TQ

Total Quality Section Quarterly

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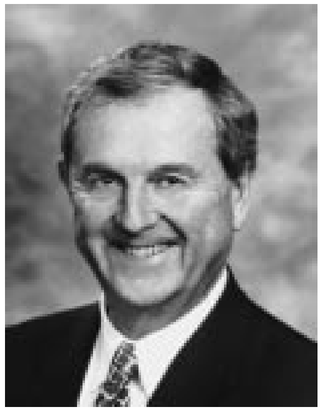
CPCU SOCIETY

Chairman's Swan Song

by John G. Pryor, CPCU



When a group of us created the Total Quality Section a few years ago, it was—and continues to be—exciting and reassuring to see CPCUs committed to quality within our industry.

"Committed" may be understated. "Passionate" about quality is more apt.

As I close my tour as TQ Section Committee Chairman, I cherish the dedication of our section members and greatly appreciate what they're doing within the Society and within their own organizations. However, I can't help but say:

- If only more CPCUs shared this passion for quality.
- If only more insurance CEOs aligned their people and corporate culture with this passion for quality.
- If only insurance regulators could see our industry demonstrate toward customers this passion for quality.
- If only our customers were able to benefit from an industry-wide passion for quality.

Sound too idealistic? Sure.

Yet we see it happening on an isolated basis.

For example, I had a phone call last week from a CPCU who recently completed his Black Belt training in the Six Sigma model of quality.

He said he's never had so much fun in the insurance business. His role is to help others practice quality—and maybe even develop a passion for quality disciplines such as:

- continuous process improvement
- customer focus
- employee empowerment
- reduction of variation

. . . all with use of data on a common-sense basis.

None of this is "rocket science" but it does come under the heading of "discipline." Too many quality efforts have not met expectations. This has been principally because of piecemeal efforts and a lack of discipline—and the absolutely essential element of dedicated leadership.

That's where passion is most relevant. If more insurance CEOs would make a dedicated effort to learn what quality really is about—and bring their senior executive team along with them—the stuff of which transformations are made could follow.

Just ask Bill O'Brien, former CEO of Hanover. He did it. He lived it. He has a track record to document it.

Too bad more insurance CEOs—including O'Brien's successors—haven't emulated his brand of quality leadership.

If you're a CEO and want to take the first step, here's some advice as a "parting shot" before I move from the Total Quality Section Committee to the Society's Board of Governors:

- Watch—and participate with—the Institutes' new Center for Performance Improvement and Innovation. Under Director Jim Jones' leadership, you'll see an increasing number of examples and "case studies" of quality initiatives in our industry. Outcomes include the ability to out-compete others and improve profits. They include loyal customers who don't "switch carriers" by perceived (but not real) "savings." They include an organization packed with loyal employees who understand quality disciplines such as cross-functional process mapping, customer-focused process improvement, employee empowerment, etc.

Continued on page 2

Chairman's Swan Song

Continued from page 1

- Enroll in the Institutes' AIS-25 program—Delivering Insurance Service. Take your peers through this educational experience with you. Then take your entire organization through AIS-25 with financial support and recognition for them.
- Read one of Deming's two books. You'll never be the same again. Once you're "transformed," you'll be positioned to transform your company or agency or TPA.

My successor as Total Quality Section Committee Chairman, Glen R. Schmidt, CPCU, CLU, of State Farm, has a major challenge ahead—but the passion of his team will make his job much easier, as it has for me. ■

John G. Pryor, CPCU, ARM, AAI, AIS, *is chairman of the board, KIA Insurance Associates in Bakersfield, CA. Pryor has been a leader in many local, state, and national organizations dealing with insurance agent and broker issues, education in the industry, and the quality movement.*

Live Satellite Broadcast

May 17, 2001

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As more and more consumers are doing business online, the issue of privacy has quickly become one of the hottest topics both in Washington and behind corporate walls. With the wealth of personal data stored on the web, privacy violations associated with e-commerce activities have created a minefield of fraud, ethics, and legal issues for insureds and insurers alike. Are you prepared for the fallout? There is a fine line between privacy and piracy, and it's called the Internet. Learn what you need to know to keep your company and your customers safe.

