



Insuring Lean Operations: How JPF Learned to Think Like a World- Class Manufacturer

By Cynthia K. Swank

INSURING LEAN OPERATIONS

Agenda

- **Who is Jefferson Pilot Financial**
- **JPF's Premier Partnership strategy**
- **Learning from the automobile industry**
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- **Moving from model cell to model facility**
- **Broadening the lean scope**
- **Key learnings and implications for service operations**

JEFFERSON PILOT FINANCIAL (“JPF”) IS A LEADING U.S. COMPANY PRIMARILY FOCUSED ON LIFE INSURANCE.

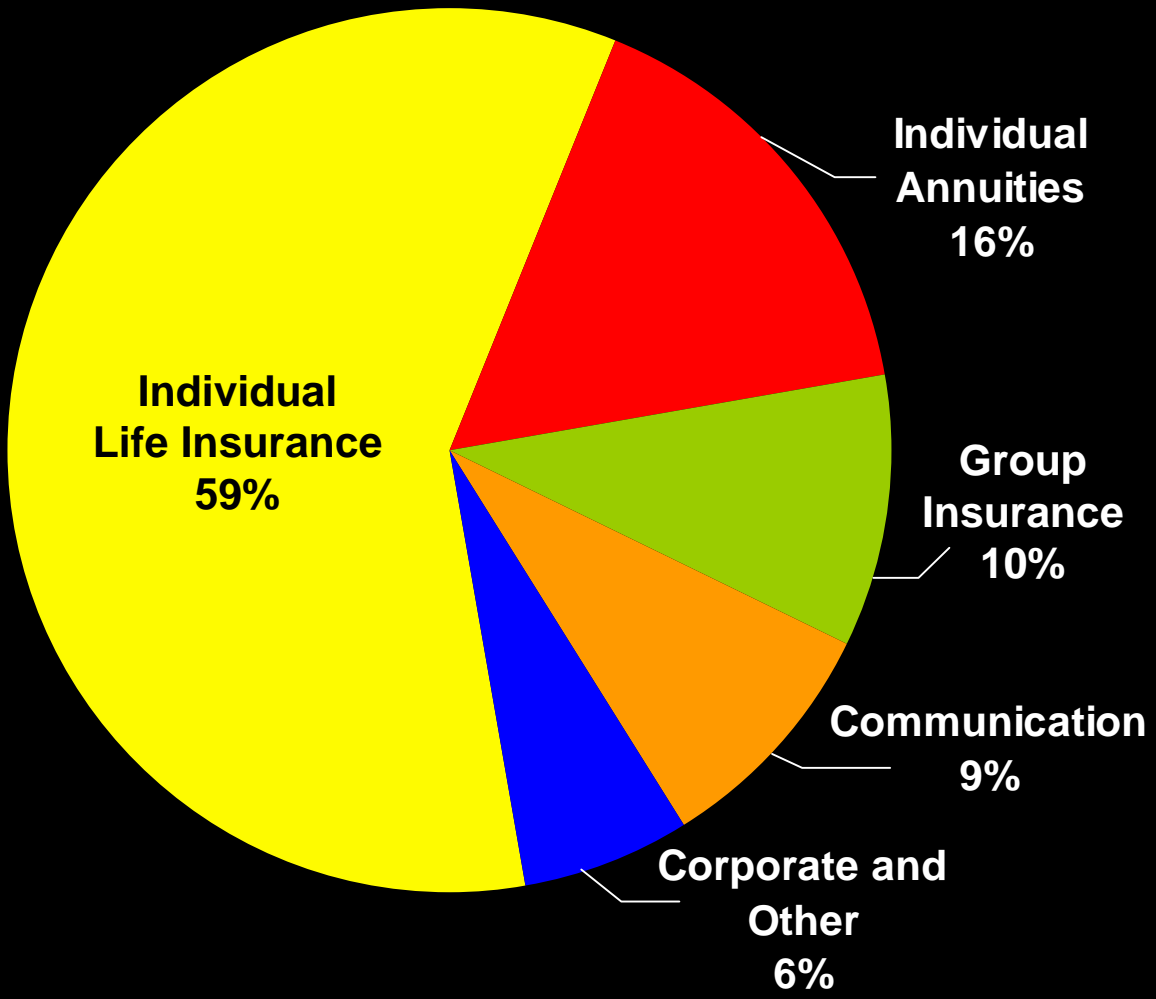
Mix of Business (2003 Reportable Segment Results)

Fortune 500
(Ranked by Revenues)

- 458 USG
- 459 Bed Bath & Beyond
- 460 JPF**
- 461 NTL
- 462 Universal Health Svs

