CHAPTER 10

THE IMPLEMENTATION OF BPR IN A SHORT-TERM INSURANCE BUSINESS

10.1 INTRODUCTION

Chapters 6, 7, 8 and 9 discussed the different stages how to plan the BPR project, how to perform a pre-study and how to execute the BPR implementation as well as the important aspect of IT systems during BPR implementation. Without repeating the detail, chapter 10 will combine the theoretical information discussed by these chapters and provide a solution on how a short-term insurance business can be reengineered.

It is not the objective of this chapter to describe each and every task and process, but rather to provide the reader with a basic structure of how processes and support functions can be organised in terms of BPR principles within the short-term insurance business.

10.2 ASSUMPTIONS

The following assumptions will be made:

- The business environment in which the company operates is in all provinces within South Africa;

- The size of the company in terms of gross premiums written is between R400,000,000 and R800,000,000;
The corporate strategy of the company reads as follows:

“The company will provide flexible, innovate motor and household insurance products to individuals in South Africa. The company will focus on customers in the medium to medium-high income class. Distribution should include the following channels:

• Direct sales through the internet;
• Direct sales when clients phone the insurance company; and
• Indirect sales by using brokers.”

The business strategy of the company specifies that the company will expand its market share by purchasing new upcoming short-term companies who specialise in the same market as the company;

The functional strategy of the company reads as follows:

“To provide excellent services to policyholders in terms of turnaround time for new policies and claims.”

This strategy should normally be more specific in terms of objectives, e.g.

• Turnaround time to process and underwrite a standard policy application should be 8 hours; and
• Turnaround time to process and assess a standard windscreen claim should be 24 hours; etc.

However, for the discussion of this chapter, no specific objectives are assumed, as the chapter will rather focus on fundamental aspects during the different project stages than specific detail.
The following support functions exist within the company:

- Finance & administration department;
- Product development;
- Marketing;
- Security; and
- IT; and

There is no restriction on the availability of funds.

10.3 PLANNING STAGE

10.3.1 Identify processes that should be reengineered

Before identifying the core and non-core processes in the short-term insurance business, it is prudent to recapitulate on all the processes, which is currently being organised into departments and tasks, in the short-term insurance business. These processes include:

New business process:
- Application for new business;
- Capture information;
- Underwriting;
- Provide Quote;
- Client accept or reject quotation;
- On acceptance, issue new policy;
- Collect the first premium;
- After a period of 3 months, pay broker commission;
- If risk exceeds a certain amount, apply for reinsurance;
- Collect monthly premiums; and
- Invest surplus funds.

Claim process:
- Policyholder lodges claim (directly or through broker);
- Capture claim;
- Claim assessment;
- If valid claim, payment to policyholder; or
- Purchase of replacement goods and deliver to policyholder;
- If third party involved, claim from third party insurance;
- If reinsured, claim from reinsurance company;
- If necessary, disinvest funds.

The first step is to identify the core processes in the short-term insurance business. As discussed in par. 6.3.2, the core activities are those that are vital to customers and to the existence of the company.

These processes are without any doubt the:
- New business processes; and
- Claims processes.

These two processes can be subdivided into several other processes, which can in certain companies be classified as individual core processes. These processes can include:
- Broker commission;
- Reinsurance;
- Purchase of replacement goods (it is possible that in certain companies, the purchase of replacement goods is not a core activity); and
- Product development.

For purposes of this chapter, the current departments and tasks should be reengineered to form the following core processes within the business:

1. New business and policy & customer maintenance;
2. Broker commission;
3. Reinsurance;
4. Claims assessment; and
5. Purchase of replacement goods.

The second step is to identify the **non-core / support functions** that should be reengineered. As explained in par. 7.5, the extent to which these support functions will be reengineered will depend on several factors and can include the following:

- Size of the organisation;
- Size of the support function;
- Importance of the support function to the key processes; and
- Cost implications to structure the support function as a separate process.

Based on the assumptions, the size of the organisation is “medium” in a South African context. In the majority of medium size short-term insurance businesses, the supporting functions are relatively small. All support functions will be reviewed, and where practically possible, be included in processes. For purposes of this study, the following non-core functions will be reengineered and fully or partially incorporated in a process:

- Financial function;
- Product development function and marketing; and
- Human resources (hereafter referred to as HR) and the training function.

