

The Chairman's Corner—Terrible, Horrible, No Good, Very Bad Day . . .

by Glen R. Schmidt, CPCU, CLU, FLMI



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We've all had them but hopefully none like the one Alexander had in the children's book, *Alexander and the Terrible, Horrible, No Good, Very Bad Day*, by Judith Viorst. Alexander woke up with gum in his hair and his problems got progressively worse as the day went on. From tripping over a skateboard, dropping his favorite sweater in the sink, being scrunched in the middle seat in a carpool, not getting any dessert, having the shoes he wanted on backorder, the elevator closing on his foot, biting his tongue, the dentist discovering a cavity in his tooth, and the list goes on and on and on. I think you get the picture. . . . His mother said there would be days like that.

But what would you do if you experienced that kind of day? Just a hunch that some of us may be a little more reactive than others would be. There's probably a little "Alexander" in all of us. Even leaders might have trouble not feeling a little bit insecure if they had a day like Alexander. But having that kind of day shouldn't make us feel like a failure.

John C. Maxwell, editor of the *Leadership Wired* newsletter, points out that some folks let their insecurities run their lives. They are often negative day in and day out. These are the kind of people who are tough to have as co-workers, friends, or relatives, but probably unbearable as leaders.

As leaders in the insurance industry, we constantly need to be aware of the effect a negative attitude can have on those around us—from work associates to family and friends. But it's all in the way you approach the situation.

Recently, I read about an orchestra conductor who said it's best to give direction, not criticism, if you want performance. He uses direction to

effectively point to the way things could be. Criticism usually consists of only pointing out what is wrong, not how to reach your goal. It's direction that gives a sense of what needs to be accomplished.

This famous conductor gives direction by beginning with effective communication, especially in the form of face-to-face communication. How many times are we confused with a forwarded e-mail, or a directive "cascaded" down the chain of command? It reminds me of those simple conversations at home in the morning. My wife and I usually get ready for work about the same time but in separate bathrooms. Occasionally, we attempt to communicate with each other through the wall between the bathrooms rather than taking the time to talk face to face. Most of the time, the words are muddled at best (especially on my side of the wall) without a clear understanding of what was said—only frustration that I usually blame on my documented medical problem—loss of hearing high-pitched voices.

In our impatience to get things done on our time schedule, how often do we opt for a message through the wall, rather than through a more effective means of communication?

An e-mail buddy periodically sends me a message "from the heart." Here's part of one I received about happiness:

Happiness is not the result of favorable conditions. Favorable conditions result from happiness. Happiness comes from the way we respond to life. . . . In every life, there is room for happiness. Happiness is yours to live and yours to give.

You become what you do . . . which results in what kind of day you'll have. ■

Six Sigma Quality in Insurance Organizations

Will It Work?

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

■ **John G. Pryor, CPCU, ARM, AAI, AIS**, is the former chairman of the Society's Total Quality Section. He currently serves on the Society's Board of Governors and the Institutes' Board of Trustees. He is a principal and founder of KIA Insurance Associates in California and past president of the California "Big I."

When the CPCU Society's Annual Meeting and Seminars was in Chicago a few years ago, the Total Quality Section sponsored a seminar on Six Sigma quality. I was pleased and honored to serve as its moderator.

A major question during this seminar is a question many still raise today:

Six Sigma is working marvelously in manufacturing firms like Motorola and General Electric—but can it work in a financial services organization?

I'm pleased to report there are many success stories to show that Six Sigma quality is unequivocally relevant and entirely applicable to a service organization—whether it's a local insurance agency or a major regional or even international insurance company.

Let me give you a few insurance industry specifics.

According to Kennedy Smith, associate editor of *Quality Digest* magazine, one large insurance company's cycle time for claims was 41 days. Because nearly 89 percent of past claimants deemed 14 days sufficient time for completion, customer satisfaction was at an all-time low. In less than five months, this company's Six Sigma project team not only assessed the organization's defect rate and identified the key factors involved, but it also

reduced the defect rate by more than 70 percent. The company's savings from this project exceeded \$250,000 in the first five months. Needless to say, customer satisfaction increased dramatically!

Jonathan G. Stein, J.D., CPCU, wrote an article called "Customer Service—Where Are We Today?" for the June 2003 *Claims Quarterly* of the Society's Claims Section, which is being reprinted in this newsletter. In it, Stein commented, "Insurance adjusters are notorious, unfortunately, for their poor customer service . . . There is a connection between exceptional service and business profitability . . . The solution is easy: Fix it! Provide customers with excellent service. To do this, concentrate on these four areas: easier, faster, closer, and better."

