

Grand Prix Automobile Insurance Company

Company Background

Grand Prix Automobile Insurance Company (GPAIC) is a company that sells automobile insurance policies to licensed drivers in the state of Indiana. The company headquarters are located in Speedway, Indiana. GPAIC employs about 200 people, most of which are insurance agents located at several different offices throughout the state. The company was established in 1991, and has grown to about 50,000 policyholders.

Selected Financial Data (\$000)	
Revenues from premiums	46,250
Revenues from investment activities	7,425
Expenditures on claims	23,325
Total operating expenses	26,050
Taxes	1,520
Net Income	2,780

Industry Trends

Automobile insurance has emerged as a highly competitive industry. Most customers recognize insurance for what it is – a fallback in case of an accident and are looking to cut insurance expenses. However, their demands in terms of services rendered by an insurance company have multiplied. Several new agencies have emerged in recent years which target niche markets and offer services tailor made to those market needs. Due to changes in state and federal regulations requiring minimum liability insurance, the number of policyholders is expected to increase drastically in the next several years.

Insurance Management System Project

Jonathan Dewar, president of GPAIC, is concerned that his company may be ill prepared to handle the challenges of such industry trends. He is concerned that the old way of doing business is no longer adequate, and feels that information technologies can help GPAIC gain a competitive advantage over its rivals. Therefore, he has contacted you, a brilliant systems analyst, to lead a consulting team to determine the requirements of an insurance management system. He has arranged for you to meet with him and several employees to gain an understanding of GPAIC's operations.

Interviews with GPAIC Employees

John Dewar, President

“Good morning! It’s a pleasure to have you here. I’m really excited about getting some new technology in here; I think it can really make this company more profitable. If you’ve done your homework, you know that the insurance industry is really a cutthroat place, with no room for losers. And we here at GPAIC are no losers, no siree. Here, have a cigar. They’re Cubans – nothing but the best!”

You squirm nervously in your chair.

“So anyway, we’ve got a nasty problem here. See, I need to cut costs but also provide more service. My customers want more value for their dollar – everyone does! It disturbs me when I hear that it takes us 90 days to process a claim. Why, even those morons with the rock can do things faster than that. I didn’t name this company Grand Prix because we were slow!”

“We’ve grown a lot, too. Used to run this place in my basement; now we’ve got 50,000 customers. We’ve got some kind of computer system that helps, but I’ve been told that we’re running out of space or something. You’ll have to check into that – I can’t afford not to be able to take more customers. “

“Now, I don’t much care how the rest of the system works, so long as it works right and gives me what I need. “ He holds up a sheaf of papers. “These here are reports that tell me everything about the company. All the policyholders, all the invoices, all the agents, and all the claims. “

You ask if he uses a computer to generate such reports.

“Hell, no! My wonderful secretary, Katherine, does all this work for me. I’m too busy to be bothered to use a machine. I just ask her for whatever I need, and she gets it for me. Sometimes I need some other information, if there is some kind of problem with a claim, for example, and she gets me whatever info I ask for.”

“One other thing I do want to do is to identify just who my customers are so I can offer some kind of discounts to just certain people. You know, low-risk ones like old people driving Plymouth Reliants and people with good driving records who drive less than 100 miles per week. I think that could really be good for business.”

“I know we probably aren’t doing things the best ways, so I want you to tell me how to do them better. I understand information systems can offer big returns on investments. Remember, I want to be able to do more for less, so if you see any scope for doing away with wasteful activities, you just let me know! I would like to eliminate these activities...” He smiles and chuckles to himself.

You ask if there is anything else.

“Nope, that’s all I can think of for now. Katherine will take you around to meet some of the key players here; I’ve got a tee time in 15 minutes. If there’s anything you need, you just let me know. I’ll be looking forward to your results!”

Katherine Talisker, personal assistant to John Dewar

“Greetings! I see you survived his meeting. John can be a little intimidating at times, but he’s relatively harmless. Besides, I’m really the one who does all the work around here. He gave me this list of people he wants you to talk to. If you’re ready to go...”

