

# Introducing Business Process Management in insurance companies

by **Svante Nieminen** and **Markus Norling**

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**This article presents the finding in a study involved in changing the activity structure into Business Process Management (BPM) in Swedish insurance companies. The study identifies a number of factors within the companies that needs adoption when changing the activity structure into BPM. It can also provide guidance for future BPM-projects.**



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Deregulation of the Swedish insurance market became somewhat of a starting point of a far-reaching wave of changes in both products, production facilities and actor constellation in the insurance industry. Identified factors contributing to these changes were the IT development, the increasing competition and a shift to active and mobile customer behaviour. Due to these changes it became necessary to find ways of increasing customer quality, while at the same time cutting costs to keep up with the competition. [Some of the Swedish insurance companies turning to BPM as a way of achieving this.](#)

The paper, on which this article is based, was written within the framework of ongoing research of the insurance industry at the Department of Business Studies, Uppsala University and commissioned by Dr. Carl G

Thunman. The study is based upon interviews with varied respondents, from company officials who had been involved in the implementation of BPM, to university scholars and consultants who either had special knowledge about business processes and the insurance industry or had been engaged in the implementation as external consultants.

## **Business Process Management**

Business Process Management is not an entirely new concept for organizing the production activities. It has been described by a number of authors under different labels such as Process Management and Quality Process Management, to name some of them. The concept of processes can be defined as a chain of frequent repeated activities in a process

that are (is??) linked with other processes to create value for a customer. Two things characterize the business processes: firstly it always has a recipient, a customer of the involved process activity. This customer can either be internal, within the company, or external. Secondly, business processes cross organization boundaries and connect business units. The centre of attention in a functional organization is the product or service produced, while the focus in business process managed organisations is on the customer. The functional organisation concentrates on *what* is produced, while the process managed organization concentrates on *how* it is produced.

Business units in insurance companies have traditionally been organized in a functional way where the coordination of activities and resources (has??) been done with low or no connections with other business units. It has been special departments consisting of a specialized labour force producing products without connection with other products produced within the same company.

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## Empirical Findings

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Identified factors influencing the change from functional to process organisation within business units or insurance companies reflects the dominating topics held by the respondents in this study. The factors were all considered crucial in the reorganisation to BPM. The influencing factors can be divided into internal and external categories. Most important in the reorganisation to BPM are the internal factors, which consist of resources adapted during a long time in a heritage fashion to the functional way producing insurance products and services. The internal factors were divided into *management*, *co-workers* and *IT*. We have classified the external factors in *legislation*, *competition*, *development (constantly shifting conditions)* and *customers*.

The external factors affecting the reorganisation towards BPM consist of changes in the environment the insurance companies operate. These changes influence the way of which the internal resources are organised in a direct or indirect way. The external factors are continuously shifting and affect the company and its behaviour. One essential relationship between internal and external factors is that relating customer and company. As BPM focuses on processes to achieve customer value, the chain of activities linked together in the processes is vital. The way we have classified the influencing internal and external factors can be done in a number of ways, this is just one of them.

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## Management

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Beginning within the company, we found that the performance in management is important to attain a dynamic reorganisation of resources within business units. Management often takes the initiative to reorganise the production of services and must therefore display a commitment to it. There must be a confidence and a trust in the day-to-day adjustment that needs to restructure the resources not least the co-workers activities. The Swedish management style of establishing consensus may be an asset in convincing co-workers to change the production system, in particular when the features of the company environment are shared, speciality when environmental changes are seen as threats. A problem has, however emerged when management has attempted to reach consensus also on a more detailed level. There has been a tendency to engage in the standardisation of activities and resources and the interfaces between them to make them compatible. Much time has been spent trying to reach agreement on how particular processes should be constructed. Middle management has also not been given enough support in changing their role from that of man-

ger with access to information, to that of a coach, guiding co-workers to develop and to take their own initiative in different situations. Extensive government regulation in the field of insurance, has contributed to insurance companies establishing internal rules of conduct or routines supported by an organisational culture, which in many cases lack justification. Management and co-workers must be prepared to both question, and adjust practices in custom that is not contributing to customer value. Some respondent thought that new levers of control were needed to support the shifting production organisation. Today, reward and control systems are either absent or designed for functional organised business units.

