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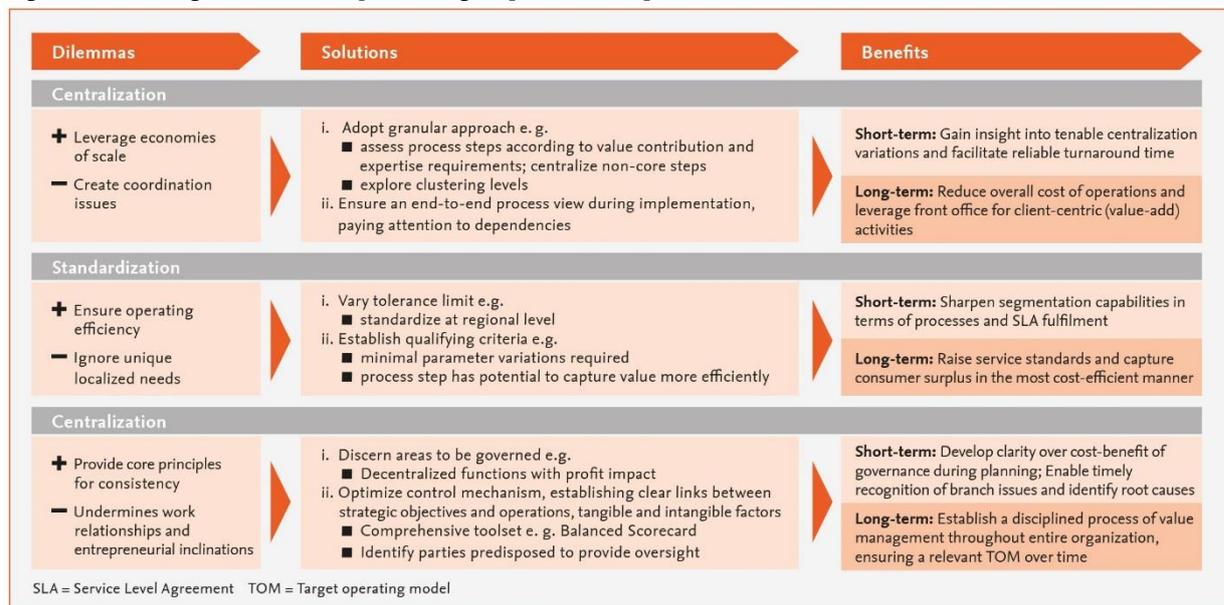
Branch and Agency Support Management. Dilemmas, operating model and opportunities.

From the distribution perspective, branches are more than just extensions of a company. This is especially true in Asia where customers and distributors have multiple touch points with banking and insurance branches. In the Asian insurance industry, the agency channel is decidedly the largest distribution channel with a proven track record. Relationship-oriented cultures, being dominant in Asia, facilitate the continuity of this legacy channel. Nonetheless, the need for cost and operations efficiency drives companies to review the status quo. As technology advances and customer acceptance of self-service facilities increases, companies are beginning to explore alternatives in distribution and operations such as e-channels and straight-through processing.

While there are opportunities to maximize value from branches, top management teams must be wary of trade-offs. In fact, top management teams have to acknowledge the existence of three dilemmas - centralization, standardization and governance. Solution Providers has worked with managers in branches caught up in at least one of these three dilemmas. Via distribution projects, Solution Providers has assisted in resolving such dilemmas by guiding managers to ask the right questions in the context of industry trends, technological impact and customer expectations. Whether branches become independent islands or rigid clones, their sustainability and resulting relevance in a company's evolving distribution strategy is the ultimate concern. They must be based on an operating model viable in the mid to long-term. The result is that branches have concrete opportunities to become ambassadors of the corporate brand and provide growth impetus to their companies' bottom line (see Figure 1).



Figure 1: Tackling dilemmas to yield insight, plan and implementation benefits



Source: Solution Providers research

Branch and Agency Support Management

Every financial institution with widespread retail presence should rightfully be concerned with branch management. Broadly speaking, a branch typically carries multiple responsibilities – distribution and its related operations. Representing the corporate brand, the branch not only develops markets in local regions but also facilitates intimate touch points with customers and distributors in these areas. To illustrate, a distribution agent has at least seven touch points with an insurance branch – portfolio discussions with branch business development staff, arranging tailored quotations, receiving renewal notifications, submitting new business and endorsements, receiving commission statements, calling the branch for technical support and discussing claims decisions.

