

Case Study -- Redesign and Reorganization Workers' Compensation State Fund

This Workers Compensation State Fund had annual premiums of \$300 million, assets of \$800 million and 600 employees. They were a very traditional organization and employees were divided by function into separate departments and units. Sales came from brokers and employer 'walk-ins'.

The Fund was in serious trouble in almost every area. Sales were poor, revenue was declining faster than the industry, market share (which is a critical success measure for state funds) was dropping at a rate of multiple points per year. New carriers had entered the market creating stiffer pricing competition. Survey data from brokers and from policyholders showed quality and customer satisfaction declining at an alarming rate.

Not surprisingly, the Fund had serious financial problems. Operating unit costs were much higher than market pricing would allow. High lapse rates, low sales and a downward spiraling of underwriting experience were straining reserves. The Fund needed to significantly reduce expenses, improve underwriting experience and strengthen its reserves to ensure its future.

The Company had made many incremental changes to overcome these weaknesses but the successes were localized and had minimal impact on overall performance and external results. Larger solutions were needed.

Company leadership realized the need for a fundamental change in business practices and requested our assistance.

The Fund needed to accomplish the following:

- Reduce lapses, increase sales and recapture market share.
- Reduce expenses, improve loss ratios and increase reserves quickly to ensure the long term financial stability and independence of the Fund.
- Dramatically improve service and satisfaction results for agents, policyholders and insured employees. Customer satisfaction needed to become a driving force for their success.

- Eliminate organizational silos, streamline workflows and get everyone pulling on the same end of the rope.

The following three phased fundamental redesign project was undertaken :

- Design Phase: was performed with a team of managers to evaluate and design business processes, a structure to service customers and brokers, and success measures.
- Implementation Phase: to staff the new organization structure, implement new work processes, create computer staffing models and implement other improvements to ensure the new design would work well.
- Employee Ownership Phase: included the development of a Gainsharing incentive compensation plan, engaging employees in managing their part of the business.

The results of these efforts were gratifying:

- Multifunctional business units and teams, each responsible for their own book of business, replaced the functional structure.
- Quality and service problems disappeared within three months and customer survey results exceeded expectations.
- Annual operating expenses were reduced by 25%.
- Premiums and market share increased dramatically and are on track to reaching goals. The Fund is competing successfully with commercial carriers in all target markets.

The company has regained its reputation. Employees are managing the service and financial results for their teams. Brokers are once again enthusiastically placing their primary accounts with the company. Financial results are improving.

One broker said it well: "I am no longer worried about placing my premium accounts with the company. I am sure my clients will receive a good price and exceptional service.."