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### **Co-workers**

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As far as co-workers are concerned, the greatest obstacle is to change their *idée* structure that follows the traditional function and product concept. Instead of thinking in terms of processes and customers they follow the blue print of the old production structure. Changing the *idée* structure has shown itself to be a greater challenge than expected by management and organisational consultants. In this respect co-workers are not a homogeneity group, their seams (there seems???)to be no correlation in-between age, sex and other variables and the ability to change the individual way of thinking. Expressions from elderly women could be "...eventually somebody that listens to what I have said all the time" in contrast to younger men saying, "What shall this reorganisation contribute to..."

The use of new IT solutions and a closer customer contact also places new requirements on co-workers. This sets demands for higher education level and social skills at a larger extent than before. During the reorganisation toward BPM it is also important not to underestimate the time and effort, which will

be necessary to attending to day-to-day business while at the same time changing the activity and resource structure. Failure to do this will lead to overworked co-workers and difficulties in maintaining quality in services.

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### **IT**

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Major investments in mainframe computers with software solution based on functional organised activities have posed a main and costly obstacle to the introduction of BPM. These systems reflect needs of a functional organisation and therefore make it difficult for co-workers to change their way of acting, when the system not supporting the new activity structure. This can be seen as a look in effect when the resources not provide support to the shift in the activity structure. Insurance companies must be prepared to make large investments in this area to fully obtain the intended increase in efficiency when changing to BPM.

Since information handling is an essential part of risk judgement in insurance companies, it is important that management and owners understand the necessity of investments and change in information management. IT must become a permanent strategic issue for insurance companies.

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### **Customers**

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Outside the company, customers are the target of business process, or the other way around; business processes should provide product and services that customers prefer. The business process should be designed to produce products and services, which provides customer value. Customers are not a homogenous group and there has been a fragmentation of product and service demands since the deregulation of the insurance market. The respondents in this study have noticed a trend towards less loyal and more

demanding customers. Customers demand lower price, increased service, better opening hours and shorter response time. Customers choose, to a greater extent, when, where and how they want to contact their insurance company, inform themselves of insurance products or take out new insurance policies. This way of acting put new demands on the insurance production facilities and the interfaces between customer and company. Insurance companies must be able to adopt and develop all new ways of communication with customers. Failure to do this will to a greater extent than before, lead to customer turning to another company ready to accommodate their needs.

### **Legislation**

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The insurance industry is still very much regulated in comparison to other sectors of the economy. Present and earlier legislation has left insurance companies with a heritage of internal procedural rules and regulations, not always motivated by the demands of legislation. The tendency to “over-formalize” processes must therefore be watched carefully in order to keep cost down.

### **Competition**

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The initiative and action of competitors naturally affects the behaviour of a company and this can be illustrated by the fact that a number of insurance companies have restructured their product portfolio and their production facilities. In a constantly shifting context there is also a competition between centre of attention when different obstacles coming up. A couple of examples of this are the Y2K, the millennium problem, and the switch to Euro currency. This makes it hard to hold a focal point on just one thing at a time. Management need somewhat of a split vision when they divide economic and management capacity between short and long term projects.

### **Conclusion**

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Our findings support that changing co-workers id e structure, IT and the role of middle management has been more costly and time consuming than initially expected. This can partly be explained by the extent of changes necessary, which can be labelled as dramatic, but also by failure of management to fully commit to the investments in IT and support to co-workers. That is probably due to the scarcity of means allocated between the different focal areas.

Legislation and a heritage of internal procedures demonstrate the need of continuously questioning the necessity of all activities performed within the organisation. In order for the reorganisation of the production facilities and activities, co-workers must also be engaged in this work. All the resources in the production must be adapted to each other to fit. It is obvious that this adoption process creates friction and misfits between the resources, as in the case of IT, management and co-workers. This brings us to another important point to consider for any company or business unit considering changing their activity structure into BPM. As the reorganisation and adopting process proceeds, new reward and control systems must be developed. This reward and control systems can promote a new way of thinking and break up both co-workers and management’s former id e structures.

The difficulties encountered illustrate the need for Swedish insurance companies, as for all industries, to establish an organisation fit to cope with continuous changes in their environment. Customers will continuously place new demands on their insurance companies and new competitors and production constellations will emerge and it is therefore necessary to establish an organisation that will and can change their production and products more easily than today. The changes in the production system is not done in a revolution-

ary scenery, it is more like a evolutionary step-by-step transformation which will need a patient mode of all involved, especially when we move in a industrial setting as insurance industry. It seems to be a continuous

organisation and reorganisation of resources and activities to cope with the changes in the environment. If BPM is an efficient way of organising the activities remains to be shown in the future.