CPCU SOCIETY INSURING YOUR SUCCESS

Total Quality

TQ

Volume 6 Number 2 June 2003

The Chairman's Corner—What a Dream . . .

by Glen R. Schmidt, CPCU, CLU, FLMI

Glen R. Schmidt, CPCU, CLU, FLMI, has worked in the property and casualty insurance industry with State Farm Insurance Companies from 1969 to the present time, following graduation from Central Missouri State University in 1966 and a tour in the United States Army from 1966–69. Schmidt is a member of the CPCU Society's Central Illinois Chapter, where he has served on numerous committees. He has been involved at the national CPCU Society level since 1991. Schmidt served as chairman of the Candidate Recruitment & Development Committee, and is the current chairman of the Total Quality Section. He is a member of CPCU-Loman Education Foundation Loman Club.

As the years go by, I find I do more dreaming (while I'm awake as well as when I'm not). I won't divulge any of my "deep sleep" dreams but there's been a constant flow of ideas, goals, and achievements that I have accomplished by occasionally stopping to stare "out the window." However, the credit goes to a cast of others who supported me in these accomplishments, as I never could have done it alone.

When I started in this business, I dreamed of being the best underwriter ever even though some agents had other thoughts about my underwriting skills. And on "bad" days, my skills were subjected to external forces, most of which I brought on myself.

The article by John Gilleland Jr., CPCU, in this issue explores the vast improvements being made in underwriting with technology. This is in sharp contrast to the "expert systems" available in my underwriting days that consisted of the person who trained you and your boss. They had all the knowledge ever needed to properly underwrite a piece of business. Not to say that being trained and/or supervised by someone who is knowledgeable and experienced is no longer a plus, the days of only being equipped with 40 years of experience, a #2 lead pencil, and green eyeshades are a part of history.

As John Maxwell, author of the newsletter *Leadership Wired*, explains it—a dream is not enough. Having a dream and fulfilling a dream are two different things. I haven't fulfilled my dream of being the best underwriter ever, but I am fulfilling my dream of providing the best possible system support for those who want to be the best underwriter ever. We all need to do a little bit of "dreaming" in reaching our accomplishments.

And like any championship team, no single individual has the skills to be the best player at all the positions so don't spend a lot of time working on your weaknesses. Build on what your strengths are and with a little help from systems such as the one developed from a John Gilleland dream, your underwriting skills (or whatever function you perform) may be the best ever.

Sweet dreams in attaining your accomplishments. . . . ■

What's in this Issue?

Book Reviews

Book review by Glen R. Schmidt, CPCU, CLU, FLMI

Inside the Magic Kingdom

by Tom Connellan

This is a fictional story based on Disney factoids. Although the author never worked for Disney in any capacity, he captures the essence of what goes on at Disney through the imaginary "Gang of Five" characters.

There are seven lessons in story format on how success is accomplished at Disney and can be used to bring that success to your organization:

1. The competition is anyone the customer compares you with.
2. Pay attention to detail.
3. Everyone walks the talk.
4. Everything walks the talk.
5. Customers are heard through many ears.
6. Reward, recognize, and celebrate.
7. Everyone (especially you) makes a difference.

Having passion about the customer is rule one from the top down and the bottom up. Everyone in a successful organization must not only "pick up the trash" but also be responsible for solving problems. It's not the "pixie dust" that keeps the customers coming back as it is the "fun and magic" that contributes to the total experience for the customer.

This is a quick read of 14 short chapters that illustrates why 70 percent of Disney guests are repeat customers. Everyone makes mistakes. How you deal with those mistakes is the difference that keeps the "magic" going. There are hidden "Mickeys" everywhere but not all are adept at recognizing the magic. It's the difference between limiting your possibilities and thinking about unlimited possibilities.

The New Reality—How to Make CHANGE Your Competitive Advantage

by Karl G. Schoemer

Of course it deals with change but that's not the new reality . . . it's the movement associated with the change—your choice is to sink or swim.

This is only a 36-page book of do's and don'ts that you can read in about an hour; however, the homework will take a lifetime to complete. The sections of the book suggest what you can do to meet or improve the challenges of change in your world. Each section has a message with guidelines (not rules) and tools to assist you in planning and managing where you want to go. Numerous quotes from classic authors to hall of famers help illustrate specific actions of what you need to do.

