GO All in! IASA 2015

Educational Conference & Business Show
June 7-10, 2015 • Mandalay Bay, Las Vegas, NV
Using Best Practices and Peer Intelligence to Improve Performance

Session 302
Agenda

- How do insurers currently evaluate performance relative to industry peers?
- What are the major challenges to gaining a clear understanding of performance?
- How does peer analysis act as a solution?
Insurance company benchmarking and best practices

Background

- Performing benchmarking exercises for insurance companies since 1991
- Focus on staffing, operational expense and productivity data
- Annual evaluation of over 3,800 U.S. insurance companies

Jeff Rieder, CPA, CPCU
President
Ward Group
jrieder@wardinc.com
513-746-2401
Industry Challenges and Initiatives

**CHALLENGES FACING THE INDUSTRY**

- Keeping up with technology and managing the associated costs.
- Finding growth in “less hard” market
- Keeping pace with the evolution of data analysis and predictive analytics.
- Prospect of diminished returns after strong 2013
- Finding talent to meet growth objectives

**TOP INITIATIVES**

- Strategic planning around distribution strategy – evaluating alternate distributions, strengthening key agency relationships, and renewed focus on terminating unprofitable agencies.
- Enhancing the customer experience is a focus of carriers encompassing all touch points in the lifetime of the relationship.
- Core system replacement and legacy retirement.
- Predictive analytics projects continue in underwriting, but now span the rest of the company including claims, agency management, marketing, telematics, and embedding these skills throughout the company.
- Focus on efficiency and aligning company structure to future strategy.
How is the Industry Performing?

- Return to underwriting profitability
- Capitalize on improving economy/push growth
- Distribution channel management
- Leverage technology investments
- Data analytics for informed business decisions
- Enhancing customer experience
- Becoming more efficient
Management Perspective

State of the Industry Compared to 2013

- Moderately Worse: 6% (Life Benchmark), 14% (P&C Benchmark)
- About the Same: 72% (Life Benchmark), 53% (P&C Benchmark)
- Moderately Better: 22% (Life Benchmark), 33% (P&C Benchmark)

### Where is the Improvement Coming From?

- **Accelerated Market Entry**
- **Select Product Exits**
- **Aggressive Repricing**
- **UBI/Telematics**
- **Digital Strategy**
- **Continued Distribution Consolidation**
- **More Aggressive Broker/Agent Management**
- **Increasing Development/Investment In Alternative Channels**
- **Expansion of Shared Servicing**
- **Further Improvement in STP**
- **Specialty Departments**
- **More use of the Production Underwriter Role**
- **Expansion of Shared Servicing**
- **Agent/Policy Servicing**
- **Claims Admin & Legal**
- **Finance and Accounting Actuarial Risk Management**
- **Human Resources**
- **Legal**
- **Information Technology**
- **General Support**

### Further Improvements

- **Aggressive Process Improvement**
- **Improved Fraud Detection**
- **Litigation Mgmt and Suit Avoidance**
- **Early Settlement Strategies**
- **Increased Job Role Segmentation**
- **Heavier Focus on Quality Assurance and NPS**
- **Growing Vendor Management Sophistication**
- **Aggressive Span of Control Management**
- **Reduction in Functional Duplication**
- **Rationalization of Risk Management**
- **Core System Replacement**

### Channels

- **Product Development**
- **Customer Acquisition**
- **Underwriting**
- **Product Development**
- **Agent/Policy Servicing**
- **Claims Admin & Legal**
- **Shared Services**
2014 Spending Changes - By Function

Spend Levels Compared to 2013

- **Significantly Less (-15% or less)**
- **Moderately Less (-3% to -15%)**
- **About the Same (-3% to 3%)**
- **Moderately More (3% to 15%)**
- **Significantly More (15% or more)**

Source: Ward 2014 Business Environment Study
Revenue and Staffing Expectations

12-Month Staffing Plan

- Decrease Staff 9%
- Maintain Staff 33%
- Increase Staff 58%

12 Month Revenue Plan

- Decrease Revenue 2%
- Flat Growth 13%
- Increase Revenue 85%

Why is Benchmarking Important

- Employ Methodology for Change
- Understand strategic expense controls
- Understand key drivers of performance
- Identify Opportunities
- Provide framework to help shape internal discussion
Employ a Methodology for Change

1. Measure
2. Highlight Drivers
3. Identify Opportunities
4. Develop Solutions
5. Implement Improvement Projects

360° Approach

Quantitative Benchmarking
Qualitative Process Assessment

Doing | Reviewing
How do many insurers currently evaluate performance relative to industry peers?

