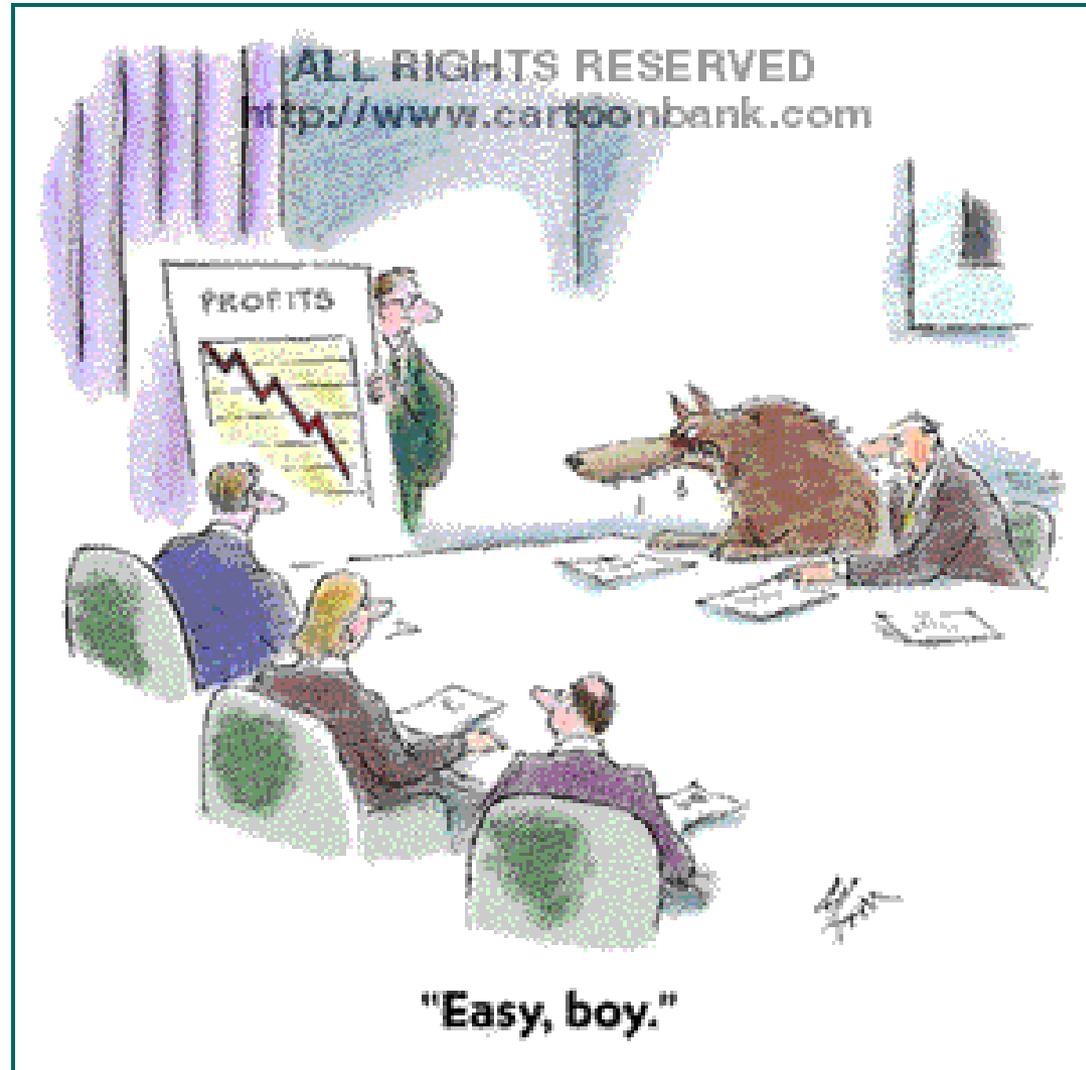
Model accuracy

- There is uncertainty in assumptions made for 2001, but in general, we are probably within +/- 5%
- As we forecast the business, the uncertainty range grows, probably from +/-5% to +/- 25%
- Movement / trending in the results is the most important interpretation: are we growing? Are we increasing ease of doing business?

The model is at a high business level

- We use average data across the country and across customer segments (though the model is ready to take more granular data)
- Looking at some detailed processes from the 30,000 foot level (claims, UT utilization)

The model needs to be calibrated over time



Base Case Results – Premium growth and new sales

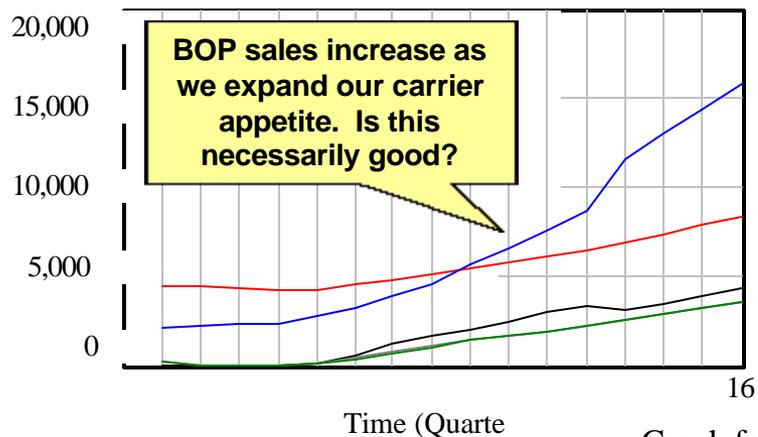
(BOP = new Business Owners Package, Pkg = old package product, WC = Workers Comp.)