Just to mention a few of the topics—they range from knowing you do not have all the answers, to loyalty and trust, to being enthusiastic, and filling the new voids in your organization. So take the challenge and start constructing your action plans to make you a swimmer, not "fish bait". . . . ■

New Look for Newsletter

This issue premieres a new look for your section newsletter. This modern, dynamic design maximizes the space on each page while preserving an easy-to-read format. And keeping in line with our concern for the environment, the newsletter is printed on recycled paper.

Good Deductive Arguments Produce Quality Underwriting Decisions Resulting in Increased Underwriting Profits—Part 1

By John T. Gilleland Jr., CPCU, AIS, API, AU, Ruth Fennell, SRPA, Jason Northrup, Morgan D. Jones, Ann T. Yanelli, and Darlene J. Gipson

Editor's note: Due to space constraints, this article will be printed in three installments with the first installment appearing here. The second and third installments will appear in future issues of *TQ*.

Quality Underwriting Decisions Comments from Jerry Tuttle, FCAS, CPCU, ARM, AIM, ARe: "I read this article with great interest. This is a very impressive document—if every underwriter were asking these questions, I think the industry would be in a much better place.

"I had to chuckle as I read, thought about my own personal exposures, and realized how little my own insurer knows about me."

Section 1: Theoretical Argument about Deductive Argument

Summary

This article was created to encourage improvements in readers' ability to make more profitable underwriting decisions and take more profitable risk management actions. The underwriting process recommended here is a series of steps for:

1. gathering risk exposure information
2. learning stakeholders' expectations
3. recognizing alternative ways to meet those expectations profitably
4. suggesting or requiring risk-management options in an effort to create win-win agreements that meet or exceed customer expectations
5. sharing what is developed with other customers and peers

This underwriting process can be done by insurers' underwriters and agencies' personnel when they are well trained, communicate frequently, and empowered freely. Typically underwriters do not "eat their first-born," agents are not idiots, and insureds are not dishonest. Underwriters can be reasonable and open-minded. Producers can act as objective intermediaries between applicants and insurers. Insureds can be realistic about what to give and take to have indemnification management. Creation of winning deductive underwriting arguments can produce these types of results. Better underwriting arguments produce better underwriting decisions. Better underwriting decisions produce greater underwriting profit.

Argument: How It Can Improve Underwriting

Defining "Argument"

Ordinarily the word "argument" has a negative meaning. If a participant in a verbal exchange prefers pleasantries with warm and fuzzy feelings, arguments are avoided like the plague. Arguments are seen as times of heated contention where feelings are hurt, grudges are born, and combat is conducted with words. Gerry Spence's book *How to Argue and Win Every Time* claims we have been shut off from truth by manipulative petty tyrants who seek not our companionship but our compliance, not our success but our subservience. He suggests argument be used to access, learn, and use truth. This article suggests ways to argue on behalf of insureds and insurers profitably.

In professional terms, an argument is the mental and physical effort made to verbalize a persuasively informative presentation. Professional arguments, whether verbal or written, are informative chains of logic. These chains are not enslaving or constricting, but they are persuasively binding for those who are willing to learn truths, commit to improvement, and do the right thing when logic dictates action. A good argument will have a strong chain of support because facts are linked to relevant premises that are linked to logical conclusions.

Use of professional argument facilitates what Stephen R. Covey calls the "Upward Spiral" of renewal and continuous improvement on page 110 in his book *The 7 Habits of Highly Effective People*. Open-minded givers and receivers are compelled by unbiased facts presented logically to improve their thinking, their convictions, and their actions. Dialogue, not monologue, is used to facilitate transfer of data, expectations, options, etc.

When professionals conduct themselves as persons with high standards using ethical principles, an argument is not:

- an effort to verbally beat others into submission
- an exercise in hearing one's own voice
- an expression of bias or prejudice
- a visceral disagreement

Defining "Deductive Argument"

A deductive argument is the verbalization of deductive reasoning. Deductive reasoning is a process whereby truth seekers draw a conclusion based upon their knowledge and/or experience and then see if the evidence for that conclusion is valid. Deductive reasoning produces logical conclusions supported by sound argument by asking questions like:

- How should the conclusion be described?
- What facts support the conclusion as it is described?
- Does the information include logical evidence, relevant facts?

Continued on page 4

Good Deductive Arguments Produce Quality Underwriting Decisions Resulting in Increased Underwriting Profits

Continued from page 3

- Does the supportive evidence outweigh the contradictory evidence significantly?

