ORION CONSTELLATION

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Taking the Lead

Process Focus Makes XL Insurance™ a Force in the Global Program Business.

What have we done? That could well have been the question the XL Insurance™ executives were asking themselves after making the decision to enter the global program business in 2001. The XL Insurance companies, founded in the mid-eighties, had always been famous for their entrepreneurship and deal-making creativity. But in their thirst for growth they decided that: a) they needed to have more of a global focus; and b) to compete with the giants in their industry they needed to have a more robust product offering.

So… via strategic mergers and acquisitions, XL Insurance has become a recognized player in the global program business segment, historically one of the most difficult in which to penetrate and excel. This particular branch of the industry deals solely with large multinational corporations. If an IBM or Exxon has facilities in 80 countries around the world and wants property insurance, for example, they expect a master policy to be written in the country of the parent company, and supporting local policies to be written and issued in the individual countries. Each local policy must account for local exposures and regulatory compliance issues. After these issues are identified and sorted out, each local unit is responsible for paying its portion of the premium (usually in its local currency) to the insurance carrier as the coverage is bound. The insurance carrier collects the money and issues the policies locally to all the customer's various entities. The carrier is also then responsible for internal and external reinsurance. In other words, if the carrier wants to share the risk assumed with other carriers, it must farm it out appropriately. And finally, on an ongoing basis the carrier must manage and pay claims in each of the client countries

The Situation: Problems, Problems Everywhere!

As you might imagine, managing this process can be a nightmare. The potential problems are too numerous to list comprehensively, but, some of the more likely issues include:

- If a prospective client has a facility in a country in which the carrier is not located, the carrier must find a local partner with which to work. This partner is called a *fronting partner* because they literally front for the company, serving as its local representative. This means that oftentimes the company's interests and reputation are in the hands of people not under direct company control, and whose processes/systems may or may not interface with the company's. Further, if the country is one in which the carrier had no previous partner, there is little time to verify quality or build a close relationship prior to entering into the deal.

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Navigating Your Organization's Future

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- Premium collection insurance can be problematic. Since a client in 80 different countries may be paying from 80 different places using 80 different currencies, someone from the carrier must ensure that all the money is in fact being received. (Many large insurers have problems managing this collection process, sometimes even paying a claim before the policy premium has been collected!)
- Managing internal and external reinsurance can be extremely difficult, as premiums arriving in dribs and drabs in multiple currencies need to be consolidated and then distributed to a group of reinsurance carriers in their own preferred currencies.
- Traditional insurance transactions involve looking at actuarial tables and using past history and mathematical analysis to determine a fair price. For instance, when individuals buy life insurance, the carrier factors in family history, occupation, age, etc. to determine the premium. In contrast, pricing a global program is subject to not only the pricing of the risk itself, but should also include administrative costs. Global programs — complex by nature — carry high administrative costs, as they involve numerous countries with different exposures, currencies, policy language, claims handling, and regulatory requirements. A carrier with a sleek and streamlined process that can capture this administrative cost and factor it in the premium would obviously have a big competitive advantage.

The problems listed above are challenges to any carrier attempting to service global program business. The XL Insurance organization actually faced several additional complicating factors as well: they were new to this segment of the business; they were trying to enter the segment while dealing with all the typical distractions brought on by an acquisition; and mastering the process complexity required to be successful in this business was not their core competency. In fact, this type of process focus almost flew in the face of the very entrepreneurial, freewheeling spirit that made the company great.

Upon entering the global program segment, XL Insurance did indeed experience all of the process problems noted above. In fact, managing cash flow around the world (both collection and reinsurance) became such a huge processing bottleneck that the company was faced with the reality that it would require monumental effort to ensure their entry into this business segment would yield the desired results.

The Transformation: Focusing on the Process

Under the heading of EOS (Effective Operating System), XL Insurance initiated a number of process changes to make the administration of global programs successful. Some of the more dramatic process changes included:

- Reengineering the entire administration process to ensure a single point of data entry. This gave XL Insurance a major competitive advantage and enabled the group to vastly improve the way the business was monitored and controlled.

