

Lean Six Sigma Technique for PSU General Insurance Company in Competitive Environment

By - A.R.Prabhu

Objective

1. To use all our energy and six sigma science to “move the mean” to reduce claim to settlement time to 30 days.
2. Cash balance on hand to move the mean to 15 days cash receipts.
3. Per Branch office business to increase to Rs.10 Crores per annum.
4. To Improve collection of net premium per employee to Rs.50 lakhs per annum.
5. To bring at least 20% p.a.of the difference between book value and fair value into operational system for improving yield to the normal yield level.

Mean level of deliverables never happen and the policy holder would still see variances in which the claims actually settled a heroic 12 day settlement time, cut in premium if any can take place, should we have real consistency? Variation/Lower return/Delays in any field is evil.

Sometimes we regard our Policy Holder like the man who has one foot in the fire (No choice and takes the policy) and the other in a block of ice (waiting for settlement –cool people –No hurry – around him). On average – On taking policy he should be comfortable. But obviously the range of temperatures is intolerable – Just as unpredictable settlement time is to our policy holders (say foreign travel policy).

Lean six sigma technology will save in time, will have defect reduction and of general problem solving technology.

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We should focus on a concept called span, which is a measurement of operational reliability for meeting a policyholder request. It is the time window around the policy holder requested settlement date in which claim settlement will happen.

Lean Six Sigma is a methodology that maximizes policyholder value and incidently shareholder value by achieving the fastest rate of improvement in –

- i) Customer satisfaction
- ii) Reduction /Lower premium
- iii) Quality of service in process speed
- iv) Reduction in invested capital and
- v) Regulator comfort in service industry like ours

Growth

In Indian atmosphere, where on an average,

- i) GDP to grow at around 6% p.a.
 - ii) Inflation expected to be stabilised at 4% p.a. for a block of 5 years.
 - iii) Population growth at 2.2.% p.a.
 - iv) Currency depreciation at around 6% p.a. (Foreign business assumed at 16/20%). Net impact around 1% p.a.
 - v) New product impact 2% p.a. and
 - vi) Existing product improvement and marketing effort growth 2.5% p.a.
- The overall premium growth could be around 19% p.a.

Value Added Stream

In Lean Six Sigma system with value stream map, all the policy document steps (including rework) associated with turning a customer need into a delivered service to indicate how much value each step adds to the final policy.

This value added stream will clearly provide an understanding of the current process and procedures by –

- i) Visualising multiple process levels
- ii) Highlighting waste and its sources and
- iii) Making hidden decision points apparent

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We have to ask a series of question :

A) Policyholder value added question :

- i) Should present policy add a form or feature to the product?
- ii) Should policy enable a competitive advantage (reduce premium, offer payment convenience, faster and at door delivery, fewer deletions)?
- iii) Would the customer pay extra for additional features in the policy?
- iv) Should we introduce e-mail/Debit Card Facilities etc?

B) For business value added questions :

- i) Is the policy issued because it is required by Law?
- ii) Should we approach Tariff Advisory Body for changes in policy condition with reasons thereof ?
- iii) Does the task reduce the financial risk of insurer?
- iv) Does the task support financial reporting requirement?
- v) Would the process break down if TAC is removed ?

Any change selected in value stream whose improvements will create the greatest impact on operating profit/ Insurance Profit/Net Profit.

In claim settlement analysis we should be able to identify the vital few time traps (usually less than 20% of the branches/offices) that are disrupting a critical value stream. We will have to prioritised list of Lean Six Sigma targets and a means of eliminating the causes of delay. When prioritised improvements are executed, we may be surprised to see reduction in cost by 20%, which means big impact on operating profit.

The rework will be performed by the most talented officers and business expediting is performed by people of the highest initiative.

Idle Cash And Bank Balances –Loss Of Income

Liquidity management/expenses management/settlement systems & procedures have to be looked by Lean Six Sigma concept to see that good customers do not run away/talent do not remains idle in solving litigation cases/cash balances fully utilized/overstaffing-branches to be minimized.

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Do we need to keep such a huge cash & Bank balance? Does it give any return? What is annual churning of asset? In any single month what is total maximum claim payments? Can we have effective cash monitoring system? What was premium income & claims of March in respective last 3 years? All these aspects need to be examined?

Let the talent available in the organization be pulled together under Lean Six Sigma concept and improve profit/return on Idle fund balances.

Claim Settlement

Lean is not just claims settlement strategy, but rather a service philosophy, with four purposes –

- i) To eliminate wasted time, effort and idle man power
- ii) To provide ‘insured’ full satisfaction while choosing make to order plans
- iii) To reduce arbitration, legal, surveying duplications, Interest on Delayed payments, and
- iv) Release idle talent for better productive use.

Let us look at existing position as shown below. We have to make every effort to hasten the speed of claim settlement so that outstanding claims may be atmost 50% of claims paid or in other words we have to increase claim paid amount . We have to answer for no. of questions such as can we? Should we? What are bottlenecks? Who is the right executive and so on vis a vis existing legal system and people’s expectation from a general insurer, in India.

Investment Strategy

Treating investment as permanent investment, has led to the situation of worst return possibly of the decade i.e. we have not understood the impact of changing investment climate. Slow processes are wasteful processes.

Ordinarily, money put into investment is thought of live money. Timely inaction differs from material waste in that there can be no salvage. Slow processes are expensive and they can be accelerated. Investment process to have high velocity, high quality, low cost, churning, lean number of instruments and move in line with capital market instruments.