A deductive argument is a unified whole set of facts and conclusions. It should contain identification of a conclusion that is supported by fact-based evidence. There should be a main claim, or overall idea, that the argument is trying to prove. The main claim may have more than one proposition or theory. All propositions should be supported by facts logically. Here's a metaphor to illustrate this point:

- Facts are foundation stones that support propositions.
- Propositions are explanations acting as walls that support arguments.
- An argument is a roof that shelters those who are working to do what is right.

Unfortunately not all alleged deductive arguments are founded on good evidence. Therefore, learners and decision-makers should always check the validity of conclusions' evidence. Logic applied to faulty evidence will, at best, produce good sounding lies. Too many alleged deductive arguments are purported to be based upon personal experience but are really just opinions based upon impressions of loose cannons (those who shoot from the hip).

More underwriters should analyze their books of business and ask their actuaries for more facts so realistic conclusions can be drawn more often and wiser underwriting actions taken. Underwriters should have the necessary facts to answer questions such as: "Do insureds, acting as lessors, face significant exposure to farm liability losses?" and "Do insureds with more than four rental properties have excessive amounts of losses compared to insureds with fewer than five rental properties?" A good deductive argument is a presentation of information that exhibits the following characteristics:

- The argument statement is free of excessive subtle persuasion.
- The argument considers counter-arguments' valid points.
- The premises are credible, reasonable, sufficient, and substantive.
- The conclusion or directive is clear and complete.
- The facts are verifiable.

Underwriting Argument

Defining "Deductive Underwriting Argument"

Underwriting, used in this context, is the process performed by any insurance professional seeking to make sound deductive arguments profitably. Deductive underwriting arguments describe conclusions based on logical premises. Therefore, a good deductive underwriting argument is a presentation of risk-related information that exhibits the following characteristics:

- The conclusion or directive and its premises are clear and complete.
- The underwriter's documentation is free of excessive subtle persuasion.
- The underwriter's premises are credible, reasonable, sufficient, and substantive.
- The underwriter considers counter-arguments' valid points.
- More often than not, the actions performed based upon similar conclusions result in financial gain for the underwriter's employer as well as good relations with customers.

These characteristics should be present whenever underwriters' documentation is read by peers who review files after decisions are made. This article encourages decision-makers to enable peers, who enter their accounts after decisions are made, to "see" the logic of their decisions, and uphold, decision-makers' arguments. Here are six brief descriptions of scenarios where no logical premise is documented and peers would struggle to uphold such decisions:

- A decision to reject an application for homeowners insurance because a large tract of acreage associated with the subject's residence is not an example of profitable deductive underwriting argument. Such a decision is not logical if the land is fallow or being leased with sound risk-management techniques because no adverse characteristic is present.
- A decision to reject an application for personal dwelling fire insurance on a rental property because the applicant hopes to acquire more properties in the future is not an example of profitable deductive underwriting argument. Such a decision is not logical if the prospect agrees to transition to commercial coverage when its rental property operations outgrow the liability protection offered by personal insurance.
- A decision to reject an application for personal automobile insurance because a driver has a DWI is not an example of profitable deductive underwriting argument. Such a decision is not logical if the applicant is willing to pay a rate that is statistically commensurate with the risk associated with persons having similar driving records.
- A decision to reject a request from parents of a government intern for endorsement of a homeowner policy for occurrence basis personal injury liability because a lawsuit was filed recently (the only liability claim in the last 25 years) for slander is not an example of profitable deductive underwriting argument. Such a decision is not logical if the lawsuit will not be covered as it occurred before the policy could be issued.
- A decision to reject an application for homeowners insurance on a home being remodeled due to unoccupancy is not an example of profitable deductive underwriting argument. Such a decision is not logical if the home is to be occupied by construction workers daily and centrally monitored by an alarm company and security patrol at night. Exposure to loss is also limited because construction is to be completed within the insurer's discovery period.

- A decision was made to reject an application for excess umbrella liability coverage on an account showing the following loss history:

  10/3/01
  OTC only
  due vehicle fire and towing & labor "t&l"

  10/30/00
  OTC only
  glass loss due to vandalism

  1/1/99
  OTC only
  windshield damage

  7/3/99
  t&l only

  6/18/01
  dwelling coverages
  water damage from pipe leak

  12/24/98
  dwelling coverages
  heating pad scorched floor in kitchen

  12/23/98
  UPP
  a painting fell off wall

Such a decision is not logical if the decision is not based upon the presence of liability claims or statistical data indicating this kind of loss frequency is predictive of liability claims. The fact that minor property claims are being filed by the insured does not suggest third-party claims are likely.