The following non-core functions will be outsourced:

- Security of the building;
- IT function; and
- Delivering of replacement goods.

10.3.2 **Define the mission and the scope of the project**

The scope of the BPR project in this example will be to reengineer processes enterprise wide.

Although companies’ missions will differ from each other and should be more specific in terms of objectives, the mission of the BPR project assimilated in terms of this example will be to:

- Reduce operating expenses;
- Increase the number of policies captured and underwritten per day;
- Increase the number of claims assessed per day; and
- Reduce fraudulent claims.

10.4 **PRE-STUDY STAGE**

10.4.1 **Identify customers**

It is important to identify customers in terms of the business system or process that will be reengineered. The following table list the different classes of business
systems (processes that will be reengineered) and the customers within each business system:

### Business system / Core process to be reengineered

<table>
<thead>
<tr>
<th>Business system / Core process to be reengineered</th>
<th>Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Broker commission.</td>
<td>2.1. Brokers; and 2.2. Banks.</td>
</tr>
<tr>
<td>3. Reinsurance.</td>
<td>3.1. Reinsurance companies; and 3.2. Banks</td>
</tr>
<tr>
<td>4. Claims assessment.</td>
<td>4.1. Current policyholders; 4.2. Brokers; 4.3. Assessors (e.g. of motor vehicles – certain of these functions can be outsourced); 4.4. Third party insurance companies; 4.5. SA Police Service; and 4.6. Banks.</td>
</tr>
<tr>
<td>5. Purchases of replacement goods.</td>
<td>5.1. Suppliers; 5.2. Delivery company (if outsourced); and 5.3. Policyholder.</td>
</tr>
</tbody>
</table>

Table 10.1. LIST OF CUSTOMERS IN CORE PROCESSES
There could also be a number of customers that deals with the support functions within the company. These customers can include:

<table>
<thead>
<tr>
<th><strong>Support function</strong></th>
<th><strong>Customers</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Marketing</td>
<td>1.1. Potential customers;</td>
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<tr>
<td></td>
<td>1.2. Suppliers (e.g. printing company, designers, etc);</td>
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<tr>
<td></td>
<td>1.3. Media; and</td>
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<tr>
<td></td>
<td>1.4. Other processes / departments (e.g. Finance – provide invoices to the Finance department for payment).</td>
</tr>
<tr>
<td>2. Product development</td>
<td>2.1. Potential customers;</td>
</tr>
<tr>
<td></td>
<td>2.2. Current policyholders;</td>
</tr>
<tr>
<td></td>
<td>2.3. SA Statistics Services;</td>
</tr>
<tr>
<td></td>
<td>2.4. SA Police Services;</td>
</tr>
<tr>
<td></td>
<td>2.5. Regulators (Government &amp; FSB); and</td>
</tr>
<tr>
<td></td>
<td>2.6. Other processes / departments (e.g. claims department for information on fraud, IT department for special reports and statistics).</td>
</tr>
</tbody>
</table>
3. Finance & administration department
   3.1. All other processes / departments;
   3.2. Regulators (Government (e.g. SARS) & FSB);
   3.3. External auditors;
   3.4. Suppliers (payment);
   3.5. Banks;
   3.6. Investors of funds;
   3.7. Reinsurance companies;
   3.8. Brokers;
   3.9. Policy holders (follow up on outstanding premiums); and
   3.10. SASRIA.

4. IT department
   4.1. All other processes & support functions; and
   4.2. Suppliers.

5. HR & training department
   5.1. All other processes & support functions;
   5.2. Government (skills development levy); and
   5.3. Suppliers.

Table 10.2. LIST OF CUSTOMERS IN NON-CORE PROCESSES
10.4.2 **Identify the company’s value propositions**

The company’s value propositions in terms of its functional strategy is to provide excellent service to policyholders in terms of turnaround time on new policy applications and claim processing.

10.4.3 **Segmentation of customers**

When performing the segmentation of customers, it is necessary that the BPR team already has a fairly good understanding of the business and certain ideas on how the processes should function as well as how teams will function within the processes. This is probably one of the most difficult decisions when reengineering the business.