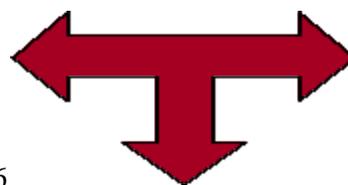
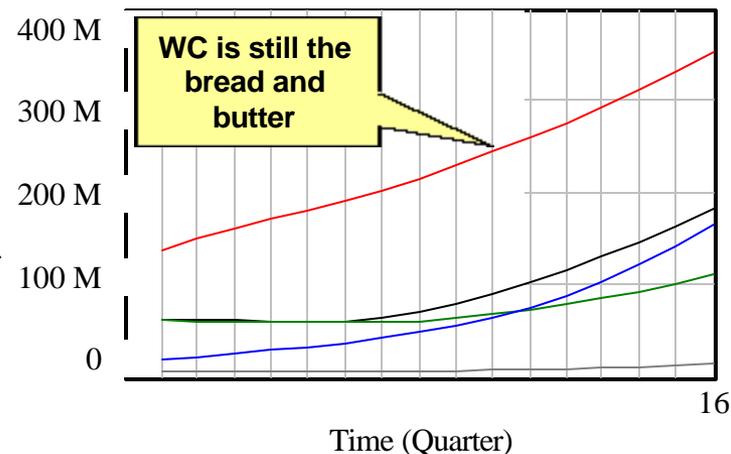
Business and Systems Aligned. Business Empowered.™

New sales grow dramatically for BOP. Premium dollars are still greatest for workers comp, and \$750 Million in premium volume is reached within 4 years (by quarter 16 – 2005). Note that the business growth process is non-linear (i.e. it takes time to get going, but then gains momentum as positives reinforce each other).

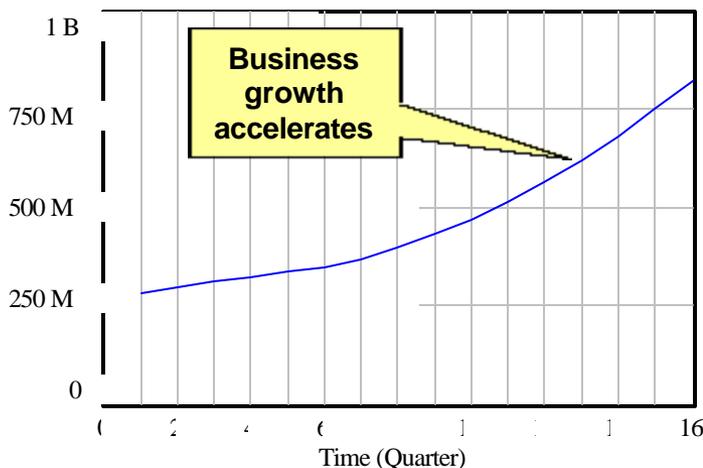
Graph for sales by product



Graph for premium dollars by product



Graph for total premium volume



sales by product[BOP] : Base Case
 sales by product[WC] : Base Case
 sales by product[Auto] : Base Case
 sales by product[Umb] : Base Case
 sales by product[Pkg] : Base Case

— BOP
 — WC
 — Auto
 — Umb
 — Pkg

premium dollars by product[BOP] : Base Case
 premium dollars by product[WC] : Base Case
 premium dollars by product[Auto] : Base Case
 premium dollars by product[Umb] : Base Case
 premium dollars by product[Pkg] : Base Case

— \$
 — \$
 — \$
 — \$
 — \$

total premium volume : Base Case

Base Case Results

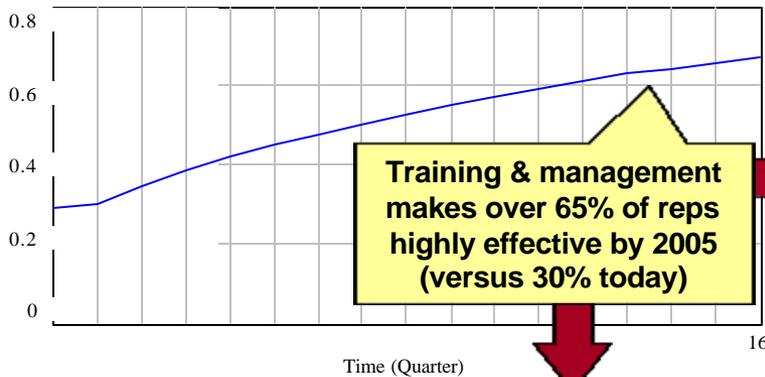
Sales Reps & Agency Appointments



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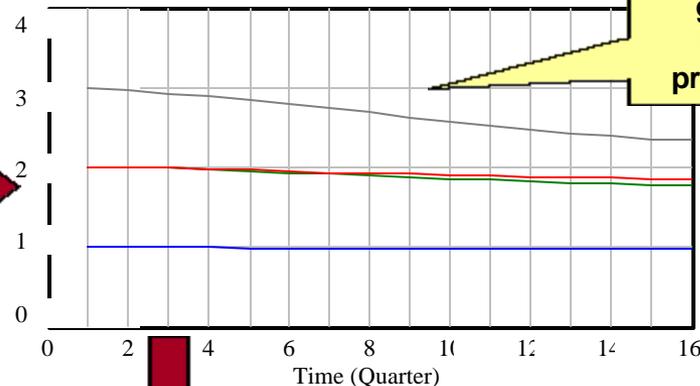
The number of sales reps is not increased, but a commitment to training and management increases rep effectiveness. The result is an increase in appointment efficiency and appointment success rate, which in turn increase the size of the independent agent channel.

