Manzana insurance company

Case: Manzana Insurance – Fruitvale Branch (Abridged) Harvard Business School Executive Summary Fruitvale's core management problem is the low performance due to an unacceptable long turnaround times (TAT). Especially because of the late Renewals many of Fruitvale? s customers are turning to its major competitor Golden Gate. The operating performance needs to be improved by eradicating the bottleneck in Underwriting. This will be achieved by restructuring and simplifying the process. Through our solution we are going to achieve a new TAT of 0, 518 days (3: 53 hours).

Thereby we hope to recapture the lost market share and satisfy our customers. In average all daily incoming insurance requests will be processed in an extremely competitive time. Case for Action The insurance market, as faced by Fruitvale, has changed significantly during the past decades. New competitors (especially Golden Gate) have entered the market for property insurance and Manzana was bought by Banque du Soleil. The new owner directed the management focus on regaining market share, reduction of operating expenses, discontinuation of less profitable lines and the reorganization on a geographical basis. Fruitvale encounters a significant loss of business due to problems with the management of processing its insurance requests.

Long queues and bottlenecks (congestion) are leading to a tremendous slow-down of the underwriting process. The current TAT (Second Quarter 1991) of 6. 2 days, being 3. 1 times the estimated TAT of its major competitor Golden Gate, increases the pressure on the company significantly. The actual working time of processing one request lies at 4.

31 hours for RUNs, 2. 87 hours RERUNs and 3. 09 hours RAINs and 2. 55 hours for RAPs (not processed as RUNs). Hence queues are not processed effectively. Employees are faced with an uneven workload and low capacity utilization.

Requests can no longer be processed in the necessary time and a backlog begins to amount. This backlog can never be caught up with. Especially the RERUN late rate increased from 15. 9% in the first quarter 1989 to 44.

0% in the second quarter of 1991. Late RERUNs give competitors a good chance to take over Fruitvale? s clients. In addition to the explained issues concerning the process, Fruitvale made losses in the first two Quarters in 1991. Branch profit decreased from $ 1. 776 million in Quarters 1 and 2 in 1990 to a loss of $ 0.

7 million in Quarters 1 and 2 in 1991. The Management now has to increase productivity by restructuring the currently flawed processes. Otherwise Fruitvale could eventually cease to exist. Case for Analysis Analyzing the causes for Fruitvale's failure several factors have to be considered. Firstly Manzana has not calculated the TAT of 8. 2 days correctly.

Using the 95% Standard Completion Time increases the calculated TAT over the average TAT. An unequal regional distribution of insurance requests results in an ever increasing backlog. Certain regions do not have any work while others cannot keep up with the inflow at certain times. Hence, capacities are wasted. In order to level out such inflow differences we will now pool all territories. Furthermore insurance requests currently enter the process by being distributed by one of four Distribution Clerks (DC), who

sends the request to the underwriting team (UT) being responsible for the originating region.

Information is then being transmitted from the UT to one of the eight raters (RT). This leads to even more waste of time, as RTs first have to make themselves familiar with the evaluation, classification and pricing of a request being processed, although the UT had already acquired this information. Our solution now includes the fusion of the underwriting and rating. Through computerization rating has become very simple and the necessary specialization is low. The old raters will change into three new UTs and two new DCs.

One additional policy writer will also be employed. We now have six servers at each of three steps. However there are 12 people working in the newly created UT. It would be a waste to let two people rate one request. An UT will therefore underwrite two requests.

After underwriting both each team member will rate one of the two requests. It is important that the DCs distribute similar requests in terms of rating time to one certain UT. Due to the fusion of step two and three 25% (time savings in writing and getting into the case) or more of rating time will be saved. In order to stay within a save margin we reduced the weighted average rating time by 25% and added this to the weighted average time of underwriting.

We divided the weighting time of the first request lying on the desk while the second is being processed on both requests. In average 12 requests will be processed by the UTs every 109. 6 minutes. Every 54.

8 minutes (109. /2 min) 6 requests can be processed by the policy writing department. Hence the average service rate in step two and three is the same. This would also increase productivity by decreasing queuing time. Including all these changes our calculations lead to a TAT of 3: 53 hours (see Apendix) We will not set priorities on certain products (RUNs, RERUNs, RAPs, RAINs). We will rather implement FIFO for all products, independent of the profit generated.

In order to motivate the employees to do so " Salary/Plus" can set incentives by rewarding an increase of the weighted average time needed to process a request. This is also a very fair solution with regard to the clients. Conclusion We will be able to renew more contracts on time and eventually the Backlog will be worked off. We will actually employ more people than necessary.

However, it will be possible, as the entire market is growing, that this could turn into an advantage, as Fruitvale will already be prepared for an increasing number of requests. One of the new processes weaknesses is the abandoning of Banque du Sloeil? s request to set up a regionally organized business.