NAVIGATING DISRUPTIVE CHANGE FOR A LARGE MORTGAGE INSURER

A Financial Services Case Study

THE CHALLENGE

The organization in our case study is one of the largest mortgage insurers in the United States. It had been consistently profitable since its founding in the aftermath of the 1980s' savings and loan crisis, until the 2007-2009 financial crisis resulted in a tsunami of mortgage defaults and claims. The upheaval put several players out of business and placed unrelenting pressure on the cost structure and business processes of those remaining. To ensure survival, our client realized they had to completely revamp their largely manual processes in order to significantly reduce costs and streamline operations. A previous automation initiative had delivered disappointing results. So this time, the focus was around ensuring the effort would deliver its promised value.
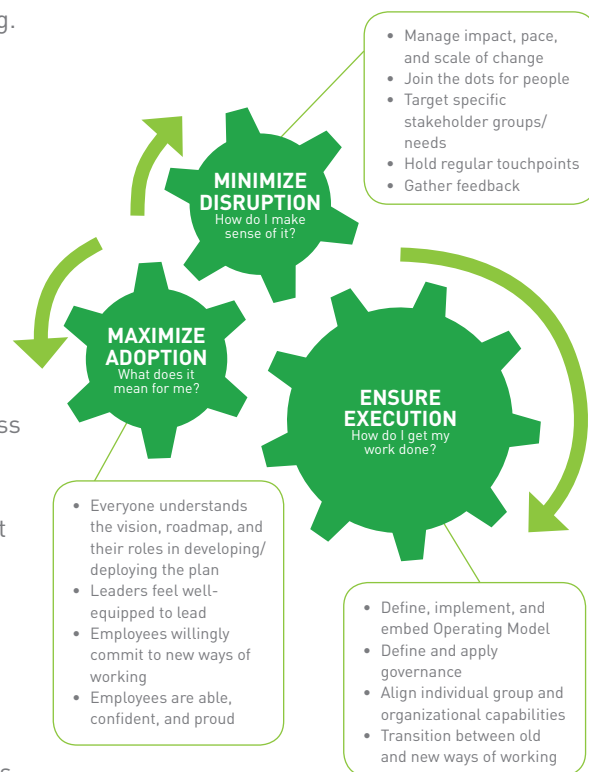
THE APPROACH

At our mortgage insurer client, we hardly ever used the phrases "change management" or "managing resistance." Instead, we identified the barriers to the new way of operating and the steps to be taken to address them. We found that talking about the activities needed to get the business ready to run more effectively gained significant traction with senior executives. When we discussed the impact of the change on employees, we talked about making sure people were capable of doing their work, not about how they felt or how they were going to be supported.

This is not to say that employees were ignored. If a business is to transform, its people must transform. The best way to do this is to concentrate on the results to be achieved and to ensure everyone is clear on how to get their work done to get these results. (See Figure 1) Using the term "business readiness," our efforts encompassed strategy, process, technology, AND people elements.

In line with our "business readiness" approach, we highlighted the importance of effective and visible leadership as a key part of the first change lever – **Articulate Business Strategy.** With our client, the first leadership task was to articulate and convey the future-state strategy, how the transformation would achieve that strategy, and how peoples' efforts would contribute. A key strategic component was to create competitive

Figure 1 – Business Readiness Results

- Manage impact, pace, and scale of change
- Join the dots for people
- Target specific stakeholder groups/needs
- Hold regular touchpoints
- Gather feedback

MINIMIZE DISRUPTION
How do I make sense of it?

MAXIMIZE ADOPTION
What does it mean for me?

ENSURE EXECUTION
How do I get my work done?

- Everyone understands the vision, roadmap, and their roles in developing/deploying the plan
- Leaders feel well-equipped to lead
- Employees willingly commit to new ways of working
- Employees are able, confident, and proud

- Define, implement, and embed Operating Model
- Define and apply governance
- Align individual group and organizational capabilities
- Transition between old and new ways of working

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advantage through significantly increased responsiveness to clients. A second element was targeting responses to different customer segments, like those requiring minimal servicing of high volume transactions, versus those desiring more customized, personalized service.

As we were working with executives to articulate and embed the strategy, we put in place **Effective Project Governance.** This provided clarity to project sponsors, leaders, and stakeholders about their roles in strategy definition and dissemination. Time and again we relied on this structure to coordinate workstreams, manage the multiple efforts, make decisions on difficult issues, and assess progress.

Another aspect of leadership was helping executives appreciate that for employees to successfully execute, they needed to understand their role in achieving the strategy. This meant **Aligning Actions to Strategy** – relating employees' day-to-day actions in the future state (such as setting up automated responses to ongoing customer requests) to the strategic goals of increased customer responsiveness, increased processing capacity, and increased consistency in tracking and reporting.

The next step was to **Set Performance Targets.** These were the business results to be achieved post-transformation; laying out in measurable terms the business, team, and individual performance needed to execute the strategy. Executives specified targets for the change effort itself so everyone knew what had to be accomplished, by when, to lay the groundwork for the future state. In summary, executives understood their key leadership role. But the role wasn't about "leading people through change." It was about being clear and consistent about what needed to change and why, describing what success looked like and what was needed to achieve it, and identifying the specific actions to be taken.