Everything Stein reports in his article is accurate in terms of the problem definition and its overall solution of faster, better, etc. What needs to be added is **how** claims adjusters "get from here to there."

The best answer within the insurance industry is the Institutes' course in quality and continuous improvement entitled, *Delivering Insurance Services—AIS-25*. This provides all players—from senior management to the all-important receptionist (otherwise known as "manager of first impressions")—with the foundational methodologies to make these good outcomes happen. You can enhance these fundamentals with Six Sigma quality techniques of minimizing defects to 3.4 per 1,000,000 opportunities.

One of the panelists at our seminar in Chicago was from Employers RE and deeply entrenched in Six Sigma disciplines and methodologies. He admitted his company was, at that time, only about Four Sigma. Although individual departments can improve to a Six Sigma level in a few months, an entire company understandably will require a longer time frame to do so. (But, as Stein reported, the payoff is big!)

At the same time, the panelist also admitted that another GE subsidiary that manufactures jet engines for airliners also was not Six Sigma. He asked how many of us had flown to Chicago—and just about every hand in the audience went up. Then he said, "I must admit to you that GE's jet engines are not Six Sigma—but I want to assure you they are **Seven Sigma!**" Obviously, that's as close to zero defects that any organization can reasonably operate. We each breathed a little easier as we boarded our return flights home.

Here's another example from *Quality Digest*.

A firm believed it was paying an inordinate amount of money to provide customer service. Although using the web-based contact approach was the least expensive, customers continued to turn to the call center to get account information. The firm wanted to keep its tradition of high customer service but needed to deliver it in a less expensive way.

A Six Sigma project team examined the organization's call center and web site data. It found that if the web site were reconfigured in a way that reflected the questions being asked at the call center, costs would decrease as the quality of customer service increased.

The result was the movement of customers to the web site, rather than to the phone, to get their account information.

The key here is the initial element in the Institutes' AIS-25 program in continuous improvement: **customer focus**. It's truly amazing how many problems—and their concomitant expenses—disappear when we simply look at issues from the perspective of our customers.

As an insurance broker, I particularly like the outcome of another example from *Quality Digest*. The question addressed was:

Does winning and dining prospective customers lead to sales?

Customer Service—Where Are We Today?

by Jonathan G. Stein, J.D., CPCU



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Stein brings with him more than seven years of claims handling experience. He has handled all types of claims, including first- and third-party claims. He has handled claims under numerous policies of insurance.

Currently, Stein is an associate with Pagliero and Associates, a full service civil law firm specializing in insurance matters, including first- and third-party coverage, and subrogation. With offices in Sacramento, the San Francisco Bay area, and Chico, the firm is able to offer professional legal services throughout California.

The author welcomes your comments and ideas on providing superior customer service to the public.

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Conventional wisdom is that such entertaining is necessary to close the deal. But a Six Sigma project team examined sales data and found that although face time with customers is important, wining and dining is not.

Data showed that regular face time helped close sales, but that same time—or a lot less time—could be spent over a cup of coffee instead of golfing at a resort. In addition, the data showed that *too much* face time with customers is counter-productive. A regularly scheduled customer picnic was found to be detrimental to closing sales because it was held at a busy time of year when customers preferred not to be away from their offices.

Changing this process resulted in an increase of more than 10 percent in sales. No mention was made in this report about reductions in individual expense accounts. I suspect that's the subject of an entirely different study!

How do you “get on board this train”—and not “get left standing at the station”? You don't do so by “throwing rocks at the train,” as some are inclined to do. The best strategy is to learn how these leadership and knowledge-based techniques can be applied to your organization—by section or by department or overall. Again, the Institutes' AIS-25 program should be the starting point for everyone in your section or department—or your entire organization.

Test it in a single section of your organization. That is what the AIS-25 program itself recommends. Its called “PDCA.” In Six Sigma quality, it's DMAIC. You can learn what these initialisms mean by enrolling. Incidentally, AIS-25 is the fastest-growing program within the Institutes at this time.

Once completed, you can learn more about the Six Sigma form of continuous quality improvement at web sites such as www.isixsigma.com or through the American Society for Quality at www.asq.org. ■

Editor's Note: This article is being reprinted with permission of the Claims Section Committee. We hope you'll agree that Stein's message is all about improving “quality,” and thank Stein and the Claims Section for their willingness to share it with the TQ Section membership.

