CHAPTER 4

AN INTRODUCTION TO THE SHORT-TERM INSURANCE INDUSTRY AND THE IMPLEMENTATION OF BPR IN THE INDUSTRY

4.1. INTRODUCTION

Chapter 2 and 3 defined the concept of BPR and how a traditional business differs from a reengineered business. Before discussing BPR in the short-term insurance industry, it is important to first review and understand the short-term insurance industry in SA.

Chapter 4 will focus on the following:
- An introduction to the short-term insurance industry in South Africa, which will focus on the following:
  - Regulation;
  - Market players and competition;
  - An industry overview;
  - Products; and

Chapter 4 will further discuss the relevance of BPR in the short-term insurance industry. As discussed in Chapter 2, Japanese companies applied specific principles to overcome the problems they had experienced within their supply chain businesses. These principles developed to business process reengineering. As the concept of BPR is much more familiar in the manufacturing and distribution industries, the chapter will review the relevance of BPR in the short-term insurance industry.
4.2. **AN INTRODUCTION TO THE SHORT-TERM INSURANCE INDUSTRY**

4.2.1. *Regulation*

The short-term insurance industry in South Africa is, like in most other countries, a regulated industry. An organisation can only conduct business of a short-term insurance nature if it is registered or deemed to be registered as a short-term insurer in terms of the Short-term Insurance Act of 1998 (hereafter the Act) (South Africa, 1998:s 7(1)).

Insurance operations are regulated by the Financial Services Board (hereafter referred to as the FSB), which is a unique independent institution established by statute to oversee the SA non-banking financial services industry in the public interest. The FSB is responsible for regulating the short-term, long term and reinsurance industry as well as other industries such as retirement funds, unit trust schemes, financial markets such as the Johannesburg Securities Exchange (JSE) and the South African Future Exchange (SAFEX) (FSB, 2001a & FSB, 2001b). Each short-term insurance operation should report to the FSB in a prescribed format and time.

One of the latest developments during 2000 in terms of regulations is the introduction of the Policyholder Protection Rules. These rules came into operation for natural persons on 1 October 2000 and for close corporations and partnerships on 1 November 2000 (South African Insurance Association (hereafter referred to as SAIA), 2001c). The main objective of these rules is to ensure that sufficient information is disclosed to enable a policyholder to make informed decisions with
regards to the short-term insurance products and to ensure that the parties involved
can conduct business fairly (South Africa, 1998:s 55(2)).

The first part of the Policy Protection Rules requires proper disclosure of certain
information, including:

- Information regarding the independent intermediaries (brokers), including their
  consideration (commission) referred to in section 48 of the Act;
- Claims notification procedures;
- Name and contact details of the compliance department of the insurer for the
  resolution of complaints by the policyholder; and
- Nature and extent of monetary obligations assumed by the policyholder (South
  Africa, 1998:s 55(3-7)).

Paragraph 9 of the Rules requires that all policy documents are printed in an easily
readable manner by specifically referring to the letter types and spacing. Every
provision of the policy should have a reasonably precise ascertainable meaning to
the policyholder (South Africa, 1998:s 55(9)).

It is important that the policy documentation of the insurer is always updated to
include the latest requirements. When BPR is implemented, it is important to
develop ways of customer communication to ensure updating of documents can be
done easily, e.g. by making documents available on the internet.

The Rules further require that should any claim be repudiated or partially with
regards to the quantum be repudiated, the policyholder concerned must be informed
of the reasons for the decision in writing (South Africa, 1998:s 55(10.4)). When
systems are redesigned to implement BPR principles, requirements such as this
should be built into the process as an automated process as soon as the claim has been repudiated.

The Rules are also specific with regards to the marketing of products directly to the public (South Africa, 1998:s 55(17)). It is important that staff is properly trained to ensure the insurance company is not contravening any of these rules.