CE Credits

The CPCU Society will file this program for 3 CE credits. Additional details will be available soon.

Watch your mail for a promotional brochure, and check the Society's web site at www. cpcusociety.org for more information.

IIA Establishes Center for Performance Improvement and Innovation

Center for Performance Improvement & Innovation

The Insurance Institute of America (IIA) has established a new division, the Center for Performance Improvement and Innovation (CPII). The purpose of CPII is to serve as a focus for information, education, and research on organizational performance improvement initiatives in the insurance and risk management industry.

For years, people in the insurance business have talked about quality, best practices, benchmarking, customer focus, and process improvement. However, there was no agreement on the definition of these terms, no industry-wide approach to learning how to implement organizational performance improvement techniques, and no widely available case studies of insurance organizations that had successfully implemented performance improvement initiatives. The IIA established CPII at the request of insurance industry leaders following the dissolution of the Quality Insurance Congress (QIC) in 1999.

The IIA is a logical organization to head this industry-wide focus on performance improvement. IIA is a nonprofit educational organization supported by all facets of the risk management and property and casualty business. The IIA is in a unique position to observe the entire insurance supply-delivery chain and help organizations work out systemic problems. We hope to help smooth out some of the friction points that currently exist in insurance processes. In addition, we have a respected research division, the Insurance Research Council (IRC), that is known for its excellent research reports. We have the elements in place to lead and expand the industry's performance improvement initiatives.

Despite the demise of QIC, quality is not dead in the insurance industry. The IIA's fastest-growing designation program is Associate in Insurance Services (AIS), whose goal is to teach continuous improvement in an insurance industry context with insurance-specific situations. A number of insurance industry leaders are promoting (and funding) quality programs.

Richard A. Riley, CPCU, ARM, AIM, vice chairman, Aon Group, Inc., and member of the CPII Advisory Board, said: "Being customer centric is at the heart of being successful in any business. Listening to, understanding, and properly responding to the customers' needs constitute being customer centric. Getting the tools we need together, organized, and easily accessible will make for better performance by individual companies and the industry as a whole."

Commenting on the establishment of CPII, Robert E. Gallagher, chairman of the board, Arthur J. Gallagher & Co., said: "If you look at the system-wide errors that are

Continued on page 4

IIA Establishes Center for Performance Improvement and Innovation

Continued from page 3

made providing commercial insurance policies, and you consider the inefficiencies and customer service problems that these errors cause, then you will understand why we need an industry center that provides education on how to prevent or fix these errors."

CPII has established a Guiding Stars project that identifies, analyzes, and documents the performance improvement initiatives of several high-functioning, customer-oriented organizations in the insurance and risk management field. The purpose of the Guiding Stars project is to provide examples of how financially successful organizations implemented their own performance improvement initiatives. The first Guiding Stars publication, *Guiding Stars Report One*, profiles three award-winning independent insurance agencies.

CPII's web site, www.iiacpii.org, has detailed information about how the Guiding Stars organizations are chosen. Details about this first Guiding Stars report and the remarkable results achieved by quality programs, will be presented in the next *TQ* newsletter.

The web site also outlines CPII's mission and objectives, has a glossary of terms relevant to the continuous improvement process, and has links to other organizations with similar goals. Over the next year, CPII will add other features to its web site, including a resource center summarizing existing research, best practices, and innovative products and services. CPII welcomes suggestions for new projects and examples of best practices and innovation from organizations in the insurance industry.

