

**Emphasizing Quality:  
A Renewed Focus on the RIMS Quality Improvement Process  
Executive Summary  
January 12, 2006**

**History**

RIMS has a history of supporting quality, and understands the realities facing risk managers and the stakeholders in the insurance transaction process: brokers, insurers and service providers. For over 10 years, RIMS has sponsored initiatives to guide and facilitate quality improvements across the multiple risk management and commercial insurance industry sectors.

RIMS advocates an open and honest dialogue among all parties in the insurance transaction. On its most fundamental level, the relationships insureds share with their stakeholders must be based on a foundation of integrity, transparency and client centricity.

**Current Situation**

RIMS recognizes the difficulties faced by risk managers, brokers, insurers and service providers, given the recent scrutiny of the business model and associated business practices that have commonly been used to facilitate transactions. While some of the activities described in the press were unethical, and even illegal, an opportunity exists for all stakeholders to review their business models and emphasize the importance of using the Quality Improvement Process (QIP) in the practice of the risk management discipline.

RIMS remains encouraged that some stakeholders have modified their business model or adopted new business practices. However, more can and should be done to provide a leadership role in the development of definitive performance expectations to improve the level of quality in our industries. The QIP is uniquely positioned to provide the framework for the development of performance expectations.

**RIMS Call to Action**

RIMS calls on the risk management and insurance communities to use the QIP to the benefit of all stakeholders. RIMS recognizes the need to facilitate industry participation in this process. The RIMS Quality Advisory Council and its predecessor, the Quality Committee, have always included representatives from all constituencies in its work. In that regard, the RIMS leadership will work with industry leaders and associations to educate risk management professionals, brokers, insurers and service providers on quality practices.

RIMS is committed to driving this process forward by continuing its focus on the implementation of the Quality Improvement Process. RIMS feels strongly that the ideas presented in the following brief will move the industry towards greater operational efficiency.

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### Background

The Quality Improvement Process (QIP) for the risk management and commercial insurance industries was developed by the Risk and Insurance Management Society in 2000. The QIP emphasizes the participation and collaborative cooperation among risk managers, brokers, insurers and service providers. The QIP is a comprehensive program designed to guide and facilitate quality improvements.

The QIP is comprised of three components:

- Guidelines for Performance Expectations
- Learning Resources
- Performance Measurement

The first component, Guidelines for Performance Expectations, was developed to help improve communications and set expectations for an organization's risk management program. These guidelines were originally based upon several performance tenets: trust, operating efficiency, identification of client needs, building partnerships, providing expertise, and practicing effective communication.

### Principles of the QIP

The principles of integrity, transparency and client centricity are inherent in the QIP. Advancement in the level of quality in the insurance industry must have its roots in these guiding principles.

***Integrity*** speaks to the fundamental quality of a successful relationship. It represents the ethical code which serves as the guidepost for business relationships. Whether we are talking about a person of integrity, the integrity of a process, or the completeness and accuracy of a transaction, we are effectively assessing whether something is *right*. It is critical that integrity be the foundation of the broker, insurer and client relationship.

***Transparency*** represents an openness of process and is essentially the operational equivalent of trust. If the details of the insurance transactions are known, and easy to understand, then we will have addressed a key concern facing risk managers. As participants in the "business of risk," each of us has a duty to operate in a manner that is above reproach. Full disclosure of all information about a transaction must be communicated in order to a relationship based on trust and integrity.

***Client Centricity*** is a business principle that focuses first and foremost on the needs of the client. In the management of risk, all stakeholders serve in a client role at some point in the transaction. However, for the purpose of this brief, the client is the insured. Client centricity recognizes the importance of placing the client's needs above all others. It is having a complete understanding of the overall investment that each stakeholder has in a relationship and a commitment to developing operational support processes that optimize the client's needs. Quality in the insurance transaction process will only be recognized if the broker and insurer place the needs of the client first.

**QIP Guidelines for Performance Expectations support the guiding principles and facilitate practical solutions.**

This brief focuses on five key guidelines that are essential in providing a foundation of quality for all stakeholders. Furthermore, it recommends fundamental performance expectations that should be consistently applied. These guidelines specifically address the process of insurance purchase, disclosure of compensation, business knowledge, employment of a proactive approach, and timely policy issuance. Moreover, they apply to a majority of insureds as they represent the most compelling examples of how the QIP can provide solutions.

The recommended expectations are offered as examples of how the QIP can provide the foundation for the dialogue to establish consistent performance metrics.

### Integrity

*Guideline: Secure Broad Coverage at Competitive and Reasonable Rates*

This guideline directly applies to the broker-risk manager relationship. It is important to note that the insurance purchase remains the most fundamental transaction in our business. The buyer of the insurance product must be assured that all parties will work together to obtain the terms and pricing that are most favorable to the client.