4.2.2. Market players and competition in SA

Due to strong competition in the South African short-term insurance industry (hereafter referred to as SASTII), entering the market is extremely difficult. In line with international trends, bigger roll players continue to use mergers and take-overs of smaller roll players as a method of increasing market share. During the period 1 July 1999 to 30 June 2000, new entrants into the SASTII decreased to three (of which only one was a general insurer) compared to eleven new entrants during the previous twelve-month period (FSB, 2000:3).

During the same period, approximately 45% of the short-term insurance market was underwritten by two large insurance groups (FSB, 2000:3). The number of short-term insurers as at 31 March 2000 was 87 and there were 4 short-term reinsurers in the market. Of the 87 insurers, 15 were captive insurers, 38 specialist insurers and 29 general insurers (SAIAa, 2001). During 1999, the gross premium split between these different categories of insurers were as follows:
Total gross premiums written in SA: R22.7 billion

![Gross premiums written during 1999](image)

Figure 4.1. *GROSS PREMIUMS WRITTEN DURING 1999 BY VARIOUS CATEGORIES OF INSURERS* (SAIAb, 2001).

According to the FSB, market share in terms of gross premiums written in 1999 in the general insurers’ section were as follows:

- Guardian National: 19.0%
- Santam: 17.3%
- Mutual & Federal: 16.5%
- SA Eagle: 9.2%
- CGU: 7.5%
- Hollard: 6.5%
- Other: 24.0%


Included in the general insurers’ section are the property and motor vehicle policy types, which consists of 63% of gross premium income. The major role players in these markets are:
<table>
<thead>
<tr>
<th></th>
<th>Property</th>
<th>Motor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guardian national</td>
<td>26.0%</td>
<td>15.5%</td>
</tr>
<tr>
<td>Santam</td>
<td>20.6%</td>
<td>21.0%</td>
</tr>
<tr>
<td>Mutual &amp; Federal</td>
<td>24.6%</td>
<td>16.5%</td>
</tr>
<tr>
<td>SA Eagle</td>
<td>5.2%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Other</td>
<td>23.6%</td>
<td>37%</td>
</tr>
</tbody>
</table>


The market share in terms of gross premiums written in 1999 in the specialist segment were:

- Quantum: 20.9%
- Sanlam Health: 15.7%
- Rand Mutual: 11.6%
- Credit Guarantee: 9.0%
- Other: 42.8%


### 4.2.3. An industry overview

Recently, the SASTII experienced extremely difficult marketing conditions and turbulence. The main reasons for these conditions are:

- Continuous pressure from over-capacity and strong competition in the market from both traditional and non-traditional players in both global and local markets (Beyers, 2000:8);
- An increasing trend in self-insurance;
- Unacceptably high levels of crime;
- Insurance fraud; and
- Significant underwriting losses during the first half of 2000 due to extreme fires in the Western Cape and floods in the Northern Province (FSB, 2000:3).

These difficult market conditions were represented in the underwriting losses reported to the FSB for the period 1 July 1999 to 30 June 2000.

<table>
<thead>
<tr>
<th>Name of company</th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R '000</td>
<td>R '000</td>
</tr>
<tr>
<td>Guardian National</td>
<td>(151,288)</td>
<td>(75,606)</td>
</tr>
<tr>
<td>Santam</td>
<td>61,312</td>
<td>29,982</td>
</tr>
<tr>
<td>Mutual &amp; Federal</td>
<td>(45,123)</td>
<td>73,928</td>
</tr>
<tr>
<td>SA Eagle</td>
<td>(63,939)</td>
<td>(98,024)</td>
</tr>
<tr>
<td>CGU</td>
<td>(63,703)</td>
<td>(43,393)</td>
</tr>
<tr>
<td>Hollard</td>
<td>5,782</td>
<td>18,715</td>
</tr>
</tbody>
</table>


The downturn in the market was also represented in the underwriting losses of the reinsurance companies, which in total reported underwriting losses to the FSB of R356,147,000 in 1999 as apposed to R184,827,000 in 1998 (FSB, 2000:28).