You ask her if she has a few minutes to discuss what she does.

“Oh, sure. Well, I basically spend most of my day looking up information for John. Those master reports he showed you are pretty easy; each department generates them once a week or on request. But it’s the special requests that are tough. Usually I have to walk down to the Policy Department, on the first floor, look through their computer system or the filing cabinets to find the policy info, then walk up a floor to Claims and do the same thing all over again. I usually have to talk to the policy agent, but they’re never in the office so I wind up waiting a while for that. If it’s a personnel or payroll issue, they’re in Waterloo, which is about 100 miles away, so that’s usually a phone or fax. Legal is in Corydon, about twice as far away, but fortunately I don’t have to talk to them as much.”

“Sometimes he asks for things I just can’t find out! Like the other day he wanted to see all the claims processed in the past year from 18-24 year old drivers who were found to be at fault. I told him that would take a while, because I would have to match up all the claims to all the policy records. John is so impatient sometimes, and I wish I could get these answers faster, but I just can’t! There’s just too much information, and it’s all over the place.”

Colleen MacCallan, Policy Department Supervisor

“Hello! Welcome to GPAIC. As you can no doubt see, things are a little busy here. It’s always like this. We do a few things in this department, all related to policy applications and records, of course. I’ve worked here since it was

founded, so I know this department inside and out. Even now that I'm supervisor, I still wind up helping out when it is really busy. Most of our time is probably spent handling new policy applications. We also have to generate reports for..."

You interrupt and ask if she could explain how an application is handled.

"Oh, sure! Well, customers fill out one of these application forms, usually with an agent. Sometimes they are faxed in, sometimes mailed, and sometimes the agents drop them off. At any rate, we stamp them the day they come in, and enter the information into our computers. That way we can store the original in a file cabinet and cut down on paper. Sometimes we need to contact the applicant if information was missing or illegible. Then, we need to check with the Department of Motor Vehicles to validate that the applicant really does own the vehicle. The Indiana DMV is tied directly into our computers with a modem, so we don't need to send them any paper. That is pretty new, about a year old – it was John Dewar's idea. It has worked pretty well so far, and the DMV seems to like it, too. They send us back a copy of the vehicle registration."

"So once we have that, the registered owner is compared to the applicant. If they don't match, we send a rejection letter to the applicant and update the application status in our system. If the info matches, we send a driving record request to the local police department to obtain information about arrests, citations, accidents, etc. That usually takes a day or two for them to send the record back. Once we get it, it's evaluated against a set of company standards and is either acceptable or unacceptable. You ought to see some of these records – there are some real winners with lists of accidents as long as my arm! Those get the reject notice. But sometimes I get a request from above to go ahead and approve an applicant anyway; I don't ask why, I just do it. If all that goes OK, then we issue a policy and update our computer records again. We also notify the agent of the status. All the policies are on a billing cycle, so every week we run a report to generate policy invoices that get sent to the customers."

You ask "how many applications do you handle in a day"

"It depends, we receive about 100 to 150 new applications a day. Of course, all of them do not get accepted and some 15% are rejected after we verify their driving record and other details. In addition, we do have a lot of modification requests - you know people move or buy a new car. My guess is 25% of our policyholders modify their policy each year.

You interrupt "How long does it take to process a policy application?"

Well, from the time we receive an application we take about a week to complete the processing. But you know most of the time is waiting for information from the DMV or the police department. For us it takes around 30 minutes to process a new policy application and set it up in our system- if all the information is clearly filled out in the application. If not, we have to call up the person and get the details - if we cannot reach the person when we call, we notify the agent who handled the case and wait for them to get back to us with the necessary information.

