



Total Quality Section Quarterly

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The QIC May Be Gone But Quality Won't Go Away

by John G. Pryor, CPCU, ARM, AAI, AIS



The insurance industry recently fatally "shot the messenger" when the Quality Insurance Congress (QIC) was dissolved following its report on commercial

insurance customers' perception of industry quality. The report was not acceptable to insurance CEOs.

As we all know by now, the Quality Scorecard, funded by RIMS (Risk & Insurance Management Society) and the QIC, portrayed most major players in the insurance industry with a grade level comparable to a D+ or C- at best. Not only was the scorecard's scientifically based methodology (unconvincingly) attacked by certain individuals in our industry, purse strings for continued support of QIC's mission to improve our industry were pulled to QIC's detriment as well as to its ultimate demise.

Some see this as a devastating blow to the quality movement within the insurance industry. In reality, RIMS will continue undaunted in its assessment of industry service quality through perpetuation of the customer-focused Quality Scorecard. Additionally, we'll probably see a better characterization of customer expectations coming from RIMS members to their brokers, carriers, and TPAs. This is another positive outcome.

Other industry organizations are moving into the breach and will continue to take up the quality gauntlet in the wake of QIC's removal from the scene.

Why is this happening? Is this unique to insurance?

An Op-Ed in the November 1999 issue of *Quality Digest* responds to these two questions. *QD* is a journal reporting on quality throughout the world for all industries in general—not any industry in particular. The Op-Ed by Pat Townsend and Joan

Gebhardt—regular columnists for *QD*—makes these major points:

- To understand why this quality thing doesn't seem to be going away despite efforts by groups of executives, unions, and employees to either pronounce it dead or announce it done, it's important to know who controls the marketplace. These are: (1) owners and managers; (2) workers; and (3) customers.
- Even though each of us belongs to at least two of these groups—and some to all three—our thinking often varies radically depending on which hat we happen to be wearing at the moment. A CEO may spend an afternoon railing against customer demands that his or her company improve its quality and then, that same night, send a steak back to the chef because it's not grilled exactly to the CEO's wishes.
- For thousands of years, owners and managers have held the power of deciding what will be made or provided and at what price—unilaterally.
- In the 1970s, everything changed forever. Japanese cars and electronics were introduced to U.S. markets. The customer finally had real choices—all the more compelling because the new options not only worked better, they also cost less.
- If owners and managers retained virtually all control, they could fool themselves into thinking they were still in charge and simply tell workers to make things better and at lower costs—or they could attempt to compete on price alone. In most cases, they would steadily lose market share and profits—and never understand why. (Sound familiar?)
- Only those organizations that managed to forge a partnership between owners/managers and workers—or that came along later and included the already

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established power shift to customers in their business plans—have been able to succeed consistently.

- Such organizations realize that quality is not optional. This is particularly true in the service sector.
- A service provider low on the quality scale may survive for a short while if it happens to be the first in a particular marketplace—but competition will be a magnet for informed customers.
- The options are straightforward: quality or a corporate headstone.

So the issue is not that quality is dead. The issue is whether an insurance organization is to thrive or disappear. It's a question of whether or not CEOs and senior management will board the quality train—or if they will continue to be left standing in the station—with some even throwing stones at the train. The latter, of course, are those whose longevity clearly is in question and in danger.

This has never been more true in the insurance industry. As *Quality Digest* reports, quality isn't dead. For example, our TQ Section continues to be alive and well to provide information and to help create quality initiatives within our industry for those open to listen—and who, at the end of the day,

want to be a survivor in the new digital era now underway.

Fads and buzz words are generally “top down” in their creation and perpetuation. On the other hand, transformation of an organization can result from “bottom up” efforts and initiatives. Are you providing leadership in your organization to continually improve its customers' perceptions of your service and quality levels—and to meet, if not exceed, customer expectations?

These are the roles and opportunities quality principles and tools equip us to employ. So, get on the quality train. It'll be the best career move you can make.