Globalisation is a major trend that is also affecting the South African economy and insurance market. International competitors are taking advantage of the weak Rand and although most of the new entrants focus on niche markets such as insurance of debt, medical insurance, etc., Daling (2000:4) believes those are the most profitable slices of the market.

Both locally and internationally, insurance fraud is a significant contributor to the cost of insurance premiums. It is estimated that it costs honest consumers in SA between
5% and 15% of insurance premiums. Insurers, therefore, feel duty bound to combat fraud. This process commenced by way of sharing data. The SAIA outsourced the development of a database to identify and eliminate fraudulent claims to the Information Trust Corporation (ITC). Currently, 9 insurers accounting for more than 70% of the personal lines business are supporting the project. Brokers are also participating in the project. During the testing of the database, 15,000 profiles were running on the database, which resulted in the identification of 181 duplicate claims amounting to R1,4 million. The implementation of the Insurance Data System will be completed in the first quarter of 2001 and it is believed that it will reduce insurance fraud significantly (Scott, 2001).

In order to survive the downturn in the market, Beyers foresee the following as key strategies:

- Customer relationship management will be the key to success in any insurance company;
- As a service industry, human capital is a critical resource and it is thus important to focus on knowledge-based services in order to obtain a competitive advantage. This will places an even greater emphasis on the need to invest in a people management policy to ensure the recruitment and selection of quality staff;
- Low prices and good services are no longer the main criteria. Customers are looking for multiple distribution channels to ensure service is delivered anywhere and any time. Products and services should be tailored to meet his specific needs; and
- Traditionally, large short-term insurers tried to be all things to all people. Due to competition, self-insurance, electronic trading, changing needs, customisation, multiple channels and global markets, segmentation has become a necessity (Beyers, 2000:10).
The implementation of BPR in the short-term insurance industry could support these strategies as follows:

- One of the key principles of BPR is to focus on the needs of customers and to provide customers with excellent service;

- As explained in chapter 3, BPR strives to ensure employees are empowered in order to become part of the decision-making process. Employees can be empowered by training or by providing them with sufficient information in order to make the correct decisions. By doing that, employees feel valued by the company, which will support the strategy of investing in human capital;

- By using information systems as an enabler of BPR and by focusing on the requirements of customers, flexible services could be provided to customers anywhere and at any time. One of the principles of BPR is to ensure flexibility according to the changing needs of customers and the market; and

- Paragraph 7.3.4 will explain the necessity of segmentation of customers as part of the BPR process. It is of critical importance that customers are identified and segmented according to the strategy of the company. By implementing BPR in the short-term insurance industry, these objectives could be achieved.

Daling (2000:5) added to this by saying the environment challenges the insurer to:

- Respond with innovative products;

- Be transparent;

- Be flexible and adapt rapidly to changes; and

- To conduct business in a focused way.

By careful analysis of customer requirements as recommended in par. 7.3.5, it will be possible for companies to create innovative products and be transparent. BPR also recommends flexibility in terms of continuous customer analysis. Flexibility can
further be supported by implementing object oriented information systems as explained in chapter 9.

4.2.4. **Reinsurance**

Reinsurance is defined as “the passing of all or part of an insurance risk that has been covered by an insurer to another insurer in return for a premium” (Oxford, 1996).

Reinsurance is an integral part of the short-term insurance business in order to reduce the exposure to risks undertaken by the short-term insurer. However, reinsurance, or cession of insurance, does not reduce an insurer’s primary obligations to the policyholder (South African Institute of Chartered Accountants (hereafter referred to as SAICA), 1990:par .10).

Reinsurance may be placed on an individual risk basis, which is referred to as facultative reinsurance, or by means of groups of risk, which is referred to as treaty reinsurance. The acceptance of risks from an insurer is known as reinsurance inwards while placing of risks with other insurers (the reinsurer) is referred to as reinsurance outwards (SAICA, 1990:par .11). This study will only consider reinsurance outwards.

