

## Personal Development: Our Incumbent Obligation

by David S. Medvidofsky, CPCU, CIC, AAI



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**Editor's notes:** Dave Medvidofsky has taken the message from the chairman to a new level. Most of us know how important it is to read and broaden our insights, but if you are like me, finding the time can be a challenge if you let it be. For those who saw Bryan Dodge at the mid-year meeting, you heard him say the typical CEO averages four books a week. That's a lot of reading, but if you have a good idea of what you are getting into, it can be a much more enjoyable and rewarding experience. Wouldn't it be great if we shared some perspective on our favorite books as Dave has done with his article? If you're willing to share, we can post your reviews in the newsletter or on the web site. Please send your book reviews to David at [medvidod@msagroup.com](mailto:medvidod@msagroup.com) or me, **Rick Becker**, at [beckerr@nationwide.com](mailto:beckerr@nationwide.com). We look forward to hearing from you.

**A**fter our annual mid-year meeting in Tampa, FL, I spent a few extra days with my son looking at colleges. Since I was undertaking this activity for the first time, I had a range of new emotions through this experience. My son and I spent a lot of time in the car talking about career choices, how one decides on an interest area, and the process of setting and attaining goals.

For those of us that have attained the CPCU designation, we already understand the value of continuous education, personal development, and self-improvement. As we move to a knowledge and service society, I know that my son's education process cannot stop at the end of a four-year undergraduate program; rather, it must be a lifelong endeavor. Combining intellectual curiosity with a

desire for self-improvement is a formula almost sure to produce success.

During our travels there was a fair amount of time for reflection and "blue sky" discussions. We talked about preparing for a career. Exposure to new ideas is a critical component of this. Learning business basics and remaining current with trends are other excellent habits.

This got me thinking about my own preparation and the work I still have left to do. With apologies to your favorite Internet recommendation list (and in no particular order of preference) I decided to compile my "most influential dozen." These are books that I have read that I have found personally helpful with career and personal development.

**1. Seven Habits of Highly Successful People**, Stephen R. Covey, Free Press, © 1989

This book is required reading. There are few concepts that we all have not learned before; the gem is how the author is able to frame basic habits that improve effectiveness into a logical and lasting model. The book also effectively uses anecdotal stories to reinforce its key messages. There are also exercises and action steps designed to make the critical competencies "habit." As a personal goal, I read this book each year around the time of my birthday. Each year I pick up a new idea or focus area.

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*My Favorite Idea:* Very difficult to select one. Conceptually, I like the way that the author focuses development first on oneself ("private victory"), then on the influence he or she has toward others ("public victory"). Covey calls this approach "inside out." His premise is that sustainable effectiveness must be principally centered rather than pursued via external validation.

## 2. *Truman*, David McCullough, Touchstone Books, © 1992

This is the story of Harry Truman as told by my favorite historian, David McCullough. Truman rose from humble beginnings to lead the United States in the most turbulent period in our history. Truman, the son of a Missouri farmer, had failed at farming and retailing before becoming, by all accounts, an average U.S. senator. From there he was selected as a compromise candidate to be vice president under Franklin Roosevelt. Left out of the loop in the FDR administration, Truman went on to make himself one of the greatest American Presidents after FDR's passing.

*My Favorite Idea:* In getting himself up to speed on issues, Truman, who had no college education, had to absorb large volumes of information. He developed a "reading habit" devoting time each night to read briefings. After reading this book I created my own "reading file" where I drop file publications, industry news, white papers, etc. I dedicate uninterrupted time each day to clearing out my reading file.

## 3. *Good to Great*, Jim Collins, Harper Business, © 2001

Ever wonder what separates the good companies from the great ones? Jim Collins addresses the factors that separate the two in this book. It is an attempt to quantify what happens in "the black box" of greatness. While some of the examples are now dated and the attempts at quantification are a bit tedious for the casual reader,

this is still a great book of ideas and concepts.

*My Favorite Idea:* The ideas in this book are simple and logical—I found myself doing a lot of head nodding. One concept presented is that of "The Stockdale Paradox." The author suggests that one differentiator between a good and a great company is its ability to create an environment where truth is paramount. Great companies confront their reality and know that they will prevail regardless of difficulty.