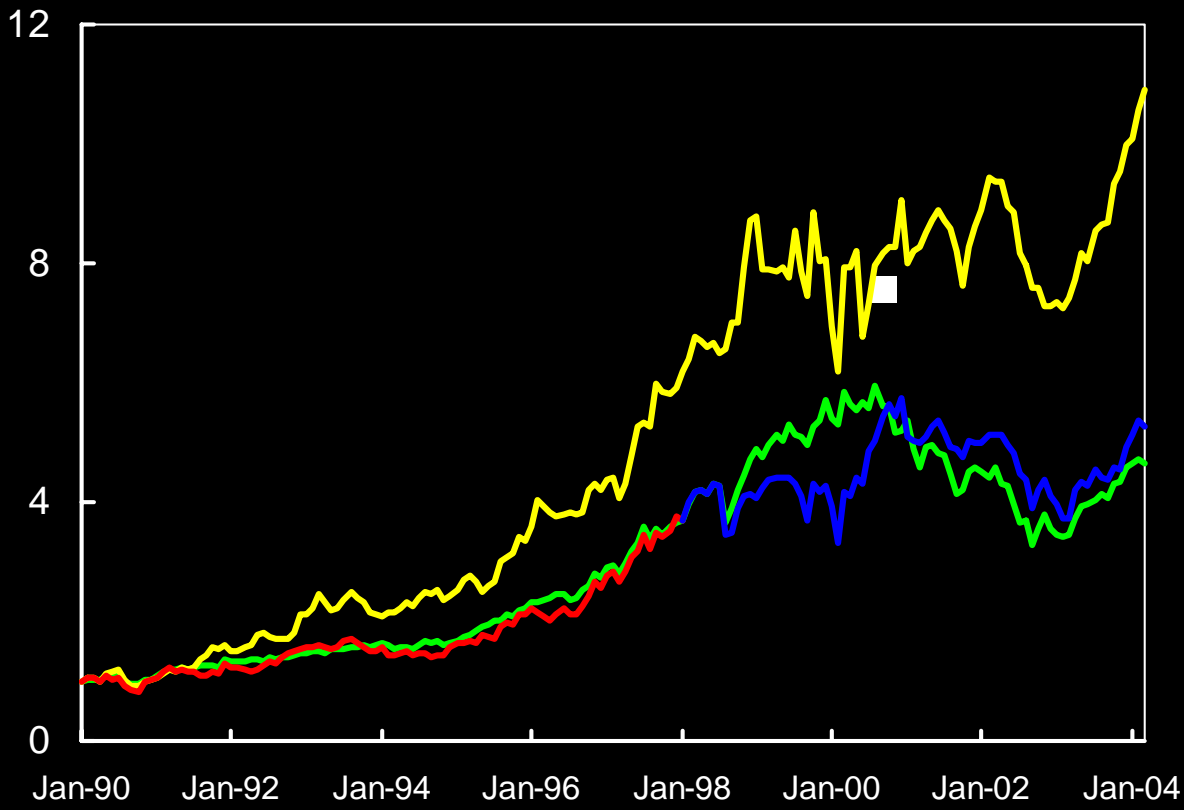
Fortune 500
(Ranked by Profits as a % of Revenues)

- 67 Boston Scientific
- 68 Erie Ins. Group
- 69 JPF**
- 70 Marsh & McLennan
- 71 Pepsico



IN 2000, JPF NEEDED A NEW STRATEGY TO CONTINUE BEATING SLOW INDUSTRY GROWTH

Total Return to Shareholders Percent, Indexed to 1



- Jefferson Pilot
- S&P 500
- S&P 500-Property & Casualty Insurance*
- S&P 1500-Insurance Composite**

CHALLENGES

- Product proliferation
- Specialized niche attackers
- Obvious structural moves already undertaken

*Up to January 1998
**Begins at January 1998
Source: Research Insight/Compustat (May 5, 2004)

JPF'S PREMIER PARTNERSHIP STRATEGY SET THE STAGE FOR MAKING ATTRACTIVE BUT POTENTIALLY RISKY OPERATIONAL IMPROVEMENTS.

PREMIER PARTNER STRATEGY

Jefferson Pilot Financial strives to be the partner of choice for high performing producers and marketing organizations who target specific markets and demand in-depth expertise, exceptional efficiency, and quality communication from their carriers. We seek strong relationships by providing a superior product portfolio, distinctive market driven sales support, consistent service, advanced technology, and rewards for growth, persistency, and loyalty.

OPERATIONAL IMPROVEMENTS

UPSIDE

- Move from “no mistakes” operational approach to differentiated services
- Meaningful improvements could open up significant incremental sales

DOWNSIDE

- Any disruption of service could drive away business
- Service improvements that raise costs increase threat from focused attackers