The segmentation of customers for purposes of this example will be done in terms of geographical areas and then subdivided in risk areas within each geographical area.

The reason for allocating customers in terms of geographical areas is to improve the service levels within the processes and the teams. Consider the following example:

(a) Customers are segmented into income categories / insured values:

The team member that is responsible for claim assessment within customer category A need to deal with the following “customers”:

- Brokers in e.g. Johannesburg, Pietersburg, Cape Town, Kimberley, Bloemfontein, etc.;
- Police Services in Johannesburg, Pietersburg, Cape Town, Kimberley, Bloemfontein, etc.;
- Assessors in all these areas;
- Suppliers to replace insured goods in all these areas, etc.
This can develop into an administrator’s nightmare. Not only for the team member in the short-term insurance company, but also for the brokers, assessors, suppliers, etc.

(b) Customers are segmented into geographical areas:

The team member responsible for claims assessment within the Johannesburg area will deal with brokers within the Johannesburg area, police services in Johannesburg, assessors in Johannesburg, suppliers in Johannesburg, etc.

Although segmentation of customers in certain industries should be done according to income categories (high value customers), it is not recommended in the short-term insurance industry.

10.4.4 Analyse customer requirements

It is recommended that a customer survey be performed in order to identify specific customer requirements. The survey will differ in terms of the type of customer. By referring to table 10.1 and 10.2, different customer types should be approached by the best possible method, which can include:

<table>
<thead>
<tr>
<th>Method of customer survey:</th>
<th>Type of customer:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potential customers</td>
<td>Market survey where potential customers are phoned and the most important two to three questions are asked, e.g.:</td>
</tr>
<tr>
<td></td>
<td>- What are the key service levels you expect from your</td>
</tr>
</tbody>
</table>
short-term insurer?
- On what basis do you select your short-term insurer?

Normally, this type of market survey is outsourced.

<table>
<thead>
<tr>
<th>Current policyholders</th>
<th>A statistical selection of current policyholders can be selected for the survey. It is recommended that letters are not sent to policyholders due to the costs involved and the low percentage return. The survey can rather be performed by phoning or using electronic mail to ask customers the most important two to three questions. However, should the company decide to send requests to policyholders, it is recommended that a sweetener be added, e.g. policyholders who participate in the survey can win a prize.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other processes or departments within the company</td>
<td>Detailed questionnaire e-mailed or hand delivered.</td>
</tr>
</tbody>
</table>
| Brokers                                                                 | - Detailed questionnaire mailed or e-mailed; or;  
|                                                                      | - Phoning,                  
|                                                                      | depending on the number of questions and the type of brokers. |
| Banks, assessors, reinsurance companies, suppliers, regulators,      | Detailed questionnaire mailed or e-mailed or, where more appropriate, |
| investors of funds, external auditors, media representatives, etc.   | personal discussions can be held with these customers. |

Table 10.3. **RECOMMENDED METHODS TO PERFORM CUSTOMERS SURVEYS**

Apart from including service level related questions in the survey, it is also important to include questions on the perception these customers have of the short-term insurance company.

### 10.4.5 Analyse external market conditions

As discussed in par. 7.3.6, it is important that the BPR team understands the market conditions as well as the competition. This includes new developments in products, legislation, etc.

### 10.4.6 Understand current processes and support functions

As each company’s processes and support functions differ, this study will not simulate processes and support functions in further detail. The procedures to follow when obtaining an understanding of the current processes and support functions
were discussed in chapter 7. It is important that when the current processes and support functions are analysed, current weaknesses are identified for correction in the execution stage.

10.5 EXECUTION STAGE

As explained in par. 10.1, the objective of this chapter is to provide the reader with a basic structure on how processes, support functions and teams should be put together in order to apply BPR principles in a short-term insurance company.

The basic structure will be presented by discussing:

- The overall process flow within the business;
- Identifying processes and how support functions can be integrated within these processes;
- Reengineering each process and setting up teams to function within the processes; and
- The corporate structure and performance evaluation.

