

## Chairman's Corner

by Valerie Ullman Katz, CPCU, ARM, AIS, AIM, CBCP



■ **Valerie Ullman Katz, CPCU, ARM, AIS, AIM, CBCP**, is the vice president of claims operations and audit for ACE USA Claims. In this capacity, she strives toward technical improvement, process improvement, employee involvement, and total quality. Katz is a past president of the CPCU Society's Philadelphia Chapter. She has an M.B.A., and has taught various insurance classes for the past 15 years.

### Why the Golden Rule Is All About Total Quality

**W**e are really in trouble. Our kids are fighting in wars. Others live with us until they are 30 because they can't afford to live on their own. The next generation may not achieve the standard of living that we have. Corporate behaviors are under more scrutiny than ever before. Twenty-six percent of American workers do not take their vacation time because they are too busy. Where is the American dream—life of family, friends, strong industries, and morality? Why did we stop treating others as we want to be treated ourselves? Maybe we are not treating ourselves very well.

Some blame the media. Too much realism, too much violence, too much sex, all destroying the moral fiber of the citizens. Some blame a political party—too liberal, too conservative. Some blame the bosses, corporate policy, and attention to the bottom line. I blame me.

Today, I was short with my 11-year-old because I was distracted paying the family bills. Today, I muttered under my breath some very evil thoughts about a co-worker that is a pill. Today, I did not pay attention to all of the details that engulf my desk. Today, I did not do my best to behave according to my kindergarten teachings.

TQ is a state of mind. It is doing your best, professionally and personally. The same techniques used to solve processing, administrative, or technical snafus can be used to solve almost every other issue. Not that I am minimizing personal tragedies, but the same methodology can help us restore our emotional balance. If we all take an objective look at our behavior, we can do better.

Everyone can always do better.

If we all do a little better, pay a little more attention, try to see the other viewpoint, maybe we collectively will make the world just a little better. So, I am going to apologize to my 11-year-old, walk over to my co-worker (who, by the way, is still a pill) and try to resolve the issue.

Today, I will try. ■

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# Tom Peters “Hates” Quality But “Loves” Its Principles and Practices

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



■ **John G. Pryor, CPCU, ARM, AAI, AIS**, is a principal and founder of KIA Insurance Associates, Inc. in Bakersfield, California. Currently he serves on both the CPCU Society's Board of Governors and on the AICPCU/IIA Board of Trustees. Pryor is past president of the California "Big I" and founding chairman of the CPCU Society's Total Quality Section.

**Editor's Note:** Tom Peters was the keynote speaker for the CPCU Society's 2004 Annual Meeting and Seminars in Los Angeles. His selection—as well as his message (in general)—were both highly commendable. In his most recent (2003) book, *Re-imagine—Business Excellence in a Disruptive Age*, Peters appears to be highly critical—even denigrating—of the quality disciplines advocated by W. Edwards Deming and Joseph Juran. The December 2004 *TQ* newsletter contained an “executive overview” and an “expanded summary” by John G. Pryor, CPCU, ARM, AAI, AIS, which may be helpful to review. This quarter's newsletter brings more specific thoughts from Pryor on Tom Peter's recent work.

## Zero Defects

In a sidebar on page 29, Peters says:

“Zero defects” is great ... in a known environment. But it is Death itself ... in Ambiguous Surroundings. So join me. Raise the Flag. 100% Against Zero Defects.

Deming makes the following comments on “Zero Defects”:

- Focus on ... zero defects ... must be abolished, leadership put in [its] place.
- The fallacy of zero defects [is] driving losses and costs to the maximum.

We all respected ITT Hartford's Phil Crosby who advocated many initiatives in addition to zero defects in his highly read books (*Quality Is Free*, *Quality Without Tears*, and *Let's Talk Quality*)—but both Peters and Deming effectively challenge the value of this latter notion of Crosby.

## Kaizen and Continuous Improvement

In chapter 2, page 31, Peters says:

I imagine ... a World Where the Timid Goal of “Improvement” (and the Tendency to Tinker) has

given way to ... an Unabashed Commitment to Destruction.

On pages 40 and 41:

The bias for Kaizen (“continuous improvement”) in Japanese automobile and steel manufacturing equally affects Japanese science ... But maybe calling incrementalism “the enemy” isn't strong enough. How about “the worst enemy?” MIT Media Lab boss Nicholas Negroponte: “Incrementalism is innovation's worst enemy.” Sad fact: Big organizations ... by their very nature ... are addicted to incrementalism ... CEO of one of the world's largest financial-services firm: “I don't intend to sit quietly and be known as the ‘King of the Tinkerers’” ... there usually isn't time to “improve things.” Take your pick. “Improve” ... or “Destroy and Build.” The siren call of 2003 is almost inevitably the latter.

And as a sidebar on page 41:

ASK YOURSELF ... Hey, you ... yes, you ... the 42-year-old process manager who's leading a logistics overhaul for a 200-person division. Ask yourself: Will you “improve the system” to take advantage of the web?” Or will you invent a mini-Dell ... a Novel and Revolutionary Supply-Chain Model ... that scares the pee out of people with its brashness? It's your choice. (Dammit.) Think about it. (Hard.)

Deming comments early in his book that “. . . statistical control open[s] the way to . . . innovation. Without statistical control, the process [is] in unstable chaos, the noise of which would mask the effect of any attempt to bring improvement. With statistical control achieve, [we] become innovative, creative.”

Without metrics, how can you define—and measure—success?

On page 199 of chapter 15, Peters resurrects his assault on continuous improvement:

Remember Mr. Kaizen ... aka Continuous Improvement Man? Now's the time to ... just say "No" to Mr. K. To be sure, the work that Mr. K. does is valuable. A bit of improvement here. A touch of change there. In other words, one mediocre success after another. (Incrementalism ad nauseum.) ... These are times that demand ... Going For It ... So let's make this our motto for the times: No Damn JAMS. No more ... "Just Another Mediocre Success". WOW or Wuss! BHAG or Bust! Excellent of Extinct! Different or Dead!

