Notes on Interview with George Onofrio and Fausto Martin, AAA of Michigan

February 17, 2011, Henry Chesbrough

Our transformation process began when I (Fausto) came onboard 3.5 years ago. Fausto Martin was brought in to make changes to our claims process, in order to improve the efficiency of our Claim Organization and the service to our members. Our organization and processes were also fragmented. We were using 3 different claims systems, plus 4 or 5 ancillary systems as well. Our call times were 15 minutes on average or longer, and it was difficult to identify areas of inefficiencies that needed to be addressed in order to improve service our members As a result, those inefficiencies translated to increased cost per claim , as it took longer to resolve claims, customer satisfaction had room for improvement, and our employee morale was the lowest of the whole organization.

I (Fausto Martin) realized that the problem was not simply one of technology, but rather one that required addressing people, processes and technology. The project was called Claims Core Redesign Process that moved from a technology only project, to an initiative that encompassed people, process and technology. We created cross-functional teams to address each of these pieces of the problem (the people, processes and technology). One of the insights that emerged was how many layers there were between me and the claims adjusters. We had 6-7 layers, with some managers only managing 1 or 2 direct reports. In order to improve our processes, Fausto took out layers of management, and segmented by product line. I wanted each manager to have a span of control of 6 or 7 direct reports. We needed to align cost, expense, and customer service through the same data, rather than requiring different views of the data through different applications. The goal was to be able to use the claims record as the core hub of the process, and view all of our processes through a single shared file.

This was our first foray leveraging the SAP platform. . We went through a procurement process that compared the offerings from different vendors. The SAP Claim application allowed us to be able to assign the primary claim handler at the first notice of customer loss, it gave adjustor accessability to the complete file, transparency into the claim file that allows the manager to monitor the adjustors progress in resolving the claim, further transparency into the status of tasks necessary to bring a claim to resolution along with who the owners of those tasks are. With SAP, the claims file becomes the record for all of our processes. (An enterprise content management initiative will kick off shortly , which will further support this concept.

We were careful not to deploy this all at once in a “big bang” approach. Instead, we rolled it controlled increments for our auto claims first, and iterated as we learned along the way. Today Today we have four states on line wich represents 25-30% of our claim volume, and our goal is to extend this to the rest of our automotive claims volume. Michigan auto claims will be the next state to come on line. Michigan is unique due to its insurance laws. After that, we’ll apply this to our home claims processes as well.

[I asked about communications with their leadership during this process, and described a process where top management's initial support begins to as the costs come in and initial results are not yet available. How did they manage their leadership in this process?]

Our Sr. Leaders understood that this was a complex initiative, but as with any large complex project you do have moments where you need to balance the right amount of communication, especially as you run into challenges that inevitably occur during development. We definitely had that experience in managing this project. There were times where really went into the weeds with them about specific issues and challenges that we were encountering. We initially had steering committee meetings weekly. After a while, that moved to bi-weekly, and finally monthly. Initially in our eagerness to try and meet our aggressive dates, we would put forward our best case estimates for reaching various milestones. As we gained more experience we became better at projecting our milestonesn. [how did you overcome these communications challenges?]

As we learned more about the application we became better at our estimates and better at setting expectations with our Sr. Leaders. In the end we were able to show them that the application created fewer steps in our processes ,. The amount of time that we had to keep our customers on the phone was significantly reduced. . We also made all of deployment decisions as a team, so we avoided any division between "the IT people" on the one side and "the business people" on the other side. In fact, not only was our steering committee cross-functional (including the CIO, the COO, the CFO, and so on), but the Project Team was similarly cross-functional. This team approach was a key way to manage these challenges.

We also knew we had to fix more than the technology. Our people also needed attention. Our employee satisfaction ratings were low,. As our project rolled out, we began to see perceptible improvements in employee satisfaction. Now we are "not a bad place to work". And we're also seeing improvements in job turnover and retirements as well. There are still parts of the company using the old processes, and when those adjustors see other adjustors using the new system, they get envious. "When can I get on the new system?" This is exactly what you want.

[were there any situations in which the technology got in the way, or made the transformation process harder for you?]

Well, our goal was to integrate our claim application with our policy management and our existing financial systems right from the beginning, along with other core applications we have in the company. It's like transplanting an organ in your body. You not only have to place the organ in the body, but also make sure that all the connections are made and they work. One lesson we learned from an earlier initiative ten years before was to pledge not to allow manual workarounds in deploying the system and linking to other systems. For us, being able to integrate the system into our backend financials was critically important. It took more time, but it was time very well spent. The other challenge that we are overcoming is that SAP does require unique skills that are not as common as other technology skills. We are gradually growing and retooling our existing employees so that we can support this application in the future.