The multiple responsibilities raise an important question – how should branches be managed to promote the corporate brand and customer centricity with an eye kept on sustainable growth?

Solution Providers has worked with managers who have faced three dilemmas in branch management. The first dilemma stems from the need to sustain growth where the branch must penetrate the local market while simultaneously paying attention to its cost structure. One should, however, be concerned whether cost savings through centralization are to be achieved at the expense of speed and effectiveness of business development. Conversely, decentralization can prevent managers from leveraging economies of scale. The second dilemma lies between standardization and localization. Standardization ensures consistency. However, to be customer centric, the branch must be able to meet localized needs. Regardless of how the first two dilemmas are handled, governance principles and structure constitute the third dilemma. Should head office management enforce oversight of branches or allow substantial self-governance? To become brand ambassadors, branches must be aligned with the company’s core values. Yet watertight governance is costly and at odds with the required entrepreneurship to grow local markets.



Resolving these three dilemmas will be a significant step towards deriving an operating model for branches and agency support. This model should also be considered at the strategic level, that is to say, in the context of industry trends, technological impact and customer expectations. It has to remain viable in the mid to long-term to sustain its presence in the company's distribution strategy.

1 The Centralization Dilemma

Individually, branches do not enjoy economies of scale. Regardless of the revenue size of the branch, it must incur minimal operations costs. In one project for an Asian insurer which adopted a decentralized approach, Solution Providers calculated that at least five support staff were required to operate each branch regardless of the branch's revenue size. While the minimum operating cost of a branch may vary across the industry, the thesis that centralization is necessary to lower the minimum cost of resources stands.

However, centralization at the head office may reduce branch engagement and sometimes the human touch. Enabled by technology, one of the competitors of Solution Providers' clients was able to maintain very lean branches. To significantly reduce the need for its agents to visit the branches for transactions, the agents were given a web portal to perform a wide range of tasks. These activities included requesting quotations, submitting new business and claim status enquiries. Processing work had also been taken away from branches and centralized at the head office. Instead of appreciating the efficiency, these agents felt distanced and lamented the lack of interaction with branch staff. The human touch has been arguably a key success factor in the Asian market where interpersonal relationships are culturally valued.

The process to resolve the centralization issue begins with a granular understanding of what should and should not be centralized. In the later part of the process, among many other things, it is also crucial to address end-to-end coordination, a key success factor for partial centralization to work effectively.

1.1 A granular approach to the centralization dilemma

As illustrated earlier, centralization is necessary for cost reasons but adopting a broad approach to centralization impacts branch engagement. A granular approach does, however, allow identification of tenable centralization variations. Assessing process steps and clustering geographical regions are two possible ways to resolve this dilemma.

1.1.1 Assessing process steps

Each branch process across all branch functions and products should be broken down into steps which are then individually assessed and categorized by the level of expertise required to perform the step and amount of added value the step offers. In one project, Solution Providers analysed the claims process, labelling each step as non-core, high expertise and/or high value. Non-core steps such as checklist validation and scanning require minimal specialized knowledge or skill. They also do not provide additional value in terms of cost savings or customer satisfaction. Some of Solution Providers' clients from the insurance and banking industries have centralized such non-core activities in one unit, away from the branches. On the other hand, medical underwriting, health claims assessment and distribution training material design are process steps that tend to be characterized as requiring high expertise which may be low in supply in the labour market. This is especially the case in regions where the population falls behind in terms of higher education or which loses talents to neighbouring regions and countries. Centralization of these process steps is therefore only



practical if managers are to be assured of quality work. However, process steps which are considered high value may be better off decentralized as the additional value often arises from being closer to the customers and distributors.

1.1.2 Clustering geographical regions

To leverage economies of scale without impacting quality, it is necessary to have as many similarities as possible among the pooled tasks or items. In at least two projects, Solution Providers found that regional clustering of business development activities for agencies allowed a sharper marketing focus than national clustering while facilitating cost sharing. In other words, managers can be creative with not just what to centralize but also which level to centralize at.