Write us if you need guidance on how to begin. ■

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Continuous Improvement— An Integrated Approach

by James E. Kuhnert, M.A., CPCU, CPA, CFSAs

James E. Kuhnert, M.A., CPCU, CPA, CFSAs, is vice president for business solutions for the Regional Agency Markets (RAM) division within Liberty Mutual and is responsible for all re-engineering and continuous improvement activities for the companies making up the unit. He holds undergraduate and graduate degrees in economics, and has attained the CPA, CPCU, and CFSAs professional designations.

I have often wondered why, given the now well documented bottom line benefits associated with a comprehensive commitment to quality/continuous improvement, many companies have opted to take a piecemeal approach to the issue (i.e., occasional use of one technique on an exception basis). On further reflection, I believe the answer may lie in something that the quality movement itself has failed to do. Specifically, while much work has been done to identify tools and techniques for use in gauging the effectiveness of individual processes, it seems that little time has been spent on defining a step-by-step approach for building an integrated, "real-world" approach to continuous improvement. This short article outlines a series of steps for introducing a hypothetical multi-line regional insurance company (ABC Co.) to an ongoing continuous improvement "presence" within the organization.

Data, Data, and More Data

The success of any such undertaking begins and ends with data. It has been said, "one data point does not a decision make." It could be argued that even tens or hundreds of observations/data points are insufficient at times to form the basis for sound decisions regarding the best ways of doing business. This begs two questions, "what data needs to be captured," and "how much data is required?"

The "what" part of the equation requires that areas targeted for improvement must be first identified. It follows that such areas will often involve activities considered core to the business under review. In the case of ABC Co., the processing of personal lines business including new, renewal, endorsement, and cancellation-related activities seem to meet this test. A review of the work associated with personal lines processing reveals a mix of activities that could be referred to as "underwriting," "support," and "allocated." At ABC Co., these types of activities equate to 15 different tasks such as new business underwriting and data

entry, renewal questionnaire review, questions and problem solving, etc. Further, it could be argued that a better measure of the complexity of personal lines processing is represented by multiplying the number of tasks identified by the number/types of businesses underwritten. For example, the time required to underwrite and enter a piece of homeowners business will differ from the time required to complete the same task(s) for a piece of automobile business. While daunting on its face, direct observation of core processes at this level of detail is critical for the success of any comprehensive continuous improvement program. The good news is that once captured, the data can be leveraged in a variety of ways that will become clear to the reader. It is important to recognize that once committed to the idea of capturing this data, a further commitment be made to "refresh" this data on a periodic basis. ABC Co. employs a full-time staff of internal business consultants whose responsibilities for continuous improvement include the periodic reverification of this information.

The "how much data" question is easy to answer. The guiding principle here is to record no more timings/observations than are required to assure some level of confidence in the observations. ABC Co. relies on statistical sampling to meet this requirement. Once a confidence level (i.e., 90 percent) has been established, the required sample size will vary according to the degree of consistency in the time it takes to process transactions. For example, at ABC Co., automobile endorsement transactions average four minutes with little variability while homeowner new business transactions average 27 minutes with a high degree of variability. As one would expect, the sample sizes for these activities will differ but with the use of statistical sampling techniques one can be assured of the "right" number of observations.

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What's Next—Best Practices

Having compiled credible data about the way that work is processed, the organization is now ready to take steps that will ultimately result in the measurable improvements to its processes. Using policy renewal processing as an example, the organization can now begin asking questions such as . . .

- Which region is processing transactions most efficiently?
- What accounts for the differences between locations/individuals?
- What is the value of the difference in terms of full-time equivalents (FTEs)?
- What is the mix of value-added versus non-value-added activities?

Here too, as with the selection of samples for observation, statistical techniques can be brought into play. Having identified desired outcomes (i.e., business that is processed quickly with a minimum of errors), statistical correlations can be drawn between the practices/procedures being employed in different locations and their impact on the desired result. Those practices most often yielding results that are "better, quicker, and cheaper" are arguably the basis for an initial set of "best practices." This initial set of best practices becomes the baseline against which future potential improvements are assessed. From a practical perspective, ABC Co. is able to use this information when performing cost benefit studies. For example, the information can be used to answer the question whether an investment in new technology being proposed for enhancing renewal processing provides a sufficient incremental return to make the investment worthwhile. In addition to assisting with simple spending decisions, the presence of baseline information can prove useful information for answering a wide variety of other questions. For example . . .

