

Achieving Dramatic Reductions in Operational Risk

Industry & Client Situation

This client, a leading commercial P&C insurance broker, was known in the investment community for its ability to produce year after year of solid, if not quite spectacular, growth in revenue and profits. After decades of such performance, not only had the company become one of the world's premier insurance brokers, it had outgrown many of the processes and tools that had worked so well when it was a more intimate and far less geographically dispersed establishment.

Recognizing that both needs and challenges had evolved as the company had grown, its leadership recruited an experienced CFO with an operational bent to, among other things, upgrade operational management and control processes to where they would be commensurate with the needs of the industry leader the company had become.

One of the new CFO's first actions was to engage Bridge to conduct what all initially expected to be a routine operational risk assessment and to prepare a plan for managing and mitigating identified risks.

Approach

We began with a review of operational performance data. On the surface, performance was good and trends were generally favorable, but careful examination of underlying data identified a troubling trend in the number of operational errors that did not quite rise to the level of errors and omissions (E&O) claims. The number of E&O claims itself, though still relatively small, had been rising at an exponential rate. Severity was low, but it was clear from a sampling of E&O claims and documented operational errors that a number of them could just as easily have been costly enough to have a material impact on earnings. Furthermore, were existing trends allowed to persist, both the company's financial performance and its reputation would be at risk.

Zeroing in on E&O claims as the company's area of greatest operational risk, the Bridge team:

- Determined, to the best of its ability, the root cause of each and every E&O claim and documented operational error over the preceding five years
- Reviewed enterprise-wide quality standards, the training methods used to instill those standards, and supporting compliance mechanisms
- Contrasted the operational practices of high and low performing offices
- Evaluated the way that operational quality fed into existing incentive systems
- Evaluated how claims are adjudicated to minimize leakage

Once the facts were in, the team worked with client management to design and implement an operational quality/error prevention program that included:

- An enhanced focus on the relatively few professional standards that mattered most
- Training of individuals at all levels to recognize and accord special attention to high risk situations
- A chargeback system for E&O claims that enhanced their impact on office P&Ls and in doing so aligned the interests of managers, producers, and support staff with those of the corporation
- An overhaul of operational controls and reporting
- An early intervention protocol designed to prevent small errors from growing in financial or operational impact over time

Results

Dramatic reductions in error counts and in the cost of operational errors became apparent almost immediately following implementation of the team's recommendations. Two years into the program, E&O claim counts had decreased by over 40% and total experience by over 60%.