10.5.1 The overall process flow

As stated in the strategy in par. 10.2, the company wishes to make use of three different distribution channels, which include:

- Direct sales by using the internet;
- Direct sales by telephone; and
- Indirect sales by using brokers.
Potential policyholders as well as current policyholders who wish to update their personal or policy information will use the same processes in order to capture information.

The following figure explains the most important process flows within a short-term insurance business. The first section explains the new business and premium collection process, while the second section explains the claims process.
10.5.2 Defining processes and its relationship with functions

The overall process flow in a short-term insurance business does not necessarily reflect the BPR principles in terms of grouping processes, which currently include a number of different tasks and departments, together.
Defining processes is one of the most difficult and critical success factors in the execution stage of the BPR project. When processes are defined, the BPR team should consider all aspects in terms of:

- BPR principles;
- Practicality;
- Team size and number of employees;
- Skills availability;
- Automation;
- Customer segmentation, etc.

The newly defined processes can change the total structure of the current back-office in the short-term insurance industry.

Figure 10.2. illustrates the recommended structure how processes should interface with both core and non-core functions.

The processes are defined in terms of the customer segmentation, which will be the different geographical areas in South Africa, e.g. Gauteng, Northern Province, Southwest Cape, etc.

The functions are allocated to the processes in terms of the core functions and certain support functions are allocated to the processes as well.
Figure 10.2. RELATIONSHIP BETWEEN CORE PROCESSES AND SUPPORT FUNCTIONS
10.5.3 **Defining teams within the processes**

The team members will be selected from various functions (former departments) and grouped together to operate in terms of a process. It is possible that certain functions will be performed by the IT systems and that the involvement of team members is limited.

It is recommended that teams be grouped together in workstations in an open-plan area. This principle improves communication between different team members as well as different teams.

There will be three different access points to the process:

1. A potential customer or existing policyholder enters via the internet;
2. A potential customer or existing policyholder phones the company; or
3. A potential customer or existing policyholder contacts a broker who enters the process. It is recommended that the broker should enter the process via the internet. However, if it is impossible, the broker should phone the company.

Because products are fairly simple and standard, it should be possible to automate the majority of underwriting and claim assessment tasks by programming the rules into the IT applications. Broker commission and reinsurance (both new business and claims) could also be automated.

The following staff members should be included in each process:
<table>
<thead>
<tr>
<th>Functions</th>
<th>Staff member</th>
<th>Complex tasks &amp; automation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total process</td>
<td>Process owner</td>
<td>Tasks include:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1. Responsible for</td>
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<td></td>
<td></td>
<td>performance of the team;</td>
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<td></td>
<td></td>
<td>2. Reporting to the</td>
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<td></td>
<td>corporate directorate; and</td>
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<td></td>
<td></td>
<td>3. Motivation of team.</td>
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<td></td>
<td></td>
<td>Depending on the size of</td>
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<td></td>
<td></td>
<td>the team and the skills of</td>
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<td></td>
<td></td>
<td>the process owner, this</td>
</tr>
<tr>
<td></td>
<td></td>
<td>function can also be</td>
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<tr>
<td></td>
<td></td>
<td>combined with or can</td>
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<td></td>
<td></td>
<td>replace the function of</td>
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<td></td>
<td></td>
<td>the financial analyst.</td>
</tr>
</tbody>
</table>

| New business & policy      | New business & policy maintenance – direct sales (Refer note 1) | The tasks should include: |
| maintenance               |                     | 1. Receive all incoming   |
|                            |                     | calls from potential      |
|                            |                     | customers and current     |
|                            |                     | policyholders and assist   |
|                            |                     | them with queries, which   |
|                            |                     | can include:              |
|                            |                     |   - Request                |
|                            |                     |     information on         |
|                            |                     |     different products;    |
|                            |                     |   - Request a              |
quotation;
- Request on policy
detail (e.g.
renewal date,
amounts
outstanding, etc.);
and
- Require policy
maintenance;

2. Capture information
provided on telephone
for quotation while
telephone call is
recorded;

3. When quotation is
accepted, print policy
document and mail to
new policyholder. The
mail function can be
performed by another
team member
responsible for the
administration or it can
be outsourced;

