THE SEVEN DEADLY WASTES:
HOW INEFFICIENT PROCESSES CAN HARM CUSTOMER RELATIONSHIPS (AND WHAT TO DO ABOUT IT)
BY SEAN H. MULCAIR
**Muda** is the Japanese term for an activity that is considered wasteful and does not add value or is unproductive. Lean thinking suggests that in order to create capacity in the workplace we are best off identifying areas of waste and working towards eliminating them from our processes. Traditionally there are seven deadly wastes identified as being the primary root causes for inefficiency within the workspace. In this ebook we will explore the seven deadly wastes of insurance while looking at the financial impact they have on an organization.

We will also provide suggestions on how you can identify these seven wastes within your organization along with effective solutions to reduce or even eliminate them.
Prior to identifying the seven deadly wastes of insurance, it’s important to explore how these wastes can be quantified as either tangible or intangible. Your organization may use more elaborate ways to define these two terms but to keep things simple, these definitions suit our purpose.

**TANGIBLE COST:** A quantifiable cost related to an identifiable source or asset. Tangible costs represent expenses arising from such things as purchasing materials, paying employees or renting equipment.

**INTANGIBLE COST:** An unquantifiable cost relating to an identifiable source. Intangible costs represent a variety of expenses such as losses in productivity, customer goodwill or a drop in employee morale. While these costs do not have a firm value, managers often attempt to estimate the impact of the intangibles.

Let’s explore these definitions in more detail and see how they relate to everyday life in a brokerage firm.
HERE ARE SOME EXAMPLES OF TANGIBLE COSTS ASSOCIATED WITH A BROKERAGE FIRM’S OPERATIONS:

- Software licenses to manage your operations
- Printing costs (copiers, printers, paper, ink, repairs and maintenance)
- Filing costs (office space for filing cabinets, archives, files, labels)
- Employee salary and commissions
- Hardware costs
- Telephony
- Postage (stamps, envelopes, registered mail, priority mail)
- Rent and utilities

NOW WE WILL LOOK AT SOME EXAMPLES OF INTANGIBLE COSTS ASSOCIATED WITH A BROKERAGE FIRM’S OPERATIONS:

- Lack of training
- Staff morale
- Absenteeism and employee turnover
- Lack of productivity
- Errors
- Miscommunication
- Redundancy
- Customer satisfaction
- Missed opportunities
It’s no surprise to anyone that a brokerage firm’s operations are very transactional. It’s not uncommon to see a midsized brokerage firm process anywhere in the area of 100,000 transactions a year. As a result of this, even the slightest improvement on eliminating waste can have a considerable impact on both your tangible and intangible costs.

Let’s look more closely at how some of these costs play into the profitability of an organization. We often use a metric in lean thinking called percentage complete and accurate, or %C&A. The purpose of this metric is to see how often information moves downstream from one person to the next without error or omission. How often have you heard one employee tell another...

“You forgot to complete one part of the application” or “there’s an error in this invoice” or “the policy was issued incorrectly”.

Let’s look at the third statement:

“the policy was issued incorrectly”.

It’s easy to see that when errors or omissions occur, more than one employee usually needs to get involved in the solution; therefore the waste has just doubled in terms of impact. There are also costs associated with reprinting, mailing or re-submitting requests to insurers. If policies are issued internally, that specific department is involved as well. This same error causes additional follow-ups and managing the information for the second time when it finally comes in correctly. When employees are faced with these daily wastes, it starts to have an impact on their morale and thus their productivity also suffers.

An insurance agency in the US ran a Lean Kaizen workshop to look at their certificates process to determine where waste existed. They were surprised to learn that in one year the organization had $10,000 in costs related to errors and wasteful steps in that process; these costs were from paper, printing, mailing, shredding, and incorrect addresses. Those are just the tangible costs...

It’s important to remember that losing time means losing capacity to perform other more profitable actions, such as prospecting, servicing, selling and retaining.

Most organizations understand this notion very well; however the road to overcoming them is not easy if you are unable to pinpoint which wastes are occurring or what’s causing them to occur.
So let’s look at the seven deadly wastes of insurance, examples of their root causes and the affect they have on an organization’s tangible and intangible costs.

WASTE #1: WAITING

The simplest explanation of this waste is when people are waiting for people or information. This waste is evident by seeing excessive build up with the current WIP (work in progress) or when an organization’s LT (lead times) are unduly long.