Graph for pct highly effective reps



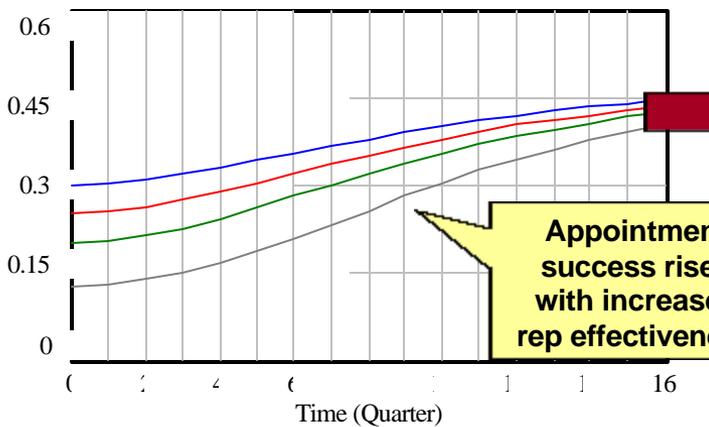
Training & management makes over 65% of reps highly effective by 2005 (versus 30% today)

Graph for time to get ia producing



More effective sales reps get newly appointed independent agents producing more quickly

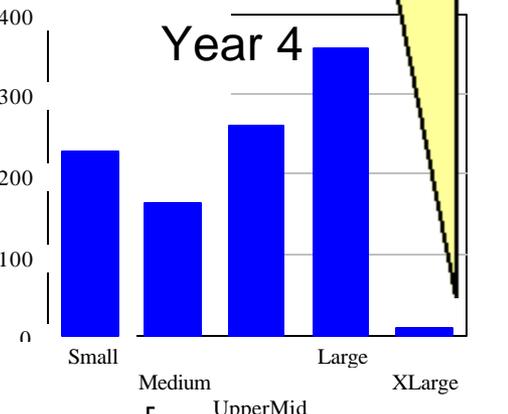
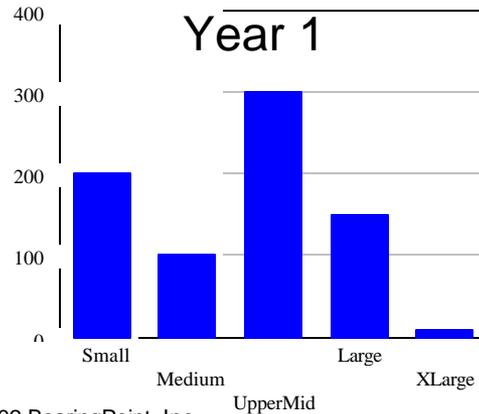
Graph for appointment success rate



Appointment success rises with increased rep effectiveness

time to get ia producing[Small] : Base Case
 time to get ia producing[Medium] : Base Case
 time to get ia producing[UpperMid] : Base Case
 time to get ia producing[Large] : Base Case

Base Case Performing Independent Agents[AgencySize] @ 0



Note: XLarge appointments are not being done by sales reps

appointment success rate[Small] : Base Case
 appointment success rate[Medium] : Base Case
 appointment success rate[UpperMid] : Base Case
 appointment success rate[Large] : Base Case

Base Case Results

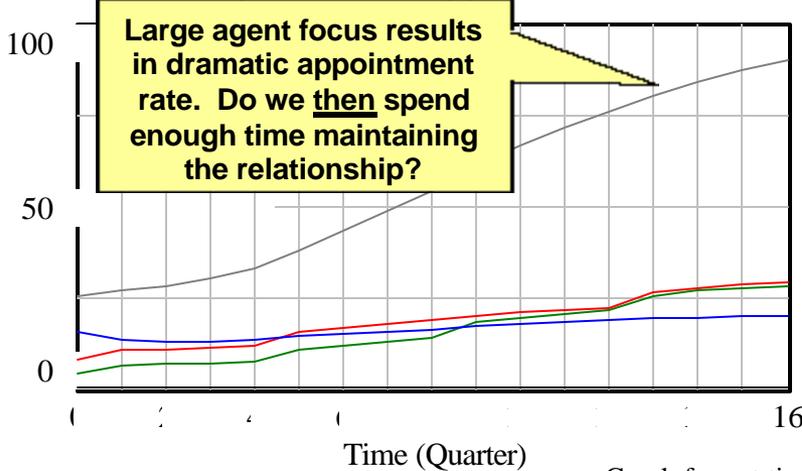
Agency Channel Management



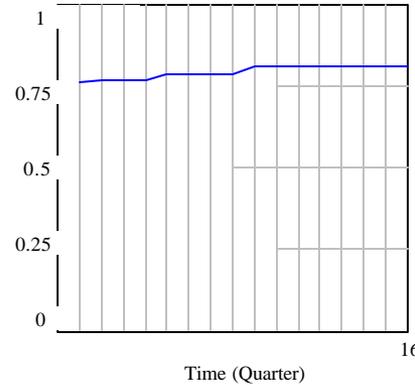
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It is important to find the right balance between rep time focused on appointment and time focused on agent relationship maintenance. A 75% focus on maintenance and 10% focus on appointment goes up over time as administrative demands go down (the difference)

