XCEEDANCE

SOS

SENDING OUT AN SOS

If you remember the phrase in the title from a song by The Police, you'd be correct. But in this case, as in so many others, context is everything. And this case happens to be about insurance. More specifically, it's making the case for a radical shift in the ways in which insurers view their operations — and the competitive necessity of that shift in the ways in which insurers view and avail themselves of resources, intellectual capital, and technology.

To find out where we are and how we got here, let's take a look back at where we were and why we needed to move on. Let's also take a look into the future to understand why insurers will have to keep moving or risk falling behind.

NO TIME FOR HYPE

If you deleted the date from most insurance trades — and if you were able to make terms like *OOP, e-commerce, wireless technology, ASP, SOA, SaaS, cloud,* and myriad others interchangeable — the hype in them would likely make their publication dates indeterminable. Why is that? Because hype sells. And because it's more exciting to focus on hype than it is to focus on reality.

But the reality is that while hype catches the eye, the insurance industry runs on reality. Case in point: BPO.

In the early 21st century, BPO was all the rage. Good idea? Bad idea? Safe? Risky? You could get an equal number of opinions on the merits and detriments of BPO. It became all but ubiquitous, even if reports about it were sometimes contradictory. Consider these excerpts:

On November 7, 2003, *Datamonitor* published a report entitled BPO in *U.S. Insurance*. It said this, in part:

> *Insurers' are becoming increasingly aware that their ability to focus on their core competencies will be the key to success in an increasingly tight and competitive field. By outsourcing non-core operations, insurers can focus on what they might consider most strategic – i.e., the external marketplace and its customers.*

Slightly more than nine months later, on August 31, 2004, *Celent* published a report entitled, *Insurance BPO Market Survey: Will the Watched Pot Ever Boil?* That report said this, in part:

> *Many carriers remain unconvinced that outside parties can develop sufficient insurance vertical expertise…And even if vendors can prove they have the expertise, there are other considerations, like the additional costs of managing outside resources.*

Doesn't that seem quaint? Of course, it does. That's because so many insurers now outsource so many services that BPO has become antiquated and diluted, both as a practice and as a business model. All we can do is wait for industry observers to catch up … and make a note to avoid hype.

THE EVOLUTION WILL NOT BE TELEVISED

As the next evolution of the insurance business model, Xceedance has created, and we continuously perform, Strategic Operations Support — SOS. Beyond the tactical, back-office services that comprised conventional BPO, the broader focus of SOS is on the strategic, revenue-generating, service-improving activities across the insurance lifecycle.

And it's just possible that, once SOS catches on with the company executives and shareholders who demand peak efficiency and steady profits, the pundits will take note as well. We can't be sure of that. But for the sake of the insurers that will benefit, we should hope so. Here's why:

BPO allowed companies to outsource only repetitive administrative functions of the back office. SOS, on the other hand, allows those same companies to partner with career insurance specialists for core operational functions across the insurance lifecycle, while accruing the same beneficial conservation of time, resources, and operating costs as had been afforded by the relatively simple — and exclusively tactical — BPO.

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IS THIS PROGRESS?

Well…yes and no. While the pragmatic value and operational and financial benefits of SOS are self-evident, the fundamental arguments in favor of SOS — and the progress SOS enables — almost inevitably collide with another *p* word: *proprietary*.

While this is understandable and justifiable in an industry as rightly conservative as insurance, insurers are frequently reluctant to relinquish the reins, particularly to their core operations and their data. This can be self-confounding in three ways:

1. By assuming they have to keep all of the required strategic responsibilities and activities in-house, they pile needless cost on top of needless complication.

2. By that assumption, they trap themselves in a vicious circle at the expense of their businesses and their business objectives. As soon as they adopt that assumption, requirements change, knowledge changes, practices change, and technology changes. As keeping up with those changes requires more time, attention, and resources, the game becomes a cost/benefit equation, prompting two questions:
   - ***Are the time, attention, and resources justifiable?***
   - ***In how many directions and races can insurers run and still be competitive?***

3. By assuming their essential operations and their data are always and necessarily at risk, insurers preclude themselves from opportunities to improve operational efficiency and reduce operational time and cost. They apparently never think about the service-level and accountability agreements into which any SOS vendor worth its salt would enter and by which any SOS vendor of integrity would comply.