During the implementation of BPR, it is important to ensure risks are reduced to an acceptable level by reinsurance. The processes in order to ensure proper reinsurance are critical in the BPR process.
4.2.5. **Distribution channels**

Insurance operations still rely heavily on the broker distribution channel. Brokers have consolidated themselves by means of the Independent Broker Council of South African (hereafter referred to as the IBC), which has about 3000 members. One of the purposes of the IBC is to negotiate with insurance companies to distribute unique and customised products exclusively through their members (IBC, 2001). Due to the significance of the IBC as a sales force of flexible and customised short-term insurance products, it is critical that the broker as a distribution channel should not be ignored during the implementation of BPR.

However, there is also a trend to move towards direct selling and a greater awareness of e-business. Technology has assumed an increasingly important role in the provision of multiple distribution channels as well as in establishing links with strategic partners (Beyers, 2000:8).

4.2.6. **Products**

Short-term insurance products are mainly classified into the following categories:

- Motor;
- Property;
- Accident & Health;
- Transportation;
- Guarantee;
- Liability cover;
- Funeral;
- Travel insurance; and
- CAR (contractors all risks insurance) / engineering.

The following graphs indicate the financial results of the different products in the SASTII during the period 1 July 1999 – 30 June 2000:

**Gross premiums per policy type**

![Gross Premiums Per Policy Type](image)

Figure 4.2. *GROSS PREMIUMS PER POLICY TYPE* (FSB, 2000:5).

**Underwriting results by type of policy**

![Underwriting Results by Type of Policy](image)

Figure 4.3. *UNDERWRITING RESULTS, AS A PERCENTAGE OF NET PREMIUMS, PER POLICY TYPE* (FSB, 2000:6).
Underwriting results are calculated as follows:

- Gross premiums 
- Less reinsurance premiums paid (X)
- Less provision for unearned premiums (x)

**Net premiums**

- Claims paid (X)
- Management expenses (X)
- Commission (X)

**Underwriting profit/(loss)**

- Investment income X


Of the 90 registered short-term insurers in SA at 30 June 2000, which included 6 reinsurers,

- 77 were registered to sell accident & health products;
- 73 were registered to sell motor insurance;
- 73 were registered to sell property insurance;
- 69 were registered to sell guarantee products;
- 66 were registered to sell liability cover;
- 64 were registered to sell transportation products;
- 56 were registered to sell reengineering products; and
- 80 were registered to sell other miscellaneous products (FSB, 2000:23).
From these statistics, it is interesting to notice that, except for accident & health products, the majority of insurers are registered for motor and property insurance. Thirty five percent and 28% of the total gross premiums written during the year ended 30 June 2000 were from motor & property insurance products respectively, which means a total 63% of all insurance business in South Africa relates to motor & property cover. However, from figure 4.2 it is clear that underwriting profits on these products are limited. Underwriting results on motor insurance were (losses are indicated as negative):

- 1997, 3% of net premiums;
- 1998, -1% of net premiums; and

Underwriting results on property insurance were (losses are indicated as negative):

- 1997, -4% of net premiums;
- 1998, 2% of net premiums; and

Although the insurance industry still reported small underwriting profits on property, reinsurance companies reported significant losses in this category. Underwriting losses as a percentage of net premiums were:

- 1997, -11%;
- 1998, -21%; and

If this trend continues, it is very likely that reinsurance companies will increase their premiums on property cover, which will reduce the net premium income for insurers (FSB, 2000:7).
With strong competition in the insurance market, and specifically in these products, it is extremely difficult to increase underwriting results. The FSB (2000:3) reported that during 1999, gross premiums only increased with 6.5%. According to the SAIA, companies should review their strategies in order to survive these market conditions. Companies should cut costs and launch innovative new products (SAIA, 2001a).

4.2.7. **Focus of this study**

As discussed in the preceding paragraphs, numerous products are available within the short-term insurance industry. Where any reference is made to products in this study, it will focus on personal lines, with specific reference to motor and property insurance. This is based on the fact that, although 63% of gross premiums written are on these products, profits are limited. The objective of BPR is to streamline processes in order to improve performance. By focusing on these two product lines, significant value can be added by increasing the underwriting profits. The nature of these products also supports automation, which makes them even more attractive for implementing BPR principles.