These decisions' immediate cost to insurers would be several thousand dollars in written premium and several hundred dollars in commissions. Several insureds would abruptly end relationships with their insurers, so several future cash flows for existing business would be terminated and preempted.

Arguments used to support the six previous decisions are not strong because, as noted above, they have no logical chains of support. There are no facts, such as statistics or contract interpretation, used to support the opinions used to form the decisions. This, plus the fact that no income will be earned by the underwriters making such decisions, makes them very unprofitable decisions. Profitable insuring agreements are preferred over unprofitable decisions because they help insureds get indemnification and insurers stay in business.

Rebuttal

Please respond directly to the authors at trc168@aol.com or indirectly through letters to the TQ Section's newsletter editor. How can this process be improved? ■

■ **John T. Gilleland Jr., CPCU, AIS, API, AU,** serves USAA as a personal and commercial lines sales representative. Gilleland works to sell more by listening to prospects and customers to improve his work processes.

■ **Ruth Fennell, SRPA,** has left corporate training and human resources and now serves the Tampa Bay region as a licensed real estate agent. She applies customer service and quality principles at all levels of her real estate transactions.

■ **Jason Northrup** serves USAA as a personal lines sales representative. He works to meet prospects' unusual personal insurance needs.

■ **Morgan D. Jones** is author of *The Thinker's Toolkit: 14 Powerful Techniques for Problem Solving* (Times Books, 1998). Jones is president and co-founder of Analytic Prowess LLC, a Virginia company that conducts workshops for government and private-sector clients on the techniques in his book.

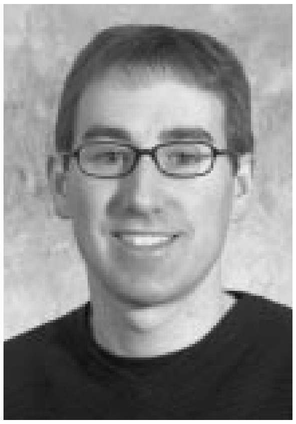
■ **Ann T. Yanelli** has an M.A. in english education and works as an author and mentor, critiquing other writers' works.

■ **Darlene J. Gipson** serves USAA as an advisor to personal and commercial lines sales representatives. Gipson works to improve two teams' sales and service records.

Welcome New TQ Committee Members Dave Davenport and Jon Hensinger

Dave Davenport, CPCU, is an auto claim team manager with State Farm Insurance in Greeley, Colorado. He has spent his entire career, which began in 1989, in claims and has worked in auto, fire, and subrogation. Dave is active in his local CPCU Society chapter and he will serve as chairman for the 2003 CPCU Colorado/Pikes Peak Chapters All-Industry Day. He looks forward to expanding his involvement by participating on the Total Quality Section Committee.

Dave is married to Lynn, also a State Farm employee and a fellow CPCU. They have two children, Drew age five, and Alaina age three.



Jon Hensinger, CPCU, ARM, is a commercial lines underwriter with State Farm Insurance in Concordville, Pennsylvania. He began his career at State Farm in 1991 after earning his bachelor's degree in economics from Cornell University. His experience with State Farm includes claims and underwriting. Jon is currently serving as the president of the Brandywine Valley, Del/PA Chapter of the CPCU Society. His wife Maria also works at State Farm. Outside of work, Jon spends most of his time with his family. He has two children, Gabriella who is three, and Ethan who is one.

Good to Great—James Collins

by James R. Jones, CPCU, AIC, ARM, AIS

James R. Jones, CPCU, AIC, ARM, AIS, is director of the Katie School of Insurance and Financial Services at Illinois State University in Normal, IL. Jones can be reached by e-mail at jrjone2@ilstu.edu.

In this five-year study, Jim Collins and his group of researchers looked at companies that had average returns for at least 15 years and then surged past the market (outperforming the market by several times) for at least another 15 years, which was long enough to show a sustained growth that transcends any one leader. The companies that made this dramatic improvement for at least 15 years were called "good-to-great" companies. Examining these companies exposed a number of myths about what it takes for a company to go from good to great. The following are some of the myths debunked by this study.

Myth 1

Great companies surge to greatness following the lead of a charismatic leader from outside the organization. This is the myth of the "savior" CEO. This was not true in more than 90 percent of the companies.