LEARNING FROM THE AUTOMOBILE INDUSTRY

Lean = Raw materials transformed into finished goods with

- – Maximum speed
- Minimum waste
- Unwavering quality

LEAN APPROACH SEEMED APPLICABLE

Life Insurance Core Business System



- Receive/sort forms
- System entry
- Order requirements

LEAN APPROACH SEEMED APPLICABLE

Life Insurance Core Business System



- Receive pending requirements
- Assess risk
- Determine policy disposition

LEAN APPROACH SEEMED APPLICABLE

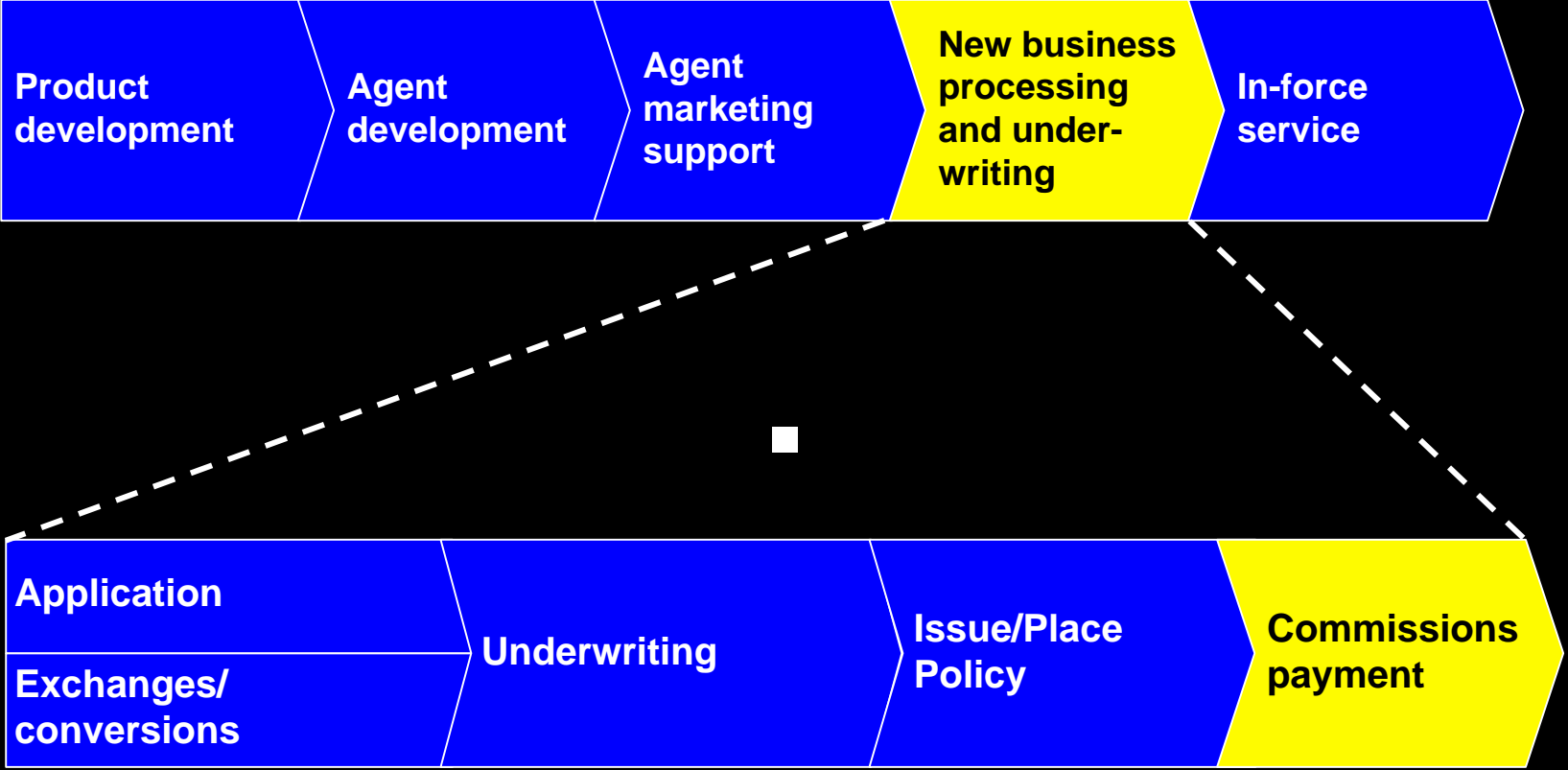
Life Insurance Core Business System



- Issue policy
- Collect payment
- Process payment

LEAN APPROACH SEEMED APPLICABLE

Life Insurance Core Business System



- System feed to Commissions
- Mail payment and statement

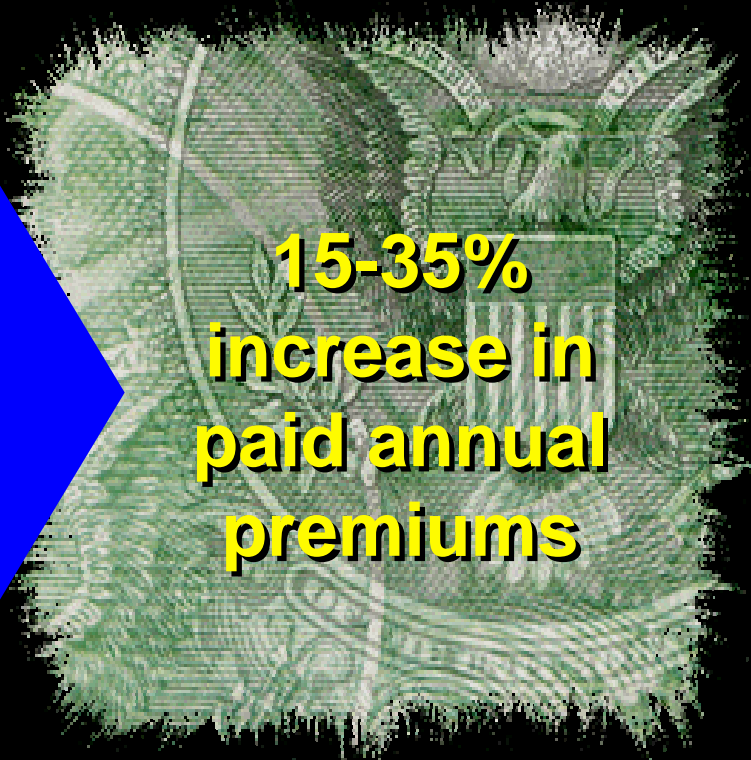
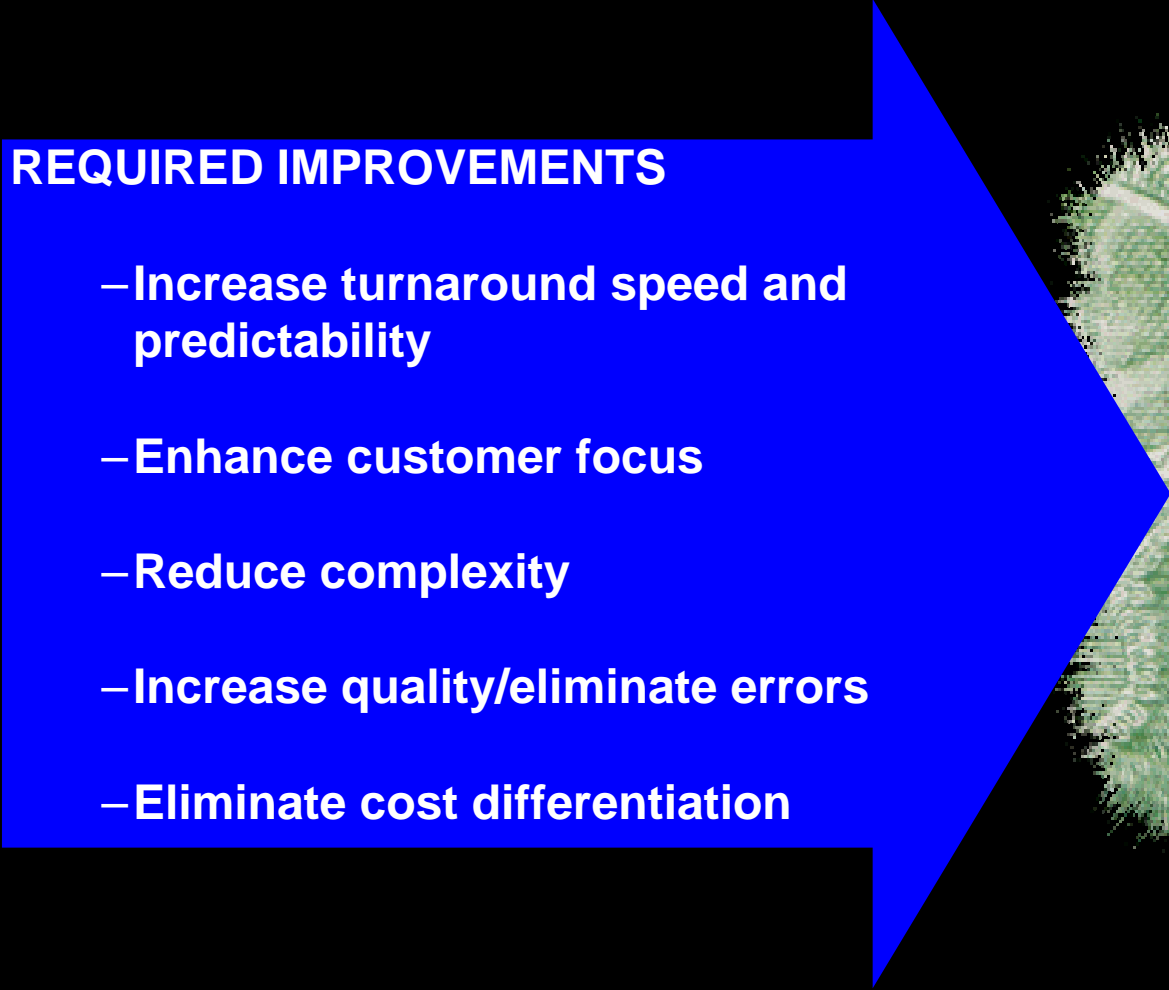
LEAN TOOLS SEEMED APPLICABLE

