WHITE PAPER

THE HIDDEN COSTS OF MANAGING INSURANCE OPERATIONS IN-HOUSE

Why it may be time to rethink your operating model.

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Introduction

Every insurance carrier has an operating model - the combination of people, processes, technology, infrastructure, and partners that supports day-to-day operations.

Many operating models were established early on and have evolved incrementally as the business has grown. While they may continue to support day-to-day operations, they often become more expensive and more difficult to scale over time.
The challenge is that many of the costs associated with managing operations in-house aren't immediately visible. They are spread across departments, budgets, and business functions, making them easy to overlook.

This doesn't mean an organization's operating model is ineffective, but it does raise an important question:

Is your current operating model still the most effective way to support the business you have today, and the one you're building for tomorrow?

This paper explores **five hidden costs** that can quietly impact operational efficiency and profitability and offers a framework for evaluating whether your operating model is still aligned with your organization's goals.

Hidden Cost #1: People

Does your operating model rely on continually adding headcount to support growth?

People are the foundation of every insurance operation, but the true cost of maintaining an internal operations team extends far beyond salaries. Recruiting, onboarding, training, management, and employee retention all require ongoing investment – and those costs increase as organizations grow.

As experienced insurance professionals retire and competition for specialized talent intensifies, attracting and retaining qualified employees has become one of the industry's greatest operational challenges. Together, these investments represent one of the largest costs within an insurer's operating model.

Hidden Costs

Recruiting & Hiring

Competition for experienced insurance professionals continues to intensify, making positions harder to fill and increasing recruiting costs. Vacancies often result in heavier workloads for existing employees, increased overtime, and slower service until positions are filled.

Onboarding & Training

New hires require extensive training on systems, workflows, regulations, and company procedures before reaching full productivity. Developing specialized insurance expertise also requires ongoing coaching from experienced employees and managers.

The Fully Loaded Cost of Employment

The cost of an employee extends beyond salary to include benefits, payroll taxes, retirement contributions, paid leave, and other employment-related expenses that grow alongside headcount.

Cross Training & Knowledge Retention

Cross training improves operational resilience but requires time away from daily work. At the same time, employee turnover and retirements can lead to the loss of institutional knowledge that is difficult and costly to replace.

Workforce Continuity

Employee absences, staffing shortages, and extended hiring timelines can disrupt day-to-day operations and make it difficult to maintain service levels. Organizations often rely on overtime or redistribute workloads to fill temporary gaps, increasing labor costs and placing additional demands on existing staff.

Management & Operational Oversight

Recruiting, scheduling, performance management, quality assurance, and workforce planning require significant leadership attention that could otherwise be focused on strategic initiatives and operational improvement.

Key Insight

People are one of the largest long-term investments in an insurer's operating model. As organizations grow, the challenge isn't simply adding headcount - it's building a workforce strategy that enables experienced insurance professionals to focus on the work where they create the greatest value while maintaining operational resilience.

Questions to Consider

- ***How much time does leadership spend recruiting, onboarding, and managing operational staff?***
- ***Does business growth consistently require adding permanent headcount?***
- ***How difficult is it to fill specialized insurance roles?***
- ***How well can your organization maintain service levels during employee absences or staffing shortages?***

Hidden Cost #2: Infrastructure

How much infrastructure exists simply to support routine operational work?

Supporting an internal operations team requires more than people. Every policy processed, customer served, and document produced depends on a network of facilities, technology, equipment, and administrative support.

These investments often grow incrementally over time, making them difficult to evaluate as a single operating expense. Yet together, they represent a significant fixed cost that organizations must maintain regardless of transaction volume.

Hidden Costs

Office Space & Facilities

Supporting an in-house operations team requires physical workspace, utilities, furniture, meeting space, and facility maintenance. While these costs are often budgeted separately from operations, they are a direct result of maintaining internal capacity.

Equipment & Maintenance

Computers, monitors, printers, scanners, networking equipment, and other office technology require regular replacement and ongoing maintenance.
Organizations must also budget for equipment downtime, repairs, and lifecycle management.

IT Support

Internal technology requires dedicated support for installation, troubleshooting, security, updates, and user administration.
Whether provided internally or through managed services, IT support represents an ongoing operational expense that scales with the organization.

Technology & Software

Insurance operations depend on policy administration systems, productivity software, document management platforms, communication tools, cybersecurity solutions, and software licensing. As organizations grow, software subscriptions and technology investments typically increase alongside workforce size.

Security & Compliance

Insurance organizations must protect sensitive customer information while maintaining compliance with evolving regulatory and cybersecurity requirements.
These investments include employee training, security monitoring, access management, software updates, and audit readiness.

Key Insight

Infrastructure represents one of the largest fixed investments in an operating model. As organizations expand, these costs often increase alongside headcount, regardless of whether operational productivity improves.

Questions to Consider

- ***How much infrastructure exists solely to support operational staff?***
- ***Which infrastructure costs increase every time additional employees are hired?***
- ***How often are infrastructure investments evaluated as part of your overall operating model?***

Hidden Cost #3: Distribution

What does it really cost to produce ance deliver every insurance document?

Every policy, invoice, renewal notice, and customer communication carries a production and distribution cost. While postage is the most visible expense, it represents only one component of the total cost.