Peters again seems to want major breakthroughs without any regard to—or concern for—continuous improvement. They are not mutually exclusive as Peters seems to imply. Dr. Deming says within his comments on his Point #1 (create constancy of purpose for improvement of product and service):

Innovation, the foundation of the future, can not thrive unless top management have declared unshakable commitment to quality and productivity. Until this policy can be enthroned as an institution [corporate culture], middle management and everyone else in the company will be skeptical about the effectiveness of their best [and most innovative] efforts.

In chapter 20 (page 250), Peters again berates quality while, at the same time, illustrating what quality disciplines can accomplish at their best and highest levels. He implies that these principles are outdated and have outlived their usefulness when, in reality, they are every bit as valid today as they were when *Out of the Crisis* was published in 1982.

You're not going to "make it" in the New Economy solely by pushing TQM or CI (Kaizen) or any of the other New Nostrums that we embraced so vigorously 20 years ago. You're going to "make



■ Tom Peters delivered a though-provoking keynote address at the CPCU Society's 60th Annual Meeting and Seminars in Los Angeles, California.

it" by providing ... Solutions! ... Experiences! ... Beautiful Systems! ... Dream Fulfillment! ... Design that WOWs! ... Brands that Inspire! And this "new stuff" is (all) about ... Talent. The new technologies that undergird the White-Collar Revolution may seem like a dehumanizing force; but in fact, they herald the end of "grunge" work and thence a People's Revolution.

In Deming's more recent book (1994), *The New Economics for Industry, Government, Education*, he says, "... it is necessary to innovate, to predict needs of the customer, give him more. He that innovates and is lucky will take the market."

Page 150 in Chapter 11 is also relevant to property and casualty insurance. Peters comments:

System Overload. The magnitude of potential simplification is ... staggering ... Consider a process for verifying an insurance claim. It takes 23 working days. Yet ... literally, 17 minutes of actual work

are performed. The rest is all about scraps of paper flying (crawling is more like it) from her to there. Sitting on desks. Unnecessary complications to forms to be filled out. And initialed. And initialed some more. And so on. And ... on. Yes, it is that bad. 23 days. 17 minutes.

This is the kind of situation that the Insurance Institute of America course in Delivering Insurance Services (AIS-25)—including Deming's teachings—is all about. No conflict here with Peters. Everyone is on this "same page."

Chapter 17 (page 217) includes this (somewhat backward) approach to system improvement as described by Peters:

Bob Stone (Gore/Clinton administration) ... made a dent in the way the federal government performs ... Stone offers a simple mantra that puts a whole new spin on the idea of "corporate" culture change: "SOME PEOPLE LOOK FOR THINGS THAT WENT WRONG

*Continued on page 4*



# Tom Peters “Hates” Quality But “Loves” Its Principles and Practices

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and TRY TO FIX THEM. I LOOK FOR THINGS THAT WENT RIGHT and TRY TO BUILD ON THEM.”

This is okay as far as it goes—but it misses Deming’s point on correcting inputs in the process to begin with so “things that went wrong don’t occur to begin with.” In Point #5, Dr. Deming says, “Improve constantly and forever the system of production and service.” A theme that appears over and over in this book, *Out of the Crisis*, is that quality must be built in at the design stage. It may be too late once plans are on their way.

## Customer Focus

Peters begins Chapter 8 with an “i rant” on “customer focus”:

We (still) applaud the ideal of the “satisfied customer.” Instead we must focus on creating a ... “customer experience.” We continue to talk about “service” and “quality.” Instead we must understand that “experience” is not only a Very Big Word ... but ... a Totally Revised Organizational Life Form. (Truly.)

Here are some direct quotations from Dr. Deming that convincingly show that Peters’ focus on customers is consistent with those in the quality movement:

- The consumer is the most important part of the production line. Quality should be aimed at the needs of the consumer, present and future.
- It will not suffice to have customers that are merely satisfied. An unhappy customer will switch. Unfortunately, a satisfied customer may also switch, on the theory that he could not lose much, and might gain. Profit in business comes from repeat customers, customers that boast about your product and service, and that bring friends with them.

On page 224, Peters discovers what Deming has said for decades, viz., at the end of every process is the customer—internal or external customer—the recipient of the output of each process.

**KEY POINT:** Every project has “customers.” Imagine that you’re trying to bring “radical” change to a mere “business process” in finance. In particular, you have a seriously cool idea ... for your division. The “users” in other departments who will benefit from that method ... are your customers. No matter how “cool” your idea may be, those customers must become ... enthusiasts ... of your project ... if you are to make a significant impact.

## PDSA—Plan, Do, Study, Act

On page 57 (chapter 3), Peters contrasts planning versus what Deming would call “Plan, Do, Study, Act”—what we call in AIS 25, “PDCA” or “Plan, Do, Check, Act.” Each is essentially the same. Peters calls it “DTAF” in contrast to “planning, planning, planning”:

Planning, planning, planning:  
Doing, Testing, Adjusting, Fast

He’s talking about prototypes. So is Deming. On page 219, Peters introduces a version of Deming’s PDSA:

John Boyd, an Air Force Colonel, said that whoever has the fastest “OODA” loop wins. OODA loop: Observe–Orient–Decide–Act cycle. Confuse and confound the “enemy” by your speed per se. While the champions of inertia are busy scheduling the next “planning review,” you swiftly get the job done ... and go public with it.

Whether it’s called PDSA, DTAF, PDCA, OODA—or GE’s DMIAC—the outcome is the same, viz, plan a test aimed at improvement, carry out the test on a small scale (prototype), study the results, and adopt the change or abandon it—or run through the cycle again. There’s clear concurrence here between Peters and Deming.



## Co-Production

In chapter 4, on page 67, Peters says:

Small business people understand this [the perception of being in Total Control]. “Changes in business processes will emphasize self-service,” said Ray Lane when he was president of Oracle. Your costs as a business go down and the perceived service goes up because customers are conducting it themselves.