In kindergarten, we are all taught the “Golden Rule”: Do unto others as you would have done unto you. This is applied, usually by punishment, throughout early school years. However, as we get older and start thinking about a job or a career (Yes, there is a difference), we seem to forget the Golden Rule. Most people cannot even tell you what it is when asked. But, in claims, as in all careers, the Golden Rule is important.

I recently took a trip with my family to see relatives in Phoenix. We arrived at the airport in Sacramento, checked two suitcases, boarded the plane and enjoyed the flight. When we arrived in Phoenix, we went to baggage claim. As our bags came off, it was very apparent that one of our bags was damaged. A well-known airline, forgetting the Golden Rule, promptly and rudely told me that it was not its fault that the bag was damaged, but rather it was the bag's fault. Apparently, the bag put a hole in itself! While I will be able to replace the bag quite easily, the airline will have to do a lot of work to replace me—the customer—simply because I was not treated as a valuable customer.

Insurance adjusters are notorious, unfortunately, for their poor customer service. When I first started law school, a survey came out and indicated that attorneys had a better reputation than adjusters. When asked why I went to law school that was my new reason! Web sites abound with stories of bad adjusters, bad service, and bad experiences. While some insureds/claimants have unrealistic expectations, the adjuster's job still comes down to a very basic concept: provide excellent customer service in the same manner you would like to receive it! This

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pays off not only with an easier time handling claims, but also for the long-term success of your employer. Remember, every claimant is a potential customer.

What Is Customer Service?

It used to be that customer service was not so much a selling point for advertising, but an expected part of doing business. However, today bad customer service has become so commonplace that most of us do not even notice it anymore. Need an example? Call any large company and deal with the inhumane telephone mazes. Some of these telephone systems do not even provide an option for speaking to a real person. Yet, time after time, we call back. So, what exactly is customer service?

At base, good customer service is being nice, helpful, and honest—and most people can be that way when they choose to be that way. Customer service is constantly and consistently giving your customers what they want and need: a customer friendly process, having constant dialogue with the customer, providing what the customer needs and wants. Customers do expect good customer service.

You can use several criteria for your customer service scorecard—decrease in written customer complaints, decrease in oral complaints, more referrals generated from your current customers, and an increase in the repeat business of your current customers. Obviously, claims management is aware, or should be aware, of the number of written and oral complaints made. This information should be tracked and monitored. Thus, this is a fairly easy way to monitor and evaluate your customer service. Many carriers also have a customer satisfaction survey program that obtains direct feedback from the policyholder after resolution of a claim. Referrals and repeat business are harder for claims people to identify, but agents and brokers know where the business is coming from. By developing a good relationship with these individuals, management will be

able to learn if they are getting new business due to their claims handling.

Lets face it, good customer service is no longer enough—it has to be superior, unexpected, **wow** service. This means doing what you say you will, when you say you will, how you say you will, at the price you promised—plus a little extra TLC tossed in to say “I appreciate your business.” Providing service at the superior level is now part of every adjuster’s job.

Why Is Good Customer Service Important?

At its most important level, your business would not exist without customers. Customers have more options than ever before—and feel less loyalty. Thus, if a customer does not like the service that they receive, they leave. Many customers have said “I was not a repeat buyer for no other reason than customer service.” However, choosing to take business elsewhere is usually a consumer’s last option in the fight against poor service. Remember, your business is not the only game in town and your customers have the choice of giving you their repeat business, or giving it to your competition.

Further, there is a connection between exceptional service and business profitability. In the insured’s eyes, the Claims Department is the most important department. Remember, the claims person is most likely the only person from the company that the insured will ever meet. Adjusting the loss is only a part of the adjuster’s job. Improved customer satisfaction results contribute toward improving loyalty and retention, profitability, and new policyholder referrals. Therefore, by providing superior service in claims, the business will be more profitable and everyone in the company will benefit.

The public perception is affected by good customer service. Good claims work does not sell insurance like it once did. However, delivering outstanding customer service is the cornerstone of any truly great insurance company.

The public’s perception of an adjuster’s job is to reduce the claim to save money for the insurance company. People perceive, and are told, the adverse insurer is not their “insurer,” and the adjuster often is not on their side. Many people believe that they will be lulled into assuming that the adjuster will treat them fairly. Rude and insensitive adjusters who ignore the needs of the people are one of the most common reasons that people contact lawyers. Some in the public believe it’s the sweet, empathetic adjusters who are the most dangerous because they make you forget they are the enemy. Thus, by providing good, professional, customer service, these perceptions can change.

Why Is Customer Service So Poor?

There are six obstacles to good customer service in every industry.