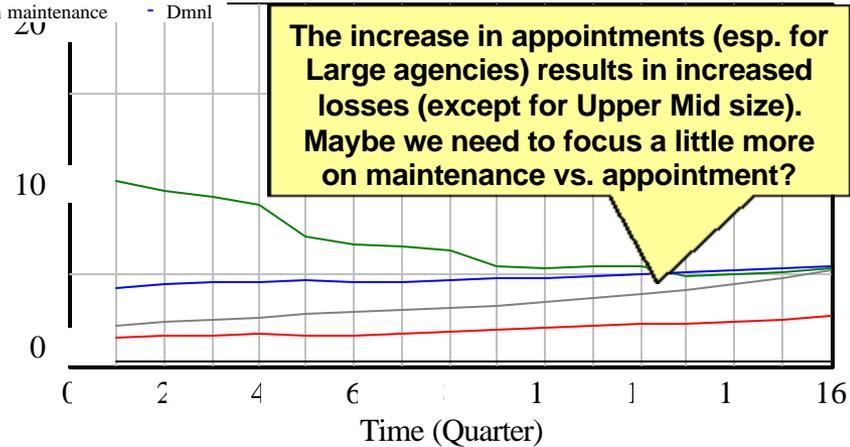
Graph for new appointments



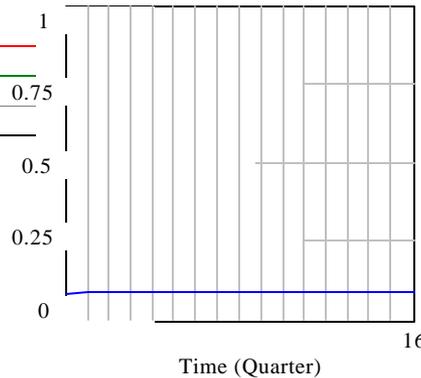
Graph for pct time reps spend on maintenar



Graph for ia lost



Graph for pct time focus on appoint



new appointments[Small] : Base Case
 new appointments[Medium] : Base Case
 new appointments[UpperMid] : Base Case
 new appointments[Large] : Base Case
 new appointments[XLarge] : Base Case

ia lost[Small] : Base Case
 ia lost[Medium] : Base Case
 ia lost[UpperMid] : Base Case
 ia lost[Large] : Base Case
 ia lost[XLarge] : Base Case

Base Case Results

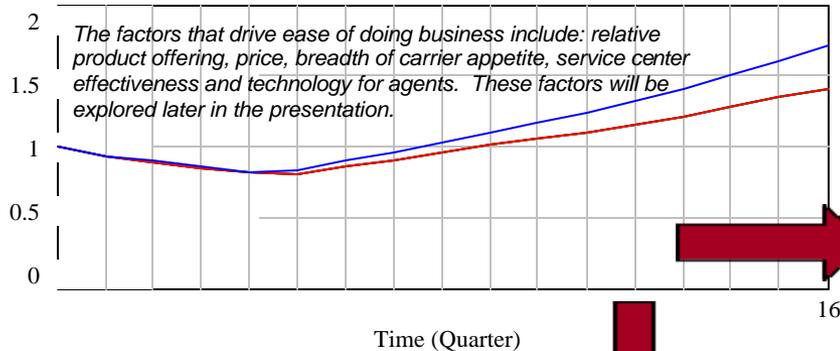
Ease of doing business



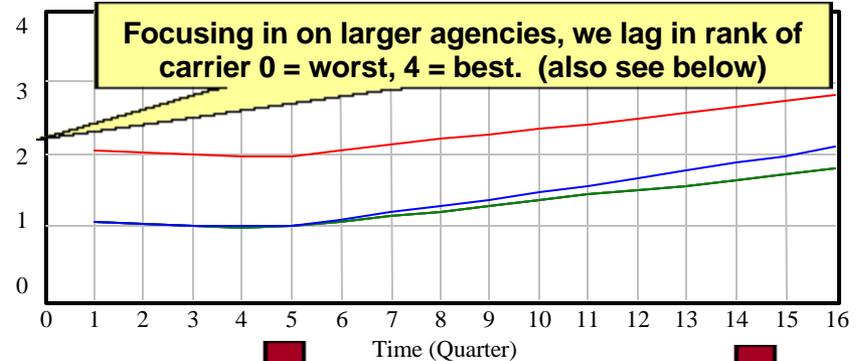
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Critical to new sales is the ease of doing business. As it is easier to do business over time, agent's open up more of their book (below) and rank of carrier in agency rises (right). Note in lower right that BOP (Business Owners Package) rank still lags behind key competitors in quarter 16. Workers comp is a little stronger.