Deming (and in AIS 25) would call this “co-production.” It’s part and parcel of the quality disciplines. In *The New Economics*, Deming comments, “Anyone that works in an organization works jointly, or should, with his suppliers and customers.”

## Cross-Functional Communication

Chapter 7 includes “Solutions50”—an excellent listing by Peters of methods to avoid “stovepipe myopia”—what we would call “silo management”—through cross-functional communication and cross-functional work. Two Solutions relevant to quality disciplines are:

#25:XFTs (Cross-Functional Teams) are us. We do our work ... ALL OUR WORK ... via cross-functional project teams. Thus, “XF” must be as routine as breathing.

Deming's Point #9 is "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." Then he cites several illustrations and examples. In his *The New Economics*, he takes this notion to a different dimension: "Make physical arrangements for informal dialogue between people in the various components of the company, regardless of level of position."

The second "Solutions50" by Peters is:

**#30: Proactively and Systematically and Perpetually Cut the Crap. We are our own worst enemies—via hopelessly complicated systems and procedures [processes]. We need ... TOTAL (ORGANIZED) WAR ON OVERCOMPLICATION!**



In Chapter 11, Peters begins with his

**! VISION ... I IMAGINE ...**

**A policy manual that is one page long.**

**A[n] ... insurance policy written in ... Plain English.**

Both of these pronouncements are precisely what Deming and Juran—and even Crosby—convincingly argue. No conflict here with Peters.

## Benchmarking

Reminiscent of a recent political campaign statement (I voted for "x" before I voted against it), Peters downplays the value of benchmarking—yet says it's okay if done in a particular manner.

I'm not a fan of "benchmarking." To be sure, I believe in "learning"—from anybody and everybody. I readily admit that's the useful idea behind benchmarking. But here is my (BIG) problem: In nine cases out of 10, benchmarking is done against the "industry leader" . . . benchmarking is cool—but only if that benchmarking is a truly cool, far-out, four-sigma (six-sigma?) organization . . . doing something wild and wacky and oh-so-2013.

Deming said the following about benchmarking:

**To me, benchmarking is a fancy name for copying. To select the "best in class" without understanding why it is best leads to disaster. Without understanding the theory needed to convert someone else's product to our use, we apply the process as the originator did. This can be completely wrong.**

## General Semantics

Indirectly unrelated to quality disciplines and principles, are the principles of general semantics as asserted by Alfred Korzybski and S.I. Hawakawa. These latter principles are highly valued—and correctly so—by Tom Peters. He appears to be very sensitive to the fundamental

principles of general semantics with particular emphasis on "how men use words—and how words use men." Both Deming and Juran, I suspect, would concur with this.

## Conclusion

Although this article isn't intended to be a full exposition of Peters' management and leadership philosophies—nor of Deming's—it is intended to conclusively show that each thinks in the same manner. Only the words chosen seem to be different.

Peters' motivation and rationale are unclear. He does seem to want to "push" everyone to higher levels of performance—which is commendable—from "incrementalism" to innovation. He does so without demeaning Deming's principles. He demeans only the names of quality disciplines such as TQM, Zero Defects, CI, Six Sigma—names Deming detested as well.

Peters' hyperbole, however sincere, sounds a lot like the story of the tortoise (Deming) and the hare (Peters). In the long run, the tortoise wins every time—and the hare is caught napping between innovations.

Clearly missing from Peters' entire book is the high relevance and importance of metrics. The many kinds of "soft stuff" he describes are important—but not at the expense of data for measurement purposes and to maintain control of processes and systems. Peters is an engineer. Surely he "gets it" when the need for data is expressed.

It's critical for those who listened to Peters at the CPCU Society's Annual Meeting and Seminars—or who read his book(s)—to understand that a casual review may lead to a conclusion that Peters "hates" quality, when a deeper reading will convincingly show that, in actuality, he "loves" its principles no matter what he or others may call them. ■

# Outsourcing Technology Overseas on Behalf of the United States Property and Casualty Insurance Industry

by Andrew J. Barile, CPCU



■ **Andrew J. Barile, CPCU**, has been in the insurance industry for more than 40 years in the United States. His experience covers all types of insurance coverages, and all forms of insurance entities. Barile has developed all varieties of insurance programs, from development to implementation and execution stages. His articles have been published in numerous insurance trade journals, and he is a frequent lecturer at seminars throughout the United States.

## Introduction

The United States insurance industry has continued to look for new ways to increase profitability, whether it be in designing new ways to produce revenue, or introduce project management to the equation to reduce expenses. Outsourcing reduces expenses.

Many of the advantages of outsourcing technology have begun to occur in the last 10 years, especially as the insurance industry needs to increase its return on investment as it focuses on raising additional capital from the capital markets.

Expense reduction and focusing on the core competencies are the words of today. The benefits of outsourcing business processes are very well known to all insurance industry top management. Execution of this concept is a key to success.

## Important Need for Technology Outsourcing

After reading hundreds of insurance company annual reports, we notice in the letter to the shareholders the CEO's comment, "We need to reduce the ratio of expenses to premiums through the use of technology and strategic deployment of our capital." How many times in 40 years of experience have I heard that comment? My first question is, how are they going to "execute"?

Major focus has been on the growth of the insurance claims administration outsourcing market.

## Understanding the Intricacies of the Insurance Industry

In helping insurance entities capture the successful strategy of outsourcing, technology companies need to retain insurance consultants that understand the insurance business process and have access to companies that make good candidates for outsourcing.

Understanding the insurance industry also permits the outsourcing vendor to make acquisitions, and/or enter into partnerships with other vendors.

## Understanding United States Insurance Industry Business Practices

The overseas vendor must understand how to do business in the United States. This is a very big learning curve that can be overcome only by experienced United States insurance consultants. A great deal of money could be spent for developing business from the United States with very little activity. Select a consultant that knows the insurance industry, not an accountant based solely on operating less expensively.