CPII's advisory board consists of industry leaders that represent a variety of organizations in the insurance and risk management business—insurance carriers, agents, brokers, and third-party administrators. The members of the advisory board are: Christopher J. Amrhein, AAI, Independent Insurance Agents of America; Lawrence G. Brandon, CPCU, IIA/American Institute for CPCU; Stephen Collesano, Ph.D., American International Group; Peter J. Durkalski, CPCU, Arthur J. Gallagher & Co.; Joseph Feitelberg, The Feitelberg Company; P. Richard Hackenburg, CPCU, Willis-Missouri; James R. Jones, CPCU, AIS, IIA/American Institute for CPCU; William Kronenberg III, CPCU, Environmental Compliance Service; John Pryor, CPCU, KIA Insurance Associates, Inc.; Richard A. Riley, CPCU, ARM, AIM, Aon Group, Inc.; Dale Schueffner, Northland Insurance Companies; Peter D. Schiffrin, Environmental Compliance Service; Lewis C. Spurlock, Ph.D., CPCU, CLU, GCA, Farmers Group, Inc.; Terrie Troxel, Ph.D., CPCU, CLU, ARP, IIA/American Institute for CPCU; Stephen M. Wilder, ARM, The Walt Disney Company; and Joyce Wright, ACE-INA US.

The following organizations have given financial support to establish CPII: Aon Service Corporation, ACE USA, CNA Insurance, Arthur J. Gallagher & Co., Marsh USA, XL Global Services Incorporated, and Zurich American Insurance Company.

Please send suggestions and comments to Jim Jones, CPII director, at jones@cpcuiia.org or at (610) 644-2100 ext. 7563. ■

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

Editor's note: *Due to space constraints this article is 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 appeared in Volume 3 No. 1, February 2000; the fourth 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 1980s 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.*

The 14 points of Edwards Deming are the foundation of his System of Profound Knowledge. It's from this foundation that an individual or an organization can function as knowledge-based—vis-à-vis shooting from the hip or, even worse, making decisions based on public opinion polls.

What we're attempting to accomplish here is to apply these fundamental principles to the insurance industry. We do so in terms of "successes and messes," as Michael Kami likes to characterize these stories or situations.

As the CPCU Society's Total Quality Section, we'd like to build on these illustrations. We'd like to help ourselves and others better understand the depth and meaning—not to mention viability—of Deming's 14 points as they apply to the insurance industry and profession. As an industry, we're no different than any other in this context; however, some believe we're "light-years" behind others in their understanding and in their application.

We'd like to prove this indictment wrong. Some of the following illustrations will help us do so. Others will tell us where we as individuals and as organizations need to improve—or to use the vernacular of total quality—where we need to "continuously improve."

Please send your examples and illustrations and, yes, your stories you've witnessed to illustrate either support or violation of these 14 points. Names may be omitted "to protect the innocent," if you prefer.

Each of the 14 segments will begin with Deming's point as he worded it over the past two to three decades. Following this—in italics—is his expansion on the point. These are principally from his last two books, *Out of the Crisis* and *The New Economics*. Each is published by the Massachusetts Institute of Technology Center for Advanced Engineering Study. Each should be available from Amazon.com or BarnesandNoble.com.

Previous issues of the Total Quality Section newsletter covered Points 1 through 6. This issue will cover Points 7 through 9.

Point 7:. Institute leadership. The aim of supervision should be to help people and machines and gadgets to do a better job. Super-vision of management is in need of overhaul, as well as supervision of production workers.

The job of management is not supervision, but leadership. Management must work on sources of improvement, the intent of quality of product and of service, and on the translation of the intent into design and actual product. The required transformation of Western style of management requires that managers be leaders. Focus on outcome (management by numbers, MBO, work standards, meet specifications, zero defects, appraisal of performance) must be abolished, leadership put in place.