1.2 An end-to-end view

Despite the intention to enhance efficiency, centralization earns itself a bad name for the inefficiency that often accompanies it due to poor implementation. The inefficiency can be attributed to the failure to account for processes from end to end, that is, between branch and head office, delaying turnaround time. Solution Providers has observed how inconsistent and non-transparent communication prevents some insurance branches from expediting underwriting that involves mandatory head office approval. Effectiveness and efficiency of centralization must be monitored and controlled via service level agreements, audits and user satisfaction levels. Centralization is best enabled by reliable technology and processes.

2. The Standardization Dilemma

Without a clear stance on centralization, it may follow that branch practices become unstandardized. Experience has shown that some clients have a history of being undecided between centralization and decentralization. One Asian insurer alternated its claims function between the extremes so frequently over a span of just a few years that some branches ended up with claims processing functions while others of a similar size did not have this function

When branch practices are unstandardized across the board, ripple effects on resource management, distributor and customer perceptions are created. In the earlier example, it was found that branches with claims processing function required more manpower than those without, despite similar revenue size and less diversified business portfolio. Solution Providers has observed how a number of clients created unique work-around solutions as a result of systems shortcomings. For at least one client, these solutions differed across branches, some being more inefficient and less effective than the others. As a result, turnaround time became highly variable across the branches. It was therefore not surprising when Solution Providers found distributors and customers reporting very different satisfaction levels across the country.

Over-standardization, however, ignores localization needs. This is especially apparent in countries where states exhibit heterogeneity in culture and economic profile. As a result, marketing strategy has to be adapted to local expectations while variations in the business mix mean some process steps would be more voluminous in some branches than others. The latter implies the possibility of branch specialization and, accordingly, conditional or regional centralization. For example, a branch may have a significantly high proportion of health insurance business. Due to the large volume, the underwriting process step is not just classified as high expertise but also high value since it contributes directly to satisfaction of a significant number of cus-



tomers and distributors. Therefore, the branch should ideally be able to perform underwriting for its own business and potentially other branches in the same region. This translates into a stronger need for underwriters with health expertise for this branch than others. In other words, every branch has a different tolerance limit for standardization in terms of functions and even hiring requirements.

To identify the tolerance limit, the span of standardization must be explored and two examples of criteria which support standardization illustrated.

2.1 Span of standardization

Standardization possibilities exist not only across branches but also within branches. The latter is applicable even if localization requirements prevent the former. Section 2.2 demonstrates such possibilities on criteria for standardization.

2.2 Criteria for standardization

Criteria for standardization depend on regulatory requirements, distribution strategy and availability of technology. Where the method to produce output requires minimal variations, there is an opportunity for standardization. Standardization is also a viable option when reducing variations in processes allow branches to capture value without over-investing in resources.

2.2.1 Output has minimal parameter variations

Standardization is advantageous because it not only assures quality but also instills efficiency by minimizing variations. Thus output that requires frequent production but has little parameter variations can be produced from standardized processes. Repetitive branch tasks, usually non-core process steps, such as creating sales reports and monitoring outstanding credit, are eligible candidates. Through its projects, Solution Providers has observed how branch staff tend to spend excessive time creating individual reporting templates, using their own idiosyncratic methods, with varying levels of computer skills and knowledge, to retrieve and tabulate data. Many of these methods were terribly inefficient and resulted in varying quality of output. Report generation and monitoring procedures should be standardized and/or even centralized, and preferably, automated.

2.2.2 Process step has potential to capture value more efficiently

Some process steps can provide added value only if they are performed by staff with expertise. However, these steps may only be part of a job scope which does not generally require much in-depth knowledge or skills. Rather than wasting talented resources, branches can choose to supplement the process steps with standardized procedures. Solution Providers conducted a mystery shopping exercise covering 25 branches of multiple insurers in one country and discovered that many customer service officers had no fixed checklist process to follow. As a result, varying quantity and quality of information was given in response to quotation enquiries and only very few attempted to cross-sell or facilitate distributor referral.