The antidote for the proprietary is a two-part prescription:

- **It's more important for insurers to optimize their operations strategically than it is to keep them in-house – to focus on outcomes, rather than on output and infrastructure.**
- **It's more important for insurers to have their operations effectively managed and their data effectively collected, analyzed, and meaningfully acted on than it is to fear exposure.**

The bottom line is this: The only ROI is results. Without them, there is no foundational (let alone actual) value. And that's the real value of SOS.

VALUE IS WHERE YOU CREATE IT

SOS can transform businesses because it covers the entire insurance lifecycle. By outsourcing strategic activities — and assigning accountability for the outcomes of those activities — insurers can reduce and control operating costs (and non-compliance penalties) and improve operations. They can take advantage of prevailing capabilities, focused expertise, and professional objectivity to ensure workflow agility, to gain competitive responsiveness, and to optimize internal resources.

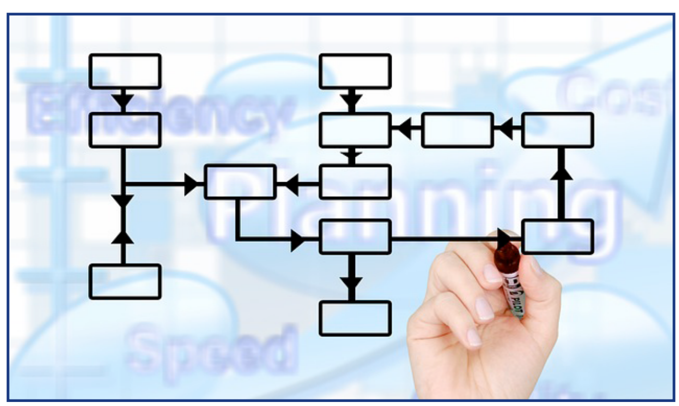
Insurers can expect SOS providers to devote their attention to the intricacies of product development, underwriting, policy and claims administration, finance, technology and data sciences, regulatory compliance, and more. Meanwhile insurers can devote their attention to generating revenue, earning market share and return on equity, driving up shareholder value, and satisfying policyholders. That simply makes good sense. And it makes good business sense.

By relieving insurers of operational pressures and demands, SOS enables them to focus on the things that matter most — policyholder requirements, market opportunities, pricing, and distribution. SOS allows insurers to focus on service, rather than on servers — on profit, rather than on process. And SOS finally sets insurers free from their proprietary reticence to (as they put it) *give up their data*. The truth is they don't have to give it up. And they don't have to put it at risk. Here's why: To be reliable and trustworthy partners, SOS providers must respect the sanctity of insurers' data. And they must observe all proprietary and contractual obligations to protect it.

In that regard, SOS is a lot like common sense and experience. The only difference is that acquiring SOS should and can be expeditious and more cost-effective than trying to build the same expertise in-house. The needs-assessment required of the SOS decision arguably is reducible to one question, two at most:

1. **Are the insurer's strategic operations streamlined and sustainable?**
2. **If not, does the organization have the resources to optimize them?**

If the answer is no, then, as a matter of practicality, the insurer should explore SOS.



SOS

GET AHEAD OR GET BEHIND

SOS may seem novel, at least for the moment. Maybe it is. But if so, it's also inevitable. The pace of change will only accelerate. Competitive pressure will only increase. The demands on every insurer's time and attention will only grow. Something has to give.

SOS is the safety valve for insurers about to explode from the tension of managing core operations.

REPEATABLE SUCCESS

Beyond the short-term operational benefits, SOS allows insurers to view their businesses as franchises (in the sense of predictable repeatability, as detailed by Michael Gerber in his book, *The E-Myth Revisited)*. And that suggests a key distinction for those who believe SOS is simple or conventional outsourcing, activity redistribution, or task reassignment. It's not.

Rather, SOS involves the franchising, if you will, of entire strategic disciplines and their attendant processes. And unlike traditional outsourcing (typically undertaken to offload or augment the execution of particular non-core activities at specific times), SOS entails strategic problem-solving — be it for a single project or as a long-term engagement. As a result, SOS creates value by helping insurers achieve transformational outcomes more quickly and uniformly.