- Flow processing** → Speed applications by removing kinks
- Load balancing** → Make sure individuals processing forms shoulder comparable burdens
- Work leveling** → Synchronize process-step workloads with incoming demand
- Standard operations** → Establish best practices in cells and then spread through entire organization
- Segregating complexity** → Form separate channels for complicated tasks so that simple ones are not held up

POTENTIAL VALUE OF LEAN IMPROVEMENTS WAS CLEAR

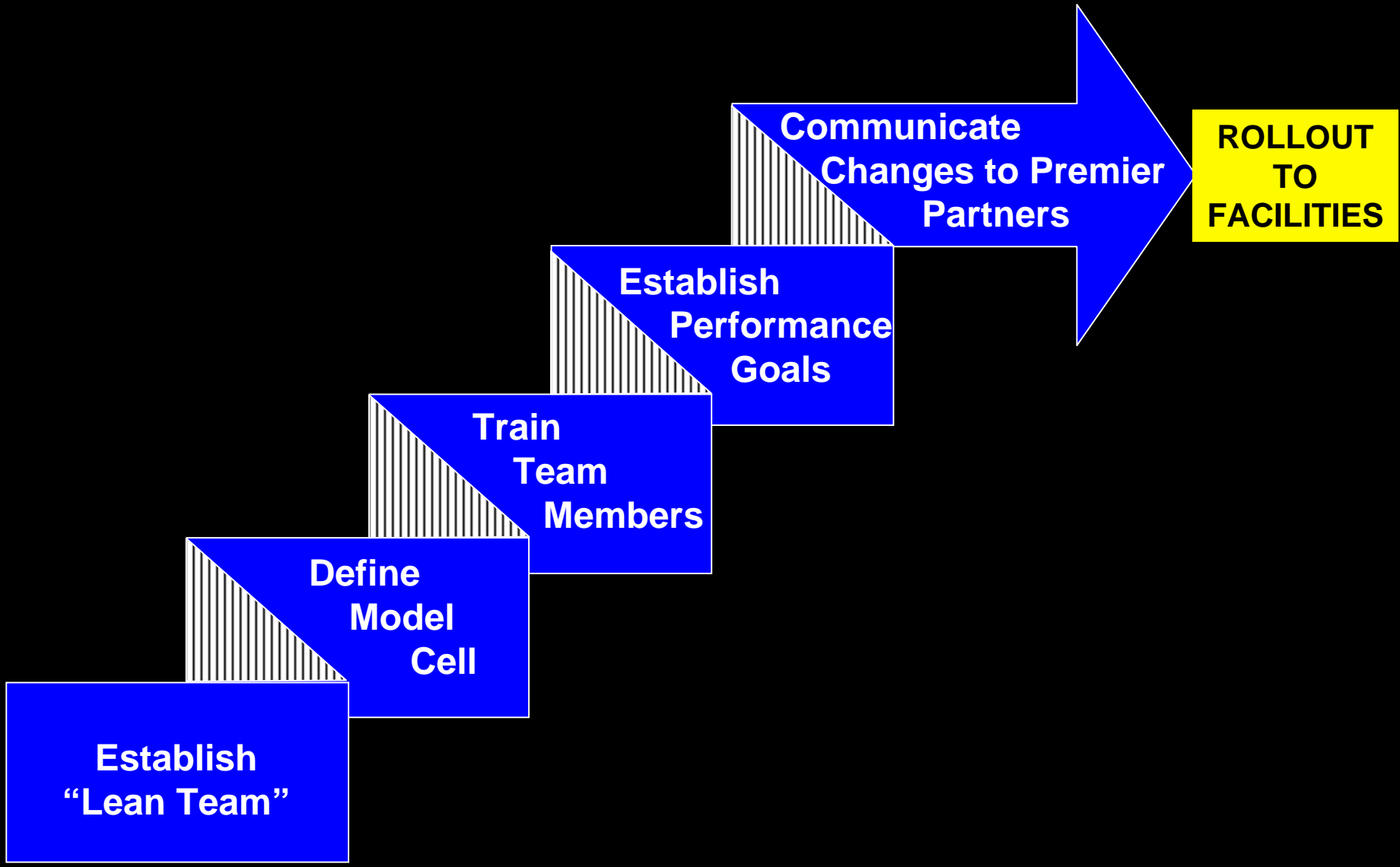
REQUIRED IMPROVEMENTS

- Increase turnaround speed and predictability
- Enhance customer focus
- Reduce complexity
- Increase quality/eliminate errors
- Eliminate cost differentiation



15-35%
increase in
paid annual
premiums

MOVING FROM MODEL CELL TO MODEL FACILITY



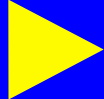
LEAN CHANGED JPF'S WAY OF THINKING

WAY WE WERE

WAY WE ARE

WHY

Management driven decision-making

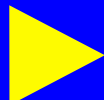


Front-line resources involved



Removes blinders

Vendor viewed as servant

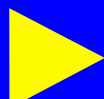


Vendor viewed as partner

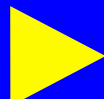


Vendors often drive performance

Management by instincts



Management by metrics

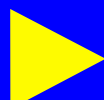


Eliminates uncertainty

Silo organizational structure

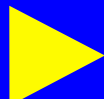


Linear organizational structure



Viewed as outside-in vs. inside-out

Cut costs

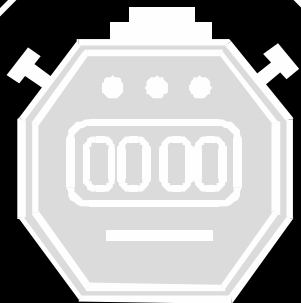


Eliminate waste



Improves service levels

VISIBLE METRICS ARE THE OPERATIONAL CORNERSTONES



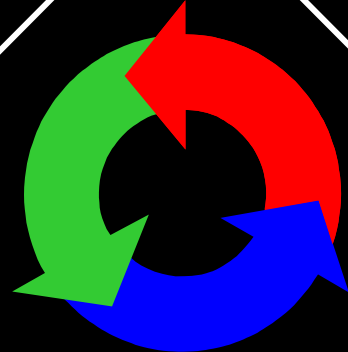
TIME

- Turnaround time (days)
 - Receipt to underwriting
 - Underwriting
 - Approval to mail
- Variability



COST

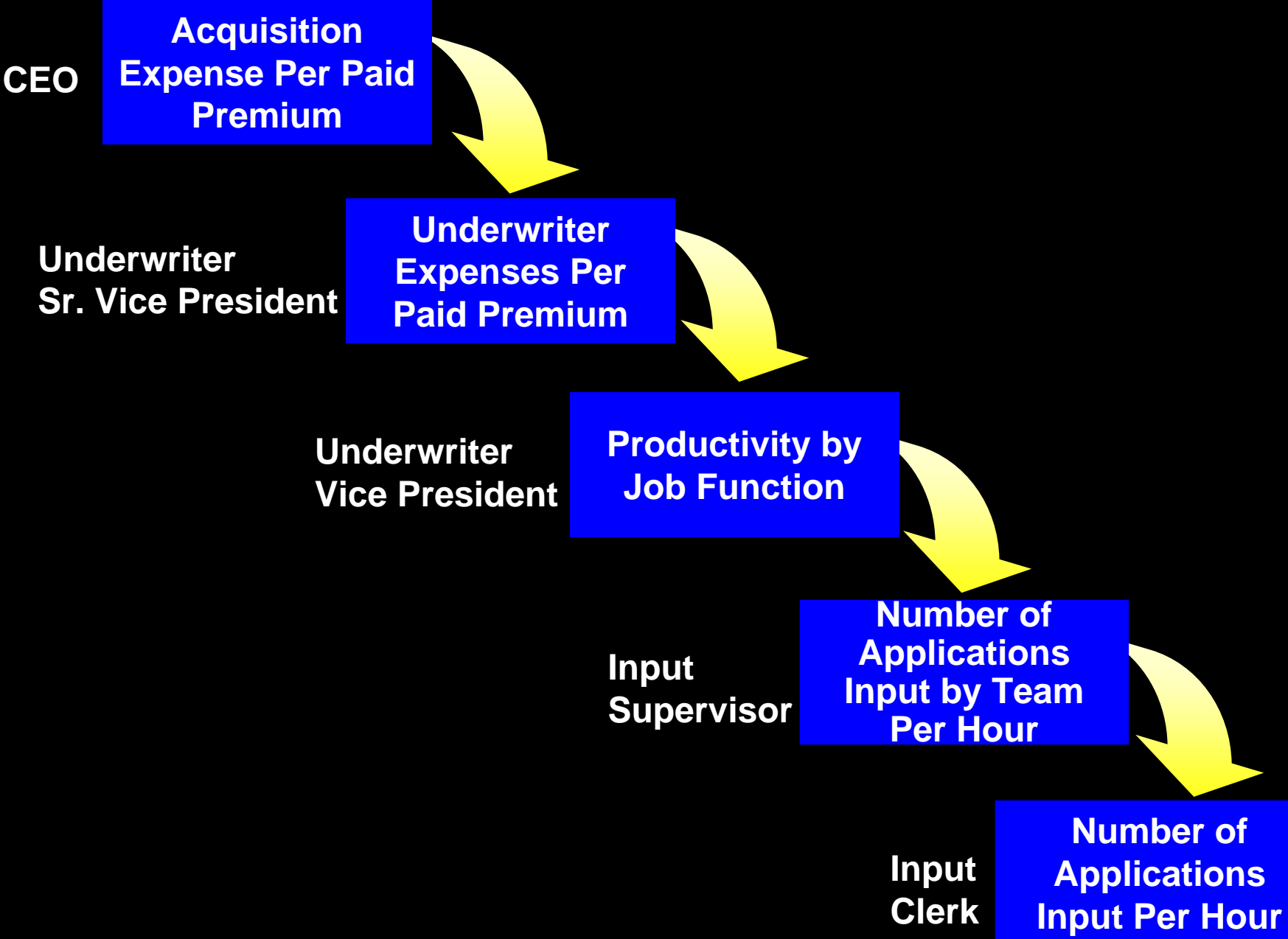
- Cost per submitted app
 - Labor
 - Exams and APSs
 - Other
- Productivity by job function



