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## **Introduction**

Chubb Corporation (listed as Chubb), a 130 year old entity has been through many suns and shines. This company began operations in marine insurance sector in the US, has evolved today into a Fortune 500 company(Ranked 202, in 2013), listed on the NYSE since 1967 and been there ever since. Chubb Corporation's umbrella of subsidiaries spans the latitudinal lengths and longitudinal breadths of four continents, has more than 10, 000 employees on its payroll. Further, the organisation is voluntarily supported by around 8500 insurance brokers and independent agents (IA), who make up the entire sales force. These huge numbers turn up their sleeves generating vast sums of booking revenues amounting to \$13. 95 bn for the FY ending Dec 2013.

### **These extensive broad heads of Chubb's businesses branch into a variety of products tabulated below:**

- Commercial: Property (Real Estate), Marine (Maritime and Sea faring), General liability, Commercial auto, Workers' compensation etc.
- Personal: High end homes, cars, yachts, antiques, art and jewellery
- Speciality: Mainly Professional Liability and Surety products

In order to stabilise and run, the coffers of the company have to be are well capitalised. This is a key indicator of strength, financial soundness and backing a company may enjoy, and acts in providing protection to policy holders, a responsibility the company enjoys dearly. As at the end of Dec 2013, Chubb, has to its benefit, a shareholder value (in terms of equity) of \$16. 1 bn and a debt / equity ratio of 0. 20, which is commendable, by any standard in any industry.

All factors taken into account, the company has been outstanding in its conduct and has also earned the best or ratings from international rating agencies such as, A. M. Best(aa-, A++), Fitch(A+, AA), Moody's (A2, Aa2), S & P(A+, AA).

When viewing the Insurance industry in the US as a whole and entire unit, in the corresponding period, revenue of \$ 452 bn was generated by all players within the same available space as Chubb Corp. (Property/Casualty termed P/C). Further the industry on its payroll employs around 2.3 million people in the US, comprising of about 1.7% of non-farm payrolls.

With Commercial and Personal policies being the niche products that Chubb plies its business in, there does exist a cut - throat competitive environment for Chubb and is made up of insurers such as AIG(7.22% market share), Travellers Companies Inc.(6.21%), Liberty Mutual (6.07%), Zurich Insurance Gp. Ltd.(4.04%) etc. Amidst the like players in the field, Chubb still managed to occupy 7th position. Additionally, it is also enjoying a modest share of 2.88% (within a market of around 2700 P/C participants). Most of these underwriters operate in the Commercial policy space primarily, as the business is characterised by larger volumes and higher margins under its wings.

In terms of the Statutory Annual Report (Form 10-K) submitted by Chubb to the SEC for the year ending Dec 2013 three months back, Chubb reports that ' The P&C Group competes for business not only on the basis of price, but also on the basis of financial strength, availability of coverage that look forward to and still count upon the quality of service, including claim adjustment service.' (SEC Archives, 2014). Hence from further clarification

within the document, it can be understood that, Chubb's unique selling point is its capacity to customise and cater to singular needs of various customers, both domestic and international.

### **The insurance industry as a whole is faced with a few certain common challenges, such as:**

- Low interest rate regime, which unfavourably impacts the return on invested assets as well as present value of future payment obligations (Eg. Life insurance)
- Imminent threat of natural disasters which could prove costly and question the safety standards
- Changing life expectancy patterns that affect lifestyles of the concerned parties which in turn would increase annuity burden etc.

However, if we analyse the internal, operational problems faced by insurers (as against the external ones), there lie some unique challenges which need to be tackled in a creative manner so as to position the company at a vantage point, which would help the insurer gain competitive advantage, in the next crucial score of ten years.

### **Some of the challenges which could be identified and converted into opportunities in the Insurance industry are as follows:**

- Technological demands
- Recruiting of Quality talent
- Enlightened governance and control functions
- Innovation drive

However, these needs may not necessarily be peculiar to the insurance

sector exclusively but may turn into wants depending upon situations that rise from time to time and need to be handled suitably.

## **Problem Definition**

While considering the operating environment of any enterprise, the performance indicators that one would use to measure improvement of the concerned operating system would be:

- Quality
- Speed
- Dependability
- Flexibility and
- Cost efficiency

Utilising the operational capabilities of a singular unit, to optimise one or more of the above listed – this in reality is the definitive meaning of ‘ operations strategy’.