**Personal Networks and Rumor!**
Differing Business Models

- Brand
  - Own
    - Direct
    - Internet
  - Partner
    - Multi-channel
    - Face to face

- Distribution
  - Own
    - Direct
    - Internet
  - Partner
    - Multi-channel
    - Face to face

- Product
  - Own
    - Direct
    - Internet
  - Partner
    - Multi-channel
    - Face to face

- Underwriting/coverage
  - Own
    - Direct
    - Internet
  - Partner
    - Multi-channel
    - Face to face

Influences effecting benchmarking interpretation

- Claims Philosophy
- Service Standards
- Geographic Concentration
- Product Offerings
- Outsourcing
- Distribution Channel
- System Capabilities
- Segmentation Rules
- Organizational Structure
- Quality of Underwriting
UNIQUE

Just because you are unique does not mean you are useful.
4 Key Steps to Successful Benchmarking

• Step 1: Establish a Common Framework

• Step 2: Integrate Financial Comparisons and Business Practices

• Step 3: Review the Results

• Step 4: Monitor Performance
Step 1: Establish a Common Framework

- Recognize that companies and business units come in all shapes and sizes

- An effective benchmarking analysis:
  - Considers the differences
  - Analyzes the pieces
  - And reconfigures into a common framework
Step 1: Establish a Common Framework

Common Benchmarking Framework

Business Unit A Operating Structure

Business Unit B Operating Structure

Sales

Policyowner Services

Underwriting

Information Technology
Comparing numbers without understanding the underlying business practices (in detail) of the other companies quickly leads one to the dead end question, “Now what do we do?"

Comparing business practices among companies without financial comparisons may cause one to implement a business practice that does not lead to superior performance.

MUST HAVE BOTH ELEMENTS!
Peer analysis is needed to know what good looks like for you.

**Financial Perspective**
- Loss / Underwriting / Combined ratio
- Average premium per policy
- Average loss per claim
- Claim frequency
- Return on revenue / equity / assets

**Customer Perspective**
- Total customer numbers
- Customer retention
- Policy growth
- Online service offerings
- Customer satisfaction / Complaint levels

**Efficiency**
- Premium / Policies per employee
- Automated processing
- End to end settlement time
- Operating cost per policy / claim
- Profit per employee

**Employee Perspective**
- Employee engagement / satisfaction
- Employee turnover
- Employee absence
- Training & development
- Benefit plan comparisons
Step 3: Review the Results and Identify Opportunities

Your analysis should deliver:

- Clear picture of performance
- Snapshot summary of opportunities
- Forum for meaningful discussion
- Historical perspective
- Make the information easily understood
Identify expense improvement opportunities and areas to increase investment.

Potential Opportunity $762,000
### Segment Business by Major Unit

- Identify areas of poor performance
- View all business units from a common framework and more effectively manage the organization as a whole.
- Conduct a meaningful analysis of performance based on product mix or distribution channel

#### Illustrative Measurements

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<tbody>
<tr>
<td>Expenses as % of Premium</td>
<td>28.2%</td>
<td>29.4%</td>
<td>32.0%</td>
<td>10.8%</td>
<td>41.7%</td>
</tr>
<tr>
<td>FTEs per $100M Premium</td>
<td>128.8</td>
<td>108.2</td>
<td>173.1</td>
<td>147.1</td>
<td>125.1</td>
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<tr>
<td>Staff to Management Ratio</td>
<td>5.8</td>
<td>5.9</td>
<td>4.2</td>
<td>4.6</td>
<td>8.0</td>
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<tr>
<td>Policies in Force per FTE</td>
<td>489</td>
<td>782</td>
<td>274</td>
<td>233</td>
<td>587</td>
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<tr>
<td>Acquisition Expense</td>
<td>17.4%</td>
<td>16.5%</td>
<td>14.0%</td>
<td>3.5%</td>
<td>17.0%</td>
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<tr>
<td>Corporate Support Expense</td>
<td>8.9%</td>
<td>10.2%</td>
<td>12.8%</td>
<td>4.9%</td>
<td>9.3%</td>
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<tr>
<td>Information Technology Expense</td>
<td>4.1%</td>
<td>2.5%</td>
<td>4.2%</td>
<td>1.5%</td>
<td>5.8%</td>
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<tr>
<td>Financial Expense</td>
<td>0.47%</td>
<td>0.35%</td>
<td>0.72%</td>
<td>0.18%</td>
<td>0.41%</td>
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### Actual examples of how data is used

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<th>Improve expense ratio</th>
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<td>Benchmarking identified policy processing staff was 200 employees over benchmark. Driver was fragmented regional structure with renewal processing performed in 8 different locations. Cost savings achieved with reduction in staff, elimination of field office real estate and administration.</td>
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<th>Optimize resource allocation; prioritize investment spend, performance optimization and cost reduction</th>
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<tr>
<td>Benchmarking identified company spent $80 million less on information technology. Data entry activities in personal lines operation were also 400 employees higher. Driver was 6 policy administration systems across enterprise. Business case was developed for $50 million investment over 3 years to replace personal lines systems and eliminate duplicate applications.</td>
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<th>Balance the pay for performance equation</th>
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<td>Average underwriter total compensation was 15% higher than benchmark. However, premium per underwriter was $500,000 less and loss ratio was 5 points worse than benchmark. Company realigned incentive compensation plan to reflect underwriter performance relative to industry targets.</td>
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<th>Review return on investment spend over time</th>
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<td>Company invested $40 million more in advertising as part of geographic expansion and branding initiative. Over next 18 months, premium grew 6% more than peers and policy retention increased 1% more than benchmark. Advertising campaign was determined successful based on objective data.</td>
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<th>Understand economic implications of different structures, geographies and product mixes</th>
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<tr>
<td>Company operated with both a direct sales force and independent agents. The company did not know if technology costs were appropriate by business unit. Benchmark segmentation identified 1.0% cost gap for company to support the Carrier Operations channel.</td>
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Other Practical Uses of Benchmarking