With a clear strategy and performance expectations in place, we turned to **Enhance Processes, Procedures and Organization Design**, or how the organization needed to be structured to deliver on performance expectations. Many transformations mistakenly start by defining an organization structure. This isn't wrong, but it misses a critical intermediate step, which is determining how work will get done. Once you know that, you can structure the organization to provide selected products/services to specific customers in distinct markets.

We worked with process owners across the company to understand business processes; such as batch document requests and preparing electronic documents for imaging, clearly sequenced the major activities to be performed. Drafting processes was critical. Doing so enabled our client to think through the best way to get work done. It highlighted as gaps in seemingly connected tasks, unexpected handoffs between roles or departments, and the points at which breakdowns would occur. Detecting these things early enabled us to fine-tune how work would get done before people started doing it.

Figure 2 – Elements of Effectiveness

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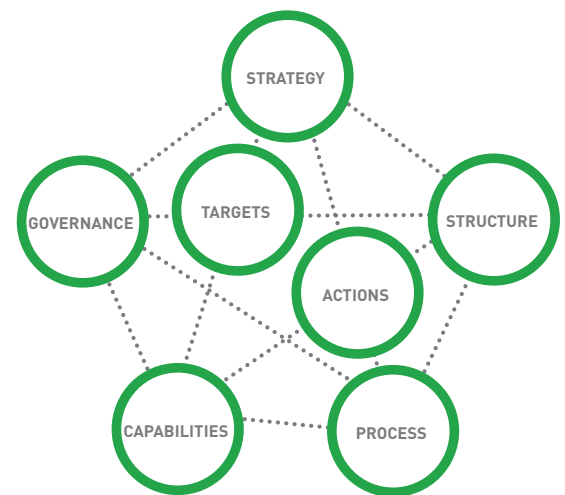
Once work processes were drafted, we developed procedures governing how the work would be performed.   These procedures and their related processes were compared to the functioning and configuration of the system being implemented. Doing this highlighted inconsistencies and unanticipated consequences, and led to the productive adjustment of all three elements to ensure alignment. Viewing all three elements simultaneously also allowed our client to "reality test" how the system was being configured, to ensure that it enabled effective completion of the process.

Finally, having clearly defined processes allowed us to estimate the time required to complete each one, and therefore the types and number of roles required. This led to developing options for organizing the work and defining a best-fit structure. Process and procedure definition, along with an understanding of processing volumes, frequency and extent of customer requests, and estimation of needed quality checks, led naturally to the development and refinement of metrics and performance targets.

Coming back to our theme of "business readiness," part of ensuring readiness was to frequently and extensively engage employees at all levels in defining, refining, and optimizing processes, procedures, and systems. Doing so ensured that what was being developed reflected how things actually worked in the organization and its culture, and stimulated understanding and buy-in to the new way of working.

The final transformation lever addressed was **Enriching Capabilities.** The most important of these were the skills, knowledge and behaviors employees needed to successfully perform in the future to deliver the necessary levels of performance. Comparing required skills to existing ones identified gaps and let to solid plans to close the gaps. For example, most employees had used computers for routine tasks. The new system enabled more sophisticated analysis. Knowing this, we developed training, job aids and practice sessions that moved employees from existing to new capabilities at their own pace.

Not only did employees need capabilities to perform new tasks. They needed a more comprehensive understanding of how their work affected others work. They also needed to work with others to problem solve more complex and interconnected issues. So as employees learned the technical aspects of their new jobs, they were also helped to understand the context within which their tasks were being performed, the downstream implications of their actions and decisions, and how to work collaboratively with teammates and people from other departments to reach defined performance targets.

DEFINING ORGANIZATIONAL STRUCTURE WITHOUT FIRST IDENTIFYING PROCESSES AND PROCEDURES IS LIKE BUILDING A CHAIR WITHOUT KNOWING HOW IT WILL BE USED. YOU WOULD BUILD IT ONE WAY IF YOU KNOW IT WILL BE USED AT A KID'S SOCCER GAME, AND ANOTHER IF IT WILL BE USED AT A DESK.

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THE RESULTS

By focusing efforts on a few critical workstreams, our client successfully navigated a disruptive change, repositioning themselves for a profitable future in the mortgage insurance business by:

- **Articulating and rooting all efforts in the business strategy** - to significantly streamline the processing of the millions of documents handled every year.

- **Developing and aligning management by objectives (MBOs) and key performance indicators** - specifying targets around error reduction, enhanced cash management, faster processing times, etc.

- **Ensuring that policies, procedures, and work processes clearly supported the future state** - gaining agreement on permissible exceptions to the core claims processing workflow and developing business rules for handoffs among departments.

- **Crafting an organizational structure and team/individual roles to maximize business readiness** - defining who would be accountable for reordering, which areas would manage transmission to third parties, and how quality checks would be performed across departments. We helped develop employees capable of working not only in the new system, but also in a new, more collaborative environment the new system enabled.

THE NEW SYSTEM AND RELATED PROCESSES WERE MUCH MORE INTERCONNECTED, WITH UPSTREAM ACTIONS HAVING IMPLICATIONS BOTH DOWNSTREAM IN THE SAME PROCESS, AND ON RELATED PROCESSES AND AREAS OF THE BUSINESS.

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