## Acquisitions/Acquire Outsourcer

A publicly held outsourcer may acquire a privately held outsource service provider (with \$7 million of annualized revenues), forming a new company offering web-based products supporting the property and casualty policy underwriting process. This is an example of outsourcing firms purchasing each other.



## Capital Management Investors Looking Closely at Technology Improvements through Outsourcing

A consultant to capital management companies may have concerns such as “are insurance company management doing enough in the technological area to reduce expenses and improve earnings?” Capital management companies in London, New York City, and Los Angeles are very concerned that those insurance companies whose stock they hold are effectively using overseas technology companies to reduce costs, and perform business process outsourcing.

The capital management firms’ interest is one of the reasons that is driving insurance companies to outsource, and to increase their spending on outsourcing. Whether insurers are developing insurance products faster, or reducing costs, capital management firms are looking for the end result.

Capital management firms want insurers to seek new ways of conducting business, and to increase profit margins. They recognize that insurance companies that have gone from outsourcing to offshore destinations, such as India, have reported savings of 10 to 33 percent, depending upon the project size.

## Increasing Litigation Against Technology Companies for Failure to Perform

Many technology companies provide policy and claims administration to the property and casualty insurance industry, and offer comprehensive outsourcing services, software, and software services. Some may have overstated their ability to perform, as there has been an increasing number of claims under the performance bonds purchased by technology companies. Technology companies that misrepresent the ability of their products must understand they will have to pay the consequences. Generally, a client can

terminate its outsourcing contract with the technology company and demand payment under the performance bond due to the technology company’s default under the contract.

## Business Development/ Budget for Acquiring Clients

Technology companies, especially those operating from overseas, need insurance industry expertise (domain), as well as business acumen. They are looking to access this market without a dollar expenditure. Most will fail without a business development budget. Most underestimate the costs of developing clients in the technological area of the business.

Success will come from those technology companies that have done their research and have a definitive focus. They need to understand the complexity of the insurance business before they can develop the software to improve its efficiency. For example, is it the wholesale insurance agency, the managing general agency, the property and casualty insurance company who uses all of the distribution systems (direct, retailers, wholesalers, MGAs)?

Do not underestimate the need for the business development budget for acquiring your new clients.

## The Due-Diligence Process

Determining what is right, reasonable, fitting, and necessary in the due-diligence process in selecting an outsourcing technology company is critically important. Too often technology companies make “sweeping statements” that they provide technology solutions for the “insurance industry.”

The insurance industry is defined as:

1. life
2. property and casualty
3. insurance brokers and agents

And outsource business processes in:

1. sales and distribution
2. underwriting
3. policy administration
4. accounting
5. claims processing
6. back office

One word of caution, this is the entire insurance industry, and due diligence must be done on the details.

## Insurance Companies with Favorable Outlook for Earnings, Cash Flow, and Growth

Insurance companies, through outsourcing technology overseas, will continue to adjust their business model to adapt to changing market dynamics and push forward to increase their profitability.

Technology-driven competitive pressures also are influencing the insurance industry, which is embracing outsourcing as it seeks to grow profitability. ■

# CPCU Society Philadelphia Chapter Meeting Focuses on Continuous Improvement

by Donna J. Popow, J.D., CPCU, AIC



■ **Donna J. Popow, J.D., CPCU, AIC**, serves as the director of curriculum at the American Institute for CPCU/ Insurance Institute of America. Popow joined the Institutes in 2002. As director of curriculum, she maintains the textbooks, course guides, and examinations for the Introduction to Claims course and the Associate in Claims (AIC) designation program. She is an active member of the CPCU Society's Philadelphia Chapter. Before joining the Institutes, Popow was vice president and litigation manager, Home Office Claims, for the Marine Office of America Corporation/CNA in Monmouth Junction, NJ. Popow earned an A.B. degree from Franklin and Marshall College in 1977. She received the Insurance Institute of America's Certificate in General Insurance in 1983 and became a Property Claims Law Associate in 1985. She was awarded a J.D. degree by Seton Hall Law School in 1988 and was admitted to the Bar in New Jersey and Pennsylvania the same year. She earned IIA's AIC designation in 2002. She earned the American Institute's Chartered Property Casualty Underwriter (CPCU®) designation in 2003.

**Editor's Note:** The CPCU Society's Philadelphia Chapter has long been a sponsor of the Total Quality Section Committee, and embraces quality concepts and teaching. In addition, our chairman, Val Katz, CPCU, is a past president of the chapter, and our fellow TQ committee member Jonathan W. Hensinger, CPCU, is president-elect. We thought our TQ Section members would enjoy a review of one of the chapter's recent meetings that focused on total quality and continuous improvement. Perhaps it will generate some ideas on what can be done in other chapters.

**T**he November 18, 2004, breakfast meeting featured a lineup of stars and a rising star. Discussing continuous quality improvement were **William Kronenberg III, CPCU**, CEO/owner of Professional Underwriters and retired CEO of XL Environmental, Inc.; **Joseph H. Feitelberg**, vice chairman of Citizens Financial Group-Insurance Services; and **Jonathan W. Hensinger, CPCU, ARM, AIS**, of State Farm Insurance Company—Fire Specialty Division. **Lilly Cowan, CPCU**, the events chairman, moderated the panel.

Cowan began this discussion by defining continuous improvement as a means to improve the process of work by focusing on the customer and involving all employees. She then guided the panel members through a discussion of their own continuous quality improvement experiences by posing questions to each of them individually.

Kronenberg talked about the early days of ECS, an environmental risk management firm he joined in 1985. Because it was a small organization, Kronenberg realized that the company was going to have to distinguish itself from its larger competitors like AIG. The company decided it wanted to be the best instead of the biggest. The company began the implementation of continuous improvement (CI) by asking its

customers, through surveys, focus groups, and one-on-one meetings, what they wanted. They learned that its customers wanted their policies issued in a timely manner, with accurate data, and a bill to match the policy.

From the CEO on down, everyone in the company became involved in producing timely and accurate policies and bills. Management put this initiative on equal footing with production and profit. The initiative was incorporated into the reward system. Eventually it became part of the corporate culture.