4. On a daily basis, print
and review an exception
report on policies
<table>
<thead>
<tr>
<th>Task</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access via the internet – no staff members required, except for the</td>
<td>Automatic update of database</td>
</tr>
<tr>
<td>option where questions can be asked via the internet.</td>
<td></td>
</tr>
<tr>
<td>Underwriting process – no staff members required</td>
<td>Automated by incorporating the rules in the IT system.</td>
</tr>
<tr>
<td>New business &amp; policy maintenance – broker contact</td>
<td>The tasks of this team member should be similar to the fist team member,</td>
</tr>
<tr>
<td></td>
<td>but this one should be dedicated to brokers who do not have direct access</td>
</tr>
<tr>
<td></td>
<td>to the database via the internet.</td>
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<tr>
<td></td>
<td>Should all brokers have access to the internet (which is recommended), this</td>
</tr>
<tr>
<td></td>
<td>function is redundant.</td>
</tr>
<tr>
<td><strong>Functions</strong></td>
<td><strong>Staff member</strong></td>
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</tr>
<tr>
<td><strong>Reinsurance</strong></td>
<td>Automated – no staff member required</td>
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<td>Another staff member or the someone from the finance function</td>
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<tr>
<td>Functions</td>
<td>Staff member</td>
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<td>----------------------</td>
<td>-------------------------------------------</td>
</tr>
<tr>
<td>Broker commission</td>
<td>Automated – no staff member required</td>
</tr>
<tr>
<td>Claims</td>
<td>Claims – direct sales (Refer note 1)</td>
</tr>
</tbody>
</table>
3. On a daily basis, print and review an exception report on claims rejected and consider reasons for any manual overriding of the assessment process.

4. On a daily basis, print and review a report that indicates damaged assets that should be assessed by assessors (e.g. houses destroyed by fire, motor vehicles damaged by accidents, etc.). Contact assessors who are not connected on-line by the system or who do not receive an electronic mail instruction to perform the assessment.

5. Follow up on the assessments to be completed by the due date.

6. On a daily basis, print and review an exception report that indicates case.
numbers who could not be verified with the SA Police Services database (assuming electronic access to this database is available). Follow up on exceptions and where cases were recorded manually by the SAP, override rejection of claim.

<table>
<thead>
<tr>
<th>Claims – broker contact</th>
<th>This team member should perform the same tasks as the “claims – direct sales” team member, but for claims reported by brokers who are not directly linked to the database via the internet.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessment process automated – no staff member required</td>
<td>Automated by incorporating the rules in the IT system.</td>
</tr>
<tr>
<td>Functions</td>
<td>Staff member</td>
</tr>
<tr>
<td>---------------------------</td>
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</tr>
<tr>
<td>Purchase of replacement</td>
<td>Purchaser of replacement goods</td>
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<tr>
<td>goods</td>
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</table>
5. Follow up with policyholder that goods have been received and that he/she is satisfied with the service and the quality of goods. Record telephone call as proof of delivery;

6. Follow up on any problems relating the quality of goods; and

7. Confirm the delivery of replacement goods on the IT system to ensure payment to supplier is approved.

The tasks of the financial analyst should be to print and review various reports on the performance of the team. These reports can include:

1. New applications received per day and not yet underwritten (due to outstanding information,
2. New applications received per day and rejected as well as the reasons;
3. Quotations issued compared with new applications received;
4. Claims recorded and assessed during the day;
5. Claims recorded and not yet assessed during the day;
6. Claims recorded and outstanding for more than x days;
7. Analysis of underwriting profits per customer;
8. Analysis of underwriting profits per region within each geographical area;
9. Comparison between budgeted overheads and allocated overheads;
10. Uncontrollable overheads allocated to the process; etc.

Analysis of the performance
of the process should be prepared for the process owner and possible problem areas should be identified as soon as possible. It is also important that non-profitable clients be identified and follow up action be taken in terms of premium increases.

Once sufficient trends have been established and in a stable business environment, all these reports can be analysed automatically and only exceptions from either company standards or from trends can be printed.