## 4. *My Years with General Motors*, Alfred P. Sloan Jr., Currency Doubleday, © 1963

Bill Gates says this "is probably the best book to read if you want to read only one book about business." Alfred Sloan shares his rise to CEO of General Motors in the early twentieth century and chronicles the organizational challenges he faced. If you want to understand where the business theories of today originated, this is an excellent resource. From planning and organizing, establishing controls, and directing operations, it is all covered here.

*My Favorite Idea:* More of a concept than a single idea—Sloan was a master at organizational alignment, reorganization, and structure. His theories on centralization versus decentralization and his need to separate "policy" from "administration" at the executive level are very insightful. This is particularly so given that leaders at this time were pioneers with no case studies or proven business models to follow.

## 5. *Man's Search for Meaning*, Viktor E. Frankl, Pocket Books, © 1984

This book is a short but powerful account of psychiatrist Viktor Frankl's time in a Nazi death camp. Dr. Frankl tells his story of survival and puts dignity and context to a seemingly meaningless and horrific experience.

*My Favorite Idea:* When all the things human beings typically value are stripped away, Dr. Frankl teaches the reader that the final and ultimate freedom is the ability to choose one's attitude.

## 6. *The Power Broker*, Robert A. Caro, Vintage Books, © 1974

This book presents a classic study in power and politics. It chronicles Robert Moses and his role in shaping New York City. From his position as head of public works, Moses conceived and oversaw many of the infrastructure projects that shaped the city. The book provides an insightful look at the man together with the relationships created and the actions undertaken to attain his vision.

*My Favorite Idea:* As a builder of major roadways and bridges, Moses was confronted with the problem of urban congestion. This problem escalated during the flight to the suburbs in the 1950s. Moses' solution was to continue to construct more highways destroying neighborhoods, displacing families, and dismantling communities in the process. As more highways were built a predictable pattern would follow: traffic would initially be alleviated but congestion would soon increase to previous levels despite the additional roadways. After careful study, the theory of "traffic generation" was developed. That is, that more roads successively increase the number of commuters. With an over-reliance on private transportation, construction exacerbates a vicious cycle where a city could never build enough highways to satisfy demand. While this is an example that speaks to city planning, I find it analogous to many other business situations. If we continue to do the same things the same way we've always done them, we can expect to realize the same results.

**7. The Goal: A Process of Ongoing Improvement**, Eliyahu M. Goldratt and Jeff Cox, North River Press, © 1984.

This is a must-read for anyone accountable for production and operations. Written as a novel, it examines a fictitious general manager and the challenges he faces when assuming responsibility for an underperforming plant. Although the concepts are easy to lose within the occasionally tedious “plot,” they are lasting, thought-provoking, and relevant to any production operation.

*My Favorite Idea:* The central concept of the book is the critical one. It focuses on what the authors present as “The Theory of Constraints.” Put simply, every multi-step operation can only produce to the level of its minimally productive process. While this may not sound like an innovative idea, once you read the book you will be amazed how many times this simple concept is overlooked as people attempt to improve output.

**8. Knowledge for Action**, Chris Argyris, Jossey-Bass Publishers, © 1993

This book is written for organizational researchers that study and implement change; as such, it is scientific in nature. It does effectively examine and quantify routine behaviors within most organizations.

*My Favorite Idea:* I have two from this book. The first is the importance of testing attributions. Oftentimes we associate cause to actions without testing if our assumptions are accurate. It is important to suspend judgment until one is sure that the attributions he or she has associated are correct. The second idea is “double loop learning.” There are two ways to correct errors. The first is to focus on changing behaviors—this is single loop learning. The second, and the one that is simultaneously difficult and lasting, is to change the underlying program that produced the actions—this is double loop

learning as it focuses on root cause corrections and not just behavior modifications.

**9. Gung Ho!**, Ken Blanchard and Sheldon Bowles, William Morrow and Company, Inc., © 1998

An easy read written from the fictional perspective of a plant manager brought in to turn around a plant. Given what seems an impossible task, the subject finds that she has one operation in the plant that is exceedingly successful. She seeks to understand the reasons for their success and to migrate these lessons to the entire plant.

*My Favorite Idea:* This book uses three parables to describe “Gung Ho” organizations: the spirit of the squirrel, the way of the beaver, and the gift of the goose. For organizations to attain the regenerative commitment necessary for success, employees need to be engaged and to own the results. They must understand how the work they do is worthwhile, they must be in control of the goal, and they must cheer each other on as they attain results.

