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# Reengineering from a reinsurer's perspective

by David M. Holland

**A** fundamental change has occurred in the life insurance industry. Has there been a corresponding change in the organizational structure of life insurance companies? At Munich American Reassurance, we have applied reengineering to improve results.

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### The concept of reengineering

Reengineering sometimes is confused with downsizing. Although a significant reduction in staff may be one of the by-products, reengineering is very different.

Michael Hammer and James Champy introduced the concept in *Reengineering the Corporation*, subtitled *A Manifesto for Business Revolution*. The book jacket states, "Forget what you know about how business should work — most of it is wrong." The authors state:

For 200 years, people have founded and built companies around Adam Smith's brilliant discovery that industrial work should be broken down into its simplest and most basic tasks. In the post-industrial business age we are now entering, corporations will be founded and built around the idea of reunifying those tasks into coherent business processes.

They define reengineering as "the fundamental rethinking and radical

redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance, such as cost, quality, service and speed." (p. 32)

Hammer and Champy cite three forces driving business away from traditional models:

- Customers take charge....  
Customers now tell suppliers what they want, when they want it, how they want it, and what they will pay. (p. 18)
- Competition intensifies....  
Good performers drive out the inferior, because the lowest price, the highest quality, the best service available from any one of them soon becomes the standard for all competitors. (p. 21)
- Change becomes constant....  
The point is that not only have product and service life cycles diminished, but so has the time available to develop new products and introduce them. Today, companies must move fast, or they won't be moving at all. (p. 23)

### Starting the process

My company has been involved in reengineering for several years, but it had not been popularized when we started our process. In the mid-1980s, our parent company established a Structure Committee with the charge to recommend a reorganization of the company, assuming we were starting from a "green meadow." We were asked not to focus on the world as it was, but rather as it should be.

In *Reengineering the Corporation*, Hammer and Champy state (p.49):

Finally, we can do no better than to return to our original two-word definition for reengineering: starting over. Reengineering is about beginning again with a

clean sheet of paper. It is about rejecting the conventional wisdom and received assumptions of the past. Reengineering is about inventing new approaches to process structure that bear little or no resemblance to those of previous eras.

### Adopting basic precepts

Faced with a formidable task, we considered many management theories and approaches. Of all of the texts surveyed, the principles set out in *In Search of Excellence*, by Thomas J. Peters and Robert H. Waterman, Jr., were adopted as our basic precepts. In their landmark study, they identified the following eight attributes as characteristics of excellent, innovative companies:

- A bias for action
- Close to the customer
- Autonomy and entrepreneurship
- Productivity through people
- Hands-on, value-driven
- Stick to the knitting
- Simple form, lean staff
- Simultaneous loose-tight properties

### Considering alternatives

We believed three types of organizational models existed: by function, by geographical region, and by line of business. Other models were hybrids or variations of these three.

The Structure Committee developed a detailed organizational plan for each of these approaches and debated the merits of each. Our company had been organized along a traditional functional basis, which conventional wisdom told us would be the most efficient.

However, we had set being close to the customer as one of our key criteria. When we examined our functional organization from the client's perspective, we concluded that an organization combining functions into broader

processes appeared to better achieve our objectives.

Consider the following exaggerated description of functional tasks. The client submits a request to a marketing representative, and the rep, eager to please, refers the request to a treaty specialist to draft the necessary treaty change. The treaty person's expert knowledge sets off a warning that this should be referred to administration to make sure we can handle the business properly. Of course, the administrative people can handle it, but they really doubt whether this type of benefit was considered when the actuary priced the product. The actuary, busy with other projects, refers it back to marketing to get more data. Once the data is received and the actuarial study is completed, the executive approves the change, which is then referred back to marketing to send to the client. Although expert attention may be received at each step or task, the total process is interminable from the client's point of view.

### **Restructuring**

We decided to consolidate the marketing, treaty, and actuarial functions into a Treaty Division organized on a regional basis. Marketing is now responsible for profitability, as well as production. The actuary is responsible for responding to the client and not just completing a pricing project for the marketing department. Time lost due to handing projects off to different departments disappears, because the activity is now centered in one department. Finally, the client benefits because the organization's focus is on responding to the client's needs.

Other routine functions involved cession administration, premium accounting, underwriting, and claims. These areas may not be the direct responsibility of the person who handles treaty negotiations, but they are important in meeting the needs of active clients. We decided to group these into a Client Services Division.

The most basic administrative job was processing lapses. We could virtually hire someone off the street and,

with minimal training, teach them to process lapses. When viewed in the light of being close to the customer, however, we concluded we did not want to advertise that you should "do business with us, because we can lapse your business faster than any of our competitors."

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## **Today, companies must move fast, or they won't be moving at all.**

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Functionalization also led to different people responsible for Yearly Renewable Term (YRT) business versus coinsurance. On the other hand, we did not want the client to have to talk to one person who handled lapses, another who did YRT, and another who managed coinsurance business. Again, we consolidated functions on a regional basis, so people were responsible for certain clients regardless of the type of business. This required a greater level of expertise in our staff, but it also resulted in more job satisfaction for our people, as well as improved customer service. This also led to improvements in productivity, and we were more efficient than under the functional organization.

The remaining functions involved accounting, corporate actuarial, data processing, and personnel. We wanted these functions to be transparent to the client; requests from a client should not be delayed because people are working on the annual statement. We grouped these functions into a Corporate Services Division.

Not everything fit within a formal structure. For example, we needed to take time to comprehensively evaluate our accounts. In addition to Treaty, input was needed on underwriting, administration, and financial condition. To meet this need, we put together Account Evaluation Teams from all divisions of the company. This led to empowerment and increased job satisfaction; our people were now

responsible for what happens with accounts and not just waiting to be told what to do.

Information technology plays a major role in our operations through a new General EDP Concept. In developing the new EDP concept, project teams involved with Joint Application Design were headed by users from the operating departments, with people from EDP serving as facilitators.

### **Evaluating**

Although our record is far from perfect, we are pleased with the success we have had. When I became president in 1987 and we implemented the new organization, senior management asked me to list the goals I had for the company.

I set out the following five goals:

- (1) Increase premium
- (2) Improve service to clients
- (3) Reduce claims
- (4) Reduce expenses
- (5) Develop alternate lines of business

Over the period of 1986 to 1992, our premiums are up 70% for our traditional lines of business. Claims as a percentage of premiums declined 30%. Expenses for this period grew at an overall annual rate of only 2%. Lines of business were expanded so that premium income for new lines exceeded the income for traditional business last year. Although the second goal is not as directly measurable, we believe we have strengthened and improved service to our clients.

**David Holland is president and CEO of Munich American Reassurance Company, Atlanta.**

*Editor's note: For more information on reengineering, see "The Complete Actuary" in April 1994 issue of The Actuary. Watch for an outside expert's approach to reengineering in The Record of the SOA's 1994 Orlando meeting.*