Kronenberg views CI as an ongoing process, not a project. He measured the success of the CI effort by tracking policy issuance and accuracy. He also asked customers how the company was doing as well as how the company compared to others doing the same thing. Kronenberg then set up benchmarks and shared a CI report card with all employees on a quarterly basis. Kronenberg cautions that it is hard to maintain momentum for CI. Employees get tired of it, especially if they do not see it affecting the bottom line. Management has to continually reinforce the importance of CI to keep it moving forward.

Feitelberg has been involved in CI for many years. He believes that CI has its own language and that the best way to learn the language is to take AIS 25, "Delivering Insurance Services," from the Insurance Institute of America.

According to Feitelberg, AIS 25 will teach you what you need to benchmark and how to go about doing it because you cannot manage what you do not measure.



Feitelberg believes that there are four key factors to CI:

- execution
- growth
- great people
- virtue

These factors must be driven from the top and practiced by everyone in the organization.

Last to speak was our own president-elect, Jon Hensinger. Hensinger is currently leading a CI initiative for the fire operations in the northeast zone at State Farm. This initiative involves three offices and 400 employees. The idea for this initiative came to Hensinger after attending a seminar on CI at the 2003 CPCU Society Annual Meeting and Seminars in New Orleans. Hensinger formulated a plan for CI and took it to State Farm. As it turned out, the company was already thinking about CI, and Hensinger's plan gave it the platform in which to pilot the process.

The initiative has three goals:

- Ingrain CI into the corporate culture.
- Save \$200,000 through process improvement.
- Increase agents' satisfaction by 5 percent.

Hensinger has used two main resources to implement this initiative: AIS 25 and *Leading Change* by John Kotter. State Farm has driven this initiative from the bottom up by holding training classes on it and communicating it in a way that is different from other company initiatives.

All three panel members believe that benefits derived from CI far outweigh the cost of implementation. ■

## Total Quality Section Committee Welcomes Kimberly A. Sterling, CPCU, CLU, AIM, AIS



**K**imberly A. Sterling, CPCU, CLU, AIM, AIS, is the California zone commercial lines underwriting section manager for State Farm Insurance in Rohnert Park. Sterling started her career in 1993 as an auto underwriter in Bloomington, IL, following her graduation from Illinois Wesleyan University. In 1997, she transferred to the Tempe, AZ office where she served as underwriting supervisor in auto and personal lines fire. Sterling obtained her commercial lines position in the California office in 2004. With 12 years of underwriting background, Sterling has experience in quality, process improvement, growth strategies, and enhancing the marketing partnerships between agents and operations. She is looking forward to working with the Total Quality Section Committee to share this experience with others in the industry. In addition to her involvement in the CPCU Society, Sterling volunteers her time with WISE (Women's Initiative for Self-Employment), a non-profit organization in San Francisco. In her free time, she enjoys spending time with her husband, hiking, and reading a "quality" murder mystery! ■

# The Balanced Scorecard and Its Application to CPCU Society Chapters

by James R. Jones, CPCU, AIC, ARM, AIS, and Sharon E. Spung, CPCU, AIC, AIM



■ **James R. Jones, CPCU, AIC, ARM, AIS,** is director of the Katie School of Insurance and Financial Services, Illinois State University, responsible for ensuring that students have a world-class educational experience that prepares them for careers in the industry. Previously, Jones was director of claims education and director of Center for Performance Improvement and Innovation at the AICPCU/IIA in Malvern, PA. Jones has edited and written books on various areas of claims, and published articles in the *CPCU Journal*, *National Underwriter*, *Claims* magazine, *Claims Quarterly*, and *Total Quality Quarterly* newsletter. Jones holds a B.A. in finance and accounting from the University of Missouri-Columbia and an M.B.A. from St. Louis University, as well as the AIC, ARM, and AIS designations.



■ **Sharon E. Spung, CPCU, AIC, AIM,** is the manager of claim services for the University of Washington in Seattle, WA. Spung began her insurance career with SAFECO Insurance in Atlanta in 1984 in the Claims Department and held a variety of technical and management roles with Safeco in various locations before joining the University of Washington's Risk Management department. Spung got her CPCU in 1985 and has been active in local CPCU Society chapter activities since that time. She currently serves as president of the Pacific Northwest Chapter, as well as being involved with a number of other professional associations in the Seattle area.

As CPCUs, many of us are involved in our local CPCU Society chapters as members, committee workers or leaders, and even officers. Many CPCUs who are active in their local chapters report the benefits they receive are: networking with local insurance professionals, staying current on insurance issues relevant to the local marketplace, having an opportunity to participate in community involvement activities with other CPCUs, and getting together to have some fun! Local chapter membership is an important component of the CPCU Society.

As such, it's important that CPCU Society chapters focus on their mission of meeting and exceeding their members' needs. Like any organization, the chapters can be made stronger by incorporating regular strategic planning into the work of the chapter. Chapters are encouraged through the Circle of Excellence Recognition Program to conduct an annual planning session with their leadership, which is an ideal time to step back and outline the mission and vision of the chapter. Strategic plans for the following year and beyond can then be developed around that mission and vision. The Balanced Scorecard, a familiar tool to most of us in the for-profit arena, may be an ideal tool to guide chapter planning and management.

## Overview of Balanced Scorecard

The Balanced Scorecard approach to strategic management grew out of a multi-company study group in the mid-1990s, sponsored by the Nolan Norton Institute with its CEO David Norton, and Harvard Business School professor Robert Kaplan. The study group included executives from GE, Cigna, Dupont, and Apple Computer.

The basic idea of the Balanced Scorecard is to help translate strategy into action and to focus the organization on the

various objectives and measurements that truly drive strategy. To avoid focusing on short-term, narrowly focused objectives, the scorecard comprises objectives and metrics from four perspectives. The authors categorized these four perspectives as financial, customer, internal processes, learning and growth. The scorecard has been used by businesses, government, and non-profit organizations with some adaptations to reflect their unique environments. Table 1 illustrates what a simple Balanced

Scorecard might look like for an insurance company.