Graph for Ease of Doing Business Impact on Rank



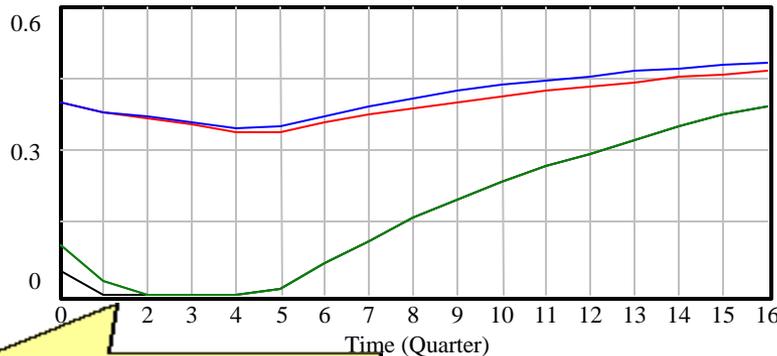
Graph for rank of carrier in agency



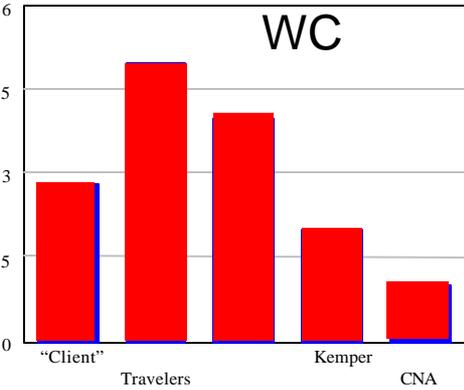
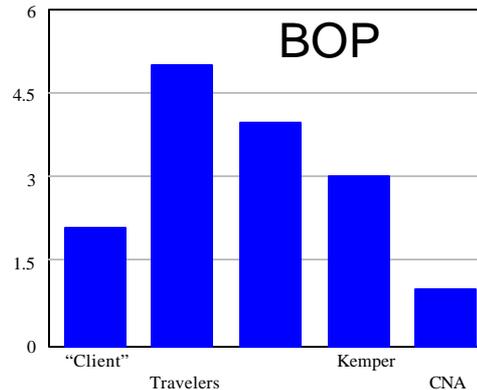
Ease of Doing Business Impact on Rank[Large,All Customers,BOP] : Base Case
 Ease of Doing Business Impact on Rank[Large,All Customers,WC] : Base Case
 Ease of Doing Business Impact on Rank[Large,All Customers,Auto] : Base Case
 Ease of Doing Business Impact on Rank[Large,All Customers,Umb] : Base Case
 Ease of Doing Business Impact on Rank[Large,All Customers,Pkg] : Base Case

rank of carrier in agency[Large,All Customers,BOP,Us] : Base Case
 rank of carrier in agency[Large,All Customers,WC,Us] : Base Case
 rank of carrier in agency[Large,All Customers,Auto,Us] : Base Case
 rank of carrier in agency[Large,All Customers,Umb,Us] : Base Case
 rank of carrier in agency[Large,All Customers,Pkg,Us] : Base Case

Graph for Pct of IA Book Open to Us



Base Case rank of carrier in agency[Large,All Customers,BOP,Carrier] @ rank of carrier in agency[Large,All Customers,WC,Carrier] @



rank of carrier in agency[Large,All Customers,BOP,Us] : Base Case
 rank of carrier in agency[Large,All Customers,WC,Us] : Base Case
 rank of carrier in agency[Large,All Customers,Auto,Us] : Base Case
 rank of carrier in agency[Large,All Customers,Umb,Us] : Base Case
 rank of carrier in agency[Large,All Customers,Pkg,Us] : Base Case

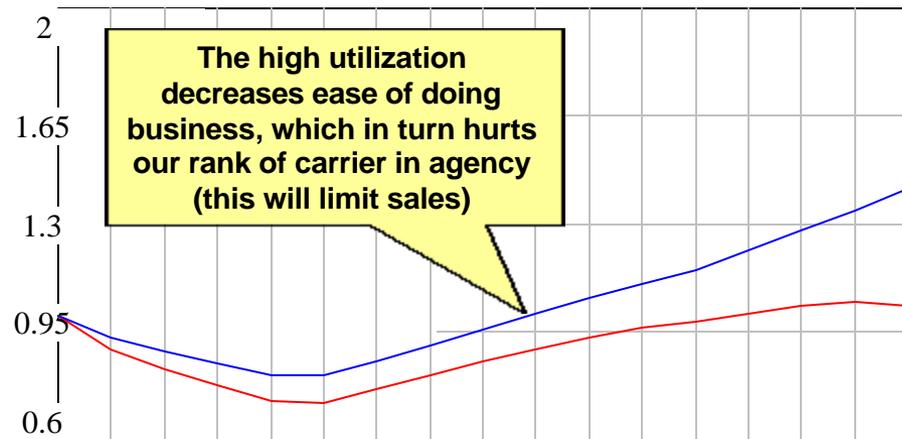
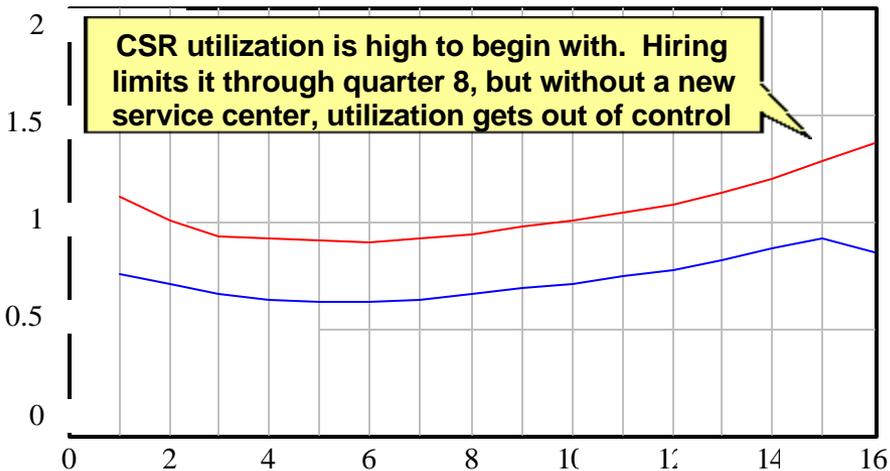
Alternative Scenario – Service Center Reps (UTs) don't have the capacity we expected and the new service center is not ready within the next 4 years.



