

Operations management in insurance sector



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Operations Management in INSURANCE SECTOR Q. How to measure operational efficiency in service industry? Ans-Insurance companies use KPI indicators to measure operational efficiency and ensure optimum standards. The secret to success for an insurance company is providing the right product, having the right people selling and managing risks associated with it. Insurance organizations use and act on metrics to avoid unnecessary risks. Following are the Key Performance Indicators (KPI) that insurance companies use to measure operational efficiency.

Policy Sales Growth Ratio It measures policy sales growth over a set period of time. It is increase in the number of clients over a specified period. It is helpful to gain insights into policy sales trend. The higher this percentage, the better it is. $\text{Policy Sales Growth} = \frac{\text{Current period sales revenue} - \text{previous period sales revenue}}{\text{previous period sales revenue}}$ **Claims Ratio** It is defined by claims in a period divided by earned premium in the period. It helps to know the risk of claims and effectiveness of the policy.

The ratio needs to be analyzed carefully to understand the risk associated. A higher ratio indicates too many claims compared to premiums and it isn't good for the company. A lower ratio may indicate difficulty claiming which would lead to customer dissatisfaction. $\text{Claims Ratio} = \frac{\text{Total claims per period}}{\text{Total earned premiums per period}}$ **Percentage of Total Lapses** It measures the total number of missed payments in a period compared with the policies sold. It helps in understanding why lapses are occurring and stop them from occurring at a high frequency.

A high percentage might be because of inefficient operations such as problems in the payment process. A company constantly improves its

operations to decrease the percentage of lapses in each period. Percentage of Total Lapses = $\frac{\text{Lapses}}{\text{Policies Sold}}$ Average Time to Settle a Claim It measures the time it takes settle claims. A decreasing trend is favorable. Lower time to settle the claim defines higher operational efficiency of the company. Average Time to Settle a Claim = $\frac{\text{Total no. of days taken to settle all claims}}{\text{Total claims}}$ Quotas vs.

Production It measures the effectiveness of sellers and agents at meeting their targets. It helps in identifying when target sales are below and taking corrective action. A ratio below 1 means targets is not being met. A higher than 1 ratio means brokers are exceeding the target and it is favorable for the organization. Quotas vs. Production = $\frac{\text{Total Rs. Quoted Business}}{\text{Total Revenue}}$ Top Brokers in Sales Revenue It ranks brokers based on sales revenue and no. of policies sold. It helps to identify top performers for each category of policies.

It also helps to improve the performance of brokers who are lacking behind. Top Brokers in Sales Revenue = Rank top 3 or 10 brokers based on sales revenue Total Benefits as a percentage of premium It is an indicator of financial performance. This measure helps in pricing of insurance policies. It helps to know the risk factors associated with each policy and set fair premiums. Total paid benefits as a percentage of premium = $\frac{\text{Total paid benefits}}{\text{Total premium earned}}$ Q. How to ensure quality in service business and how to enhance quality in service sector?

Ans-There are several ways to ensure and enhance the quality of an insurance company. These are listed below. •Six Sigma concepts can be implemented to ensure quality and conform to consumer needs. Six Sigma

concepts make use of statistical tools which makes measurement of results easier.

- Dividing the company into departments based on different categories of insurance such as separate departments for car insurance and health insurance. This would provide better understanding of which categories of insurance should be improved by the company. Deciding on the maximum time to settle an insurance claim. This would allow to improve service and quality of claim processes as claims would be settled more quickly.
- Online information should be used to provide policy holders with accounts that provide updated information regarding their claims and premium payments.
- Insurance companies can get into an strategic partnership with mobile banking providers so that customers can pay their premiums through mobile banking
- A chart showing the updated rankings of brokers should be available to all brokers.

This would increase competition and let the brokers know how much they are lacking behind others.

- Incentives for top performing brokers should also be announced in advance to keep the motivation level high throughout and improve services.
- Regular training programs should be conducted for brokers in order to increase their marketing and selling skills
- A complaint center should be established in the premises to deal with the complaints received from customers. The complaints should be discussed and a corrective action plan should be develop to deal with problem.

The action plan should be implemented and results must be analyzed

- A maximum time to act on a complaint should be decided within that time the department has to act on the complaint. The corrective action taken should be documented and implemented within the specified time
- External

benchmarking with other insurance companies might also be helpful in identifying short comings and improving services •Define to brokers the criteria of quality customer interaction and to led them act on it