Myth 2

Great companies require high CEO pay to drive organizational performance. Collins found no correlation between executive compensation and good-to-great companies.

Myth 3

Great companies spend lots of time on strategy. Research showed that they did not spend more time on strategic planning than other companies.

Myth 4

Great companies had long "to-do" lists. In fact, the good-to-great companies succeeded by developing "stop-doing" lists.

Myth 5

New technology drives great companies to become great. Technology did not initiate the change from good to great. It did help to accelerate change.

Myth 6

Great companies are good at putting together strategic mergers and acquisitions. Mergers and/or acquisitions did not initiate a change from good to great.

Myth 7

Great companies had dramatic, high-profile change management programs. No evidence of high-profile change management programs. No revolution. Program changes were just called improvements and didn't even have names. Most of the companies didn't even realize they were going through dramatic changes.

Myth 8

Great companies were in the right market, with lots of potential. In fact, none of the good-to-great companies were in great markets. Some were in really difficult markets. Great circumstances did not make these companies great. (Good news for companies in the insurance industry!) ■

Are You Ready to Jazz Up Your Career?

Jazz It Up in the Big Easy!

59th Annual Meeting and Seminars
New Orleans, LA • October 11-14, 2003

Make your plans today for **the premier professional development event you can't afford to miss.** Join your fellow CPCUs, new designees, and top industry leaders for the best in education, networking, and leadership that the P/C industry has to offer.

Jazz Up Your Education

Expand your competitive edge with **Property and Casualty Insurance Track Seminars,** your one-stop shop for the P/C insurance education—and CE credits—you need to succeed.

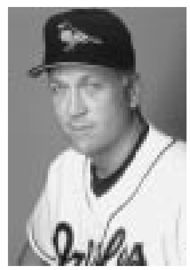
Jazz Up Your Success

Position yourself for leadership and career success through **Leadership and Career Development Track Seminars,** offering expert training in leadership "best practices" and career management.

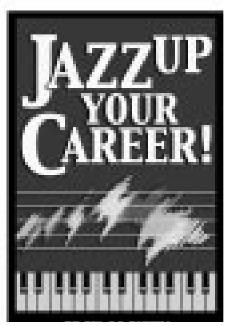
Come early for two days of pre-meeting **National Leadership Institute (NLI) courses, October 9-10.** Choose from interactive courses that will help you develop the career skills you need to succeed in today's very challenging marketplace.

Jazz Up Your Connections

Connect and network with your fellow Society members, colleagues, and industry leaders at the many special events.



And hear **Cal Ripken, Jr., the CPCU Society's 2003 Keynote Speaker,** talk about the value of hard work, perseverance, and leadership—qualities that he has seen lead to success in baseball and in business.



Register Today!

For more information or to register, go to **www.cpcusociety.org**. If you have questions, contact the Member Resource Center at (800) 932-CPCU, option 4, or at membercenter@cpcusociety.org.

Upper left photo courtesy of the New Orleans Metropolitan Convention and Visitors Bureau; Carl Purcell.

Total Quality Section Quarterly
is published by and for the members of the Total Quality Section of the CPCU Society.

Editor
Sandy Jones, CPCU, CLU, ChFC
State Farm Insurance Companies
One State Farm Plaza E-4
Bloomington, IL 61710-0001
Phone: (309) 735-2790
E-mail: Sandy.Jones.CCOJ@StateFarm.com

Co-Editor
Shari E. Spung, CPCU
SAFECO Ins. Cos.
4333 Brooklyn Ave. NE
Seattle, WA 98185
Phone: (206) 925-0217
Fax: (206) 545-6091
E-mail: shaspu@safeco.com

Chairman
Glen R. Schmidt, CPCU, CLU, FLMI
State Farm Group
M2
3 State Farm Plaza South
Bloomington, IL 61791-0002

Sections Manager
John Kelly, CPCU, AIS
CPCU Society

Managing Editor
Michele A. Leps, AIT
CPCU Society

Production Editor/Design
Joan Satchell
CPCU Society

CPCU Society
720 Providence Road
PO Box 3009
Malvern, PA 19355-0709
(800) 932-2728
www.cpcusociety.org

CPCU SOCIETY INSURING YOUR SUCCESS

Total Quality

TQ

Volume 6 Number 2 June 2003

CPCU Society
720 Providence Road
Malvern, PA 19355-0709