3. The Governance Dilemma

Resolving the centralization and standardization dilemmas has predominantly been based on concerns for the bottom-line. In the context of ever-shifting market trends, regulation and technology, branch management should ultimately be guided by an unyielding core set of principles and governance structure with effective feedback loops. If a governance structure is to be defined as a means to coordinate and control an



organization's resources and actions, then top management teams should rightfully be concerned with how a branch should, if at all, be governed by head office.

Head office governance is challenged by geographical distance and the human element. Technology such as conference calls and the internet may facilitate monitoring but it does not replace face-to-face interaction which provides instant and accurate feedback. Excessive governance also undermines relationships and, similar to centralization, reduces engagement and entrepreneurial inclinations.

As a bid to increase efficiency, engagement and entrepreneurship is required to penetrate the local market, branch managers are given autonomy and granted flexibility. However, the lack or poor enforcement of a core set of principles leads to unguided flexibility. One undesired outcome is that branches become independent islands, developing their own cultures and identities. They become increasingly removed from the corporate identity, under-mining the representational role of the branch in the company's distribution strategy. In its project experience, Solution Providers has also observed other adverse effects of unguided flexibility such as the lack of monitoring in hiring and performance assessment. Although hiring requirements may be subject to local needs, a core set of requirements is still required to ensure alignment with the company's ethos. Sometimes a company may have gone through a major transformation such as a merger. In such circumstances, having a core set of principles to align branch staff in the hearts and minds is a prerequisite to Day 1 operations.

For the governance structure to hit the spot, governance areas must be identified and control mechanisms optimized while delegating appropriate parties to provide the oversight.

3.1 Discerning areas to be governed

To economize resources and maximize benefits, identifying areas which have significant profit impact in the mid to long-term is suggested. Of these areas, attention should be paid to those where head office does not have direct operations involvement. Decentralized functions, financial and non-financial performance are potential candidates.

3.1.1 Decentralized functions

If top management has made a conscious decision to decentralize functions that have significant profit impact, then the decision must be accompanied by a complete package of governance principles and feedback mechanism. Through project experience, Solution Providers has noticed how some insurers fail to have a consistent monitoring mechanism and effective feedback loops for decentralized underwriting and claims assessment. These insurers also tend to report lower underwriting profit and higher claim leakage.

3.1.2 Financial and non-financial performance

Given that branches are revenue contributors and ambassadors of the corporate brand, their performance must be monitored in both aspects. While financial key performance indicators are tangible and therefore easy to measure, non-financial aspects such as values alignment and customer service tend to be challenging, time-consuming to measure and therefore neglected.



3.2 Optimizing the control mechanism

At the bare minimum, head office management must ask the following questions: Which party would be pre-disposed or sufficiently neutral to be entrusted with the oversight of branches? What kind of tools would facilitate monitoring and feedback?

3.2.1 Parties to provide the oversight

The head office is the default choice to be responsible for branch oversight. However, for reasons related to ease of access and branch similarities, some functions are better governed via a span of control kept at the regional level within the country. Branch managers should also be tasked with responsibilities to enforce the governance structure. The branch's organizational structure has to support the branch managers in this aspect. For one project, Solution Providers identified poor monitoring being related to an overly flat organizational structure. Third parties such as consulting companies are especially useful since they not only provide an unbiased assessment of branch governance but also the resources and platform to re-examine branch management as part of the distribution and operations strategy across the organization.

3.2.2 Tools to use

A balanced scorecard to measure financial and non-financial performance, including learning and development, makes a well-rounded monitoring tool. Non-financial performance such as management skills, leadership and customer service are prone to perception bias. Standardized assessment tools and mystery shopping exercises by third party assessors not only reinforce fairness, but also enable industry benchmarking.