**10. The 21 Indispensable Qualities of a Leader**, John C. Maxwell, Thomas Nelson Publishers, © 1999

A methodical approach for quantifying the qualities of successful leaders, this book is an excellent reinforcement for all the things you intuitively know and have been taught through the years. It’s an easy read and an excellent way to validate that core values are on track.

*My Favorite Idea:* Maxwell uses a quote by author H. Jackson Brown Jr. to illustrate the ideal of self-discipline: “Talent without discipline is like an octopus on roller skates. There’s plenty of movement, but you never know if it’s going to be forward, backwards, or sideways.” Maxwell suggests that what separates people with talent from people that produce results is their ability to prioritize, apply discipline to task,

eliminate excuses, defer rewards, and stay focused on results.

**11. Brave Companions**, David McCullough, Touchstone, © 1992

This is a collection of short inspirational portraits about unsung heroes. McCullough presents them in terms of their humanity and their lasting contributions to society. Reading this makes one appreciate that greatness is all around us, and that it is frequently more attainable and unplanned than most of us realize.

*My Favorite Idea:* My favorite idea from this book comes from a keynote address that McCullough gave to the 1986 graduating class at Middlebury College. McCullough shares with the students the importance of learning history:

Imagine a man who professes over and over his unending love for a woman but who knows nothing of where she was born or who her parents were or where she went to school or what her life had been until he came along—and furthermore, doesn’t care to learn. What would you think of such a person? Yet we appear to have an unending supply of patriots who know nothing of the history of the country, nor are they interested.

It is my opinion that an appreciation for history gives us wisdom, humanity, and perspective.

**12. Managing Transitions: Making the Most of Change**, William Bridges, Perseus Books © 1991

This book addresses change at a personal level. It examines how people process change and allows readers to assess their reactions and proclivity for transitions.

*My favorite idea:* Change first involves letting something go. Once that is done people enter the “neutral zone,” which is the period between

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the old and the new. Some people rush through the neutral zone; others linger too long. The neutral zone, however, is a time for reflection and assessment. As a result, it is also the greatest time for "creativity, renewal, and development." Think of the major decisions in your life and how many of them came during the time you spent in "the neutral zone." One of the greatest mistakes organizations and managers make is not recognizing that people assimilate change at different pace and

attempting to rush people through transition periods.

I know that everyone has their favorite books and reading materials and I don't pretend that this is a complete list, nor is it necessarily the same one I'd expect to compile at some point in the future. Consider it my personal snapshot in time.

I would love to know the readings that influenced your personal development (CPCU textbooks don't count!).

If you have reading suggestions that you have found particularly useful, feel free to send your favorites to me at [medvidod@msagroup.com](mailto:medvidod@msagroup.com) or post a discussion item on the Underwriting Section web site: <http://underwriting.cpcusociety.org>. ■

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# Riding the Underwriting Coaster

by Rose Mary Ciraulo and Michael Reilly

**Rose Mary Ciraulo** has more than 25 years of experience in the insurance industry in underwriting, product development, marketing, and branch administration. As a senior manager with Accenture's Insurance Practice, she has worked on consulting engagements specifically for the property and casualty industry segment. Clients include many of the best-known insurance companies worldwide. Her expertise includes leading consulting projects that conduct diagnostic analysis and then designing and implementing strategic changes within underwriting and the process and technology that supports it. Ciraulo has co-authored articles on customer relationship management appearing in *National Underwriter* as well as various underwriting topics.

**Michael Reilly** has an M.B.A. from Drexel University. He is a senior manager with Accenture's Insurance Practice. He has been with Accenture for more than 8 years specializing in insurance and human performance solutions and has co-authored several articles on insurance, underwriting, and knowledge management.

**H**ave you ever ridden the Space Mountain roller coaster in Walt Disney World? It runs inside and in the dark. You can barely perceive where the next hill, drop, or twist will take you. As a roller coaster this can be fun and exhilarating; as a company trying to survive in the underwriting market, it can be stomach-wrenching. The key is to find a way to keep the car steady and ensure the car is secure. Reconfigure the car to gain advantage so the dips and hops are not as extreme and the lights on the coaster are turned on to see ahead and brace for the jolts. Developing a strategy enables a better state of preparedness and helps insurers recover more rapidly. There are many strategies, capabilities, and approaches to try to ensure consistent profitable results through the changes in the underwriting cycle, but in general they include three main components: consistency, knowledge, and efficiency. Even though the market cannot be controlled, by adopting these components, the insurer will ride the inevitable roller coaster dips and hops more securely and with foresight and preparedness.