- First, the employee’s attitude that customers are replaceable.
- Second obstacle, work that is inconsistent.
- Third, a lack of good listening skills by the customer service providers.
- Fourth, an organization-wide lack of strong commitment to customer service.
- Fifth, insensitivity to customers.
- Sixth, hiring of employees with no sincerity.

While these obstacles are inherent in every industry, most managers and adjusters have other job-specific problems, therefore, customer service continues to suffer in the Claims Department. The problem is not just the business itself but is impacted by the lack of respect adjusters have been shown by the rest of the insurance industry. First, and most important, those of us with more than a few years of experience know that the Claims Department is seen as a necessary evil. Other departments treat adjusters as if they are of a lower class. Underwriters, agents, and others with a personal financial interest never call to

congratulate you on a settlement or to recognize you for protecting the insured's interests in a potential excess claim, but, they will be the first to complain about what you pay out. The adjuster's job is to pay what is owed according to the facts, coverage, and the law, but the agent's interest is to keep payments low to maximize his or her profit. Likewise, the underwriter wants to show a good loss ratio for performance bonuses. We claims people all know that this does not affect what is owed under the policy and whether the settlement was a good settlement. However, we are only human and after a while, this treatment as a necessary evil creates, whether it should or not, disgruntled and disappointed adjusters. Improving the professional standing of the adjuster with internal customers is as important as with external customers.

Other significant factors that impact the quality of the claim service are claims training and claim workloads. There is a decline in claims training and there are growing stacks of claims files per adjuster. The pool of knowledge becomes slightly more diluted as new, inadequately trained adjusters join the ranks. Adjusters do not receive the intense, in-house training that once was pervasive in the industry. Add to that the fact that other adjusters are busy with their own claims files, and managers have more adjusters with more claims to supervise, and it is easy to see why there is a lack of training.

In addition to not being able to assist co-workers, heavy volume creates a situation where adjusters do not have the time they would like to spend on each claim. Everyone acknowledges that adjusters adjudicate thousands of claims based on the terms of the policy, but with the heavy workloads, customer service continues to suffer and the public continues to fear their insurance company.

The carriers have difficulty retaining good talent and attracting new talent. Pay scales for adjusters historically do not match the scales in other segments of the industry. In addition, many people who graduate from college do not know what an insurance adjuster is or does. There are not many degreed programs in this

country for insurance. Thus, recruiting and retaining the best employees in a Claims Department is challenging.

All of these factors come together to create a very poor public perception of adjusters. The perception is that most adjusters function like Henry Hard-Nose—thick skinned and difficult to deal with. The public thinks that adjusters' typical tactics include interrupting their logic, being manipulative, predictably belligerent or difficult to deal with. Finally, the public sees adjusters as unwilling to give a straight answer and unwilling to pay the loss in full. This perception of the claims adjuster and the claims process needs to end.

The Solution

The solution is easy: Fix it! Provide customers with excellent service. To do this, concentrate on these four areas: easier, faster, closer, and better.

Easier means to provide all of the necessary information to your customer in one fell swoop. Do your best to make your customers' lives easier. Provide them service **faster** than anyone else, if it is by phone, fax, e-mail, or in person. Be **closer** to your customers, not just physically, but so that your customers feel you are close. You cannot be close to your customers if your claims office is on the East Coast and you close at 2 p.m. Pacific time. Work your hours so that your physical location is irrelevant, but your customers feel closer. Provide **better** service. Better has to be defined by each organization, but meet your customers' expectations. Do not contradict your words with your actions. That is better service.

And if you can't immediately reduce workloads or provide your adjusters with expensive training, then at least build their morale by treating them with respect and dignity so the next time they answer the phone they will do so with a smile on their face.

Fix it and then brag. Brag to everyone including insureds, agents, brokers, underwriters, auditors, actuaries, managers, the Board of Directors, and the

media. As insurers focus on customer service, they need more positive press. Every other industry brags about J.D. Powers awards for service. When is the last time you saw an insurer doing this?

Conclusion

The best investment in our future is quality, superior customer service. If you want to provide the best customer service in the world, then start spreading the word and delivering on it. Everyone complains about good customer service, but no one seems to want to step up and provide it on a consistent basis. Superior customer service can be the competitive advantage that puts your company in the forefront.