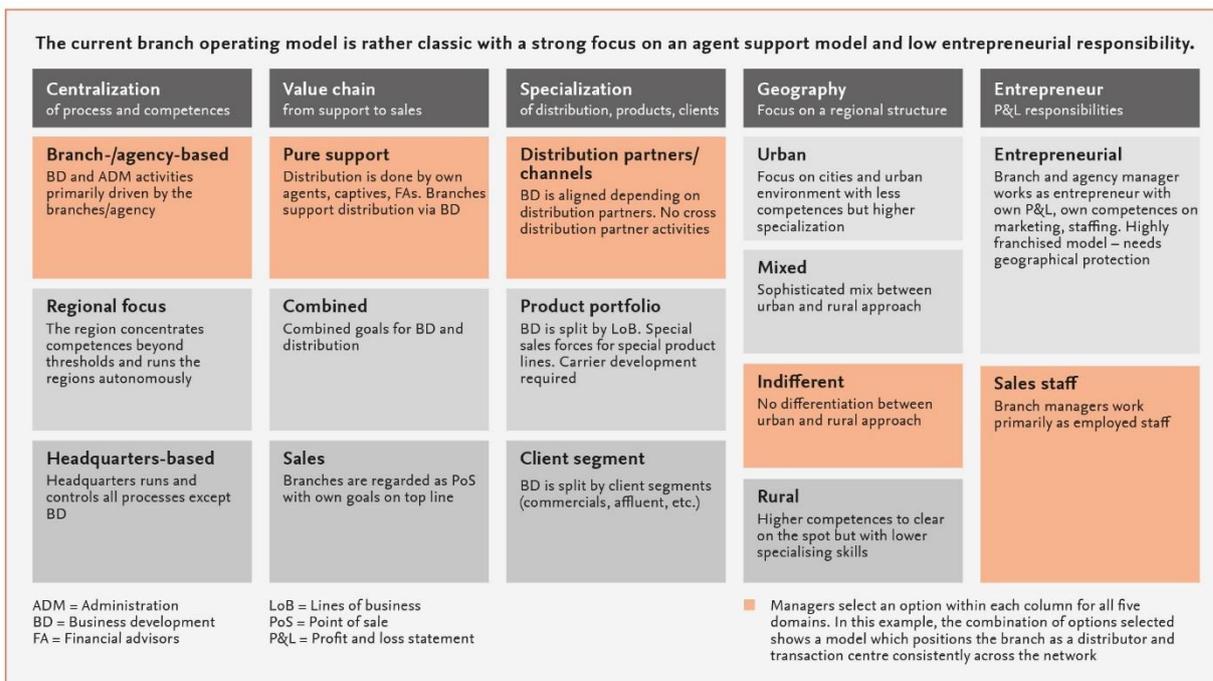
4. The Strategic Operating Model

Solving the centralization, standardization and governance dilemmas will lead top management teams to an operating model for the branch and agency support. However, management must bear in mind that the model must be relevant across time. Relationship-oriented cultures are opening up to self-service facilities, making the traditional operations role of the branch irrelevant. This has been demonstrated in retail banks, but it does not necessarily mean the demise of branches. Rather than operating in the transactional domain, particularly those of low added value or skill requirements, retail banks open up to offer services requiring a personal touch and are of high added value or revenue. Financial advisory is one such service.

To determine if the branches will remain relevant in the mid to long-term, Solution Providers suggests top management teams review the operating model at the strategic level. Specifically, top management teams must decide if its branches are positioned appropriately in the broad context of the company's strategy. Managers can start by examining the current functions of the branch along the company's value chain. Then the right questions in related domains such as customer behaviour, distribution channels development and country or regional trends should be raised and answered.



Figure 2: Branch and agency support strategic operating model development tool



Source: Solution Providers research

Figure 2 offers an example of a branch and agency support strategic operating model development tool to guide the top management teams. Managers select an option within each column for all five domains. In the example above, the combination of options selected, as outlined in red, shows a model which positions the branch as a distributor and transaction centre consistently across the network.

Top management teams must ensure alignment between the chosen branch positioning and the intended operating model. The latter is reflected in the branch’s organizational structure as well as the degree of centralization and standardization for branch functions, processes, systems and human resources policies. Installing a suitable governance structure ensures consistent alignment with branch positioning. In this way, branches will be equipped to become both brand ambassadors and a growth impetus for the company’s bottom line.

Contact us

Solution Providers is happy to discuss the dilemmas, operating model and opportunities for the Branch and Agency Support management in more detail with you. Please contact our topic experts Clarie Kwa clarie.kwa@mailsp.com or James Loh james.loh@mailsp.com.