## Consistency

Improving consistency in underwriting is not about increasing audits or work-tracking procedures. It is about ensuring that the organization approaches the underwriting process with the same front-line behaviors and mindset. Despite differences in product, geography, distribution, or industry segment, significant improvements in financial results (4 to 6 points on combined) can

be achieved by instituting a consistent framework and structured approach for risk analysis.

The Underwriting Framework (see Figure 1) divides the risk underwriting process into five distinct phases.

- Identify and Evaluate:** This phase focuses on gathering the proper information to assess the risk and correctly identify the types of risks, exposures, and controls that are in the account. Insight gained from file review at several carriers shows that more than 30 percent of missed premium opportunity and loss-cost avoidance comes from the misclassification or misidentification of risk exposures, making this a critical first step. For example, in analyzing a religious institution, the underwriter failed to ask if the church makes its premises available for use by third parties for non-church-related activities. Even if identified the underwriter make not properly evaluate the severity of the exposure and may miss an opportunity to charge the correct premium, decline the risk outright, or mitigate the exposure through the proper terms and conditions.

- Make Underwriting Decisions:** This phase focuses on making two distinct underwriting decisions. Based on the industry, the insurance company's risk appetite, and the risk exposures as identified and evaluated in the first phase, the underwriter reaches a decision whether or not to pursue the risk. The second decision the underwriter makes is the assessment

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**Figure 1**  
**Accenture's Underwriting Framework™ (Patent Pending)**

Identify and Evaluate Exposures

Make Underwriting Decision

Set Terms and Conditions

Set Price and Premium

Negotiate

# Riding the Underwriting Coaster

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of the overall quality of the risk compared to the peers within its group. Is this risk average, better than average, or below average? These two decisions are critical for underwriting discipline. Companies lose their discipline when “producer relationships” or business pressures cause them to abandon their risk appetite or incorrectly classify the quality of the business.

An example of this might be where an underwriter agrees to accept a risk outside of the company's appetite due to market pressures or a long-standing relationship with the producer; or the underwriter fails to collaborate or refer a risk for which he or she has limited experience or authority, and therefore cannot correctly classify the quality of the risk. In file reviews, regardless of the underwriting cycle, we typically find that about 20 to 25 percent of files that are reviewed are judged to should not have been written by the insurer. The loss ratios of these risks are well in excess of the book averages. The cost of writing this type of business can be enormous from both an efficiency and effectiveness standpoint and contributes to the roller coaster effect. The best insurance companies understand the quality standards for each industry, capture each risk's adherence level to these standards, and monitor their book and price movement. These assessments can then be aggregated to become a leading indicator of future book performance

- **Set Terms and Conditions:** In this phase, the underwriter uses information about the quality of the risk and information from the Identify and Evaluate phase to establish the terms and conditions for the policy. By considering the quality of the risk, the terms can be set to give the insured coverage while properly protecting the insurance company. For example, the risk is superior, but has a few incidental exposures with adequate but not excellent controls. An underwriter could successfully write this risk by establishing specific higher deductible

or sublimits, or crafting endorsements designed to mitigate those exposures.

It is critical that underwriters understand their role in establishing the terms and conditions for the risk and avoid being leveraged by producers seeking to impose their terms and conditions. In file reviews we find that underwriters typically do not set the terms and conditions appropriately. They merely follow the minimum standards set by the company. On renewal business we find that the terms and conditions are rarely renegotiated even when insureds have significantly changed operations.

## ***The cost of writing this type of business can be enormous from both an efficiency and effectiveness standpoint and contributes to the roller coaster effect.***

- **Set Price and Premium:** Based on the exposures, the quality, and the terms, the price and premium can then be set by the underwriter. In file reviews of a number of companies, up to 20 percent of premium leakage has been found in instances where the premium charged was inadequate given the quality, conditions, and exposures of the risk. It is important for underwriters to understand the differences among their manual premium, adjusted premium, quotable range of premium, and walk-away premium. Inadequate pricing can be masked temporarily in a hard market when pricing is arbitrarily inflated, but proper pricing of risks is critical for consistent sustainable results.
- **Negotiate:** The final phase of the underwriting process is Negotiation. This can be an area where even the best-priced risks are compromised. Even more experienced underwriters will, in the heat of pursuing the risk and under pressure for growth,

abandon their underwriting discipline. It is critical for underwriters to prepare for negotiations prior to discussions with the brokers. They need to understand and navigate trade-offs of the important levers for the individual risk, including terms, and price, and product/service differences and they need to know how to walk away.