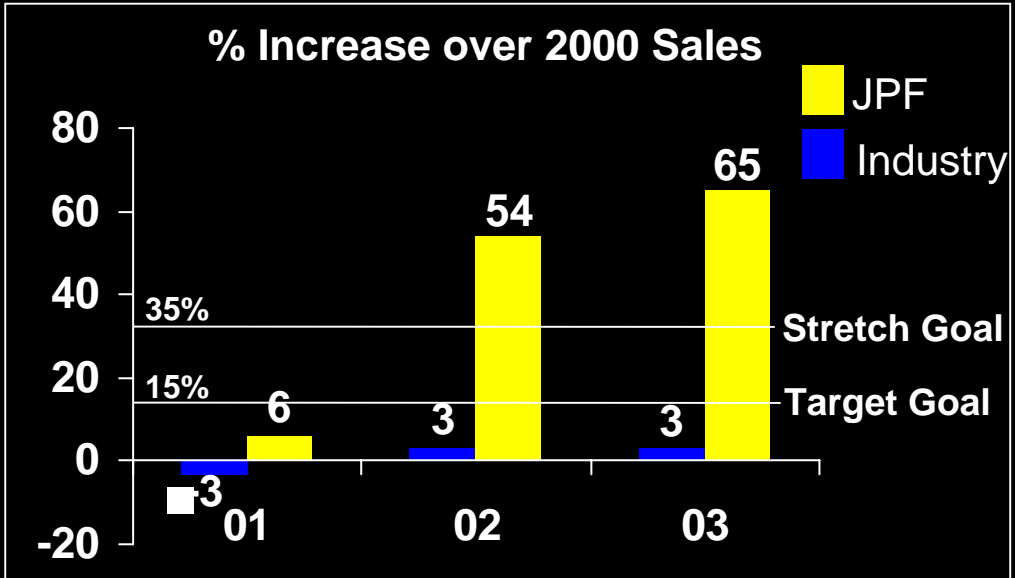
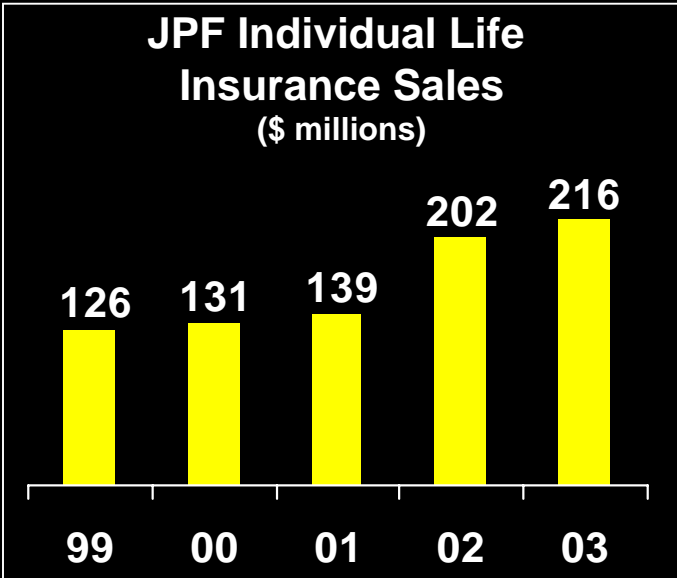
QUALITY