*Recommended Expectations:*

- The risk manager has a thorough understanding of his/her company's operations and the risks that are likely to be transferable in the commercial market.
- The risk manager provides a timely application with full disclosure of all relevant information.
- Market responses are fully documented in a clear and consistent manner, provided in writing, and explained to the client.
- Market declinations are provided to the client by participants in writing.
- The client must have full disclosure by the broker of the reason for recommending the elimination of a potential market and determining which markets to select.
- Benchmark data and coverage comparisons, when available, are included in the market response.

### Transparency

*Guideline: Disclose and Justify Compensation*

Full disclosure of all remuneration for services performed lies at the heart of any transaction. There should be no question as to what the client paid for the product and what the broker received as compensation. RIMS recognizes the complexity of certain insurance transactions. However, full and consistent disclosure is a fundamental expectation of our members and member companies.

*Recommended Expectations:*

- Brokers must always act in the client's best interest.
- All compensation generated as a result of a client's account must be clearly disclosed.
- All ownership interests of related parties in a transaction and the need for such participation must be disclosed in advance of binding coverage.
- Payment of premiums by insureds directly to insurers should be encouraged.
- Where appropriate, brokers should be compensated directly by clients.
- Commissions should be clearly disclosed by the insurance company and identified on the written proposal.
- The risk manager ensures that all required payments are made promptly and in accordance with agreed terms

## Client-Centricity

### *Guideline: Demonstrate Knowledge/Understanding of Client's Company/Industry*

The nature of our business requires the stakeholders to make a concerted effort to learn about the companies and industries they represent. Various organizational structures are used to address this knowledge requirement. Regardless of the method, all parties need to be assured that the key players in the transaction have, at least, a fundamental understanding of the key operational, financial and regulatory issues that face a particular company or industry.

### *Recommended Expectations:*

- All parties must have a clear understanding of the company's risks and its risk tolerance level.
- Insurers should establish applications that are clear and make reasonable requests for supporting documentation.
- Insureds, and their brokers, should issue thorough and professional underwriting submissions.
- Direct communication between the insured and insurer, inclusive of the broker, should be encouraged.
- The broker should participate in client web casts, investor calls or other publicly accessible information sessions when relevant to coverage.

### *Guideline: Employ a Proactive Approach*

In an age of technology, increasing regulations, and a legal environment that places more demands on our businesses, we must have consistent and acceptable practices for accomplishing our most basic transactions. It is no longer acceptable to provide last minute submissions or for responses to be delayed due to competing priorities. All clients, big and small, deserve to benefit from the same level of basic operational discipline.

### *Recommended Expectations:*

- The risk manager will provide the underwriting information to the broker 90 days in advance of renewal.
- The broker will issue specifications and distribute the submission 60 days in advance of renewal.
- The insurer will begin reviewing the submission at least 45 days in advance of renewal.
- The insurer will issue quotes no less than 30 days in advance of renewal.
- The policy terms and conditions will be finalized 15 days in advance of the renewal.

### *Guideline: Issue Accurate Policies in a Timely Manner*

Successful achievement of this guideline is a three party commitment. The most common concern is the issuance of accurate policies in a timely manner. While RIMS acknowledges that improvement has been made, we are concerned that not enough is being done to eliminate this Achilles heel of quality. With over \$200B in commercial insurance direct premiums written annually, we believe it is reasonable to call on stakeholders to not only establish standardized performance expectations but to make the necessary investments in technology, people, and training in order to achieve significant and prompt improvements in the policy issuance process.

*Recommended Expectations:*

- Policy forms and endorsements should be reviewed and agreed upon within 30 days prior to renewal.
- Accurate primary policies should be issued on or before the policy renewal date or no later than fifteen days after renewal.
- Accurate excess policies should be issued on or before the policy renewal date or no later than thirty days after renewal.
- If binders are necessary, they should be issued prior to the renewal date and error free.
- Policies should be issued to the broker and the insured simultaneously in electronic format and/or written form based on the preference of the client and in accordance with regulatory requirements.
- Where appropriate, risk managers should include these provisions in their service agreements and consider incentives and/or penalties for compliance with these expectations.

**Conclusion**

During the last 10 years, RIMS has been leading the movement for quality improvement in the risk management community. RIMS welcomes this opportunity to reaffirm our commitment to this critical process, and will continue to focus its resources on the implementation of the QIP. To that end, RIMS is promoting the principles of integrity, transparency and client centricity. We believe that when risk managers, brokers, insurers and service providers work together to improve their combined performance, a better commercial insurance system and industry will result.