- Preparing for regulatory compliance

With high leverages heightening the riskiness of businesses, the insurance industry in recent times is being faced to be directly answerable to multiple forms of strict regulation. Thus while Solvency II dictates the restructuring of capital adequacy guidelines for the insurance industry in the European Union, a similar exercise within the United States is prodigiously underway, via the dictates of the National Association of Insurance Commissioners (NAIC) demanding a ‘ Solvency Modernisation Initiative’(SMI) and its own customised assessment method - the ORSA. While these protection mechanisms are positive and proactive initiatives, the demands they place on assessing sophistication of risks, are dangerously onerous.

What was required was a huge investment in data management and data governance, all of which needed to be driven by the present staff with the help of their IT technician colleagues. This was a substantial change requiring the applicative methods of operational strategy.

- Innovation in product offers

Chubb found in the mid-2000s, the urgent need to uncover any new unseen before ideas that employees across the globe may come up with (i. e. democratising innovation), relating to their core business which is risk assessment. The aim was to hasten the new product offerings in the market to combat competition, based on years of experience their staff have had. This they aptly called ' Social business' because of the intercommunication of ideas leading to business intra and inter conversion.

## **Analysis – How Chubb achieved it**

- Regulatory compliance

In case of preparations a company takes and should for regulatory compliance, operationally, Chubb found the need of the hour to be the improvement of tools as well as their processes (called process re-engineering). This implementation could be broken up into the following sequential steps:

- Planning (inclusive of Pre and Post)

- Analysing the impact of change on people, existing processes (with recommendations, if any) and technology improvisations.

- Roadmap for the change with set schedule, achieving the ultimate target of being data compliant.

- Ensuring that the needs of all stakeholders had been met upon completion

of the intended processes

- Implied in the due processes is clear communication with and within all the technical staff (ie. IT, Actuarial, Risk manager etc.) And to ensure that results were commensurate with set targets.

- Innovative product offers

The key strategy in operationalising this innovative idea was to necessitate the building of a 'social business platform'. The operations were purpose driven by calling people to 'Motivate, Drive and Deliver'. This brought into direct contact and collaboration, all staff, insurance brokers and agents who found a voice to put their opinions on the table through this initiative. The whole ethos of this breakthrough was practically based on the fact that, the best people who could deliver were perhaps the ones in close touch with the clients and that is how they understood the latter's needs too.

## **Implementation challenges**

- Regulatory compliance readiness

The key challenge in attaining compliance was co-ordinating the works performed by different sets of technical manpower. For E. g. there were 1200 personnel who documented the risks, 3000 personnel, approximately who drew up the control systems and another 250, who were in charge of managing the drawing up the required plans. This required time and patience either with without supervision in completion of jobs. Ultimately, Chubb designed strict parameters which needed to be achieved and objectively struck them off when done and moved forward.

- Innovation in product offers

In case of the second operational issue of Social business, the main

challenge was in selection of ideas that were being put forward, as no specified mechanism had been laid down to score proposals received, in order to grade one over the other and choose the one that ranked the top. However, when more than 30 - 40 ideas emerged at the same time, it was decided to maintain a pipeline of worthy ideas, for eventual use throughout the year, with periodical revisions.

## **Results**

### - Regulatory compliance readiness

The project and its potential have been proved to be extremely lucrative. For e. g. the data set available from the collected samples of various distributions for use is now offering real-time delivery, as well. Further, the data far from being just a set of market data, lends itself to include specific information with regard to people's behaviour patterns. This resulted in expanding the potential of pricing products. On the other hand, in case of the functionality which is associated with 'claims' procedures, data can be captured as and when accidents occurred, thus reducing the claims payment / settlement timeframe enormously. This has raised customer satisfaction levels, hugely.

### - Innovation in product offers

The prime time success of such an initiative would ultimately depend on how many conversions are being made, via this platform (ie. ideas having reached enterprise funding stage) From since its inception upto March 2013, a total of three of the ideas in which the funding was offered, had since developed into companies of \$ 10 million or more by way of turnovers only putting these theologies into practice. For the purpose of funding, a Venture



Capital group was created and was delegated so that it could offer to provide upto \$ 1 million by way of seed funding, in the chosen ideas or even a singular idea and act upon it.

- Cross-selling insurance products
- Customer retention initiatives
- Curtailing claims (default and unintentional) leakage, to name but a few.

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