- Reissue percent due to error
- Call answer rate
- Customer satisfaction score

LINKING CEO PERFORMANCE TO SHOP-FLOOR GOALS



IMPLEMENTING LEAN RESULTED IN DRAMATIC IMPROVEMENTS IN BOTH SALES AND NEW BUSINESS OPERATIONAL METRICS



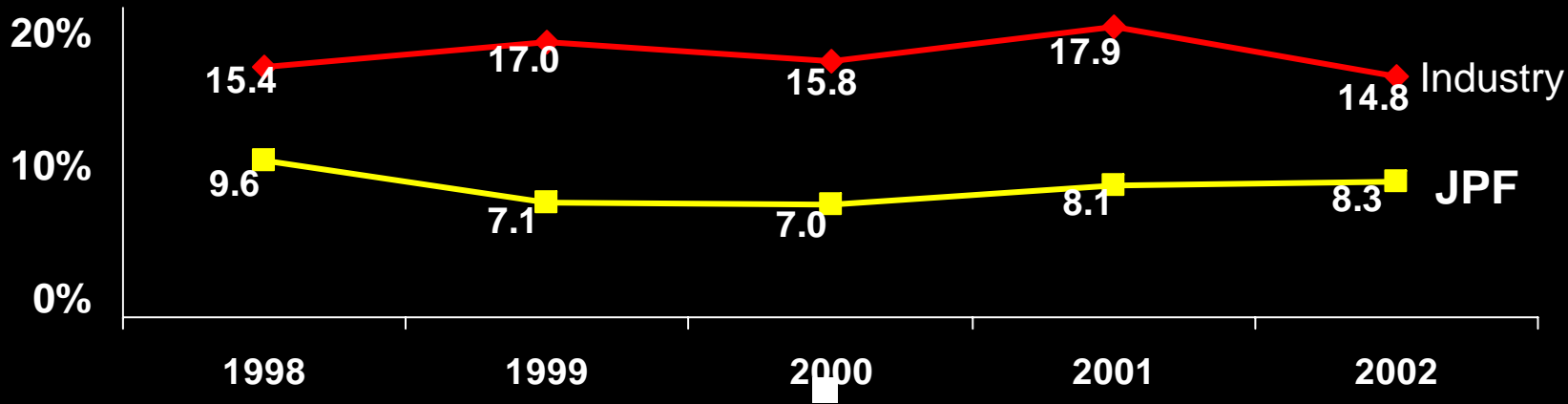
New Business Improvements

	Metric	Long-term Goal	Result
TIME	Apps w/ med reports turnaround time*	Reduce by 60%	Reduced by 70%
TIME	Apps w/o meds turnaround time*	Reduce by 84%	Reduced by 84%
COST	Total labor costs for all applications	Reduce by 28%	Reduced by 26%
QUALITY	Reissues due to errors	Reduce by 40%	Reduced by 40%

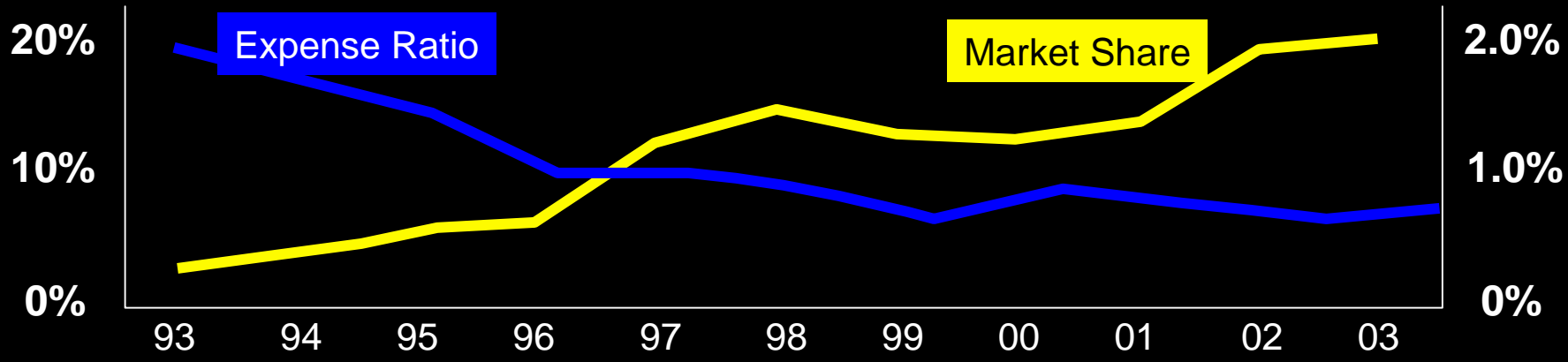
*Turnaround time = time from receipt of application to issuance of policy

