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Ensuring Tomorrow's Success

Case Study

Turn-around
Unprofitable Division of Larger Company

One of our partners was part of a small team tasked to turn-around a division of a larger company. As a division, many of the processes were performed by the parent company. To achieve the required result, the team conducted an assessment of the situation to determine what actions they could take that would have the most significant impact.

First, they identified those processes over which they had no or little control. Those processes became external pressures that needed to be understood and whose impact needed to be evaluated. The major processes in this category were IT, operations and claims.

Second, the team focused on what they could control. Several key areas were identified; product development, marketing, actuarial and data analysis. The team began an extensive analysis of results. The division wrote business in 20 states and offered multiple products in each state. Each combination was analyzed to determine its impact on profitability.

With no ability to reduce operating costs or to make substantive changes in the claims processes, the team focused on product design. It was determined that several products were significantly underpriced and others offered benefits that were not sustainable.

While the initial action was to make whatever product modifications they could, it was clear that a more strategic approach was needed. While raising rates and modifying benefits offered on the existing products, the team began a process of re-designing all of the products offered by the division.

During this process, the team reduced the size of the division, focusing on the most unprofitable products and geographic territories. The team worked closely with the division's captive agency force to minimize the negative effect that shrinking the business had on its agents. This was a key to acceptance of the new products. (This buy-in is even more important with independent agents who have other options)

Once the new products were developed and approved by regulators, all other products were discontinued and the new portfolio was introduced to the market. The division began producing sustained underwriting profit by the end of the second year.

Replacing the entire product portfolio is probably not realistic for most companies. The key to the success of the turn-around was focusing on what could be controlled, but also understanding the external pressures and the actions needed to address their impact.