Equally important, underwriters need to be supported by management for walking away when appropriate, even during soft markets, or times when high growth is the focus. Without this discipline, insurers may have a book that has good risks, but is marginalized through poor terms, or inadequate pricing.

Establishing consistency requires a comprehensive approach to underwriting transformation. The focus needs to be on improving the people, processes, and technology needed to establish, reinforce, and refine a consistent approach to underwriting. It is also critical that the move toward consistent underwriting is supported by knowledge and efficiency capabilities.

## **Knowledge**

Underwriting is about knowledge. In order to be effective, underwriters need to have a wide array of knowledge readily available to them including such information as:

- **External Information**
  - The insured operation including business, procedures, management, and loss history.
  - Reports and information such as MVRs and credit scores.
  - Geophysical information including distances to hazards and catastrophe areas.
  - Industry (SIC) trends and issues.
  - Quality practices for that particular industry.

- **Internal Information**

- Company's benchmark performance for that industry segment.
- Company's risk appetite.
- Company's underwriting practices, procedures, rules, and guidelines tied to that industry and line of business.
- Quality and tier of the broker.
- Company's best practices related to the industry for that segment.
- Standard forms and templates.
- Catastrophe and risk concentrations.

To properly manage all of this information, it is critical that it is available at the right time, in the right place, and in the right form. Knowledge is a critical asset and it is important that proper care is given to its capture, processing, organization, delivery, and archiving to be successful. If information is not easily accessible and appropriately arranged, it will not be used. It is not uncommon for carriers to mail all changes in procedures to their employees and then store them in an accessible database. However, this information is typically stored in the database by date, making it very hard to locate, and the format of these changes in procedures is often in memos and therefore difficult to sort and filter for later use.

If utilized correctly, knowledge and information can enable consistency in the underwriting process by delivering proper information on the account and company practices according to underwriting phase. To achieve this consistently, the organization needs the last core capability—efficiency.

## **Efficiency**

Good underwriting takes time. But in order to generate time for the underwriters to properly underwrite the files and focus on value-added tasks such as relationship building with agents/brokers and portfolio/territory management, each task must be managed efficiently.

Activity-based cost studies at several carriers have shown that underwriters spend less than half of their time on core value added underwriting tasks. Non-core tasks can be performed by administrative professionals, and can be automated, or eliminated. To achieve changes in efficiency, changes in roles, responsibilities, and processes need to be made. In order to achieve major transformation and to integrate the needs of consistency and knowledge with efficiency, technology needs to be implemented.

process. By focusing efforts in these areas insurers can ensure more predictable underwriting behaviors, which will yield more predictable underwriting results, and these carriers will gain greater control over the peaks and valleys of the roller coaster ride. ■

**■ *If utilized correctly, knowledge and information can enable consistency in the underwriting process . . .***

New integrated technologies combine traditional risk management, work management, and knowledge management capabilities into cohesive underwriting support tools. Technology can ensure a consistent approach to underwriting and deliver knowledge and information to the underwriter based on the type of risk and the phase of the underwriting process.

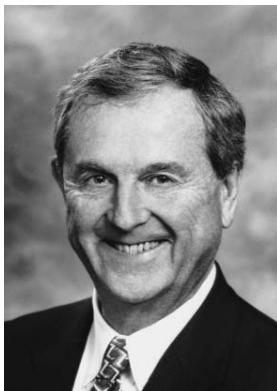
## **Conclusion**

Discipline and planning are required to effectively and efficiently manage the insurance roller coaster. The high-performing companies will apply discipline in the underwriting process to ensure that best practices are followed during each of the underwriting phases so that premiums are not lost and losses are avoided.

Discipline is also required in knowledge management to ensure that information and knowledge are delivered in the most valuable way to best improve performance. High-performing companies will need discipline to define, institutionalize, and monitor organizational, process, and technology changes to support the underwriting

# A Quality E&S Marketplace—an Oxymoron . . . Not!

by John Pryor, CPCU, ARM, AAI, AIS



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**T**he E&S market has never been more important to those of us who are retail agents and brokers—at least not since the last hard market in the 1980s. But what about our E&S system's ultimate customers? In too many instances the insured is left out of the equation—or, at the very least, not on our E&S radar screen as we work through our various market levels and processes.