Debtors collection

Tasks should include:
1. Follow up and collect outstanding premiums; and

2. Update of banking information where premiums are outstanding due to incorrect bank details.
Depending on the size of company, only one or two product developers can be employed. This person(s) should work across all processes and in close relationship with marketing staff as well as other team members. Where the size of the company does not justify additional staff for this function, it can be fully or partially outsourced or grouped with other functions within the organisation.

However, for the purposes of this discussion, it is assumed that at least one person is employed to perform the product development function.

The tasks should include:

1. Market research on products available in other countries;
2. Market research on
<table>
<thead>
<tr>
<th>Marketer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Marketing of products in each region, e.g. advertisement campaigns, etc.</td>
</tr>
<tr>
<td>2. Communication with the media in each region; and</td>
</tr>
<tr>
<td>3. Reviewing success of marketing initiatives, e.g. increase in number of quotations subsequent to a marketing campaign.</td>
</tr>
</tbody>
</table>

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<table>
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<tbody>
<tr>
<td>3. Market research on customer needs in order to develop the company’s own innovative products;</td>
</tr>
<tr>
<td>4. Risk analysis of different alternatives; and</td>
</tr>
<tr>
<td>5. Calculations of risks and recommendations on premiums.</td>
</tr>
</tbody>
</table>

<p>| |</p>
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<tbody>
<tr>
<td>products offered by competitors;</td>
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</thead>
<tbody>
<tr>
<td>1. Marketing of products in each region, e.g. advertisement campaigns, etc.</td>
</tr>
<tr>
<td>2. Communication with the media in each region; and</td>
</tr>
<tr>
<td>3. Reviewing success of marketing initiatives, e.g. increase in number of quotations subsequent to a marketing campaign.</td>
</tr>
<tr>
<td>Functions</td>
</tr>
<tr>
<td>-----------------</td>
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<tr>
<td>HR &amp; Training</td>
</tr>
<tr>
<td>(Refer Note 3)</td>
</tr>
</tbody>
</table>
The training co-ordinator should organise training either by using external or internal trainers.

| Training team | 
| One person per process should be a representative on the training team. It is recommended that this person be the process owner. The role of the training team should be to:
1. Identify training needs;
2. Identify internal trainers based on skills; and
3. Present training courses where applicable. |

Table 10.4. RECOMMENDED TEAM MEMBERS INCLUDED IN EACH PROCESS

Note 1:
As explained in par. 4.4.3, as a result of the undefined time lag between the new policy process and the claim process, it is not necessary that a customer (policyholder) only needs one customer contact. It is, therefore, possible to have two staff members in one team as customer contacts. One member will receive the phone calls for new business and policy maintenance and another one for recording claims. This is necessary due to the specific skills required in these two areas.
Note 2:
The size of the finance department in a medium size short-term insurance company, the specific skills required within the finance function and the costs of financial skills are all reasons why the inclusion of all finance functions within each process is not justified. However, certain financial functions such as a financial analyst and debtors collection can be allocated to each process.

The other finance functions (e.g. creditors payment, cash book, general ledger processing, investment and disinvestments of funds and financial reporting) should continue to operate as a separate function within the company. However, it is important that these other finance functions also implement certain BPR principles, e.g.
- Perform a customer analysis (e.g. Board of directors, other departments, suppliers, etc.) and provide a high level of customer services in terms of the requirements;
- Evaluate results in terms of performance;
- Improve communication, etc.

Note 3:
Due to the size of the company, it is unlikely that a HR representative per process will be employed. One HR representative will be assigned to a couple of processes or to the company in total to perform all the necessary HR functions.

However, as discussed in chapter 8, the role of the HR function during the implementation of BPR is significant.
Note 4:

Due to the significance of on-going training within any organisation, it is important that the training function provides relative and on-the-edge training.

To summarise, each process should include the following team members:

1. Process owner;
2. New business clerk responsible for direct sales;
3. New business clerk responsible for broker sales (if necessary);
4. Reinsurance clerk (if necessary);
5. Claims clerk for direct sales;
6. Claims clerk for claims logged by broker (if necessary);
7. Purchaser of replacement goods;
8. Financial analyst (if necessary);
9. Debtors collection clerk; and
10. Marketing clerk.