Without effective service centers, the base case (blue) is limited (alternative scenario in red)

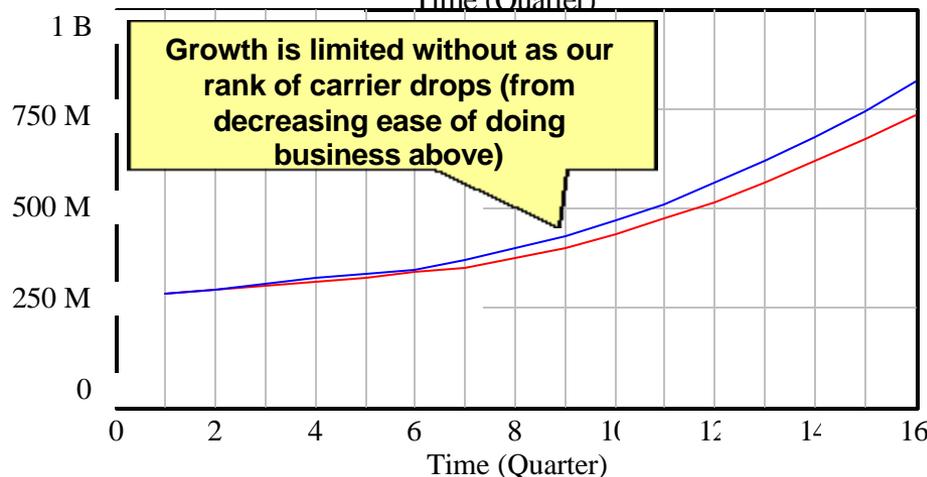
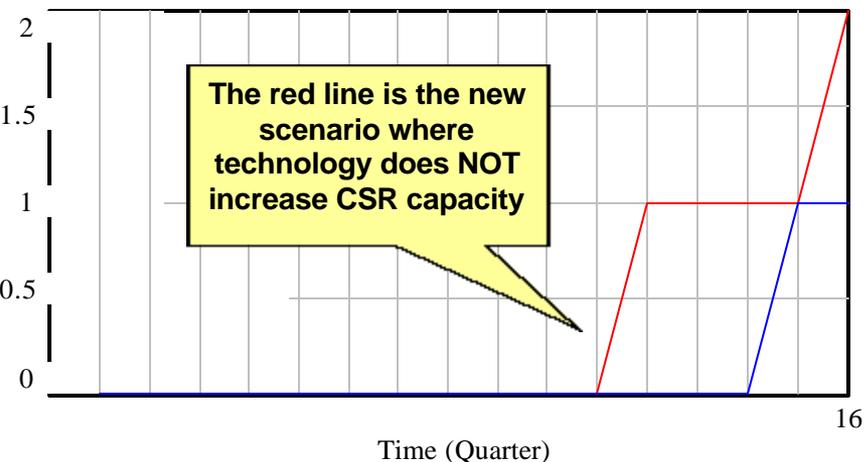
Graph for total utilization

Graph for Ease of Doing Business Impact



Graph for number of new service centers required

Graph for total premium volume



number of new service centers required : Base Case ———
 number of new service centers required : No tech for CSR ———

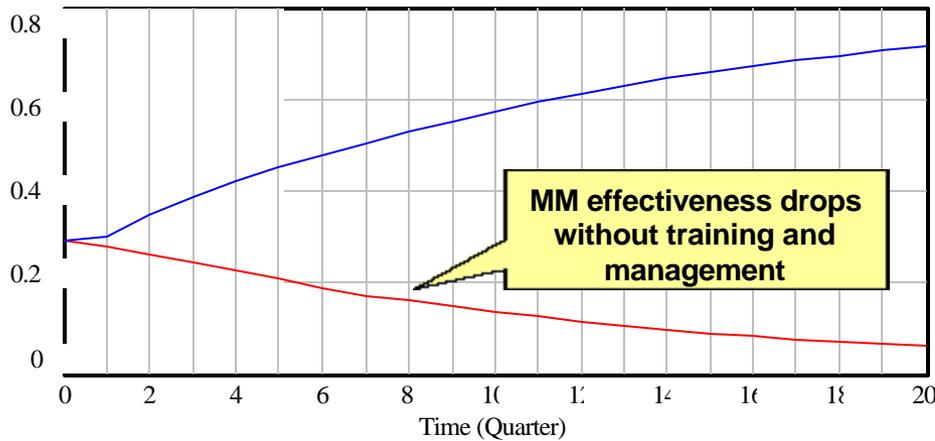
total premium volume : Base Case ———
 total premium volume : Can't get the new service center open ———