There are outstanding exceptions in our industry to this very general indictment—examples that meet the important criteria of quality disciplines. But first we need to define our problems within our E&S marketing system before we can discuss solutions and innovations.

## Overview

Quality, in general and in this E&S market context, means:

- A highly committed focus on customers—both internal and external customers—with in the E&S marketplace.
- An ongoing, continuous search for improved processes and systems—and to reduce variation within E&S systems.
- A dedicated effort to help everyone within the E&S segment of our industry develop professionally and personally.

What many find fascinating about these three elements of quality is their widely acknowledged ability to be the “drivers” of positive financial outcomes for any organization. (See Harvard’s Kaplan and Norton writings on the Balanced Score Card at [www.bscol.com](http://www.bscol.com) for details.)

When standard carriers dramatically restrict the classes of business they’ll accept or when reinsurance treaties add exclusions not previously included—or when these conditions occur concurrently as is frequently the case—the E&S market becomes retail agents’ and brokers’ “port in a storm.”

We can’t use the traditional “any port in a storm will do.” This metaphor breaks down at an early point. Retailers must select E&S markets very carefully—well in advance of the impending storm—and be positioned to work together in a relationship based to a very high degree on mutual trust.

This hard market condition can cause some intermediaries to become less responsive to the needs of their customers, i.e., retail agents/brokers, as well as insureds. This is because they’re so tremendously inundated with new and renewal submissions. There’s more business for them to quote than they’ll ever be able to write, generally speaking. The rub is, of course, “hit ratios” are never as favorable as anyone would like them to be.

This condition creates myriad problems—but also lots of opportunities.

What’s fascinating is that some see a situation as a problem while others see the same situation as an “opportunity.” Both perceptions are correct, of course, within the context of their individual focus because each has a *different* focus. One is internally focused. The other is customer focused. I’ll let you guess which is which in the following situation:

- Some wholesalers tell us they *prefer* “11th-hour” renewal submissions because each is almost a certain placement. They say this creates a near 100 percent hit ratio for these submissions. What could be better than that?
- Others see this as a major problem within our marketing system. How well is the ultimate customer served? How well are customer needs and expectations met?
- Regulators will say the insured should be provided a reasonable time (usually 60 days) during which other proposals can be provided for their consideration. This imposes a duty on retailers and wholesalers to make timely proposals—or ask their underwriter to provide an extension of the expiring policy—at a premium, of course, but based on last year’s rates.

These and other problems occur when the system bogs down and proposals are cranked out at the “11th hour”—even when retail brokers have made timely and complete submissions! Unfortunately, we retailers don’t always make *complete* submissions. This may render timing to be meaningless.

We retail brokers intensify the problem because of our need to protect client relationships. Therefore, we need to make multiple submissions. Even with careful market allocations, this only aggravates processing problems.

All of this creates a quagmire—a quagmire in which all too often the customer gets left out of the equation.

I’d like to comment more specifically on three points relating to the E&S marketplace:

1. problems
2. opportunities
3. innovations

## Problems

Most of these E&S problems are evolutionary. We just kind of grow into them. We all see reports on the flood of submissions in today’s hard market—so how do we react? How *should* we react?

That’s really my concern. We react. We don’t seem to be able to plan proactively to avoid the many adverse outcomes of reactionary responses.

Let me again say this is a very broad generality—a highly *general* indictment, if you will, of our industry. There are some truly outstanding exceptions. I want to honor some of them in my comments below.

I don’t need to expand on what our E&S marketplace problems are. We know them all too well. Nevertheless, here’s an overview of the problems and frustrations we all see in the E&S marketplace today:

- “11th-hour” delivery of quotes for presentation to the insured
- “11th-hour” submissions of applications for a quote.

- Unreasonable delay in issuance and delivery of policies.
- The sheer number of submissions received for quoting.
- Incomplete applications from retail brokers.
- The list of (restrictive) conditions that continues to grow over time.
- Picking the right E&S house for the right client because of variation in “in-house” authorities.
- Excessive “broker fees” or non-functioning “inspection fees”
- Over-copied or over-faxed (almost illegible) supplemental applications.
- Churning of risks, i.e., multiple submissions to the same underwriter.
- A seemingly unending stream of questions for the insured (or retail broker) to answer—as opposed to a single set of questions posed only once.
- No self-initiated (proactive) status reports on quotes in progress.
- E&S brokers who impose the responsibility for filing taxes and fees on a retail broker who has no surplus lines license.
- The terrorism acceptance/rejection documentation process.