The Balanced Scorecard is often applied in non-profit organizations as well, including many colleges and universities nationwide. It is not a stretch then, to consider its application to the CPCU Society chapters. One major difference between for-profit and non-profit organizations is the starting point. In a for-profit organization, the financial results desired are usually the place to

start. All the other objectives flow from these. Non-profit organizations typically begin by setting customer objectives, and all other objectives flow from these. The following describes the four different perspectives and how they might apply to a CPCU Society chapter. The discussion is followed by an example of a Balanced Scorecard for a CPCU Society chapter (Table 2).

*Continued on page 12*

**Table 1**  
**Example of Balance Scorecard Objectives and Measurements for an Insurance Company**

| <b>ACME Insurance Company Balanced Scorecard</b>  |   |  |
|---|---|--|
| <b>Strategic Objectives</b>   | <b>Strategic Measurements</b>   |  |
|   | <b>Core Outcomes (Lag)</b>  | <b>Performance Drivers (Lead)</b>  |
| <b>Financial</b><br>F1 – Meet Shareholder Expectations<br>F2 – Improve Operating Performance<br>F3 – Achieve Profitable Growth<br>F4 – Reduce Shareholder Risk                        | Return-on-Equity<br>Combined Ratio<br>Business Mix<br>Catastrophic Losses<br>(net of reinsurance)   |  |
| <b>Customer</b><br>C1 – Improve Agency Performance<br>C2 – Satisfy Target Policyholders<br>C3 – Improve Claims Service  | Growth in Premium by Line<br>(according to plan)<br>Customer Retention<br>Customer Satisfaction   | Agency Performance (vs. plan) Acquisition/Retention<br>(by target segment)<br>Policyholder Satisfaction Survey<br>Customer Complaint<br>Claim Service Standards<br>(contact and claim turnaround time)   |
| <b>Internal</b><br>I1 – Develop Target Markets<br>I2 – Underwrite Profitably<br>I3 – Align Claims with Business<br>I4 – Improve Productivity<br>I5 – Improve Agency-Company Interface | Agent Business Mix<br>(by segment)<br>Agent Product Mix (by plan)<br>Loss Ratio<br>Claims Frequency<br>Claims Severity<br>Expense Ratio<br>Reduce Claim Personnel<br>Turnover | Business Development (vs. plan)<br>Increase Product Mix<br>(life insurance to home insurance ratio)<br>Enhanced Use of Underwriting Tools<br>(i.e. insurance credit scoring)<br>Agent Satisfaction<br>Adjuster Satisfaction<br>Underwriting Quality Audit Score<br>Claims Quality Audit Score<br>Employee Turnover<br>Reduce Litigation Expenses<br>Improve Tracking of Claims Adjuster Activity<br>Improved Tracking of Individual Agent Activity |
| <b>Learning</b><br>L1 – Upgrade Staff Competencies<br>L2 – Improve Access to Strategic<br>Information   | Staff Productivity  | Staff Development (vs. plan)<br>Strategic IT Availability (vs. plan)   |



# The Balanced Scorecard and Its Application to CPCU Chapters

Continued from page 11

## The Four Perspectives Applied to CPCU Society Chapters

The **Financial Perspective** relates to financial performance. In for-profit organizations, the objectives for this category are linked to the objectives in the other categories and include revenue growth and mix, cost reduction/

productivity improvement, and asset utilization. These may be adapted for non-profit organizations by setting the financial objectives to meet the customers objectives. For a CPCU Society chapter, the financial objectives would be set so that the local chapter has adequate financial resources to meet its members' needs, or more simply put, "stewardship." This might include objectives such as the

chapter's budget performance (positive net income), incoming dues from members, adequacy of bank balances, and measures around meeting attendance and membership.

The **Customer Perspective** identifies objectives for the external customer and the market segment served. Arguably this might be the place to start for a non-

**Table 2**  
**Example of Balanced Scorecard Objectives and Measurements for a CPCU Society Chapter**

| The Quality CPCU Society Chapter  |  |   |
|---|--|---|
| Strategic Objectives  | Strategic Measurements   |   |
|   | Core Outcomes (Lag)  | Performance Drivers (Lead)  |
| <b>Customer</b><br>Make CPCU the most widely recognized, valued, and highly respected professional designation/brand in the property and casualty insurance industry by CPCU employers, key segments of the financial services industry, and other important audiences. | 1) Proactive communication<br>2) Promoting CPCU designation<br>3) Raising awareness of brand image<br>4) Reach consumers, employers, businesses  | # of new members; retention of existing<br># of hits to the chapter web site<br># of students/candidates enrolled in CPCU/IIA classes<br># of Connections visits per year<br># of chapter members attending two or more chapter meetings per year |
| <b>Internal</b><br>Make CPCU the most widely recognized, valued, and highly respected professional designation/brand in the property and casualty insurance industry by CPCU employers, key segments of the financial services industry, and other important audiences. | 1) Public Relations programs that promote CPCU<br>2) Programs promoting professionalism, ethics, and continuing education<br>3) Activities that reach employers, consumers, and businesses | # of press releases per year<br># of programs offered by chapter per year<br># of events co-sponsored with employers or other organizations<br># of co-op advertisements<br># of non-chapter members at I-Day or other chapter functions          |
| <b>Financial</b><br>Effective Chapter Stewardship   | 1) Facilitate operation of the chapter<br>2) Enhance the chapter's ability to serve the members' needs<br>3) Assure that national has information to support leaders of the chapter        | Incoming dues<br>% increase/decrease in total membership<br>Positive annual net income<br>Operating/Savings account balance of x<br>% increase in meeting attendance  |
| <b>Learning</b><br>All Society members have access to a continually increasing number of programs and services that position them for success   | 1) Innovative programs<br>2) Keep members at the top of their profession<br>3) Develop leadership and professional skills<br>4) Serve as resource for information sharing                  | # of leaders who attend Leadership Summit and/or NLI courses<br># of chapter members with CPD<br># technical training offerings<br># leadership training offerings<br># attendees at educational sessions<br># new programs offered per year      |

profit organization, and the objectives in other categories would flow from these. Objectives in this category include increasing new customer acquisition, customer retention, and customer satisfaction. A CPCU Society chapter's customers would include its members, employers of members, the local insurance industry as a whole, and the community of insurance consumers. Obviously, acquiring new members and retaining existing ones would be a key outcome measured for an individual chapter. Others might include measurements around the number of candidate members (those CPCU candidates who have passed four exams and are potential future members), membership participation in chapter meetings, I-Days, and other key events, and hits to the chapter web site.

