



Total Outcome Performance (TOP) for Insurance Carriers - A Focus on C-Suite Metrics

We focus on the effectiveness of TOP in driving demonstrable financial benefits to the corporation and its stakeholders.

Getting your Ducks All In A Row

Earlier, we explained that driving better informed decisions at the desktop is greatly enhanced under the TOP framework, as it harnesses all available data, information and knowledge and creates a form of “organizational intelligence”.

This powerful knowledge base is highly potent if utilized in the right manner, at the right time, and by the appropriate personnel.

From a decentralized to centralized perspective, the TOP framework is in effect, putting all your ducks firmly in a row.

This is a Team Effort

TOP promotes pushing of data and prompting of personnel to create the level of curiosity in operations staff that is designed to facilitate best practice. However, these timely “cues” can be ignored or bypassed, which will dramatically reduce the effectiveness of TOP.

Having middle, senior and C-suite management fully engaged in the TOP process, as well as operatives, will leverage the true power of TOP for the organization. As with any initiative that requires an open mind, TOP requires some change and commitment in order to be a success. It requires an open mind and a team effort.

The Health of the Board

Driving investor and shareholder value should be high on the radar screen of any board member. The question is how do C-suite individuals holding key positions create value?

A good starting point is to properly assess what’s important to the board and set in place an effective roadmap to help deliver these values. The TOP framework offers a methodology to keep to the roadmap.

For an insurance company there are a number of key metrics that drive investor sentiment and act as measure of “the health of the board”.

These underpin how the market perceives board effectiveness and also where the organization sits within the industry league tables, nationally and globally. It’s simply not enough to quote gross earned premium as a single measure of financial health.

Headline Performance Indicators for Insurance C-Suite members

As well as gross earned (written) premium, net earned premium is a more accurate indicator of efficiency.

These are followed by expense and loss ratios, which together

form the “headline” performance measure in the industry, the combined operating ratio or COR.

In this bold new world of more stringent regulatory compliance minimal and critical capital reserving is a mandatory requirement for continuing to hold a license to insure.

Finally, the insurance margins are measure of returns, made from capital derived from premium income in the current period (eg ahead of claims related cash position erosion), which is then used to drive mostly non-insurance related investments. So, in effect, the organization could suffer an underwriting loss, yet make a net margin, from the additional earnings generated from these investments.

From this point forward, we shall focus on how the TOP framework can help to positively affect a number of these key performance indicators.

How TOP Drives Performance

The knowledge base created through implementation of the TOP framework, if utilized actively and appropriately, will drive enhanced performance, due to its influence on better informed decision-making at the claims professional desktop, through middle and senior management (escalation).

Provided the model has access to the full spectrum of underwriting, reserving and claims data, the approach can be leveraged to gain more real-time capital requirements trends, which in turn ensures the organization is neither under-funded nor over-reserved. This added visibility will help both finance and actuarial personnel to maintain tighter control over cash reserves and improve underwriting margin.

More agile reserving will also mitigate risks in compliance and other regulatory requirements, such as Solvency II.

The claims and reserving data under TOP can be used to improve the expense ratios by reducing ALAE and indemnity. While this a bold claim, the main factor driving this positive effect is the value of time as measured by claims open days.

Reducing claims open days (or settling optimally) will also have a profound positive impact on the loss ratio. It is empirically proven in studies that earlier claims settlements have the effect of reducing loss ratios as this increases certainty and lowers exposure risk to the organization.

TOP promotes better-informed claims settlement decisions. Those decisions in turn drive earlier resolution and settlement of claims. This reduces the claims open days on average, which incrementally lowers both ALAE and indemnity. Expense and loss ratios are both lowered.

As discussed earlier in this article, lowering both expense and loss ratio will produce a lower combined operating ratio – a bellwether of insurance company health.

What’s the Cost of the TOP Framework?

TOP is not an instant fix and takes time, dedication and committed resources to fully and properly implement, so that the above benefits are realized for the organization.

Each organization is different, with varying and disparate technology platforms, so the starting point for each is also very different.

The one key measure that we can highlight is the time savings of up *25% reduction in total claims open days*.

Using this one metric alone is sufficient for any CFO or Claims Officer to evaluate the true financial benefits to the organization of implementing Total Outcome Performance framework.

What Trends can be Created through TOP

The models provided herein demonstrate the positive financial trending impact derived from the effective deployment and continued utilization of the TOP framework.

Over time, TOP remains a robust and positive influence on the key performance indicators constantly measured by the insurance industry, its followers, analysts and investors.

In this paper, we have focused on C-Suite key metrics and how the TOP framework can add value. To further this, it is important to ensure that effective measures are in place to track its positive impact to the organization, year on year.

In the case of an insurance carrier, TOP can help to drive:

- Improved Expense Ratios
- Lower Loss Ratios
- Lower Combined Operating Ratio
- Improve Underwriting Profitability