4.3. **A SUMMARY OF BUSINESS PROCESSES IN THE SHORT-TERM INSURANCE INDUSTRY**

In order to fully understand the short-term insurance industry in the context of BPR, it is important to understand the business processes in the back office. The most simplistic process flow can be illustrated as follows:
Process 1: New business

Policyholder

Undefined time lag

Quotation / Policy document

Internet

Telephone

Broker

Direct sales

Capture information

Underwriting process

Premium collection

Investment of funds

Reinsurance

Calculate broker commission
These two processes are the core processes in a short-term insurance business. Although the operations also include non-core processes, these two processes will determine the success of the company. Some of the complex processes within these two processes can be broken down into processes of their own, e.g.

- Reinsurance;
- Policy maintenance;
- Purchase of replacement goods; and
- Investment & disinvestments of funds.

The reengineered business should allow for as many as possible distribution channels, depending on the target market. If a company’s target market is the non-traditional and low
income market, internet and direct telephone access is not necessarily important. Such a company would rather focus on strategic partners and brokers and provide for paper based policy application forms.

Capturing information can either be done by the potential policyholder (via the internet), call centre staff (when customers phone directly) or by the broker. However, there is no reason why the same application screen cannot be used during data capture. The application screens may only differ depending on the type of product.

The timing of the underwriting process will depend on the complexity of the product type. Normally, underwriting of personal lines are fairly easy and can be automated.

Depending on the type of policy, premium collection can vary from monthly debit orders to annual payments by commercial clients.

It is extremely important to ensure that funds are invested properly to ensure optimum returns. Funds should be invested according to the stipulations of the Act and sufficient liquidity should be maintained to pay claims (South Africa, 1998:Part IV).

Risks in excess of what the company is willing or able to carry should be reinsured. It is important that such risks be reinsured immediately after the insurer has accepted the underwriting risk of the policy.

Broker commission should be calculated in accordance with the agreement between the insurer and the intermediary. It is important to ensure broker commission is only paid once the policy has been confirmed and payment has been received for a certain period (normally 3 months). As brokers are representatives of the insurer and an important customer interface, it is important that brokers are carefully selected.
Should a policyholder incur any losses that are covered by the policy, the policyholder can log a claim. The insurer should ensure that the procedures to log a claim are explained in the policy document in terms of the requirements of the Policyholder Protection Rules (South Africa, 1998:s 55(3d)). Significant customer value can be added during the claims process due to the importance of this process to customers. Logging a claim should be as simple as possible and multiple distribution channels should be available to the customer. Beyers (2000:10) confirmed this when he said that “the customer is looking for multiple distribution channels capable of delivering anywhere and at any time products and services tailored to meet his specific needs”.

Assessing claims is an extremely important process for both the company and the customer. The customer requires claims to be assessed as quick as possible, while the company would like to ensure that claims are assessed as accurately as possible to prevent any fraudulent claims. As soon as a claim has been assessed, the insurer should either refund the policyholder for any losses (or replace the damaged goods) or if a claim is repudiated, inform the policyholder about the reasons in terms of the requirements of the Policyholder Protection Rules (South Africa, 1998:s 55(10.4)). If the risk was reinsured, the insurer should claim from the reinsurer.

4.4. CAN BPR BE IMPLEMENTED SUCCESSFULLY IN THE SHORT-TERM INSURANCE INDUSTRY?

4.4.1. Introduction

As discussed in paragraph 2.2, the concept BPR developed about a decade ago in the manufacturing industry in Japan together with the principle of “just-in-time”. During the ninety’s BPR was successful implemented in a number of business. However, these
success stories were mainly in distribution and manufacturing businesses and very often, relate around inventories.