How fast is fast? And how slow is slow? A lean process is one in which the value added time in process is more than 25% of the total lead time in process. We have to know where to focus.

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We have to develop value stream mapping to provide a clear understanding of current process by –

- i) Determination not to lose single investment/disinvestments opportunity
- ii) Visualising multiple decision levels
- iii) Highlighting time wastes and its reasons
- iv) Making hidden decision points apparent
- v) What improvements are required for each time trap
- vi) Target for improvement

The speed and responsiveness of lean can allow Investment Managers to increase Revenue/appreciation and book timely profit beyond its slower fellow investors.

Legal Department

At present full fledged legal department not in existence except to look after insurance and regulatory requirements. Normal legal Officer may have some procedural knowledge. However, Lean Six Sigma system for faster claim processing/dispute settlement, Company needs procedural support from a team of responsible legal staff, in dealing with –

- i) The Employer's Liability (compulsory insurance) Act
- ii) The Factory's Act
- iii) The Management of Health and safety at work Regulations
- iv) Limitation Act
- v) The Social Securities (Industrial Injuries) Regulations
- vi) The Noise at work Regulation
- vii) Occupier's Liability Act
- viii) Road Traffic Act (with particular reference to third party liabilities)
- ix) Consumer Protection Act
- x) Sales of Goods Act
- xi) Supply of Goods (Implied Terms) Act
- xii) Fatal Accidents Act
- xiii) Law Reform (Contributory Negligence) Act

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- xiv) Motor Vehicles (Compulsory Insurance) Regulations
- xv) The abrasive wheels Regulations
- xvi) Social Security (Industrial Injuries)(Prescribed Diseases) Regulations
- xvii) Workmen's Compensation Act
- xviii) Unfair Contracts Terms Act
- xix) The Misrepresentation Act
- xx) Law of Torts and so on

We employ experienced surveyors whose job embraces risk reduction in a direct sense through their observation of potential hazards during surveys prior to the arrangements of employer's liability, public liability and Engineering insurances resulting in the making of recommendations to improve the risk to the insured and legal section to help the process for spreading solution at less cost and improve policyholder satisfaction for furthering business in a competitive era in coming years.

Cost Reduction

The slowness of most processes - Their low cycle efficiency - guarantees that there is a large amount of proposals for issuance of policies/claim settlements in progress at any given time, much of the office space is occupied by idle stationery, idle machines, expeditors, schedulers, agents, surveyors, pushers and related non value added activities. The process generated hidden costs in overheads, labour, representations, phonecalls, administrative overheads, invested capital and unhappy policy holders and in the process in current situation puts a company in constant jeopardy of losing existing business as well as revenue growth.

When progress cycle efficiencies rise above 20%, much of these low value added activities can be eliminated. As a side benefit, the personnel associated with non value added work are often some of the most talented in the company and sometimes the only people who really understood the whole process because they have had to cope with it. Thus redeploying them into value added assignments in business developments/planning /product designing or the Lean Six Sigma process allows them to be in value creation role.

The principle of speeding up the process along with cost reduction would mean closer of unwanted steps, offices and voluntary retirement for inefficient extras.

The satisfied policyholders will return again – there should never be a queue – the root cause of the problem is variation in time.

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We will have to identify the vital few time traps that are disrupting a critical value stream. The total cost of administration overheads and service quality cost can be reduced by 20%. That is big impact on operating underwriting profit. Now that's the focus.

Time Utilisation

It has been universally noted that only about 60% of the time is utilized for servicing policyholders. About 20% of office time is scheduled for lunch, breaks, union meetings and other non productive meetings. The other 20% is unscheduled, due to renovation, setup time, non receipt of instructions, absenteeism. Can we plan for improvement in utilization time ? Unfortunately in our type service industry, the data often does not exist and the people does not understand what is causing delays.

Conclusion

The business with which we are concerned is characterised by uncertainty, often very great uncertainty.

PSU's have a high capital backing with resulting very low probability of insolvency. With given free assets they can plan out their growth strategy so as not to raise the probability of insolvency above a fix level.

The speed and responsiveness of lean along with Six Sigma steps mentioned earlier may allow PSU's to increase revenue growth beyond competitors and to enable them to improve policyholder/shareholder value in the coming years.

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About the Author :

A.R.Prabhu

Mr. Prabhu A R

Age: 61 years ; M.Com ; AIA (1972) ; FASI(1987)

Proposed By Mr. C S Modi

Seconded By Mr. D K Pandit

He is working as a Consulting Actuary for Gratuity, Provident Fund, Pension, Leave Encashment, Other related Retrial Benefit areas and Health Insurance and General Insurance. He is waiting for the approval of IRDA for the post of Appointed Actuary for The New India Assurance Company Limited.

He has the following work experience:

1. New India Assurance Co.Ltd (Investment Dept.) – June 1963 to April 1973
2. ICICI Ltd (i) Project Fin.Division from 1976 to 1983
(ii) Merchant Banking from 1973 to 1976
3. Indian Investment Trust Ltd. from 1983 to 1986 as General Manager
4. Unit Trust of India as Zonal Manager from 1994 to 1996
5. Financial Advisor to Usha Martin Group from 1996 to 1997
6. CEO to GIC Asset Management Co.Ltd from 1997 to 2001