"But that is just part of what we do! We also update payment information, process cancellation requests, and modify the policy data in other ways. Sometimes, the policyholder requests a change, like a different coverage limit, and sometimes the requests come from management or from an agent. For example, an agent can meet with a customer to change the limits of coverage on a policy and the agent contacts us with the changes. Either way, we first have to verify all the policy data, then sometimes we have to calculate a refund or balance due and send either a refund or an invoice to the customer. For cancellations we also record a reason for cancellation"

"How long does it take to process these policy modifications?"

It depends on what the customer wants. If it something simple like change of address it doesn't take much time. If the modification involves including a new driver the process takes as much time as a new policy application, changes in policy options take somewhat lesser time than adding a new driver. By the way, 80% of the modifications involve address change and change to policy options.

“We also generate a lot of reports! Once a month, we generate detailed reports: a policy master listing, an invoice master listing, a policyholder master listing, and an agent master listing. There are monthly summary reports that the president likes to see: policies by agent, invoices by policy, and policy by vehicle type. The monthly exception reports list policy invoices past due, rejected policy applications, and canceled policies. We also handle special requests from Legal, Claims, or Agents requesting policy data, invoices for a policy, and policy payments, just to name a few. Since we’re the only ones who have all the policy data, they have to come talk to us. It takes a lot of time to answer some of these queries, but since we know where all the information is, it’s much quicker for us to do it than to let them poke around.”

You ask if the other departments have access to the policy computer system.

“Oh, no! We don’t want anyone changing the data in there! We work very hard to keep it correct, and we want to keep it that way. Even so, sometimes we still have problems with agents who like to do everything themselves. They keep copies of policy information in their office, but never bother to check if it is current, and sometimes make some mistakes when talking to customers. “

“I understand that John wants to improve efficiency and cut time and money with some sort of new computer system, but I don’t see how things can be made much faster here. After all, we are already using computers to type in a lot of information. The real problem is in claims! They’re the ones taking 90 days to process a simple claim!”

Michael Chivas, Claims manager

“Oh, you just came from Colleen!” Michael rolls his eyes. “She thinks that Policy is always right and never causes any problems. Far from it! They probably cause most of the problems around here. I’ll bet she gloated over her computer system.”

You cautiously nod your head in agreement.

“Anyway, you’re not here to listen to all my complaints. As far as customers are concerned, this is the most important department. After all, when you wrap your car around a tree, you want us to respond fast, right? So that’s why our response time is a problem. I’ve been spending most of my time trying to fix the problem, and I think that if I show you what we need to do everyday, you may be able to help us.”

“We’ve got room for a dozen phone operators here to answer calls from people who got in accidents, and from our agents. We also have a couple of fax machines. Usually, a customer or agent calls us to report an accident. If they have a fax machine, we fax them an automobile loss notice; if not, mail has to suffice or an agent visits them. We average twenty new claims per day, but we hate bad weather here – the phones sometimes ring off the hook! ”

“So, the customer fills out the form and sends it back. We have a computer system, too, and we punch in all the information from the form and save the original paper. The next step is to head over to Policy to pull the person’s policy information. Once we have the matching policy, we determine whether the claim is covered under that policy. If at least two damage estimates are included and the claim is covered, we mark it as pending and can continue. We enter information off the damage estimates such as the company name, description of the damage, and the amount. If estimates are missing, we generate a notice to send to the customer, and the claim is marked as pending until we receive the estimates. If it is not covered, the claim is rejected, the claim status modified, and the customer notified of the claim rejection. ”

"How long does this process take?"

Well the whole process takes about one and a half-hours for each claim. We spend a lot of time trying to get the matching policy information and making comparisons to see if the claims are covered. This is an important step - if we mess up, we could be coughing up a lot of money on bad claims. We try to do our best, but I suspect that some bad claims slip through. Sometimes, the agent might press us to process a claim quickly and we hurriedly ok the claim. My guess is we could probably cut down our claims payment by 10% if we are more diligent. But we are

already under fire for taking 90 days - I am sure John would have highlighted that. So we don't have the luxury to examine each claim carefully.