This paragraph will investigate whether BPR can be implemented successfully in the short-term insurance industry, which is a financial services industry. The following will be considered:

- The fundamental differences between a manufacturing or distribution business and the short-term insurance industry; and
- Whether the principles of BPR as discussed in chapter 3 can be applied to a short-term insurance business.

4.4.2. The fundamental differences between the processes of a manufacturing or distribution business and the short-term insurance industry

Paragraph 4.3. reviewed the core processes in the short-term insurance industry. In order to compare the short-term insurance business with a manufacturing or distribution business, it is important to understand the core processes within a manufacturing and distribution business.

4.4.2.1. The core processes in a manufacturing business

The following figure illustrates the core processes in a manufacturing business relatively simplistic:
The core processes in a manufacturing business are mainly to purchase raw materials from suppliers. It is important that the correct quantities and qualities are purchased at the right time and at best possible prices. It is further important that the purchase department has a good relationship with the supplier to ensure raw materials are delivered on time at the right premises.
Once the raw materials arrive at the warehouse, it is important that these materials are used correctly in the manufacturing process by applying the correct methods to prevent bad quality and wastage. Another consideration is the flexibility of the plant and the overhead structure. This is important to ensure capacity can easily be adjusted according to demands in the market without the necessity of significant costs and restructuring.

The sales department should interact with the customer and potential customers in order to sell as many of the products as possible. Once a customer has purchased some of the products, it is important that the right products are delivered to the customer at the right premises on time.

The last step within the process is to ensure that the customer pays the right amount for the stock on time.

Although there are many other non-core processes in a manufacturing business, these are the critical cycles within a manufacturing business. BPR can add significant value to the manufacturing business by applying the principles in the following areas:

- **Purchases from suppliers** - by treating suppliers as customers and group staff members involved in the procurement process in teams. This will ensure one person deals with the supplier, but that this person also works with the creditors’ clerk responsible for payment as well as the person who receives the stock;

- **Manufacturing process** – by applying the principle of teamwork in the manufacturing process (Refer example in par. 3.3.5.3);
- Customer sales – by providing one customer contact who is involved in the total process, which includes delivering of the right stock at the right time as well as ensure payment is received from the customer.

### 4.4.2.2. The core processes in a distribution business

A distribution business is very similar to a manufacturing business in terms of processes. The only difference is that a distribution business does not manufacturing items. The process can be summarised as follows:

![Core Processes in a Distribution Business](image)

*Figure 4.6. CORE PROCESSES IN A DISTRIBUTION BUSINESS*
4.4.2.3. *The fundamental similarities and differences between the processes of a manufacturing or distribution business and a short-term insurance business*

Before discussing the differences between the processes, it is important to first seek any similarities. These similarities are summarised in Table 4.1:

<table>
<thead>
<tr>
<th>Manufacturing business</th>
<th>Distribution business</th>
<th>Short-term insurance business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases of raw materials from suppliers</td>
<td>Purchases of stock from suppliers</td>
<td>Purchases of replacement goods from suppliers.</td>
</tr>
<tr>
<td>Supplier delivers raw materials at warehouse.</td>
<td>Supplier delivers stock at warehouse. Check completeness and quality of order.</td>
<td>Supplier delivers replacement goods at customer’s premises.</td>
</tr>
<tr>
<td>Check completeness and quality of order.</td>
<td>Quality control throughout the process.</td>
<td>Customer checks completeness and quality of order.</td>
</tr>
<tr>
<td>Manufacturing process – Quality control throughout the process.</td>
<td>No manufacturing process.</td>
<td>Assessment of claims &amp; underwriting of policies – Quality control throughout the process.</td>
</tr>
<tr>
<td>Sell products to customer.</td>
<td>Sell products to customer.</td>
<td>Sell products to customer.</td>
</tr>
<tr>
<td>Deliver products to customer.</td>
<td>Deliver products to customer.</td>
<td>Deliver policy document (product) to customer.</td>
</tr>
<tr>
<td>Collect money.</td>
<td>Collect money.</td>
<td>Collect money.</td>
</tr>
</tbody>
</table>
Table 4.1. **SIMILARITIES BETWEEN THE SHORT-TERM INSURANCE INDUSTRY AND A DISTRIBUTION AND MANUFACTURING BUSINESS.**