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The Merger Scorecard: Driving Results Out of Chaos

Mergers and acquisitions are typically treated as positive news by Wall Street due to the potential for new growth and/or efficiencies. Unfortunately, this potential often goes unrealized, as the short-term focus tends to be primarily on demonstrating profitability.

While profits are important, a merger's success is ultimately determined by a variety of critical integration factors that must be managed closely from Day 1. Here is where the Merger Scorecard comes in.

The Merger Scorecard is a variation on the Balanced Scorecard. Just as the Balanced Scorecard monitors financial and non-financial measures in support of strategy, the Merger Scorecard monitors critical integration measures from the financial, customer, process and infrastructure perspectives.

After two entities merge, it is necessary to assess the:

1) *Strengths of the combined unit that can be leveraged,*
2) *Weaknesses of the combined unit that can be improved upon, and*
3) *Opportunities to achieve synergies made possible by the newly-merged entity*

The bulk of performance measurement should be done in the assessment stage. The information gathered in this step will be used throughout the merger and form the foundation of an ongoing performance measurement system post-merger.

Performance measurement can lend sanity to the chaos that ordinarily accompanies a merger. Attacking a merger without performance measurement allows no hard and fast way to know if the things that are being done will make the merged entity successful. Proper measures enable everyone to stay on top of key integration activity; the merger scorecard is the key to making it happen. (For fuller coverage of this subject, see Orion's Winter 2004 newsletter.)

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- Instituting a global IT platform, which provided a major tracking advantage over their competitors. It also gave the company a much better handle on the costs associated with servicing the global program business, so pricing could be adjusted to ensure profitability.
- Revising the organizational structure to provide a global product line focus.
- Restructuring the global administrative workforce with the intent of increasing focus on administration and servicing and improving administrative proficiency and consistency.
- Establishing four dedicated regional hubs to improve the management of fronting partner relationships, and the corresponding money flow.
- Establishing a central reinsurance team to administer the global reinsurance transactions based on globally available information from the global IT platform.
- Making substantial modifications to their underwriting administration system (known as GENIUS) to add the functionality required to service global program business.

The company dedicated a group of its top people to the implementation of these changes starting in 2002, and they have steadily improved administration performance over the last three years.

Results

The XL Insurance companies have become a major force in global program business because of the process improvements instituted. Some of the results/competitive advantages are as follows:

- The globally integrated IT platform has given XL Insurance companies the ability to price business based on the actual cost to implement. An Executive Vice President with the organization was quoted as saying “We have the ability to consider global cost of both claims and administration when pricing a program, and this gives us a tremendous competitive advantage. Some of our competitors have no idea what their administration is costing them.”
- The global product line-based organizational structure enables XL Insurance companies to bind or decline business based on whether or not it is profitable for the organization as a whole. Most competitors are organized geographically, resulting in each of the geographic areas watching out for its own profitability. This can cause significant infighting and loss of business. The product structure enables XL Insurance to avoid this entirely.
- The single point of data entry not only improves the consistency of data, also drastically reduces redundant operations and makes the organization more cost effective.

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- Centralizing the reinsurance function helps control the money flow much better than in the past, promoting better financial practices internally as well as better relationships with customers and reinsurers externally. (In other words, they avoid "treasure hunting" with external parties trying to figure out who has paid what and where it all went!) The new system was a vast improvement over the previous convoluted and complicated one. The globally integrated platform and the manner in which it was implemented enabled the company to significantly streamline the end-to-end process flow.
- The regional hubs have promoted better fronting partner relationships and much improved control of corresponding money flow. The company's global program business has been successful in spite of the fact that they only have operations/staff in less than 30 countries, versus the 70-80 country networks owned by some of their competitors.
- The reorganization of the global administrative workforce has increased the focus on administration and service delivery while enormously improving consistency and proficiency.

Conclusion

What a fantastic turn of events! We at Orion have been consulting on process management and process improvement for well over a decade, and in that time we've seen process problems in literally hundreds of companies. If we were to list the top ten most difficult process problems we've ever seen, the administration process for XL's global program business would be in the top three. (In fact, different pieces of it might be all of the top three!). To have gone from an industry neophyte to industry leader in such a very short timeframe (less than four years) is remarkable indeed.

Great job XL Insurance!!!

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