For the **Internal Business Perspective**, key processes are identified that drive critical customer and stakeholder objectives. The objectives are typically formulated after the customer and financial objectives have been set. The objectives in this perspective focus on the key processes that drive customer objectives. Three principal processes relate to: (1) innovation (development of new products and services); (2) operations (processes that actually deliver the products and services customers need in a timely, cost-effective manner); and (3) maintaining key relationships. This perspective is similar for both for-profit and non-profit organizations. Chapter objectives aligned with some of the Circle of Excellence criteria might be appropriate here. Examples might include innovative grass-roots campaigns, innovations in programs or administration, volume of press releases and other publicity aimed at getting the CPCU designation recognized, and cosponsoring events with employers and other organizations.

The fourth perspective **Learning and Growth** seeks to develop objectives and measures that drive organizational learning and growth. It is a very people-centered perspective and in some organizations it is even referred to as

the "People Perspective." Two of the three principal parts of this relate to people. The two people-centered parts are (1) employee capabilities; and (2) employee motivation, empowerment, and alignment. Capabilities include competency items such as strategic thinking, knowledge, and technical skills.

With an organization such as the CPCU Society chapter that relies on the efforts of many volunteers to meet its objectives, this perspective would include building the capabilities and motivation of volunteers as well as the chapter's leadership. Some of the CPCU Society's programming can serve the dual purpose of providing members with the skills and knowledge to succeed on their jobs while at the same time enhancing their skills as volunteers or leaders in the local chapter. The CPCU Society's National Leadership Institute course on project management would be a good example of this. It provides skills that can be used on the job (meeting the customer perspective) as well as providing skills that can be used in planning a chapter event (such as I-Day). The CPCU Society's Leadership Summit is a great way for chapter leaders to develop their skills and learn best practices to bring back to their chapters. The chapter also has a role to play developing the skills of its members through offerings of seminars, educational meeting topics and speakers, and other educational events. Members of local chapters also enjoy opportunities for socializing, helping the community, and networking—all part of the "people perspective" that a chapter needs to have to meet its members' needs effectively.

The third part of organizational learning relates to systems capabilities for sharing information. In order to learn, an organization needs to have a way of sharing its best practices internally. This can be accomplished through newsletters, training, and more commonly through the use of the company intranet. The CPCU Society and its local chapters use all of these resources. One example is the "Spread the Word!" campaign, in which a CPCU Society member is featured

performing some activity that has increased the visibility of CPCUs. Local chapter web sites often include links to informational resource sites, and some chapters even link local section members for discussion of section-relevant issues locally. Technology utilization at the chapter level can, and should, be used to support this type of learning.

## Summary

Strategic planning is important in all of our activities, whether they're with the local CPCU Society chapter, in the workplace, or in our personal lives. The Balanced Scorecard is a method that can bring focus and implementation to strategic plans and allow a vision and mission to be realized. Give it a try! ■

# TQ Quotes on Quality

|   |                                    |
|---|------------------------------------|
| <b>"One trouble with Americans is that we're fixers rather than preventers."</b>  | —James Harold Doolittle            |
| <b>"Better is the enemy of good."</b>   | —Francois Marie Arouet de Voltaire |
| <b>"You can make me sell them cheaper. You can't make me reduce the quality."</b>   | —Frank Perdue                      |
| <b>"Efficiency is doing things right. Effectiveness is doing the right things."</b>   | —Bill Reddin (paraphrased)         |
| <b>"There is nothing so useless as doing efficiently that which should not be done at all."</b>   | —Peter F. Drucker                  |
| <b>"Forget not on every occasion to ask thyself, is this not one of the unnecessary things?"</b>  | —Marcus Aurelius                   |
| <b>"If you're doing something the same way you have been doing it for ten years, the chances are you are doing it wrong."</b>   | —Charles F. Kettering              |
| <b>"It is always safe to assume, not that the old way is wrong, but that there may be a better way."</b>  | —Henry F. Harrower                 |
| <b>"It isn't so much how busy you are—but why you are busy. The bee is praised. The mosquito is swatted."</b>   | —Roger Devlin                      |
| <b>"Never confuse motion with action."</b>  | —Ernest Hemingway                  |
| <b>"Do not tell me how hard you work. Tell me how much you get done."</b>   | —James J. Ling                     |
| <b>"Two men cut wood all day long. One worked straight through, without stopping to rest. At the end of the day he had a sizable pile of logs. The other would chop for 50 minutes and then take a ten-minute break. At the end of the day he had a much larger pile. 'How could you chop more?' asked the man who'd worked continuously. His friend replied, 'When I stopped for rest, I also sharpened my ax.'"</b> | —Unknown                           |
| <b>"Work expands so as to fill the time available for its completion (and) the thing to be done swells in importance and complexity in a direct ratio with the time to be spent."</b>   | —C(yril) Northcote Parkinson       |
| <b>"There can be no economy where there is no efficiency."</b>  | —Benjamin Disraeli                 |
| <b>"For every thousand hacking at the leaves of evil, there is one striking at the root."</b>   | —Henry David Thoreau               |

# TQ Quotes on Innovation

|  |                       |
|--|-----------------------|
| <b>"Creativity is thinking up new things. Innovation is doing new things."</b>         | —William Laird Levitt |
| <b>"Innovation is a gamble, but so is standing pat."</b>                               | —Arthur B. Dougall    |
| <b>"Innovation is more likely to come from subordinates when the boss expects it."</b> | —Unknown              |
| <b>"He that will not apply new remedies must expect new evils."</b>                    | —Francis Bacon        |



# ***Don't Miss These Outstanding CPCU Society Symposia in Chicago and Phoenix!***

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One of the benefits of **Total Quality Section membership** is that you are eligible to attend CPCU Society symposia at a reduced registration fee . . . and soon you will have an opportunity to enjoy this benefit at two unique education events!