The root cause associated with this waste is most often related to time management skills, when employees have difficulty prioritizing. There are also many instances where our “support staff”, those who perform processing duties, are consistently working over capacity and their needs get ignored.

A good example of how this waste can affect your business is when a producer would like to deliver a policy to an important client promptly, however the processing department has a 3 day lead time for all invoices and letters. This leads to a producer not delivering on the desired client service level agreement.
WASTE #2:
OVER-PROCESSING

The pure Lean explanation for this waste is doing more to something than the customer is willing to pay for. In the insurance world, this translates to the notion of redundant work such as double or even triple entry into various systems, company audits and reports, hand-offs, multiple approvals etc…

The root causes of over-processing are most often the lack of trust in the workforce, poor software synergy and unclear internal processes. These root causes can often lead to uncertainty and over compensation by employees.

Employees often explain that over-processing is just a way of life in the insurance industry; having to enter the same information into 2 or 3 systems is a reality they face each day. This reality has serious costs associated with it – a lack in productivity and a frustrated workforce. Focusing on removing non value added steps from the various processes will put the business on the right track to improved capacity.
Errors exist in all businesses – in manufacturing they are referred to as defects and they are accounted for in budgets. In insurance they are evident in our paperwork, with applications missing information, cover notes going out incorrectly, or policies received with errors in them.

The common root causes of errors are most often directly associated with lack of training and poor standard protocols. Managers often have time to implement protocols in their workforce but rarely have sufficient time to follow up with the workforce to see where errors are still an issue. As a result, the problems remain and often become tolerated.

These errors, however, are amongst the most costly of all wastes in an insurance operation. Not only do they require work to be redone but they create backlog or WIP (work in progress). Think of how often a producer becomes involved in a file to either clear up information that was omitted from an application or to verify a new policy before sending it out. Reduce the time spent by the sales force on “error related wastes” and the business will find new capacity to pursue sales opportunities. An example from the industry: In one organization, 50% of new business applications coded into a system were incorrect or incomplete – the error cost was calculated to be the equivalent of 1.5 employees in lost time per year or $100,000 dollars in salaries.
Waste #4: Complexity

Complexity is a vast term that refers to wastes associated with issues such as too many documents or follow up/activity codes to choose from, carriers requiring brokers to complete custom applications, or the manipulating of numerous portals which have unique workflows and logic. This level of complexity leads to employee confusion and results in time consuming situations.

The root cause of this waste is related to a lack of discipline for operational excellence and the drive for continuous improvement. When an employee has 5 renewal letters to choose from or 6 follow up/activity codes with similar meanings it can cause them to lose time deliberating over the right choice and they may often still choose the incorrect one. It’s important to see systems administration and document management as key components on the road to clarity and efficiency.

Organizations must work towards a lean 5S solution (Sort, Straighten, Shine, Standardize, Sustain) and take the time to remove old letters and codes from the systems, recycle obsolete carrier applications or underwriting guidelines. Work toward establishing new standards which are simple and effective for employees to learn and use. This will be very beneficial for new hires trained on operational procedures.
WASTE #5: MOTION

Motion is simply the movement of people. Whether it’s looking for a file, visiting a colleague to ask a question or even making your way to a copier that’s located on the other side of the office, these are all forms of wasted movement.

The common root causes are typically the functional layout of the office, traveling to share equipment or searching for information (for example physical files or resource people). It’s important to remember that the waste is not simply the time spent going to and from different locations, but the opportunities for distraction. When people are spending too much time moving about, it not only impacts their productivity but it also causes distractions to others in the vicinity.

In terms of cost to the organization, it is directly related to time spent on activity that does not bring direct value to clients. One firm analyzed the time spent by 15 employees traveling to a photocopier located at the other end of the office. It was quickly realized that over the course of one year the loss in productivity was equivalent to 1 employee’s salary.
WASTE #6: TRANSPORTATION / FLOW OF DATA / FILES

Transportation is different than motion in that it looks at the movement of things like file flow, electronic data between systems or simple paperwork that goes from one desk to another.

The common root causes for waste in this area are related to paper-file dependency, ineffective use of broker management systems and EDI technology, as well as older workflows that have not changed with the times.