What is the pay off? If someone at the well-known airline I referenced previously had provided good customer service instead of summarily dismissing me, this article would have needed a new introduction. Instead, every person who reads this now hears about a bad incident at the previously mentioned airline. You do not want your name to be associated in an article or on a web page with an incident like this. So provide your customers the service that they deserve and then read the good things that they have to say. One single negative contact can ruin your reputation in the eyes of not only that one customer but everyone he or she knows as well. After all, word of mouth works both for you and against you. ■

Good Deductive Arguments Produce Quality Underwriting Decisions Resulting in Increased Underwriting Profits—Part 2

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

Editor's Note: This is the second of three installments of this article. The first installment appeared in the June 2003 *TQ*. The third installment will appear in a future issue.

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

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

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Arguments for Profitable Agreements

Insurance policies are contracts for several reasons. The reason most relevant to our discussion is: they represent a “meeting of the minds.” Insurance policies should be created and arranged to meet many insureds' needs with as many of the insurer's products as insureds are willing to purchase. Most insurers claim their policies are contracts of “the utmost good faith.” Insureds trust insurers to permit insureds to use any applicable contract provision whenever an insured needs coverage, providing the insured meets the terms of the agreement. When insurers sell coverages, insureds trust they will be able to use those coverages as long as they pay for those coverages.

The trust developed by this logic is betrayed when an insurer takes underwriting action to prevent continuation of a coverage after an insured has relied upon its policy. The “meeting of the minds” ends and trust is destroyed. Insurers should not sell a coverage that they do not want insureds to use; doing so is illogical to customers. Customer satisfaction is destroyed when insureds are penalized for using what they purchase.

Customers should be encouraged to rely upon the relationship they develop with an insurer. Relationship management is not just a corporate concern. Insureds want to maintain their reliance upon insurers. Insurers want increasingly profitable relationships with policyholders. Good customers, who want more claims covered, are usually willing to pay more and so should not be refused such an opportunity. We suggest if customers want to use coverages, such as towing and labor, more frequently than premium charges anticipate, then insurers should charge more for those coverages on future renewals. We believe this is not an oversimplification.

Unilaterally deleting overused coverages, nonrenewing policies due to covered claims history, nonrenewing due to coverage inquiries, or preventing issuance of a new, unrelated coverage such as umbrella liability goes against the “I paid for it so I should be able to use it” logic cherished by many customers. Underwriters who react to overuse of coverages by charging more for future use increase their premium volume from renewing business, maintain their policy count totals, and encourage insureds to round their accounts. We recommend underwriters enable their producers and customer service representatives to say: “Thanks for using our services. Please continue to rely on our relationship. Your increased renewal premium reflects how much you use our services in comparison to other insureds.”

Illustrations of Weak Underwriting Arguments

Here are two detailed illustrations of arguments that lack any solid chain of logic. A chain of logic would make these arguments credible and, therefore, more likely to be appreciated by customers and teammates. Credible arguments are expressions of realistic perspectives. Perspective is the ability to judge the relative importance of an event in the context of its time and place in history. What do you think about the judgment exhibited in the following illustrations?

The following notation was left by a producer:

Prospect called to apply for HO—has 7 acres and primary residence—was a working farm; but has not been for 12 yrs—she rents out 2 structures to her neighbor who has had no losses—spoke to underwriter for decision to approve or decline—the application was rejected because the structures are not on a separate deed from the home.

The favorable experience (12 years) for this risk indicates exposure has not been a problem. The presence of the lessee's liability insurance (a CGL at \$5M) indicates the applicant's exposure is limited significantly. The underwriter indirectly indicates this application would be acceptable if the rented structures were on a separate deed. An examination of the homeowners contract indicated separation by deed would not prevent the policy from responding. These factors do not logically indicate that the application should be rejected. If the prospect can provide proof of the lessee's liability coverage anytime before the policy's discovery period ends, then the application should be accepted if the risk meets a program's guidelines.

The following notation was left by a front-line underwriter:

Insured called indicating ownership of rental property we insure has changed to a limited liability corporation "LLC"—explained we do personal not business/corporate insurance so we will have to non-renew the policy—entered LLC information as additional insured & set to not renew.

The favorable experience (8 years for this insured's rental properties) and sole ownership by the insured of the LLC indicate the applicant's need for coverage and exposure to loss has not changed. Therefore, the insurer should continue to view this account's risk as being favorable/low. The underwriter could have asked her firm's team of actuaries if it noticed an increase in claims activity for rentals owned by LLCs to learn if statistics indicate LLCs should not be insured or be insured differently.

Lastly, the underwriter's willingness to add the LLC as an additional insured contradicts the underwriter's reluctance to renew the policy. Such action begs the question, "Why add the LLC if you are not willing to renew the policy?"