What do you do when the claim involves collision with another vehicle?

"If this accident involved a collision with another vehicle, a police accident request is sent to the DMV, and the status of the claim is modified as pending. The DMV gets the accident report from the police officer at the scene, then they do their own processing before sending us a copy. They are usually pretty good about things – maybe two or three days. Once we get the accident report, it is determined whether the customer was at fault."

"If they were not at fault or not in a collision, a claim payment is generated and sent to the policyholder, and the claim is updated to include the payment date and amount. If the policyholder was charged, a claim payment is still made, but we notify Policy to update the policy records with the date and amount, and give the person a higher rate. Too many accidents and I guess they drop the person. After we get the accident report it takes another 2 hours to process each claim"

You ask what would help speed up the process.

"That's really what we've been trying to find out! Some of these actions are really out of our control, like waiting for the claim form, estimates, policy info, and accident report. Once we have them, the process is pretty quick. I think if we could get instantaneous access to policy information, we could send out estimate and accident report requests as soon as we get the claim form. Right now, my staff spends most of their time hunting down information, so we have a backlog of claims forms to process. That is wasted time, to me – a claim form should never have to wait to be processed; we should be able to request the accident reports and estimates as soon as a claim comes in. Part of that 90 day figure is spent just waiting for the claim form to come in; not everyone faxes them."

"We also have to generate some reports once a month: a master listing of claims, and a listing of claims by vehicle type and claims by policy. There are some monthly exception reports, too, rejected claims, and claims without estimates. Quite often we get special requests from management, legal, or Policy about claims against a policy, claim payments, or estimates for claims. So another portion of our time is spent answering other people's questions. Agents also bother us a lot with questions, since their customers ask them about the status of a claim, why their rates are high, etc."

"I hope you have some good ideas to help shorten this processing time; from what I know of John, he'll be really disappointed if you can't!"

Rob Glenlivet, agent

"I'm afraid I only have a few minutes to spare, so we'll have to make this quick. Like all other agents, I'm responsible for a 75-mile radius. I'm based out of Speedway, but we also have agents in Corydon and Waterloo who have to travel as much as I do. Most of my day is spent on the road talking with customers. I get paid on commission; I can't waste much time!"

"The biggest problem I have is the inconvenience of not being at the office – I can't look up all the information that I need when I'm talking with a customer. And if a policyholder calls me with a specific question, I usually have to call headquarters, get someone to look up the info, then call the policyholder back. I can tell that they are sometimes annoyed that I can't respond instantly."

"And all the forms are getting tiresome, too. If they have to be entered into a computer once I send them in, why do I have to fill out a paper copy with a customer anyway? Wouldn't it be possible for me to just enter it directly in and save a lot of time that way? I also wish it were easier for me to check on the status of a customer's policy application or claim request. I understand that it will take some time to process these things, but people are impatient! It really would help if I could tell them the exact status of their request when they call me; most people are reasonable if you can explain what is occurring."

"Well, sorry this was so short, but I have to run. Let me know what you can come up with!"

Austin J. Laphroig, network administrator

"So you're the poor sap who gets to fix these systems? Good luck! I've only been here two months and I'm already sick of this place. I mean, this is ancient stuff – you're talking 486s and customized Paradox applications for the front ends.

You ask, "What computing infrastructure do you currently have?"

Well, the policy department has an AS400 server with ten PCs networked to it. They also have 2 standalone systems that are used for word processing and other secretarial work. Basically, everything is traditional client-server, with SQL Server as the back end, and custom apps on the front. We use Ethernet with a bus topology to keep costs low.

You interrupt "How about claims processing?"

"The claims system is on separate server - they have their own system that is not linked with the policy system. We have an NT server with about a dozen clients. All the clients are windows terminals - we recently upgraded the machines in claims.

The phone rings. "Excuse me, let me get this call. Hello, AJ here. No kidding? Great! That sounds like an awesome position...listen, let me call you back later. The end of the week? OK, I'll decide by then. Bye."