Some suggestions follow:

- *Remove barriers that make it impossible for the hourly worker to do his job with pride of workmanship (Point 12).*
- *Leaders must know the work they supervise. They must be empowered and directed to inform upper management concerning conditions that need correction.*

Continued on page 6

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

Continued from page 5

- *Leaders must not treat every fault and every blemish as a special cause. They should work on improvement of the system.*

Here are some examples of where leadership has been practiced within the insurance industry (as opposed to command-and-control management) and made a major difference in results:

- Bill O'Brien's experience as CEO of Hanover is classic. The company was in questionable condition when he came in as CEO. Shares had been selling for $2 and "grew" to 98 cents. When O'Brien completed his transformation, shares were selling at $45, revenue had grown from $440 million to $1.6 billion, and ROE was a strong 15 percent—all without any acquisitions or any capital infusions. He clearly instituted leadership—and quality—in the Hanover.
- An attorney member of the TQ Section is experimenting with a new structure within the firm, which may put responsibility of one person over a multitude of lawyers in different practice groups to make them profitable as a whole through providing quality services to clients. Their vision of this division head would not be one who would crack the whip on all of these individuals, but would serve as a facilitator to make way for an individual to provide quality service to a client and, as a result, be increasingly productive.
- The CPCU Society recently launched its National Leadership Institute. Attendance at the Institute's initial meeting drew twice the number of attendees anticipated—more than 400 Society members. What does this tell us about a hunger for leadership skills sets and roles within our industry? A lot. Important topics such as resilience, meeting facilitation, project management, and effective communication skills were presented. These are clearly relevant; however, none of them (in their subsets) were anywhere close to the above leadership skills advocated by Dr. Deming. Perhaps the 2001 NLI can incorporate these skill sets into its curriculum—especially system and process improvement with a heavy-duty customer focus!
- Finally, the Insurance Institute of America's (IIA) new Center for Performance Improvement and Innovation is a major step toward the "institution" of leadership in the insurance industry. Under the direction of Jim Jones, this new center's is:
  - To advance organization performance excellence for those in the insurance and risk management community through education on performance improvement initiatives including customer focus, process improvement, employee empowerment, innovation, and leadership.

Although leadership is mentioned at the conclusion of this mission statement, all that precedes its reference are leadership responsibilities. If insurance industry CEOs at the carrier, brokerage/agency, and TPA levels were to initiate these practices, this would be an entirely different [insurance] world. The IIA is to be congratulated for assuming this responsibility on behalf of our industry. Now if only our industry leaders will listen and respond in kind.

Point 8: Drive out fear, so that everyone may work effectively for the company.

No one can put in his best performance unless he feels secure. Fear takes on many faces. A common denominator of fear in any form, anywhere, is loss from impaired performance and padded figures.

There is widespread resistance of knowledge. Advances of the kind needed in Western industry require knowledge, yet people are afraid of knowledge. Pride may play a part in resistance to knowledge. New knowledge brought into the company might disclose some of our failings. A better outlook is of course to embrace new knowledge because it might help us to do a better job.

Another loss from fear is inability to serve the best interests of the company through necessity to satisfy specified rules, or the necessity to satisfy, at all costs, a quota of production.

A wrong way to manage: A manager looks *at a report of complaints by category. His eye falls on the highest figure on the paper; takes the telephone to wade in on the poor devil that is responsible for that category. This is another form of management by fear, and of management by numbers. Management's first step should be to discover by calculation, not by judgment, whether this category is out of [statistical] control with respect to the others. If yes, then this category requires his special attention and help. He must also work on the system to reduce all complaints.*