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Figure 1

Please take a moment to think about an illustration of a weak argument you heard an underwriter use lately.

Describe the argument here: _____

What action was based upon the argument? _____

What was the argument's conclusion? _____

What premises supported the conclusion? _____

What facts were used to support the premises? _____

Where were this argument's flaw(s)? _____

How often is this flaw repeated in your team's underwriting arguments? _____

How can your team improve its management of underwriting information?
 (How can your knowledge management* be improved?) _____

Should you take the initiative to discourage continuation of such faulty argument? _____

Why? _____

What can you do to encourage improvement of your team's performance? _____

* Knowledge management includes the following processes:

- Structuring decision-making process for efficiency and effectiveness.
- Improving decision-making processes whenever new principles and methods are learned.
- Learning improved underwriting principles and methods in ways that are structured.
- Integrating or assimilating improved underwriting principles and methods into members' philosophies, agendas, and processes.
- Applying what is learned on the job more frequently.

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

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Figure 2 Critique of Arguments

The following questions are offered to help readers evaluate underwriting arguments encountered in the future:

- Is the main issue identified and described clearly?
- Is the argument supported by conclusions?
- Are the conclusions based on logical premises?
- Are the premises honest representations of facts?
- Are the facts from independent, unbiased sources?
- Are there any incomplete claims/statements/accusations?
- Does the evidence fit the issue being targeted?
- Does the supportive evidence outweigh the contradictory evidence significantly?
- Is there excessive use of euphemisms or biased questions?
- Is the arguer credible, weak, or biased?
- Would you say that this is a good argument?

These could be used during market conduct examinations of underwriting documentation, too.

Fact-Based Underwriting Arguments

Frederick W. Taylor revolutionized management theory by gathering facts, designing ideal tasks/processes, and strictly implementing what was designed as documented routines. Reference material reviewed by the authors about Taylor suggests the steps to *Taylorize* a job include:

1. Determine who will do the analyzing, who will contribute to the analysis, and what will be analyzed so reliable facts can be gathered to support decisions after conclusions are developed.
2. Determine where to begin to improve an operation by selecting the processes that can be improved and help you gain credibility. The toehold has to be solid to build on in the future. This will establish your credibility and set precedence.
3. Analyze work tasks, tearing work down into its components, timing each phase/segment.

4. Use analysis to put jobs together in ways that are the one best way.
5. Create instruction cards, charts, and/or diagrams for each task/process to make sure everyone knows how to perform and coordinate with each other.
6. Encourage people to follow instructions with appropriate amounts of bonus compensation and non-monetary rewards.
7. Reward those who improve individual and team performance instructions.

A recent biography titled *The One Best Way* by Robert Kanigel refers to a few of these steps on pages 207–210. It also explains some of the social and professional changes fostered by Taylor's efforts. His work's reliance on logic clarified roles and responsibilities, and defined methodologies and processes while working to plan and improve how work was done.

Underwriting is no place for "fuzzy logic." A disciplined approach such as *Taylorization* would help most underwriters' and producers' profitability and production improve. Underwriting should be

conducted as an objective science, not a subjective art. Measures matter most; unsubstantiated opinions are recognized as guesswork.

Defining "Winning Underwriting Argument"

A winning argument is not one where an individual shouts down those who disagree or aggressively pulls rank, as in a chain of command. A winning argument is one that is so openly fact-based and so logical in its presentation that anyone who is willing to do the right thing will agree with the argument until he or she finds other evidence to support opposing conclusions. Winning arguments support win/win agreements. Win/win agreements generate more written premiums and commissions from more sources. Generating written premiums and commissions for coverage of good quality risks increases underwriting profit.

Frequently, underwriters act as gatekeepers instead of teammates with producers and customer service representatives. Their actions result in too much defensive protection and not enough customer satisfaction. We suggest they act as risk managers and not risk avoiders. Gatekeepers frequently either wonder why their territories are not growing profitably or blame agents for not cooperating. They avoid the extra work and uncertainty associated with modification of risks when applications are not pristine. They rely upon the easiest of the three options every underwriter has: to accept, to reject, or to accept with modification(s). Rejection is their most frequent output because few prospects are considered as clean, pristine risks.

An agency in Western Ohio received national recognition in 1998 for having submitted 320 applications and not having any rejected. This was made possible by the agency's personnel partnering with its underwriter to modify approximately one-third of the risks submitted so they could be

accepted. The agency's success ratio was high because it negotiated win/win agreements on the less-than-perfect and untraditional risks. An underwriter's requiring the transfer of power surge exposures from a homeowners policy to a warranty offered by a manufacturer of surge protectors is an example of modification of a risk. Unfortunately, the trust, creativity, and effort required to negotiate this arrangement discourages gatekeepers from using modification more often.