- What is the burden imposed on a process because of errors and re-work?
- What is the impact of training on performance?

- What is the impact of a given conversion effort in terms of required line staff?

With a program of internal benchmarking in place, ABC Co. can then focus its efforts on developing benchmarks against its industry peer group. Where the type of transaction is less industry specific (i.e., expense account reimbursement processing), the possibility of benchmarking against companies outside the industry can also be pursued. In a world of converging industries, failure to look outside one's own industry group for new ways of doing things is a risk to be avoided.

Other Benefits

It is worth mentioning that the efforts described above can often yield other types of benefits to an organization. For example, in the case of ABC Co., the detailed observations recorded about its processes have become input to initial research on activity-based costing and the use of automated workflow design. (Automated workflow design allows management to design and test new workflows on the desktop before piloting them in the field. This helps reduce disruptions to staff normally associated with a "trial and error" approach to testing new ways of processing.) The ability to engage in these other activities is both a benefit and a consequence of the work done in connection with continuous improvement. As a result of these new techniques, ABC Co.'s management is able to make decisions with a full understanding of the potential impacts on the various core processes within the company.

How to Begin

I stated earlier that a continuous improvement program begins with data. It would be more accurate to say that it begins with a commitment on the part of staff and management to integrating quality into every aspect of the organization's activities. The management of ABC Co. has recognized that its focus on continuous improvement sets it apart and provides real benefit in terms of competitive advantage. ■

Review of *Employment Practices Liability Consultant*

by John G. Pryor, CPCU, ARM, AAI, AIS

As a long-time subscriber to the myriad resources available through the International Risk Management Institute (IRMI), I must admit I was somewhat dubious when IRMI recently announced a new "quarterly guide to exposures, coverage, and loss control" for the risk of employment practices liability.

My sense was this would be redundant with the excellent data already available in different IRMI publications. Wrong!

IRMI's existing services can be considered a solid foundation for dealing with and understanding this risk. The *Employment Practices Liability Consultant (EPLiC)* quarterly builds on this foundation and adds a "superstructure" of significant value to agents, brokers, risk managers, employers, and underwriters. If the inaugural issue is any indication of what is to follow, we're in for a real treat.

What immediately stands out is *EPLiC*'s practice advanced by all in the quality movement of "cross-functional teamwork." Articles in initial issues are authored by not only underwriters but attorneys, HR specialists, risk managers, brokers, and authors totally outside the insurance industry who have very relevant and in-depth knowledge of this risk to share with readers.

Another quality practice is Editor Donald Phin's opening salvo on EPL risk management in which he equates risk control with the teachings of Dr. Edwards Deming, founder of the Total Quality Movement in Japan and subsequently in the United States.

Phin wisely and eloquently applies the notion of variation and continuous process improvement to the avoidance of employment practices claims and litigation. He correctly characterizes most problems as those that emanate from the systems and processes designed by an organization's leadership. He properly differentiates between common cause variation—those found in a process under control—and special cause variation where the cause lies outside the system's control limits and is typically a result of "human error" vis-a-vis inadequate system design.

He also makes good use of another TQ tool: the Pareto Rule. He comments, "In the future, we will be challenged to focus on the 80/20 of workforce risk management. What 20 percent of claims categories will result in 80 percent of claims filed—and what are the front-end strategies and tools that can be applied to prevent these claims?"

This is proactive leadership in its most productive form—and a model for all risk managers and CEOs to emulate.

Phin concludes with a comment on the need for total quality in all firms today. "Today's workplace is mired in what I call a 'culture of silence.' As a result, many times claims fail to reach the surface until they become cancerous and spin out of control. In every lawsuit I have litigated, witnesses reveal that although they were aware of inappropriate conduct, they chose to do little or nothing when confronted with egregious behavior. Such decisions resulted either because employees feared speaking out or believed it simply was not their job to do so."

Just read Deming's 14 points elsewhere in this *TQ* newsletter series. Deming's insistence on taking fear out of the workplace (Point #8) and cross-functional, front-line leadership (Point #9) reinforce Phin's well-taken point.

