MUTUAL BENEFIT LIFE

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Directions

• Background of MBL
• Challenges faced
  – Internally
  – Externally
• Examining MBL’s processes
  – Old Process
  – 1st attempt of change (without IS)
  – Lessons learned from the 1st attempt
• Business Process Reengineering Principles
• The new business process with the implications of IT/IS
• Concerns of BPR (Appendix)
COMPANY BACKGROUND

- Industry: insurance
- Founded: 1845
- Fate: dissolved
- Defunct (Ceased business): June 14, 2001
- Headquarters: Newark, New Jersey
The old process (Overview)

Field Agents

Data Input

Proposal Form

Medical Checks

Credit Checks

Underwriting (Risk Checks)

Policy Pricing & Documentation (Approved Policy sent to client)

Commissions

Claims

Approved Policy sent to client
The old process

Assess Risk

Medical Check

Credit Check

Policy Pricing

Commissions

Claim

Policy

Pricing Department

Underwriting Department

Credit Check Department

Medical Check Department

Data Input Section

Post Room

US Mail

Deliveries

Sorting

Distribution

Proposal

Post Bin

Proposal Form

File

File

File

Policy Documentation

-> to Client

LMY
The old process

• Dated 165 years ago (As of 2010)
• An application goes through:
  – 30 discrete steps
  – 5 departments
  – 19 people
  – with 7 different & disparate computer systems
  – 90% of the time, it was in transit or waiting to be passed down to the next department
• Total of 225 admin staff
The old process

- Turnaround time: 5 to 25 days
- High possibilities of various bottlenecks
- Huge administrative overhead
- Large staffing costs
- Error-prone
- Difficult to track the progress and be accountable for an application
- High correction and alteration costs
MBL’s challenges

• Externally:
  – New life insurance products
  – Competitive pricing
  – Faster turnaround time from other insurers
MBL’s challenges

• Internally:
  – Specialized people with specialized knowledge for assigned tasks slow down entire application process
  – Large organizational work structure
  – Maintaining less flexible products
  – Resistance to change
MBL’s Stratagems

• “Either you had to improve your products which was difficult because there were alot of new entrants with low overhead, or you had to work on your overhead”

–Henry E. Kates
(1987, 11th president and CEO of Mutual Benefit Life)
MBL’s Stratagems

Backroom process redesign!
MBL’s first response

- Major source of inefficiency:
  - Division of labor.

- MBL’s first response to the problem
  - Introduced an additional role of CMs
    ✓ Tracking paper work
    ✓ Checking application status
    ✓ Coordinating people and papers
    ✓ Being accountable to agencies/clients
MBL’s first response

• Was IT being used in the first place?
  – Yes!
  – Only to automate these old processes (In addition to CM)
  – Different departments with different computer systems
  – An already fragmented process made even more fragmented by misappropriated use of IT
Problems with MBL’s first response

– Plenty of computer technology supporting the processes
– But only automating the processes
– Cannot address fundamental performance deficiencies
– Merely mechanizing old ways of processing an insurance application
– Only tinkering with existing process
Problems with MBL’s first response

- Case managers burned out quickly!
Don’t just automate processes!

😊 The application process wasn’t greatly improved
😊 Additional people in the process (Case managers)
😊 Increased administrative costs
😊 Case managers burned out quickly
😊 Case manager solution must be supported by IT to re-engineer issuing policies!
Business Process Reengineering

• “The fundamental rethinking and radical redesigning of business processes to achieve dramatic improvements.” Lecture 6B

• “Use the power of modern IT to radically redesign our business processes in order to achieve dramatic improvements in their performance.” Michael Hammer

• “It is an all-or-nothing proposition with an uncertain result.” Michael Hammer
BPR is to streamline the work process and thereby achieve significant levels of improvement in:

- quality
- time management
- cost
MBL old process:

- Rigid, sequential assembly-line approach for a typical insurance application
  - Medical Check, Credit Check, Risk Check, Pricing Policy, Commissions Claim
- Slow process
- Tall labour hierarchy -> Inefficiency
Business Process Reengineering (BPR) Principles

Mutual Benefit Life’s intended outcome:
- Improve customer service

How?
- By 60% improvement in productivity
- Reduce labor hierarchy
- Combine logically related tasks into a single process handled by one person or a small team of persons
1st Principle:
Design jobs *around outcomes and not tasks*

In other words, combine logically related tasks into a single process handled by one person or a small team of persons.
Business Process Reengineering (BPR) Principles

BPR Solution:

1. Reduce labor hierarchy (No more 5 depts)
   - ✔ New Business Specialists
   - ✔ Case Managers
   - ✔ Senior Case Managers

2. Combine logically related tasks into a single process
   (Two-pronged approach)
   a) Introduction of autonomous case managers
   b) Use of personal computers and technology
BPR Solution:

2. Combine logically related tasks into a single process (Two-pronged approach)
   a) Introduction of autonomous case managers
   b) Use of personal computers and technology
2a. Introduction of autonomous case managers

- Handles all logically related tasks
- No more passing of files and responsibilities
- No more shuffling of customer inquiries
2b. Use of personal computers & technology

- Combine all tasks involved in issuing a policy
  - Entering the application
  - Evaluation of application
  - Risk assessment
  - Pricing decisions
  - Issuance
  - Commission payment
MBL old process:

• Huge dependencies on one another’s output caused increased delays between departments.