The most desired result in underwriting decision-making is profitability. The most desired quality in underwriting decision-making is consistency, because consistent judgment generates predictable results, or at least results that are more predictable than otherwise. If underwriting decisions are made consistently, then improvement of underwriting decision-making processes will produce better underwriting results (more profit).

Without the application of consistent deductive underwriting argument, companies are vulnerable to competitors that are more focused, organized, and communicating. Inconsistent underwriters' results are as much or more a matter of luck than anything else. Insureds and agency personnel appreciate consistency when they can find it. They come to rely upon it and trust it when submitting applications and asking advice.

The problem we are working to solve is, because inputs are always changing from account to account and from time to time for an account, the only way to achieve consistent output is through consistent judgments and actions from one risk to another and from one underwriter to another. We hope this article will encourage and enable underwriters to define processes so their results are more predictable and more easily improved. However, as has been observed, judgment is often a function of individual experiences, and no two underwriters have **exactly** the same set of experiences. Therefore, few underwriters exercise the same judgment when presented with

similar risk characteristics if they rely solely upon their individual knowledge and experience.

We concede perfect consistency among underwriters is impossible to attain. However, significant improvement in consistency can be made easily if underwriters learn how to make winning deductive underwriting arguments. The solution is to get underwriters to produce favorable outputs as similar as possible. Favorable underwriting outputs are judgments that are consistent, though improving, as new information is learned and training is received. These judgments should be applied logically and in comprehensive ways. This is a holistic approach to problem-solving in underwriting teams.

Exception Underwriting

Most underwriting problems need to be solved in applications and renewals that are being referred for consideration of exceptions to underwriting guidelines. If the following points are true about exception underwriting, then I suggest exception underwriting is the best forum for use of winning underwriting arguments. Most exception underwriting is:

- performed in response to an application or renewal being referred due to unacceptable condition(s)
- performed in an effort to find mitigating circumstances so an exception to formal underwriting guidelines can be offered
- conducted in an effort to respond to concerns raised by formal underwriting guidelines
- accomplished by building a chain of logic that informs stakeholders, and persuades interested parties to agree on a proposed action plan or make realistic counteroffers

Applying Winning Underwriting Arguments

Underwriting these types of scenarios consistently requires underwriters and their managers to plan and implement thoroughly. Stephen Covey's discussion of what he describes as the "upward spiral of growth and change of continuous improvement" serves as one of several models professionals should consider using when planning and working to gain and maintain professionalism, profitability, and market share (pp. 304–307, *Ibid.*). Personal professional development efforts should be planned and implemented to help individuals learn about, commit to, and perform more and more valuable tasks. Professionalism should be developed and maintained intentionally through the following actions:

- learning the most correct facts, principles, and practices
- committing to act in compliance facts and logic
- doing work on time and on budget

This cycle of development should be repeated as often as necessary to move up Covey's upward spiral of renewal. It aids in continuous improvement of underwriters' performance and the profitability of their books of business. We should be serving our customers' basic needs and recognizing our markets' demand that we "learn, commit, and do in increasingly higher planes" (p. 304, *Ibid.*) of professionalism, technology, customer satisfaction, argument, and understanding. ■

Water Damage: Hardware That Can Help

by Betsy Woodson

Editor's note: This article is included in this issue because water damage has become an increasingly important loss exposure for property owners and the underwriters issuing property insurance policies. The CPCU Society has not tested any product of the type discussed herein, and cannot endorse any such products. For additional information, the reader may visit the Zircon Corporation web site at www.zircon.com.

Water damage can occur almost anywhere in the home. Water-using appliances and fixtures, such as refrigerators with icemakers, dishwashers, washing machines, toilets, and water heaters are common locations of leaks. If a slow leak goes undetected, it often leads to rotting house framing and subfloors, and can be a precursor to a catastrophic leak that can release several gallons of water per minute, causing extensive water damage.

To reduce or prevent damage from leaks, property owners should be vigilant and check around the home frequently for signs of leaks, be alert, and take action immediately. Proactive maintenance is also important. But with today's busy lifestyles, it's impossible for homeowners to keep watch for signs of trouble 24 hours a day. Fortunately there are water leak detection systems that can help! There are two types of water leak detection systems: passive and active.