The convergence of risk management and total quality are obvious to some—but too many still don't see this commonality. This sounds like an opportunity for our TQ Section and the CPCU Society's Risk Management Section to work together in this context. In the interim, Society members are encouraged to make their personal assessment of this new IRMI service. As for me, my order's "in the mail." ■

The *Employment Practices Liability Consultant* is published quarterly by the International Risk Management Institute (972) 960-7693; Jack P. Gibson, CPCU, CLU, ARM, Publisher; Donald A. Phin, Esq., CPCM, Editor; Robert Bregman, CPCU, ARM, Co-Editor; \$99 per year.

Deming's 14 Points for Management as Applied to the Insurance Industry

Editor's note: Due to space constraints this article will be printed in installments. The first section appeared in Volume 2 No. 1, April 1999; the second section appeared in Volume 2 No. 2, July 1999; the third section appears here. The next section will appear in the next issue of TQ.

As before, paragraphs in italics are from Dr. Deming's book, Out of the Crisis to help put each point in a general context. You'll eventually appreciate his somewhat different style—both staccato and telegraphic not to mention non-inclusive—in his elaboration on these points. Don't let this 1980's writing style distract you. It's his meaning and his wisdom that are critical! The "bullet points" that follow are intended to put each point into an insurance context.

To understand and practice quality principles, it's essential to understand the 14 Points of Dr. Edwards Deming. As you read Deming's points, think through how each would apply to the insurance industry in general and to your day-to-day responsibilities in particular. In this series on Deming's 14 Points, we're attempting to put each into an insurance context. Only you can put them into a personal context—but it's clearly the best way to understand and apply these (rather iconoclastic to some) principles.

In our last issue, we illustrated Points 2 through 4. Here are Points 5 and 6. As you read them, see how different—and better—the outcomes in your work would be if they became the foundation of all you do and a critical component of your organization's culture.

Point #5: Improve constantly and forever the system of production and service, to improve quality and productivity, and thus constantly decrease costs.

Quality must be built in at the design stage. It may be too late, once plans are on their way. Teamwork in design is fundamental. There must be continual improvement in test methods and ever better understanding of the customer's needs and of the way he or she uses or misuses a product.

Quality desired starts with the intent, which is fixed by management. The intent must be translated into plans, specifications, and tests in an attempt to deliver to the customer the quality intended, all of which are management's responsibility.

The management of a company, seized with determination to change, will continue to try to master the meaning of the 14 Points.

Improvement of the process includes better allocation of human effort. It includes selection of people, their placement, their training, to give everyone, including production workers, a chance to advance their learning and to contribute the best of their talents. It means removal of barriers to pride of workmanship both for production workers and for management.

Putting out fires is not improvement of the process. Neither is discovery and removal of a special cause detected by a point out of control. This only puts the process back to where it should have been in the first place.

- ACORD's "Power of Change" is an excellent example of process improvement in a service industry to accomplish what Dr. Deming is stressing:
 - improvement of customer service;
 - lower production costs and lower service costs
- More insurance industry members need to work through ACORD's Power of Change offering and practice its principles on a daily basis. However, to do only this single element of Deming's 14 Points is insufficient. The goal is to transform the culture of your organization. This form of process mapping will generate improvements but will tend to fade into disuse unless ALL of the quality tools available are used in concert with one another. "Total" quality implies total implementation of quality tools throughout an organization.
- Few leadership opportunities to empower front-line employees exceed this notion of enabling staff to map—and thereby improve—their own processes to lower

costs and delight customers. When you do this in your company, agency, or TPA, employee morale soars!

- Process improvement through process mapping (what we used to call “flow charting”) has transformed departments or branches or home offices—or entire companies—if each map includes a focus on the customer of each process. If you listened to or read the year-end comments of those who lead “dot.com” companies as their stock prices burst through the financial stratosphere, each and every CEO (from Amazon.com to Sun Microsystems) demonstrated a tenacious focus on their customers. Dr. Deming would have loudly applauded their commitment to customer focus through process improvement.

Point #6: Institute training on the job.

Training must be totally reconstructed. Management needs training to learn about the company, all the way from incoming material to customer. A central problem is the need for appreciation of variation.