Alternative Scenario – No increase in sales rep (MM) effectiveness



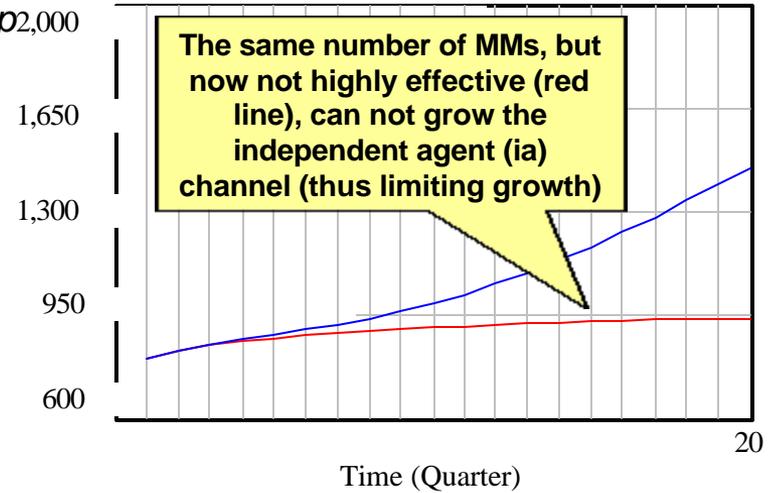
It becomes difficult to hit our goal in the base case (blue) (alternative scenario in red) if there is not an increase in rep effectiveness due to training and management

Graph for pct highly effective MMs

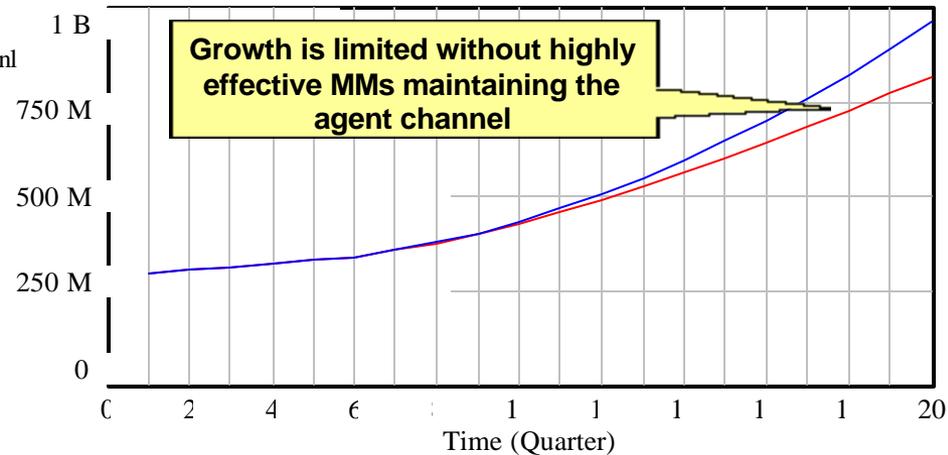


pct highly effective MMs : Base Case — Dm
 pct highly effective MMs : No MM Training — Dmnl

Graph for total ia



Graph for total premium volume



total premium volume : Base Case — Dm
 total premium volume : No MM Training — Dmnl

Alternative Scenario – Marketplace becomes more competitive

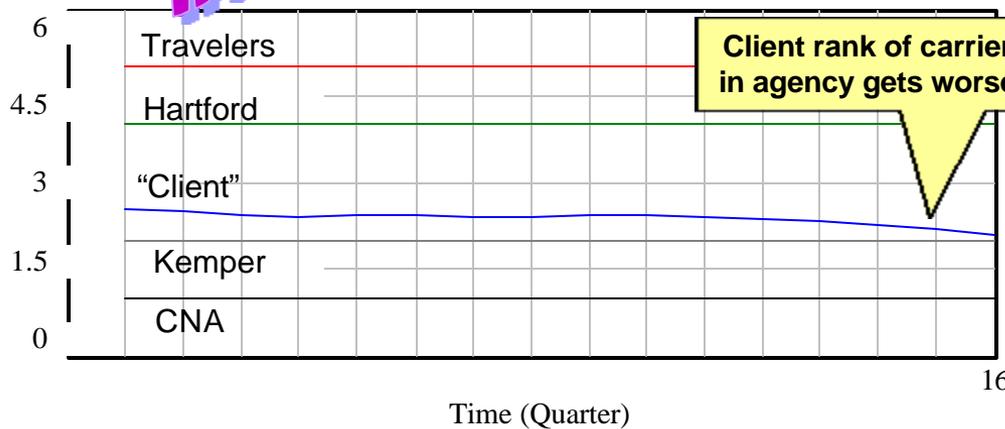


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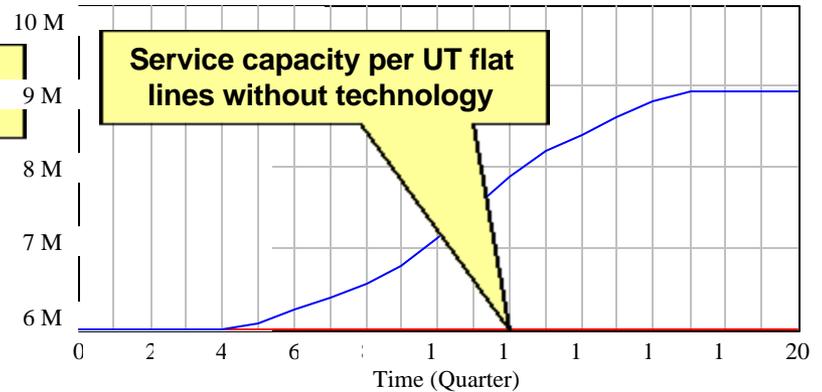
Competitors expand their appetites, our automation and product breadth does not impress agents compared to what is in the market, and our service centers are over capacity (straining our ease of doing business)