These costs are closely related to the first 5 of the 7 wastes, in that they can be either tangible, such as excessive printing, mailing and copying or they can be intangible, such as re-keying data into multiple systems, potential E&O exposure or even lost sales opportunities.
WASTE #7: UNDERUTILIZATION OF PEOPLE

Lean Insurance™ puts an emphasis on this waste specifically because of the high frequency in which it exists in the insurance industry. All too often employees are not able to work at their full capacity, most often because of inadequate training. This leads to poor operational knowledge or abilities they require to do the job adequately. Sometimes employees are hired without the skill sets suitable for the roles they are asked to play or simply are unaware of their true roles and responsibilities.

Most common root causes are due to a lack of true HR focus, inadequate training, and a general lack of trust in colleagues’ work. How often has this statement been said in your office – “I prefer to do it myself, that way I know for sure it will be done right”.

This is a very costly statement for any organization. Why? Because most often the person saying these words is an employee with a responsibility to customer service, and their time spent looking after back office work removes them from the true value added steps they should be focused on. This will inevitably lead to delays, higher turnover and once again E&O exposure.
Knowing the seven deadly wastes is good, but knowing how to fix them is better. At Gradient Solutions, the first step we take clients through after the waste discovery process is something we call 5S’ing your back-office. Try using our methodology to begin reducing waste in your brokerage.
To effectively sort through all your current documents and system codes you will need to first print them out in order to be able to review them. This would include:

- All existing client letters in your Broker management system – don’t forget to include those that may be used by some employees that are kept on shared or personal drives.
- All proposals, cover letters, binders and certificates that are stored in the same areas.
- Print out a list of all system activity codes used to track abeyances and daily tasks.

Once done, you will be ready to move to the second S.
#2: STRAIGHTEN

Form a small committee to review documents and activity codes and come to an agreement on the ones which should be used going forward. Remember – think Lean! Keep only the essentials. If need be, create new letters with macros and autocorrect features to add in or delete additional paragraphs.

Similarly, a committee should be formed to sort through all the codes currently used in the broker management system. This is a great opportunity for an organization to improve their reports management. Many top brokers use activity codes to track KPI’s (Key Performance Indicators) but this cannot be done without some housekeeping first!
#3: SHINE

This is done at desk level; many people underestimate the benefits of a clean and organized workspace. Take the time to go through each workspace and see what can be tossed or cleaned up. Purchase organizers and dividers so that the staff can easily find their resource information. This exercise will also motivate people and allow the workspace to look and feel more professional.
#4: STANDARDIZE

Once you have determined the letters and codes to use, it is time to create standardized procedures or protocols for their use – managers must be accountable to train their employees on the new standards and the reasoning behind them. Standards will create a more consistent brand for your organization and it will also create considerable efficiencies related to these functions.
#5: SUSTAIN

In order for managers to truly benefit from the first four ‘S’s, there needs to be maintenance. Periodic audits are a tested method to determine whether the new standards are being honoured. Activity reports will allow a manager to quickly see who is (or is not) following the new protocols.

The timeline to get from start to finish for a 5S project is normally 2-3 months – however the benefits are considerable for efficiency, ease of measuring performance, employee morale and overall professionalism.
CONCLUSION

Using Lean Insurance™ methodology to help evaluate and improve the efficiency within your operations is a step in the right direction and a new beginning for your firm. It is “The Continuous Improvement” mantra; it is also a form of lifestyle change for your organization that will lead to a reduction in waste, a superior customer experience and a reenergized staff.

Time is precious – we need to use it wisely in order to remain competitive.
ABOUT THE AUTHOR
Sean H. Mulcair has been working in the insurance industry for over 20 years; he is an established lecturer at McGill University, teaching in their Risk Management department since 1996. He was also appointed Quebec’s Best Practices Champion by the IBAC in 2006 and currently works alongside the RCCAQ in bringing this informative topic to Quebec area brokers. Sean is also a Lean certified facilitator.

ABOUT GRADIENT SOLUTIONS
Gradient Solutions is an established insurance industry strategist firm, concentrating on process optimization, management coaching and strategic thinking. The GSI team’s tactical approach is to study North American industry trends and the unique challenges facing the insurance industry. Over the past 10 years, GSI has worked with Canada’s leading insurance brokers, carriers and software providers, helping them reach their goals.
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