## **CLEW Section Symposium March 15, 2005 • Chicago, IL**

On March 15, 2005, from 8:30 a.m. – 4:30 p.m., the CLEW Section will sponsor a symposium in **Chicago, IL**. Through the efforts of the CLEW Section Committee, the CPCU Society has teamed with insurance defense firm Kopka, Pinkus, Dolin, & Eads, Attorneys at Law, P.C., to present a program covering a variety of topics sure to interest insurance professionals. Topics include insurance policy interpretation; best practices for claims professionals; recent legal developments affecting coverage and underwriting; and a segment illustrating how experienced trial lawyers win jury trials. The symposium features partners from Kopka, Pinkus, Dolin, & Eads, as well as a special appearance by three partners from plaintiffs' personal injury law firm Corboy and Demetrio, P.C. This symposium provides a unique opportunity to learn from attorneys who devote their practice to representing claimants and insurance companies in litigated matters; and it is designed for all insurance professionals, including agents, brokers, underwriters, claims professionals, risk managers, and third-party administrators.



## **Reinsurance Section Symposium/ Associate in Reinsurance (ARe) Completer Recognition April 12–13, 2005 • Phoenix, AZ**

Total Quality Section members should mark their calendars and plan to attend the annual Reinsurance Section Symposium at the beautiful Pointe Hilton Squaw Peak Resort in **Phoenix, AZ, April 12–13**. In addition to the usual one and one-half day symposium—at which noted reinsurance industry professionals will share their knowledge and opinions—the two-day event will feature a workshop that is both a refresher course for reinsurance professionals and a primer for those who need to understand reinsurance basics to improve job performance. All symposium attendees will be entitled to attend the special luncheon on Wednesday, at which Associate in Reinsurance (ARe) completers will be honored. The Reinsurance Section invites Total Quality Section members to attend these excellent education and networking events at the lowest registration fee!



***Learn more about these two CPCU Society symposia by visiting [www.cpcusociety.org](http://www.cpcusociety.org) or by calling the Member Resource Center at (800) 932-CPCU, option 4.***

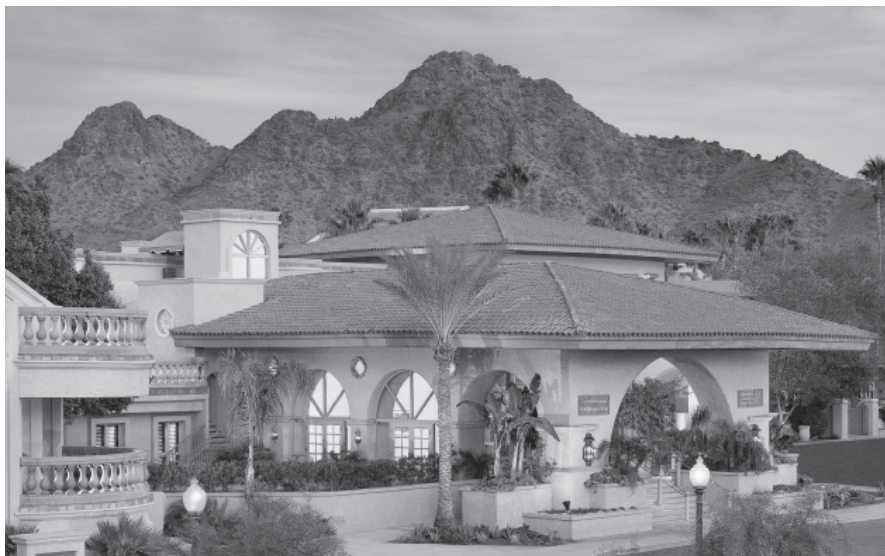
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Plan on joining us at the 2005 CPCU Society Leadership Summit in Phoenix, Arizona, April 13-16—the all-inclusive leadership and career development event for the Society's national, chapter, and section leaders!

Choose from nine courses and two leadership luncheons, with inspirational talks by this year's keynote speakers, and enjoy the opportunity to be among Society leaders and see leadership skills in action.

**Register today** at [www.cpcusociety.org](http://www.cpcusociety.org) or by calling the Society's Member Resource Center at (800) 932-CPCU, option 4, to request a form. Nonmembers are welcome!



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### **Total Quality Editor**

Sandy Jones, CPCU, CLU, ChFC  
State Farm Insurance Companies  
e-Mail: [Sandy.Jones.CCOJ@StateFarm.com](mailto:Sandy.Jones.CCOJ@StateFarm.com)

### **Total Quality Co-Editor**

Shari E. Spung, CPCU  
University of Washington  
e-Mail: [sspung@u.washington.edu](mailto:sspung@u.washington.edu)

### **Total Quality Section Chairman**

Valerie Ullman Katz, CPCU, ARM, AIS, AIM, CBCP  
Ace Insurance  
e-Mail: [valerie.ullman-katz@ace-ina.com](mailto:valerie.ullman-katz@ace-ina.com)

### **Sections Manager**

John Kelly, CPCU, AIS  
CPCU Society

### **Managing Editor**

Michele A. Ianetti, AIT  
CPCU Society

### **Production Editor/Design**

Joan Satchell  
CPCU Society

CPCU Society  
720 Providence Road  
Malvern, PA 19355  
(800) 932-CPCU  
[www.cpcusociety.org](http://www.cpcusociety.org)

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Malvern, PA 19355  
[www.cpcusociety.org](http://www.cpcusociety.org)

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