- The recent GM strike in Flint, Michigan is outside the insurance industry but a good example of the problem with work standards or quotas. It's entirely possible that the abolition of these standards—and substitution of control charts and other methods to determine in work processes are in statistical control—would have avoided the strike altogether. Think how this can be applied to the insurance industry.
- A Detroit CPCU commented, "Watching GM as it tries to re-design itself in the next few months and years will provide an excellent opportunity to observe and analyze GM's vision of leadership and quality."
- Management by objectives and numerical goals continues to be SOP almost universally in our industry. There presumably are many instances of padded figures, distorted results, and other manipulations to respond to these standards. Again, the industry is barking up the wrong tree. Understanding variation and how to apply it to critical systems and processes is where we need to be—and the Quality Insurance Congress appeared to be leading this charge. Instead, insurance carrier "leadership" didn't like the data provided in the RIMS/QIC Quality Scorecard—and "shot the messenger" by pulling financial support of QIC. To RIMS' credit, this example of fear has not deterred its continuation of the Quality Scorecard. Insurance industry leadership should not look for others to blame. They should thoroughly examine and continuously improve their own systems and processes and, in doing so, clearly keep their customers in focus. Otherwise grades of "D" and "F" will persist—except for those who "get it" and pursue the benefits of this knowledge—and its absence of fear within their organizations. It will be the latter who excel at their bottom line and thrive in the new economy.

Point 9: Break down barriers between departments. People in research, design, sales, and production must work as a team, to foresee problems of production and in use that may be encountered with the product or service.

Teamwork is sorely needed throughout the company. Teamwork requires one to compensate with his strength someone else's weakness, for everyone to sharpen each other's wits with questions. Unfortunately, the annual rating defeats teamwork. Teamwork is a risk business. He who works to help other people may not have as much production to show for the annual rating as he would if he worked alone.

For example, the credit department may be the earliest source in the company to learn about troubles that customers have for . . . poor quality. The customer with such a complaint may send his check with a deduction and explanation. The credit department can help to put out fires by rapid referral of such complaints to the right people in customer service, and to salesmen.

- At a local insurance agency in California, management made all the decisions from the very outset. Some were not very good decisions, by management's own admission, when made in isolation. When the decision-making and planning processes were expanded to include cross-functional staff from multiple departments, the quality of decisions improved immediately. Whole new perspectives were opened that agency owners, by themselves, never would have envisioned. Without the viewpoints of people in accounting, service, claims, etc., the quality of decisions would have continued to be less than optimum.
- CNA Life has an excellent payroll deduction plan for life products with cash values and benefits typical of a Universal Life policy. A billing glitch occurred dur-

Continued on page 8

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

Continued from page 7

ing late 1996 and early 1997. Two quarterly billings were not provided by CNA to their customers and—surprise, surprise—most were not paid. In 1998, a letter reporting the audit discovery of this billing error was sent to customers, which was in the context of "your account is in arrears." Customers responded with expected outrage—especially when asked to dig into two-year-old records—offsite in most cases. A broker—the intermediary between the carrier and the customer—intervened at the request of the customer and suggested a more appropriate letter be drafted—and an apology included—without putting the customer who has a pristine credit rating on the defensive. The broker was provided an advance draft of the letter and suggested revisions to put its context more clearly in line with the reality of the situation. The carrier representative expressed appreciation for the suggestions and mailed the revised letter to the customer. The customer was satisfied and the relationship was restored because of this cross-functional collaboration and teamwork between the carrier and the broker.

- At most law firms, support staff are regularly consulted regarding ways to make the delivery system more efficient. From computer applications to client guideline implementations, secretaries, information services, associates, and partners work together to best meet and exceed client expectations. Another good example of cross-functional teamwork.
- On the subject of employee involvement through teams, Peter Drucker said to Donald Petersen (then CEO of Ford), "Don, if you can get a third of your people to buy in, that's all you need. The rest will follow." And, says Petersen, "He (Drucker) was right! The first third are your real leaders, and the other two-thirds will join in after they overcome their skepticism. I found this was true not only with employee involvement but in all of efforts to change." From *A Better Idea—Redefining the Way Americans Work* by Donald Petersen, page 33, Houghton Mifflin Company, 1991. This point is as totally relevant to the insurance industry as it was to Ford.
- Cross-functional teams are becoming more prevalent in the insurance industry. Silo thinking causes many missed opportunities. It clearly opens the door to creative and lower-cost processes within the complex systems of an insurance company as well as within any brokerage or agency. ■

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