1. Span of Control & Management Layering
2. Use of Outsourcing (Degree and Efficiency)
3. Right Person/Right Role
4. Compensation Competitiveness (Total Rewards)
5. Compensation Structure (Base, Benefits & Bonus Mix)
6. Geography Impact On Staff Costs
7. Staff Efficiency
8. Fixed vs. Variable Cost Load
9. Internal Cost Structure Variance (i.e. balance of costs)
10. Systems Efficiency
11. Commission Competitiveness
12. Cost Benefits Analysis For Change
13. Structural Impact on Costs & Efficiency
14. Workforce Planning
15. Best Practices Identification
16. Product Channel Impact
Presentation is important
Make data relevant for users

Information Technology Peer Comparison

- IT Expense as a % of Premiums
- IT Personnel Expense per FTE
- IT FTEs per 100 Total FTEs
- Consulting Expense as a % of GPW
- Equipment & Other Expense as a % of GPW
- Voice Communication Expense as a % of GPW

Range of Performance
Peer Analysis is a Useful Tool at Multiple Stages of a Project

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<tr>
<th>Building a Business Case</th>
<th>Baselining &amp; Evaluating Project Impact</th>
<th>Tracking &amp; Measuring Continuous Improvement</th>
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<td>Evaluation and analysis of current business processes</td>
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Key Components:
- Standard methodology
- Evaluation framework
- Peer benchmarking
Step 4: Monitor Performance

- Continuous monitoring is important to the benchmarking process to measure change within the organization and see if goals have been achieved.

- Analyze expense drivers in key areas and understand how to manage business better.

- Proactively collect data to provide early indicators of trends rather than waiting until end of year or later.

- Evaluate information through different cycles and changes.

- BE PROACTIVE!
What can Be Done to Stay Ahead of the Curve

- Expense levels need to be supported by objective data
- Analyze drivers in key areas and understand how to manage business better
- Proactively collect data to provide early indicators of trends
- Managing to budget may not address overstaffed operations, inefficient processes or poor expense controls
- Understand difference in business processes to relate results to company performance
- Evaluate information through market cycles, systems implementation and organizational changes for historical perspective and to measure success

**BE PROACTIVE!**
Case Study – Western & Southern

Agenda

- Background
- How we use best practices and peer intelligence data
Background

• Jason M. Nickles, CPA
  – Western & Southern Financial Group
    • Director of Corporate Accounting
    • 9 years Corporate Accounting and Internal Audit experience
      – Responsible for GAAP and statutory close, analysis, and consolidation for six life insurance companies and multiple non-life insurance entities.
      – Responsible for budget and cost allocation and analysis
  – Ernst & Young LLP
    • 5 years external audit experience auditing public and private companies
    • Design audit programs to evaluate SOX compliance
Western & Southern Financial Group

Company History

• Founded in Cincinnati in 1888 as The Western and Southern Life Insurance Company.
• Provides life and health insurance, annuities, mutual funds, investment management, broker-dealer services, and real estate investment and property management through member companies across 50 states.
Financial Strength Ratings* for Western & Southern's six life insurance subsidiaries.

- A.M. Best – A+ Superior (second highest of 16 ratings)
- Standard & Poor’s** – AA Very Strong (third highest of 21 ratings)
- Fitch – AA Very Strong (third highest of 21 ratings)
- Moody’s – Aa3 Excellent (fourth highest of 21 ratings)

*Ratings are current as of March 31, 2015, and are subject to change. Ratings refer to the claims-paying ability of the insurance company and not to the safety, stability or performance of any investment product. For more about our member company industry ratings visit: http://www.westernsouthern.com/industry.asp.

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Life with a Benchmark Analysis

- Historical Concerns and Difficulties
  - How do you right-size a peer company?
  - What is a distribution expense?
  - What is the true cost of employee welfare and benefits?
  - What is a shared service expense?

- Benefits of Benchmarking Process
  - Standardized Data and Metrics allow for a more robust analysis
  - Metrics across more measures (i.e. financial, type of spend, FTE)
  - More efficient data gathering allowing for increased analysis
Opportunities to Analyze

- Trending to the benchmark and to ourselves
  - Comparison to Peers
  - Comparison to Internal Companies
  - Comparison by Product

- Cost Structure by Product
  - Cost structure compared to business mix
  - FTE Allocation by business mix
  - Scale of business to expense and FTE structure
Informed Decision Making

- Greater transparency into strengths and opportunities to guide decisions and discussion
- Increased communication between finance, business units and shared services regarding opportunities and cost drivers
- Increased ability to strategically deploy capital to areas of the greatest opportunity
Questions?
Please Complete the Session Evaluation Form on the Conference App