My assertion is you can address these and other similar issues through:

- continuous process improvement
- increased focus on our customers
- professional development of our people

These are the elements of quality mentioned at the outset. I’d like to use each as an “overlay” in discussing our E&S marketing system.

## Opportunities

Let’s focus on the opportunities we see.

Let me begin with the role of the retail broker—my personal role in our overall E&S marketplace system.

We retailers admittedly contribute to the problems we all see. For a retail broker—or anyone—to seriously tackle the challenge and opportunities of process improvement in the E&S marketplace, it really helps if you begin by creating “process maps” of your several processes within your current E&S marketing systems.

For each process, it’s critical that it focuses on the customer—internal or external. The “customer” is the one who receives the output of any process. Therefore, many customers are internal . . . within our own organizations. Processes should be designed to create an outcome in which expectations of customers—internal or external—are at least met, if not exceeded. All too often, our processes don’t even come close!

We’ve done this in our organization. (Examples are available by e-mail request to [jpryor@bak.rr.com](mailto:jpryor@bak.rr.com).) This isn’t rocket science. But it greatly helps you see the steps needed to get quotes for clients on an accurate basis—and in a timely manner.

As retailers, our obligation is to get the process started on time. We show this in our process maps. We also use what’s called a Gantt Chart for each policy. This helps us monitor not only initiating the process on time but also taking each essential step within the process. (A Gantt Chart copy is also available through the same e-mail request.)

We do this so neither the wholesaler nor the underwriter will need to come back to us with questions that otherwise shouldn’t need to be asked.

On more complex accounts, standard applications—and even supplemental applications—rarely address all the issues a good underwriter needs to explore. For this reason, retail brokers need to anticipate these questions. We need to team up with our intermediary to list what those questions will be. Then we need to present them to our clients for their responses.

*Continued on page 10*

# A Quality E&S Marketplace—an Oxymoron . . . Not!

Continued from page 9

With these points consolidated as a Q&A—on a proactive basis—we can greatly facilitate the overall process. All of this helps us, as retail brokers, do *our* part—and, most importantly, do it right the first time. We owe at least that much to our intermediaries and the carrier underwriters with whom our wholesalers work.

Many retailers sense the need for some level of standardization of supplemental applications—whether through ACORD or NAPSLO. Proprietary questionnaires have been in use long enough now for this to be an easy project for the industry. It would also tend to eliminate the over-faxed forms that become difficult to read. They definitely project an unprofessional image for our industry. Alternatively, e-mail delivery of supplemental applications greatly helps in this regard.

None of us is perfect, of course, but I have to tell you: **when we make the job easier for our intermediaries and their underwriters, they don't moan and groan when they see our next submission. They welcome it!**

There's *value* in this kind of positive support of our relationships with wholesalers.

As mentioned above, a "customer" is defined in quality disciplines as anyone who receives the output of a process. Clearly, in this context, our intermediaries are our customers when they receive our submissions. Therefore, we should make reasonable efforts to meet, if not exceed, their expectations. Applications need to be complete. Questions need to be anticipated and answered. Submissions need to be timely.

The converse is true, of course, when we retailers receive the wholesaler's quote. Then the retail broker becomes the customer of the intermediary. The ultimate customer is the insured who receives our proposal based on the quote we retailers have received from our E&S markets.

See how this part of quality disciplines works?

## Innovations

Now let me give you a few real-world examples of process improvement and customer-focused innovations provided us by some intermediaries with whom we work.

One generalists firm (as opposed to specialist firm) in Northern California discovered the logic and value of the Pareto Rule without really knowing what it's called. Vilfredo Pareto propounded this rule in Italy a long time ago. That's the fancy name for the old "80-20 rule" we hear about a lot in the course of business.

### **■ . . . a "customer" is defined in quality disciplines as anyone who receives the output of a process.**

This wholesale broker observed that 80 percent of his firm's revenues were coming from 20 percent of his retail agents and brokers. So what did he do? He made a really gutsy decision—one he's not regretted for a minute ever since. He decided to work only with the 20 percent. Then he effectively and tactfully referred the other 80 percent to other wholesalers.