BECOMING LEAN ENABLED JPF TO INCREASE MARKET SHARE WHILE MAINTAINING OUR STRATEGIC EXPENSE ADVANTAGE

GENERAL EXPENSE AS A % OF TOTAL INDIVIDUAL LIFE PREMIUM

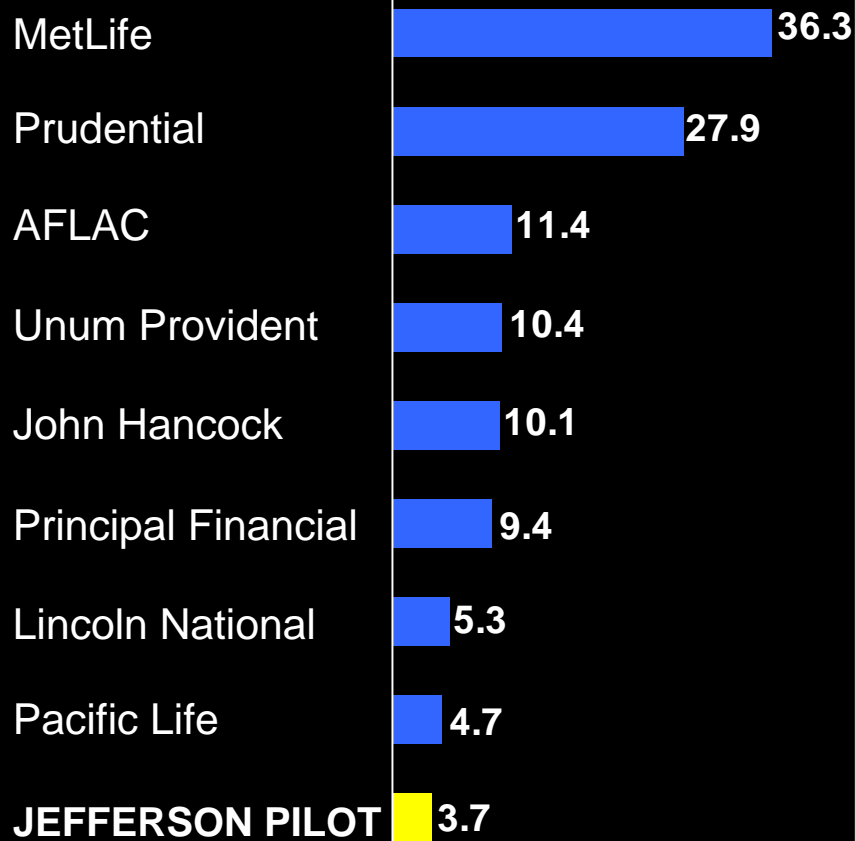


MARKET SHARE GROWTH AND EFFECTIVE EXPENSE MANAGEMENT

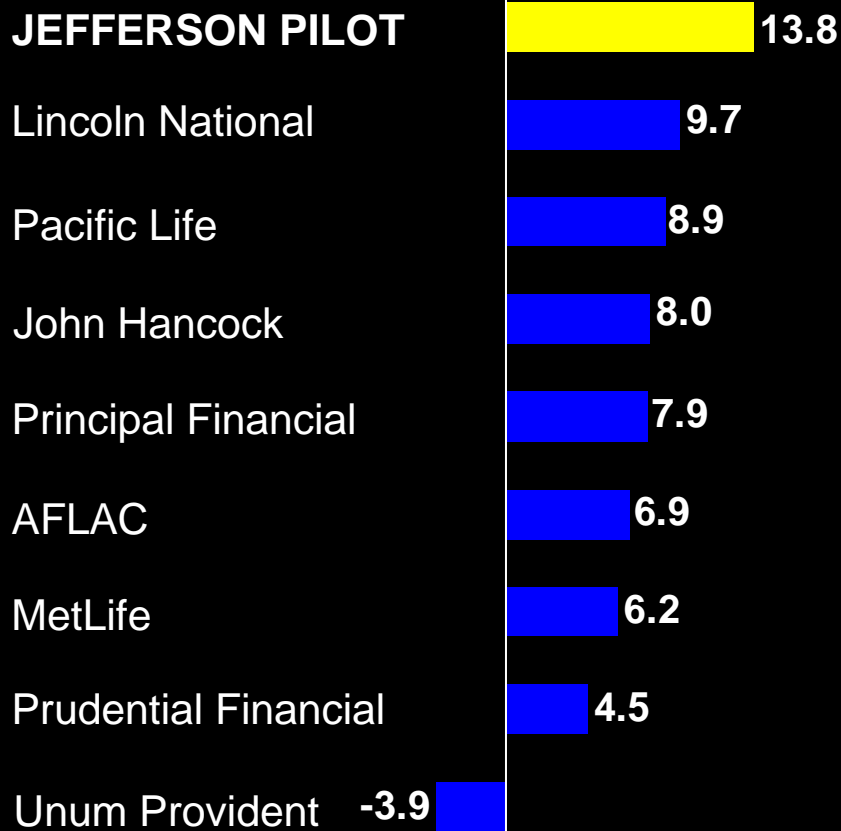


JEFFERSON PILOT'S REVENUES RANK 9TH AMONG PUBLIC INSURERS BUT HAS HIGHEST PROFIT AS A PERCENTAGE OF REVENUE

2003 Revenue
\$ Billion



2003 Profit
Profit as a Percentage of Revenue



Note: Consecro results have been excluded due to one-time accounting adjustments.

Source: Research Insight/Compustat (May 5, 2004); Hoover's (www.hoovers.com)

*(defined as net income as percentage of revenue)

LEAN CONCEPTS HAVE WON WIDESPREAD ACCEPTANCE

Segregating Complexity

- Separating clean cases from complex cases reduced Fixed Annuities turnaround time by 80%
- Teaching Customer Service Reps how to prioritize work and evaluating their performance on that basis improved all call center service metrics

Load Leveling

- Flexible commission payments may revolutionize relationship with agent



Pulling Demand

- By appointing agents only when they submit business we reduced set up time waste (45/min per set-up) and associated annual fees of \$100 per agent

Visible Metrics

- Whiteboards, automated databases, and scorecards now used throughout organization
- Individuals and teams see the impact of their contributions

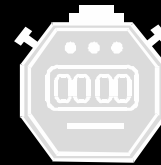
LEAN PRINCIPLES ALSO GUIDE FUTURE TECHNOLOGY INVESTMENTS

- Implement lean before deploying technology

- Focus on investments with demonstrable improvements

- Increased efficiency 

- Remove friction from process



- Automation of processes



- Deploy technology where you can change behavior

- Standardization and separation

KEY LEARNINGS

- **Manufacturing and relationships must be balanced**
- **Lean staffing model can create HR challenges**
 - **Little excess capacity to handle volume spikes and turnover** ■
 - **Training lead time of as much as 12-15 weeks makes plugging gaps difficult**
- **Need to develop skills at flexing the model**
- **Automation complicates flexing of system**

IMPLICATIONS: A NEW PARADIGM FOR SERVICE IS EMERGING

- **The game is changing for financial services companies, and likely all other service-oriented industries.** The minimum acceptable level of performance is rising as increasingly sophisticated customers demand better service and more competitors approach lean-levels of efficiency.



- **Piecemeal solutions won't get the job done.** Only an approach that tackles the entire service delivery system can produce lasting improvements to time, cost, and quality.

- **Model cell pilots are the best crucibles for creating lean improvements.** The only way to be sure you are not creating new second-order problems is to run real-world tests of each modification to the system before rolling out redesigned processes.