Passive leak detection systems or "Water Alarms" are intended to alert you of a leak. They generally sound an audible alarm tone and some may also feature a flashing light. Passive systems are frequently battery-operated, stand-alone units. They are inexpensive and easy to install. Some simply sit on the floor while others may be wall mounted. A moisture sensor is located on the floor and activates the alarm when it becomes wet. Passive leak detection systems are especially useful in locations where it is easy for someone to hear the alarm such as near refrigerators, dishwashers, or toilets.

Active leak detection systems usually generate some type of alarm, but also perform a function that will stop the water flow. They feature a shut-off valve and some means to determine that a leak is occurring. Most devices use moisture sensors to detect a leak.

An **"Individual-Appliance"** system detects a leak from a specific appliance, such as a washing machine or water heater and shuts off the water supply to that particular appliance. Depending on the type of device, the homeowner may be able to install these systems without any special tools. However, in some cases a qualified plumber may be needed. "Individual-Appliance" systems range in cost from \$50 to \$150.

A **"Whole-House"** system may prevent or reduce damage to the home by shutting off the entire water service when a leak is detected. A main shut-off valve is installed on the main water service piping. This valve usually requires 115-volt electrical service. Most "Whole-House" systems operate by monitoring several moisture sensors that are located on the floor below appliances and fixtures that use water. Some models can also be integrated with a local or central station security system.

Generally, "Whole-House" water leak detection systems take between four and six hours to install, and cost between \$500 to \$1,500 depending on labor rates and the size of the system.

For homeowners that travel extensively, a "Whole-House" water leak detection system may offer some additional peace of mind when they are away from home. ■

Built to Last—Successful Habits of Visionary Companies

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



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Drawing upon a six-year research project at Stanford University Graduate School of Business, James Collins and Jerry Porras researched 18 successful companies that have outperformed the market, and their peer companies, for many decades (and in some cases for more than 100 years). Collins and Porras examined these “Built-to-Last” companies to see what made them successful. One interesting finding was how these companies defied conventional wisdom as to what it takes to be a successful, long-lasting company. The following are some of the myths exposed by Collins and Porras.

Myth #1: It Takes a Great Idea to Start a Great Company

Most of the “Built-to-Last” companies started with poor ideas and later adopted more successful ones. Only three of 18 visionary companies studied had greater initial success than their counterparts. Sony’s first product was a rice cooker that didn’t work. 3M had such a poor start that the company’s first president didn’t earn a salary for the first 11 years.

Myth #2: Built-to-Last Companies Need to Have High Profile, Charismatic Leaders

In fact, this can be a cause for failure if the charismatic leader hasn’t built a strong organization that will endure past the leader’s tenure.

Myth #3: The Built-to-Last Companies Exist First and Foremost to Maximize Profits

Contrary to business school doctrine, maximizing shareholder wealth, or profit maximization, was not a dominant force

for visionary companies. Instead they pursued a cluster of objectives. Making money was only one, and not necessarily the primary one. Profits sustain the life of an organization, but they are not what drive the organization to succeed. In 17 out of 18 cases, the Built-to-Last companies were more ideologically driven, and less purely profit driven than their peer group.

Myth #4: Built-to-Last Companies Share Common Core Values with Other Successful Companies

There is no common, “correct” set of core values needed to succeed. The true value is not the content of the ideology, but instead how deeply the ideology is believed.

Myth #5: The Only Constant Is Change

Yes, but the Built-to-Last companies seldom change their core ideology. Core values stayed the same and served as a guiding beacon. They changed and adapted strategies, goals, products, and services, but the core values remain.

Myth #6: Top, Blue Chip Companies Play It Safe

These companies actually made commitments to audacious goals.

Myth #7: Built-to-Last Companies are Great Places to Work for Everyone

Only those who agree with the core ideology and are willing to embrace the demanding standards will find it a great place to work. People love it or hate it. These organizations have no room for people who don’t fit their exacting standards.

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Built to Last—Successful Habits of Visionary Companies

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Myth #8: Built-to-Last Companies Make Their Best Moves by Brilliant and Complex Strategic Planning

The reality is that these visionary companies made their best moves by experimentation, trial and error, and accident. Basically they take the philosophy, "Let's just try a lot of stuff and keep what works."

Myth #9: Companies Need Outside CEOs to Stimulate Fundamental Change

The Built-to-Last companies promoted from within six times more than lesser performing peer companies.

Myth #10: The Most Successful Companies Focus Primarily on Beating the Competition

In truth, the most successful companies focused on beating themselves. They are always asking themselves what they can do to improve. They are never satisfied. ■

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