The differences between these businesses are:

- The order of the processes between the manufacturing and distribution businesses is the inverse of the processes in an insurance industry (manufacturer/distributor first purchases from a supplier, delivers to the customer and then collects the payment from the customer. An insurance company first collects payments from the customer and might, at a later stage, have to purchase from a supplier to deliver to the customer);

- The products differ in the sense that an insurance business takes up risk and asks a price for carrying such risk. Manufacturing and distribution businesses sell commodities;

- As a result, specific skilled staff is required in an insurance industry to underwrite policies and assess claims, while fewer skilled staff can be employed in a manufacturing and distribution business;

- There could be a significant time lag in the insurance business between selling the policy and the time of delivering the goods (refund customer for damage);

- Purchasing goods from a supplier is a core process in a manufacturing or distribution business, while it is a non-core process in an insurance business. Purchasing of goods is not a necessity as an insurance business can also replace goods by providing the policyholder with cash. However, where
purchasing of replacement goods is performed, it could easily be outsourced by an insurance business, as this is not a core business activity;
- Reinsurance is a critical activity within an insurance business while this process is absent from a manufacturing or distribution business; and
- The insurance industry is a specifically regulated industry and insurance businesses should comply with the necessary Rules and Acts.

4.4.3. Application of the principles of BPR in a short-term insurance business

In order to assess whether the BPR principles as discussed in chapter 2 and 3 can be implemented successfully in the short-term insurance industry, these principles will be reviewed briefly in the contents of the short-term insurance industry.

Chapter 2 defined BPR as follows:

“Business process reengineering is the fundamental analysis and radical redesign of every process and activity pertaining to a business – business practices, management systems, job definitions, organisational structures and beliefs and behaviours. The goal is dramatic performance improvements to meet contemporary requirements – and IT is seen as a key enabler in this process” (Du Plessis, 1994:39–42).

By implication this means that in every business in which processes can be identified, BPR can be applied to the management systems, job definitions, organisational structures and to change the beliefs and behaviours. That includes businesses in the short-term insurance industry.
Chapter 3 identified the following principles of BPR:

- The beliefs and behaviour of staff should be changed to focus on customer needs when performing their daily tasks;
- Task driven departments should be changed to ensure staff work in teams and are part of the full process;
- Jobs should become more complex and staff should be empowered to take part in making decisions;
- Process owners should replace middle managers, who do not always perform value-added tasks. Process owners should have good leadership skills, but they should not necessarily be the highest income earners in the team;
- The business should strive towards one customer contact (interface object);
- Good communication within the organisation;
- Remuneration should be based on performance of the individual as well as on the team;
- Job titles should be irrelevant. Their titles should describe their professions rather than their ranking in the organisation; and
- Proper performance measurements should be in place to ensure each process is reviewed according to its specific objectives and requirements for success.

Beliefs & behaviours:

Applying the principles of BPR in the short-term insurance industry is not only possible, but also a necessity. Changing the beliefs and behaviours to focus on customer needs will be the key to success in the short-term insurance business (Beyers, 2000:8). Identifying different customers is essential. Focusing on customer needs is not only important in assessing claims, but it is critical in product development.
Teams and processes replace tasks & departments; and

One customer contact:

Due to the similarities between a manufactured/distribution (where the principle of moving from task driven departments to team driven processes were implemented successful) and insurance business, it is possible that this principle can be implemented successful in processes within an insurance business (e.g. purchases of replacement goods from suppliers).

However, there will be certain processes where this principle should be adjusted due to differences between the specific businesses. The way teams are put together will be dependant on a number of factors. Should a short-term insurance business mainly focus on using brokers as its main distribution channel, teams can be grouped around brokers. The different scenarios will be discussed in more detail in chapter 10.