Printing equipment, materials, inventory, labor, and mailing processes all contribute to the cost of document distribution, yet many organizations evaluate these expenses independently rather than as part of a single operational function.

Hidden Costs

Printing Supplies

Paper, envelopes, toner, labels, inserts, and other consumables represent recurring operational expenses that fluctuate with business volume.

Mailroom Operations

Preparing outbound communications requires staff time for printing, quality review, folding, inserting, sorting, and preparing mail for delivery.

Inventory Management

Maintaining adequate supplies requires purchasing, storage, inventory control, and vendor management.

Printing Equipment

Printers, inserters, folding equipment, postage meters, and related hardware require capital investment, maintenance, repairs, and eventual replacement.

Postage

Many organizations pay standard commercial postage rates.
High-volume mail providers often qualify for USPS commercial pricing and presort discounts that significantly reduce per-piece mailing costs.

Key Insight

The cost of document distribution extends far beyond postage. Organizations that evaluate the entire distribution process often uncover efficiencies that are difficult to achieve when production and mailing are managed as separate activities.

Questions to Consider

- ***Do you know your total cost per mailed document?***
- ***How much staff time is dedicated to document production and mailing?***
- ***Are you taking advantage of commercial mailing efficiencies?***

Hidden Cost #4: Capacity & Scalability

Can your operating model grow and adapt without disrupting service?

Insurance operations rarely experience a consistent workload. Renewal cycles, catastrophe events, business growth, new product launches, and changing customer expectations all place varying demands on operational teams.

Maintaining service levels through these fluctuations often requires additional staffing, overtime, or temporary resources. Organizations that struggle to scale efficiently may experience higher operating costs, processing delays, and inconsistent customer service.

Hidden Costs

Seasonal Demand

Renewal cycles and other peak business periods create predictable spikes in workload that require additional operational capacity.

Catastrophe Events

Unexpected events can rapidly increase policy servicing, billing, and customer support activity. Organizations without scalable operational capacity may struggle to maintain expected service levels.

Business Growth

Growth is a positive outcome, but supporting increased policy volume often requires additional hiring, infrastructure, and operational resources if the operating model is not designed to scale efficiently.

Overtime & Temporary Staffing

To respond to changing demand, organizations often rely on overtime or temporary staffing. While effective in the short term, these approaches can increase labor costs and contribute to employee fatigue.

Processing Delays

When operational demand exceeds available capacity, processing backlogs can develop, affecting turnaround times, customer satisfaction, and operational efficiency.

Key Insight

An effective operating model isn't designed solely for today's workload - it's built to adapt to tomorrow's demands. Organizations that can scale their operations efficiently are better positioned to support growth, respond to changing business conditions, and deliver consistent service without continually increasing fixed costs.

Questions to Consider

- ***Can your current operating model support business growth without adding permanent headcount?***
- ***How does your organization respond to seasonal workload spikes or catastrophe events?***
- ***How quickly can operational capacity expand to support new products or increased policy volume?***
- ***Does growth improve efficiency, or does it simply increase operating costs?***

Hidden Cost #5: Focus

Is your organization's expertise invested where it creates the greatest value?

Insurance organizations create value through underwriting expertise, risk management, customer relationships, and agency partnerships. Yet experienced professionals often spend a significant portion of their time on routine administrative activities that, while necessary, don't require their specialized expertise.

When underwriters and operations staff are pulled away from higher-value work, the cost of underwriting and servicing policies increases. Over time, these inefficiencies can place upward pressure on underwriting expenses and contribute to a **higher expense ratio.**

Hidden Costs

Administrative Work

Routine processing often occupies experienced employees whose expertise could be better applied elsewhere.

Process Administration

Managing workflows, vendors, documentation, and quality assurance requires continual operational oversight.

Management Attention

Operational oversight consumes leadership time that could otherwise support strategic initiatives and continuous improvement.

Opportunity Cost

Every hour spent on administrative work is an hour not spent improving underwriting performance, strengthening agency relationships, or supporting profitable growth.

Key Insight

A modern operating model aligns work with expertise, enabling specialized employees to focus on the activities that create the greatest business value while helping control underwriting expenses over time.

Questions to Consider

- ***What percentage of your underwriters' time is spent on administrative work?***
- ***How much leadership time is devoted to managing routine operations?***
- ***Could specialized employees create greater value if administrative work were reduced?***

Conclusion

Managing insurance operations in-house requires significant investments in people, infrastructure, document distribution, operational capacity, and leadership. While each investment supports critical business functions, their cumulative impact is often difficult to see because the costs are spread across departments, budgets, and day-to-day operations. Evaluating these costs as part of your overall operating model provides a clearer picture of where efficiencies can be gained and where opportunities for improvement may exist.

By understanding the hidden costs of managing insurance operations in-house, insurance leaders can make more informed decisions about where resources are invested, how work is performed, and whether their operating model is positioned to support future growth.

Is It Time to Rethink Your Operating Model?

If your organization recognized several of the hidden costs discussed in this paper, it may be time to evaluate whether your current operating model is still the best fit for your business.

Use our Insurance **Operations Cost Calculator** to estimate the total cost of managing key operational functions in-house and compare your current approach with alternative operating models. Understanding your true operational costs is the first step toward building a more efficient, scalable, and resilient insurance operation.

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