Insurers that adopt SOS don't assume the typical costs associated with acquiring resources — recruiting, hiring, onboarding, training, total compensation, turnover, et al. SOS constitutes the trained, experienced people required to perform strategic activities, so costs are lowered by definition. And because SOS providers assume accountability for their outcomes — including compliance with budgets and timelines — they lower insurers' risks in numerous ways. And insurers no longer need to worry about the obsolescence of intellectual capital: The SOS provider is responsible for maintaining currency.

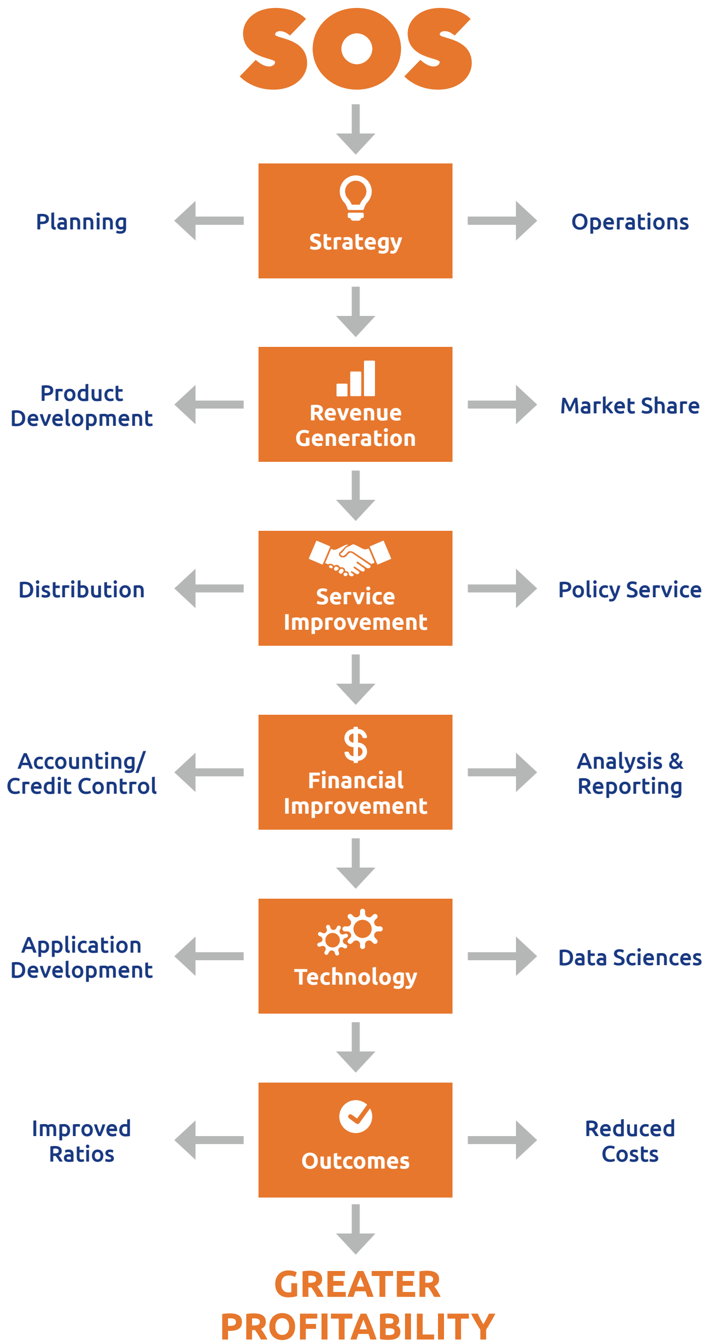
This may all sound too good to be true to most insurers — and since we all are subject to degrees of disbelief — here's the dirty little secret: SOS helps insurers gain control of operations and expenses, rather than lose it.

THE BOTTOM LINE

SOS is not simple or conventional outsourcing. SOS enables insurers to franchise strategic disciplines and their attendant operational activities. SOS comprises strategic problem-solving. And SOS creates value by helping insurers actually achieve their individualized target operating models and the functional transformations the entire industry is debating and envisioning.

The SOS path to productivity and growth may not be obvious (yet). But it is inevitable. The insurers who recognize it first, will be among the industry's leaders.

That's a pretty compelling bottom line.



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to find out how you can send out an SOS — and get your bottom line to safer shores.

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