• Disparate computer systems
  – Each department have their own system

• Too many functional walls
Business Process Reengineering (BPR) Principles

2\textsuperscript{nd} Principle: 

*Have those who use the output of the process perform the process*
Business Process Reengineering (BPR) Principles

BPR Solution:

• Case Manager (CM) with IT Support
  – CM is the one person issuing the policy
  – CM should not need to go through various departments just to get the output he wants (e.g. Finding out the status of the application)
  – If CM needs an underwriter’s opinion (output), he collaborates with the underwriter by himself (perform the process of getting the output that he wants)
Business Process Reengineering (BPR) Principles

MBL old process:

• Each department is specialized in a specific task
• Each department completes its task and passes its “product” (output) to another department.
• Little or zero ownership to the entire process and the information generated by the process
3rd Principle:

Subsume information processing work into the real work that produces the information

In other words, there must be an ownership of the process and the information generated by the process
BPR Solution:

• Only 3 positions are in-charge of the process & information generated by the process now

• Do away with:
  – Medical checks department
  – Credit check department
  – Underwriting department
  – Policy pricing department
  – Claims department
Business Process Reengineering (BPR) Principles

MBL old process:

• Plenty of computer technology supporting process
• Automation of every step of the operation
  ➢ Lack of integration among the different systems in different departments
4th Principle:

*Treat geographically dispersed resources as though they were centralized*
Business Process Reengineering (BPR) Principles

BPR Solution:

- Maintaining decentralized structure of different field agents coupled with
- Centralized database
MBL old process:

- Complex issuance process divided and assigned to independent departments
- Integrate their output only when they are done
- Output of each department may not fit together and have to re-iterate entire process
5th Principle:

*Link parallel activities instead of integrating their results*
BPR Solution:

• Coordination of concurrent activities among new business specialists and case managers

  ➢ with IT support
MBL old process:

• No one has absolute control and responsibility over the entire process
• Case manager suffer from burnout (1st attempt of change)
6th Principle:

*Put decision point where the work is performed and build control into the process*
BPR Solution:

• Case managers have total responsibility and decision making power for an application
  – Works autonomously*
    • What further information to seek after
    • Which underwriter’s opinion to seek for
  – Approve policies*

*Difficult cases or new case managers are helped by automatic expert systems
Business Process Reengineering (BPR) Principles

MBL old process:

- Separate departments have their own
  - Database systems
  - Different formats of information
    (Some information may already be present from the previous department)
- Each department were only concern about passing off their output to the next department
7th Principle:
Capture information once at the source and establish ownership
BPR Solution:

- Centralized database system (Reduces redundancy data entry)
- New Business Specialists (NBS) enter arrived insurance application into the system (Information captured once and at source)
- Ownership from follow up work
- Case Managers’ ownership of information captured in database
• Case managers are now supported by IT to re-engineer issuing policies
  – Fully automated expert system
    • Handles about 20% of policies
    • Recognizes trend of healthy individuals
    • Programmed underwriting expert’s decision models
    • No case managers’ intervention
      (Notification upon automated policy approval)
Reengineered Process

• Case managers are now supported by IT to re-engineer issuing policies
  – Semi-automated integrated system
    • Combines tasks of issuing a policy, entering the application, evaluating it, risk checking, policy pricing and commission payment, etc.
    • Automatically request information necessary for an issuance of a policy
• Case managers are now supported by IT to re-engineer issuing policies (Cont’d)
  – Semi-automated integrated system
    • Automatically generate requests if a necessary information is lacking
    • and continually remind case managers the information is missing until received
    • Compile information for case manager
Fully automated expert system

- **Client**
  - Enters application
  - New Business Specialist
  - Field Agent
  - Expert System (ES)
  - Automated underwriting
  - Inform case managers
  - Mail out policy
- **Expert System (ES)**
  - Automated information seeking
  - Enough information for judgment
- **Approve insurance**
- **Central System**
Reengineered Process

✔️ Business Performance

🔹 Cycle times reduced from months to days
🔹 Turnaround time: 1 – 3 days (Typically)
🔹 1 Case manager issues policy (not 19 people!)
🔹 Dramatically reduce errors
🔹 Efficient accountability & query handling
  (Case Managers do not burn out easily now)
Reengineered Process

☑ Greater Revenue

- 20% of policies issued automatically by an expert system
- 20% increase in business volume
Reengineered Process

✅ Staff and Administration

- Staff reduced by 55.5% (From 225 to 100)
- Administrative overhead reduced by 40%
- 7 computer systems replaced by one integrated system
- Only three positions exist in policy issuance:
  - New business specialists (Enters applications into system and follow-up work)
  - Case managers
  - Senior case managers
Question & Answers

• Can BPR be implemented without the use of IT/IS?
• Do you think it is more effective for MBL to counter their competitors by improving their life insurance products?
• What do you think caused MBL to adopt such an old backroom process which dated as far as 1845?
Question & Answers

• MBL background
• MBL’s old process
• MBL’s challenges
• MBL’s first response
• BPR Principles
• Reengineered process
• Fully automatic ES
• Semi-automatic system
• Concerns of BPR
References

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  *(Vol 1 No 2 March 1992, pp.102-105)*
Appendix: Concerns of BPR

- Radical changes requires tremendous organization’s effort
- Not feasible to obliterate & start with a clean slate
- Diffusion of power and authority

-Textbook
Appendix: Concerns of BPR

MBL’s case (Cont’d):

• “We received a tremendous backlash when we told everybody in the department that they would be at the same level”
• “People feel they have lost status because they no longer have a badge that distinguishes them from the other people.”
  -Charles McCaig
• Case manager’s expanded job scope