The main difference between an insurance business and a manufacturing/distribution business is the undefined time lag between the new business process and the claims process. Where direct sales is a significant distribution channel, this difference in particular makes it possible to have more than one customer contacts (interface objects) in the short-term insurance business. Staff can still work in teams, but it is not necessary (or practical) for one staff member to load a new policy for member A, perform the underwriting and in the future, which could be an undefined period, perform policy maintenance as well as assess claims. By using direct sales as a distribution channel, ongoing intimate customer contact is not necessary. However, should a customer need to log a claim, the customer would prefer to have one customer contact until the claim is closed.
**Complex jobs and empower staff to make decisions:**

This aspect is of critical importance in the short-term insurance industry. That also highlights the importance of staff training. Leon Vermaak, former Managing Director of Santam, (2000:6) and Nick Beyers, Managing Director of SA Eagle, (2000:10) supports this BPR principal.

Santam considers their staff as a strategic resource and as a result, training and development is a high priority. Santam started to empower their staff to make informed decisions by making information available. An example of information that has been made available is the results of actuarial analysis to foster a company-wide understanding of trends affecting underwriting results (Vermaak, 2000:6).

SA Eagle realised the importance of knowledge-based competition. As a result, they invested in quality staff, the development of skills, market related remuneration and effective performance management (Beyers, 2000:10).

**Process owners replace middle managers:**

The principle of eliminating non-value adding tasks should be applied in all businesses in order to increase profits. However, it is important to train staff properly and to teach them to accept responsibility. This is specifically important in the area of claim assessment, even more so in light of the increases in insurance fraud.

**Other BPR principles:**

Other BPR principles such as:

- Good communication;
- Remuneration based on performance of the individual as well as of the team;
- Irrelevance of titles; and
- The importance of accurate measurements for each process
should be applied in all business. These principles can also be applied with great success in the short-term insurance industry.

4.4.4. Conclusion

To answer the question whether BPR can be implemented in the short-term insurance industry, which is a financial services industry, it was necessary to compare the short-term insurance industry with other industries in which BPR was implemented successfully. Such industries included the manufacturing and distribution industries.

By reviewing the similarities and differences between the manufacturing/distribution industries and the short-term insurance industry, it was clear that there are many similarities. Due to these similarities, BPR principles can definitely be implemented in the majority of processes within a short-term insurance industry. However, there are also some differences, which means that certain principles should be applied in a different way. This concept will be discussed in more detail in chapter 10 when a complete example is discussed on how to approach the implementation of BPR in the short-term insurance industry.

To further prove that BPR principles can be implemented in a short-term insurance industry, the principles as discussed in chapter 3 were analysed individually in order to determine whether they can be applied in a short-term insurance business.

The conclusion from these analyses was that BPR principles can be applied in a short-term insurance business. However, there will be certain principles that should be applied in a different way from industries in which BPR was traditionally implemented.
4.5. CONCLUSION

After defining the concept of BPR in chapter 2 and reviewing the differences between a traditional business and a reengineered business, it was necessary to obtain an understanding of the short-term insurance industry and the relevance of BPR in this industry.

This chapter gave a brief introduction to the short-term insurance industry in terms of regulations, the important market players, an industry overview and the future expectations as well as the different products available in the market.

During this study, examples and case studies will focus on the motor and property product lines. It is believed that significant value can be added in these two areas. Although 63% of gross premiums written relate to these products, underwriting profits are limited. These products are even more attractive to BPR due to the ease of which the processes involving these product lines can be automated.

This chapter also reviewed the relevance of BPR in the short-term insurance industry and whether BPR can be implemented successful in this industry. The conclusion from this review was that BPR principles can be applied in a short-term insurance business. However, there will be certain principles that should be applied in a different way from industries in which BPR was traditionally implemented.

Based on the fact that BPR principles can be implemented successfully in the short-term insurance industry, the following chapters will discuss how these principles should be implemented in general in order to be successful.
BIBLIOGRAPHY