He still adds new brokers from time to time—but only with the mutual understanding they'll consider his firm their major source for general E&S submissions. As a consequence, his service is now highly responsive to both retailers as well as to underwriters . . . and he pays commissions to retail brokers that are typically 20 percent higher than other wholesalers pay. For example, 12 percent is paid in lieu of the more common 10 percent commission.

Here's another real-world example:

A fairly large wholesaler in Southern California decided that customer focus is an important value—something that needs to be *demonstrated*, not just something it talks about. This firm transacts lots of accounts that are

relatively small. They have to be processed very efficiently in a cost-effective manner.

The firm asked itself—and it asked its retail broker customers—what can we do to make it easier for us to do business together—especially where accounts under \$10,000 in premium are concerned?

Out of this "voice of the customer" came a novel idea. Quotes to the retailer should be designed so its system can simultaneously produce the same data in the format of a proposal for the insured. It would have the retail broker's name and address at the top of the proposal. It would look as though the retail agent had prepared it.

All the retailer has to do is add a fee, if any, sign the cover letter, and present it to the insured for a decision! In addition, the proposal includes pre-printed acceptance options for the insured to select—plus premium financing arrangements, if that's the insured's wish.

This wholesaler not only exceeded the expectations of its retailers who are generally delighted with this process, they also solved a major problem about which they were concerned as intermediaries.

This concern is that terms and conditions be accurately and adequately communicated to each insured by retailer agents and brokers. We retailers have a propensity to minimize these elements of a quote when we transfer quote data to either our fancy multi-page proposals or especially to our "one-pagers" we use as proposals.

Still another intermediary recognizes the importance of customer focus. This firm gives retailers a status report on the progress of larger, more complex submissions. They modified their process to include a timely e-mail—or phone call—to report the status of the account to the retail broker.

The retailer then relays the status report to the insured. Everyone is properly “in the loop” with expectations met. These complex submissions always seem to take longer to finalize. Both the retailer and the insured need to know what’s happening each step along the way.

Are these innovations panaceas? No, of course not.

Do they solve many of the problems we’ve identified? Sure.

- Cycle time is reduced.
- Accuracy is increased.
- Customers begin to think we actually may care about them!

Everybody wins!

Where do all of these good ideas come from? Some of them come from common sense. However, to effectively develop a culture of continuous quality improvement in your organization, it’s important to have a methodology based on best practices and accumulated wisdom to help make all these good things happen.

## Conclusion/ Recommendation

Where can you find and acquire these kinds of skill sets? Where can you gain the ability to understand what works and what doesn’t work? In addition:

- How can you understand the Pareto Rule to make it work for you?
- How do you create process maps with customer focus?
- How do you use control charts to monitor variation?
- How do you effectively employ root cause analysis?
- How do you get inside the head of your customers?

The answers to these and other questions about quality techniques and disciplines are found in the Insurance Institute of America course in continuous quality improvement—AIS-25: Delivering Insurance Services.

This is one way—and probably the best way—for someone in our industry to learn and to acquire these particular skills. If you’re at a point in your career where you’re looking for ways to enhance your job and improve your skill sets other than by increasing your technical knowledge, AIS-25 is a perfect answer. It’s also an essential ingredient of leadership qualities and qualifications.

In nine weeks—if you follow the usual classroom schedule—you can have a really good “handle” on the principles and practices of continuous quality improvement. It’s better if you also bring others into this learning experience with you. Then, when you’ve completed the curriculum, you’ll have a team ready to move ahead with all of these “fun” challenges.

**■ . . . to effectively develop a culture of continuous quality improvement in your organization, it’s important to have a methodology based on best practices and accumulated wisdom . . .**

If you want to “speed read” the course on your own, you can probably get through the material in less than half that time. But it’s much better with group dynamics and team training—and then follow with team implementation!

Information on AIS-25 is readily available from the Institutes. I highly recommend you order a course description and then the text. At the same time, you may want to join the CPCU Society’s TQ Section for up-to-the-minute information on continuous quality improvement as an extension of AIS-25’s professional development opportunities. Unlike most other Institute courses, you can start this program at any time.

Also, as a CPCU, it will provide you an additional professional designation.

So get started now on transforming your own organization—and maybe even transforming our overall industry! ■



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Sunday, October 24, 1:30 - 3:30 p.m.

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Tuesday, October 26, 10 a.m. - Noon

For more information on these seminars and to register, visit [www.cpcusociety.org](http://www.cpcusociety.org).

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