Depending on the size of the company, the following functions could be allocated to more than one or to all processes:

1. Product development;
2. HR function; and
3. Training co-ordinator.
10.5.4  **Corporate structure of the business**

Although business functions are performed in processes, it is important that the functions within each process are also controlled and monitored. This is especially necessary where functions require special skills.

The senior management team should also function as a team, which should include a “process owner” (the CEO) and team members from each function and process within the business.

In order to monitor both the processes and the functions within a short-term insurance business, it is recommended that the corporate structure be adjusted as follows:
Figure 10.3. RECOMMENDED CORPORATE STRUCTURE
10.5.5 **Performance evaluation of processes and team members**

As discussed in par. 8.6.2, the result of the reengineering effort will only be successful if employees’ compensation is based on their performance.

Performance evaluation should be measured in terms of employees’ own performance due to the specific skills required in certain functions as well as the importance of each team member. However, a portion of the compensation should also be measure in terms of the performance of the team to ensure the team operates successfully as a team.

It is necessary to consider the performance indicators that should determine the compensation of employees.

Traditionally, performance has been evaluated in terms of profit. Underwriting profit was defined in paragraph 4.2.6 as:

- **Gross premiums**
- **Less reinsurance premiums paid**
- **Less provision for unearned premiums**
- **Net premiums**
- **Claims paid**
- **Management expenses**
- **Commission**
- **Underwriting profit/(loss)**

Underwriting profits will directly be influenced by the risks related to the region, e.g. regular fires in the Western Cape or floods in the Northern Province, which will have a negative impact on the underwriting results of the process (processes are based on
geographical areas). It would, therefore, be unfair to measure the performance of the teams only in terms of underwriting profits. However, it is important that individual members operate as a team and that the rest of the team provide the team member responsible for product development and risk analysis with regular feedback regarding customer requirements, trends, fraud, profits/losses, etc. To a limited extent, the team is still responsible for underwriting profits.

Management expenses and commission are also included in the calculation of underwriting profits, which can be controlled by the team members.

It is recommended that a detailed analysis of each employee’s job description is done and that a percentage of his/her compensation is based on specific skills requirements and performance. This should be compared with employees performing the same functions in other processes, e.g.

- Number of claims logged and completed per day by the claims clerk in each process should be compared;
- Long outstanding debtors according to age analysis of debtors clerk in each process should be compared; etc.

The performance of the team should also be measured in terms of service levels and performance in terms of objectives set out in the functional strategy. A limited proportion of the remuneration of team members should also be based on the financial performance of team, which should be based on underwriting profit/loss.

It is important that these performance measures be identified as early as possible to ensure they are incorporated in the IT systems.
The performance measurements of the senior management as a team should include the underwriting profits of the company as they are directly responsible for the results of the company, which include the decision to accept policies and risks in certain regions at a certain price.

10.6 CONCLUSION

As explained in par. 10.1, the objective of this chapter was not to repeat the detail theoretical descriptions on the different stages of the BPR process as discussed in chapter 6-9, but rather to provide a brief discussion on how the theory could be applied to the short-term insurance industry.

This chapter discussed the important aspects during the different stages, which include the planning stage, pre-study stage and the execution stage. Certain assumptions have been made in this chapter, which could differ from business to business. However, it is important that each company be analysed and reengineered accordingly.

Due to the uniqueness of the short-term insurance industry, the implementation of BPR will differ from other industries in certain aspects, including:

- When customers are divided into segments, it is recommended that segmentation is not performed in terms of income class or the value of insured assets, but rather in terms of geographical areas;
- It is not essential to apply the BPR principle of one customer contact in the short-term insurance industry due to the unique situation of the undefined time lag between policy application and logging of claims;
- Brokers play an extremely important role as part of the distribution channel. Administration functions and transaction costs can be significantly reduced should brokers have access to databases; and

- Performance evaluation of team members in a process cannot be based only on underwriting profits of the process, as these members do not fully control the underlying risks. It is important that performance is mainly based on service levels and performance in terms of objectives set out in the functional strategy. However, a limited proportion of the remuneration should still be based on the financial performance of the team, which is based on underwriting profit/loss.

However, by implementing BPR principles, significant value can be added in terms of improving customer service, which should result in an increase in underwriting results and a decrease in operating expenses.