WC

Graph for rank of carrier in agency

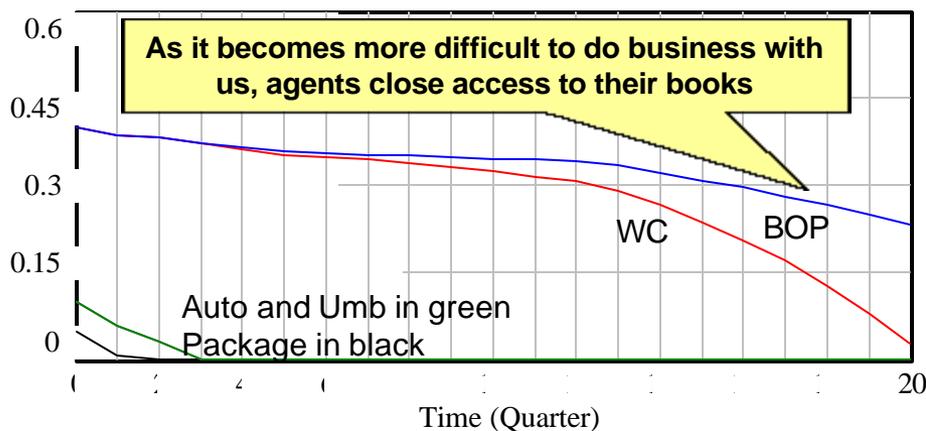


Graph for service capacity per UT

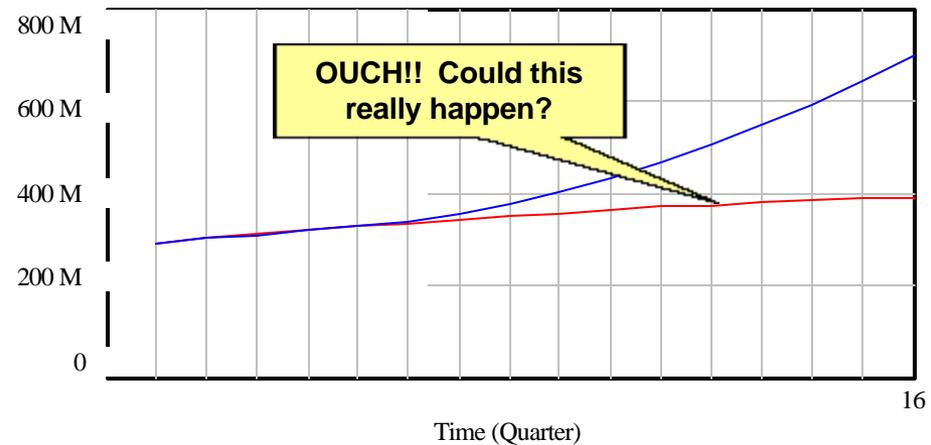


service capacity per UT : Base Case — \$/CSR
 service capacity per UT : Tough Market — \$/CSR

Graph for Pct of IA Book Open to Us



Graph for total premium volume



total premium volume : Base Case —
 total premium volume : Tough Market —

The Model has Yielded Tactical Answers to Strategic Issues



Strategic

Model

Tactical



The independent agency channel can grow and be effective without new MMs as long as effort is spent making the existing MMs highly efficient through training and management

- Increased MM effectiveness has an impact on the appointment success rate, the time to make a newly appointed agent productive and our rank of carrier in the agency
- The percent of MMs made highly effective by 2005 is over 65%. This can never reach 100% due to attrition and general feasibility. Today, the percent highly effective is roughly 30%

The large agent channel should be targeted for growth, but we can not ignore the importance of agent relationship maintenance versus appointments. Even with 75% MM time focused on agent relationship maintenance, the model gives us reason to think we could go a bit higher.

We must make it easy for agents to do business with us, and try to raise our carrier rank in agency. This is critical if competitors expand appetites and we have not increased our rank in agency.

\$750 Million in premium is possible when we rely on business growth processes that reinforce one another (rep effectiveness, ease of doing business, etc). If we begin to fail agents though, these same positive reinforcing processes that grew the business could be very damaging.

If technology for UTs increases average capacity, we can avoid a new service center until quarter 14 and support growing premium volume.

If not, then a new service center is needed to be operational within 3 years.

Independent Agent (IA) channel operates like the Physician channel in Pharmaceutical Domain

- Pharmaceutical companies “detail” physicians to increase “share of voice” that they hope results in a higher “rank of carrier in agency” = market share
- Physician segments are targeted and relationships maintained by sales reps just as independent agents are by insurance marketing managers

The “back office” component is simplified because service centers, claims processing, and policy administration functions are not a part of pharmaceutical business model

Pharmaceutical “direct-to-consumer” (DTC) channel was added to include the influence of these marketing campaigns to drive customers to the physician channel

- DTC campaigns increase the demand side of the “Alloc P”, but do not necessarily increase priority of the “carrier” once at the office
- Coordinated campaigns drive both demand and priority at the physician’s office, with high return on investment potential

The pharmaceutical industry “version” of this model also includes market dynamics that increase variability of performance, and potentially “discretize” the problem over time (next slide)



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