Austin looks at you with a smirk. "Damn headhunters...I can't get anything done around here. Anyway, where were we? Oh yeah...most of my time is spent tuning the server, making backups of the policy and claims databases, and troubleshooting minor network problems. Nothing exciting or cool – that's the problem!"

You smile and ask "Do you have any other computing infrastructure in the organization?"

"Yes, we do, but you perhaps may not be interested in them. From what John told me you folks are going to focus more on policy and claims. Anyway, the human resources department has an old VAX machine on which they run their payroll. Most employee personal records are also stored in the system. The HR folks have got used to it, but it is a nightmare to get tech support for these machines. Finance and legal also have their own systems. The finance and HR people exchange tapes to transfer data between their applications. "

What systems do you have at your field offices at Corydon and Waterloo?

"Nothing much. I think they have standalone desktops to take care of routine office functions. Corydon has four PCs and Waterloo has five PCs. All data processing is done here at the head office. We are not directly linked to the field offices from here."

Eric Lagavulin, general counsel, Legal Department

"Well, it's not often we get someone here who *wants* to talk with us! You can probably guess what we do, handle lawsuits, damage settlements, and various sundry legal tasks. Sometimes we are called in to handle personnel issues – you must have seen how Dewar likes to fire people! We clean up his messes quite often. We usually never deal directly with the customers, generally most of our work is between GPAIC and other insurance companies in a multiple-accident situation, or a no-fault accident. What we need from the rest of the company is complete and accurate information about an individual – their policy information, claims, driving record, everything we've got."

"Usually, we get this by phoning the departments, since we are 90 miles from them, and 240 away from Human resources. Most of the time they do it right the first time and give us everything we need, but sometimes there is information obviously missing and we need to go talk to them to straighten things out. For legal purposes, we need certified copies of the original documents; I'm afraid computer generated reports don't hold up in court."

"One concern we have about the computerization is the accuracy of the data in the systems. Since the original forms are the legally binding contract, it is important that the information on them is transcribed exactly as it appears into

the system. We've had numerous cases where the data was not verified, was found to be incorrect, and GPAIC had to absorb a loss."

Judy Aberlow, Human Resources

"Well, it's nice to see someone trying to make the company more efficient in a manner other than firing people! I guess John has finally realized that employees need to have certain tools to do their jobs. Most of the work here is handling employee benefits, hiring, and firings. Nothing much exciting, unless we have a problem with an employee. In that case, we usually call up Legal first thing and they send an expert to deal with it. Sometimes I talk with the other departments to handle employee transfers, bonuses, promotions, and so on. Then I fill out and employee information modification form and send it over to payroll so the monetary end gets adjusted."

"We have all the human resources records computerized; it's much easier that way. All their benefits, performance appraisals, and personal information are entered in here and maintained by us. I've heard that some companies are allowing employees to check and modify their benefits online. That would save us some time!"

Conclusion

You return back to Dewar's office, where he was relaxing, scratching a sunburn from his long day of golf. "So, I gather you had a busy day talking with everyone here! Scotch?" He offers you a glass from his decanter. "Hopefully you can see the extent of the problems here and why I think information technology can make this place run more efficiently. I want you to make sure our core business functions can take full advantage of computerized systems. By the way, how much do you think it will cost us for the whole project?"

You say, "We do not have a magic figure yet..... We got a fairly good picture of the activities here and what you expect us to do. We will work with this information and submit a proposal in a week's time..."

Dewar interjects, "That seems like a plan, but keep in mind that I do not want to spend more than 400K on the whole project. That includes the computers and whatever you may need to implement the system. Can you handle that?"

"I think so," you manage to gasp, the sip of amber liquid burning a path to your stomach.

Dewar leans over the desk, staring you straight in the eyes. "You better do more than 'think so' if you want to get your fees!"

Appendix A: Map of Indiana



Appendix B: GPAIC Organization Chart

