HIDDEN OPPORTUNITIES TO ENHANCE YOUR MARGINS

Improving human capital efficiency is an effective way to increase one's margins. **Mr Stephan Rajotte** of **Trindent Consulting** predicts that managing labour costs efficiently will be a key success differentiator in Asia.

The first quarter of 2016 has proven to be a challenging time, denting the confidence of many executives in Asia.

China's economy is slumping, interest rates are staying low and M&A activity is slowing down. Adding to the uncertainty are changes in regulations continuing to happen in many countries in Asia.

Earlier this year, I conducted a brief survey with some key financial executives in Asia to gauge their outlook. Generally, their optimism has weakened and their expectations are low for growth. These are challenging times for Asia. With unlikely prospects of an interest rate hike, we expect to see even more pressure on margins in 2016 and beyond.

Options to help increase your margins

There is no question it is a difficult time. What can executives do to soften the blow and increase margins?

- **Take on bigger investment risks**: This option comes with strings attached in the form of solvency margins costs and additional A&L matching risk. Higher risk-taking can potentially result in margin gains but also can result in margin losses where investment risks do not pay off.
- **Delay or cut the claims ratio**: This is not a popular option, especially amongst your clients and distributors and can do more harm than good by deteriorating your relationships with them.
- **Reinsure less**: This option comes with a high degree of risk and it can also substantially increases your reserves.

If these options are too risky or do not align with your business objectives, are there avenues for margin enhancement that are traditionally overlooked?

Personally, I have always found it surprising how tightly our industry manages policy-related expenses, but how the same rigour is not applied to our human capital.

Human capital efficiency

An effective way to increase your margins is through human capital efficiency. Investing in efficient processing not only increases your margins but it also:

- increases the productivity of your back office;
- decreases errors;
- improves customer service;
- decreases operational risk levels;
- meets regulator expectations in regions requesting lower cost and easier access of products.

Other than providing an immediate and significant impact on the bottom line, running an efficient business operation builds a solid foundation for digital business and product innovation. It also improves brand value by enhancing your customer's experience with you through quicker processing.

Lastly, these benefits are not short-term fixes, rather they are sustained with the growth of your business and the economy.

Optimising your processes will increase your profitability

Efficient processing will improve your margins but to what degree? That depends. At Trindent, we have implemented over 80 process improvement engagements and here are some guidelines you may consider:

If you have not reviewed your New Business, Claims or Policy Administration processes in the last five years, you could expect a 25% reduction in direct labour expenses in your back office operations.

Our clients have typically experienced a 2-6% net increase in Value of New Business (VNB) ratio, as a result of these productivity gains.

This sounds like Lean/Six Sigma, but it is not

Several of you have already been through customer experience improvements. What was the impact of those improvements on your bottom line profit? Can you measure it? The problem is many of you cannot quantify the long term impact of these improvements.

Often "customer experience " programmes based on Lean/Six Sigma take two, three or more years to complete and have very little to show for it in terms of results.

Understandably, many insurers are now cautious about these programmes. The problem is that large and complex consulting firms do not have the expertise to deal with back office operational efficiency.

Being in the industry for over 30 years, I have encountered these disappointments time and time again. I was determined to avoid such failure when I hired Trindent Consulting, a global management consulting firm highly specialised in profit and process improvement within financial services companies.

I have engaged their services on three separate occasions at two different companies. When the projects returned concrete bottom line profit improvements in just a few months I became an advocate. Now I am vouching for their unique approach we take to deliver great results every time.

The insurance industry cannot afford to lag behind on process efficiency and business rationalization, particularly in a region as competitive as Asia Pacific.

Already we see many banks taking a proactive approach in the United States and some in Asia. However, in Asia, very few companies, locals or multinationals, have reviewed their business processes recently. Everyone has been clearly focused on growth and for good reason.

It is time to invest in operational efficiency

Many executives in the industry are telling me that now is the time to invest in efficiency. Efficiency improvement can be delivered with no capital expenditure, and no software implementation by applying best practices to manage the business better and installing new process that are compliant and efficient.

I predict that managing labour costs efficiently will become a key success differentiator in Asia in the near future. How much money are you leaving on the table? Is your business efficiently prepared for future growth?

Mr Stephan Rajotte is Executive Vice President & Global Financial Services Practice Leader at Trindent Consulting.

Client Success Stories – How we make it happen

- A large multinational insurance company reduced its costs by US$2.4 million through back office optimisation.
- A multinational based in Asia improved productivity of its office by 136% resulting in $5.3 million EBITDA improvement.
- A large call centre reduced handling time by 23% resulting in $2.3 million cost reduction and an increase in services and sales.