

## **ECONOMICS DRIVES AGENCY OUTSOURCING; BUT DO IT RIGHT AND FOR THE RIGHT REASONS**

By Dan Epstein

At a time of rising unemployment and a difficult recession, the concept of outsourcing raises legitimate concerns for any business, not just insurance agents and brokers. Yet undertaken for the right reasons and in the right manner, outsourcing is helping to make producers here in California more productive and better able to compete in a difficult economy without having to resort to layoffs.

A growing number of producers are outsourcing back-office services such as policy checking, claims reporting, billing, and loss summaries. Unlike insurers, agencies have not outsourced customer service functions, but instead have farmed out routine back office tasks so existing agency staff can do more of what they do best to stay competitive: reach more prospects and provide better service to existing clients.

“We first heard a ReSource Pro presentation last year at NAGA (National Association of General Agents), said Barbara Parker-Hatch, Executive Vice President, Yates & Associates in Stockton, CA. “We were using senior people to process documents. We did not realize we had a problem, but when we heard ReSource Pro we realized an opportunity.”

ReSource Pro, headquartered in New York City, developed a model to provide routine, back-office services to agents and brokers using a pool of young, carefully selected Chinese college graduates housed in its processing center in Qingdao, China, in a new software park. Qingdao is a fast growing, modern coastal city one hour's flight from Beijing, Shanghai and Seoul, Korea with a highly-developed technology infrastructure and a well educated English-speaking labor pool.

Each ReSource client is assigned a team leader, who visits with the agency in order to develop a clear understanding of the work to be done and the agency's operating procedures.

“We contacted ReSource Pro last April,” she continued. “They visited our office shortly thereafter and we started work in July. I think of them as my own staff. They save time. They put the right people on the job. And if they make a mistake, it is not repeated because they will take the time to find out why the mistake was made and make the necessary changes. Our people were concerned at first that they might be replaced. That feeling vanished after a few weeks. We do a lot of admitted business renewals and they need to be rated in a timely manner. Before ReSourcePro, we would have as many as 15 or 20 extension endorsements per month. After ReSource Pro, we have had a grand total of four since last July.”

Automotive Risk Management Insurance Services, also in Stockton, serving car and truck dealers, realized savings in processing motor vehicle reports (MVRs).

“We want to keep the people we have,” says ARM Executive Vice President Maria McDougal. “We process as many as one hundred MVRs per day. Before Resource Pro, we had two or three people on staff to do the work. If even one person did not show up for work for one day, the backlog created a serious problem. With our ReSource team, that problem has been eliminated.”

McDougal adds that their ReSource Pro team functions only as efficiently as the instructions they are given.

“They set up accounts, send acknowledgement letters, do some rating, and are capable of doing considerably more than the routine,” she says. “If you give them good instructions on what you want done, they will produce efficiently.”

Outsourcing does not work for every agency. ReSource Pro recommends agencies consider seven steps in considering whether or not to outsource.

#### 1. Outsourcing is about Growth, Not Downsizing

Agencies with an experienced staff should consider outsourcing as a means to make best of employee’s time and talents, not to downsize and cut costs. Outsourcing tasks can reduce costs, liberating resources that can be deployed more innovatively and productively to improve the agency’s customer experience.

#### 2. Keep Control of Your Systems and Security

In more traditional outsourcing models providers use their own agency management systems, promising efficiencies and economies of scale. The problem is that if the relationship falters, the agency can be stuck without a system and the people to run critical back office functions. A more prudent approach is to have the outsourcing provider connect remotely to the agency’s own system and adhere to its processes and procedures.

#### 3. Work with Insurance Industry Specialists

Consider only industry specialists who understand the challenges and objectives specific to your kind of insurance agency. Look for a provider that maintains its corporate headquarters or at least a fully functional branch office in the United States to ensure quick turnaround in the event a problem. Also, check the education level of a provider’s staff as well as their professional and English proficiency. Reducing E&O from levels current in an agency is definitely possible but depends upon the quality, education and training of your service provider’s employees.

#### 4. Ease of Implementation

Some outsourcing solutions can involve substantial investment in new IT systems, processes and training. Others do not. It often depends on how a service provider connects to the agency's office and whether the solution requires the agency to migrate to another system or continue to use their own. Often the most painless and effective outsourcing solutions do not require systems or processes changes, which means that the learning curve takes place with the service provider, not then agency staff. Find out the typical length of time that outsourcing solutions take to implement, compare costs between solution providers and ask for references to learn about other client experiences.

## 5. Winning Internal Support

Successful partnerships require commitment from both the provider and the agency. Agency employees should be involved and clearly understand the objectives behind the outsourcing project: that it is designed to help existing staff become larger contributors to the business and make their work more interesting. Management needs to provide clear direction, be responsive to questions and concerns and reassure staff that the outsourcing solution is designed for their individual benefit as well as for the agency as a whole.

## 6. Due Diligence

What is the track record of the specific service provider? Talk to the firm's existing clients about their concerns, challenges and solutions and whether there has been a net improvement to top and bottom lines. Some service providers will provide, at no obligation, free trials for prospective clients, to demonstrate how the solution would work specifically for an agency's task requirements.

## 7. Economics

Offshore solutions can offer the best returns on investment if quality control can be assured. Agencies need to know their current fully loaded costs of doing the work internally, including salary, benefits, hiring, training, management supervision, attrition, and compare these costs to the service provider's solution. Besides direct financial gains, there are also indirect benefits to outsourcing, such as facilitating innovation by staff who have more time to focus on service differentiation, the greater ease of adding capacity to your operation by standardizing workflows, and by placing the burden for hiring, management and quality control on the service provider.

By following these seven principles, agency owners and managers can generate substantially greater confidence about pursuing outsourcing as a means of making their agencies more, efficient, more competitive and more profitable.

*Dan Epstein is CEO of New York City-based ReSource Pro, a company that provides back office outsourcing services to wholesale and retail brokers in the insurance industry. For more information, contact [www.resourcepro.com](http://www.resourcepro.com)*