People learn in different ways. Some have difficulty to learn by written instructions. Others have difficulty to learn by the spoken word. Some people learn best by pictures; others by imitation; some by a combination of methods.

The greatest waste in America is failure to use the abilities of people. One need only listen to a tape of a meeting with production workers to learn about their frustrations and about the contribution they are eager to make. Anyone would be impressed to observe how articulate most production workers are—in spite of criticisms of our schools.

Money and time spent for training will be ineffective unless inhibitors to good work are removed (Point #12). Training for a job must teach the customer's needs (Point #14).

There is an important distinction between Points 6 and 13. Point 6 refers to the foundations of training for the management and for new employees. Point 13 refers to continual education and improvement of everyone on the job—self-improvement.

- In insurance, technical knowledge of insurance contracts is continually evolving as new forms of coverage are created—and older forms revised for new millennium risks in e-commerce, employment practices, pollution, and a myriad of others. At

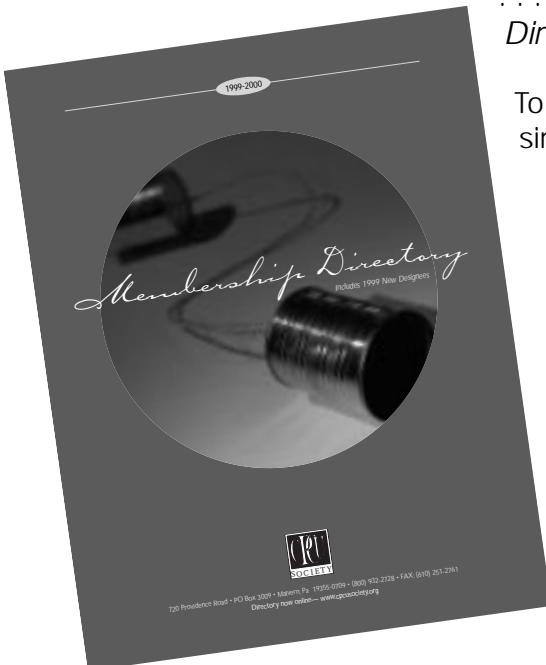
the same time, training in computer skills brings additional demands on industry personnel—if only to be able to fully use the technical insurance knowledge previously acquired! Yet when soft market reductions in revenue are experienced, what budget is among the first to be cut? Training, of course. A strong case can be made for the importance of increasing training on the job during these episodes where downsized staff members are expected to expand their output to get the job done—and do so with quality.

- What's missing in most insurance organizations is on-the-job training in quality itself. Where such training is universal, organizations are transformed with very positive outcomes. The Insurance Institute of America's AIS 25 course in “Delivering Insurance Services” is by far the best way to bring all employees up the learning curve on quality. Dr. Warren Hope and others have revised the AIS 25 text to be more insurance specific in its examples and illustrations. It should be available in early 2000.

- Agencies and companies adopting the AIS 25 curriculum usually begin this process with senior management—including the CEO. St. Paul Companies is a good example of this. Management first worked through the 13-week AIS 25 program. Then the AIS 25 offering was made available to all levels of employees down to the most junior of mail clerks and—very importantly—to receptionists who are the customer's first point of contact. This “moment of truth” sets the tone for all that follows for that customer's experience.

This concludes the third group of Dr. Deming's 14 Points. The remaining points will follow in future issues. In the interim, send us examples of real-world insurance practices that either support or violate these principles. As before, we'll give positive recognition to those who “get it” and do it right. At the same time, we'll forever protect the identity of those who don't yet “get it” and who are examples to the rest of us of the terrible price (literally at \$64 billion a year) we're paying as an industry for rework—and for lost opportunities to excel in the marketplace with loyal customers and maximum profits. ■

Good News . . .



. . . the CPCU Society's *Membership Directory* is now online!

To access this interactive directory, simply

- visit the Society's web site at www.cpcusociety.org
- enter through "Member and Chapter Services," and
- follow instructions for "Membership Online"

If you would like to receive a paper copy of the directory, which includes a listing of section members by individual section, please contact the Member Resource Center at (800) 932-2728.

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