



HOW A QMS CAN LOWER INSURANCE PREMIUMS

Companies with strong quality management systems tend to exemplify excellence in virtually every aspect of their business. Best-selling author Martha Beck famously said that **“the way you do anything is the way you do everything.”** Top performers structure their goals and activities around a commitment to high standards and continuous improvement in everything they pursue. The same can be said of entire companies. When an organization’s leaders make that commitment to excellence, then follow through with structured programs to support that commitment, it shows up in the numbers.

Strong quality management systems (QMS) reduce the risk of product recalls, workplace accidents, equipment failures, and more.

Clearly defined standards and processes provide a foundation for the behaviors and activities that lead to successful outcomes and reduced risk. Moreover, independent audits offer a means of verifying compliance with good practices. Smart insurers recognize the value of QMS by reducing premiums for companies that are especially strong in quality management.

In this guide, we will address some specific **financial benefits associated with quality management systems (QMS)**; namely, the reduction of risk, and the associated cost savings on insurance premiums. As we will explain in the next section, QMS provides a foundation upon which to build an organizational culture of excellence and high performance, setting organizational performance on an upward trajectory.

QMS systems reduce risk in a variety of ways, leading to lower insurance claims. External audits provide a measure of objective accountability that simply cannot be matched through self-monitoring. That instills additional confidence among underwriters, leading to lower premiums. **Effective QMS systems and practices also reduce workplace accidents and equipment failures, yielding better worker safety and fewer insurance claims.**

We will explore each of these benefits in turn. But first, let’s take a closer look at what it means to develop and nurture a culture of quality.

QUALITY MANAGEMENT SYSTEMS: A FOUNDATION FOR EXCELLENCE

Quality pioneers at companies like Toyota, Ford, and 3M recognized that QMS processes are essential for achieving excellence in all aspects of operations. By nurturing a culture of quality, executives at these and other large organizations initially aimed to improve their products and services, increasing customer satisfaction and saving money in the process. In doing so, they necessarily fostered a culture of deeper engagement and high performance.

The story of the GM/Toyota partnership known as NUMMI exemplifies the cultural transformation that can occur when companies embrace quality management as a way of life.

For years, General Motors’ production facility in Fremont, California was notorious for its poor quality, low productivity, and abysmal labor relations. Workers admitted to frequent consumption of alcohol and drug use while on the job. Absenteeism reached 50% on many days. Employees even acknowledged that as a gesture of rebellion against management, they frequently sabotaged vehicles during the manufacturing process.

In the early 1980s, Toyota and GM joined forces to reopen the Fremont plant, rebranding it as the New United Motor Manufacturing Inc., or NUMMI. A newly hired Toyota employee named John Shook was assigned to a leadership role at the plant. He described an incident that occurred shortly after the plant re-opened under the NUMMI partnership.

According to Shook, a Toyota manager noticed a worker struggling with his task. The manager pulled the Andon cord, one of many devices along the production line, analogous to an emergency brake. That stopped the line completely, – an act which was unimaginable to the US workers. They had always been taught to keep the line going, no matter what.

After pulling the cord, the Toyota manager stepped in to help solve the problem and get things up and running again.



What happened next was truly stunning to the Fremont workers. The Toyota executive publicly apologized to the line worker, promising that the company would do a better job of providing employees with the tools and skills they needed to get the job done correctly. In that moment, the shocked employees begin to understand that plant operations would be very different from that point forward.

Over time, Toyota's quality management practices led to a significant cultural shift within the plant. Workers began to understand the value of stopping the line to ensure quality and prevent defects, leading to higher efficiency and product quality. Absenteeism, substance abuse, and sabotage declined precipitously. The culture within GM's most notorious automobile plant was transformed.

What is especially noteworthy is the measurable result of this change: **Within two years, the NUMMI facility was performing on par with Toyota's Japanese factories, in terms of both output and quality.**

"I have visited and conducted assessments in various manufacturing facilities throughout my career. It has become apparent that companies with strong quality management systems, such as ISO9000 and similar systems, have a distinct business advantage over those that have not implemented quality systems. The quality systems address topics that, although classified as quality, are also related to the overall operation of the business."

Patti Gander, SSBB MBA MSM
Sr. Manufacturing Consultant & Loss Prevention Specialist

CREATING A CULTURE OF QUALITY

Although most companies aren't as bad off as the GM Fremont plant, there is still a valuable lesson to be learned from this story. In his account of the cultural transformation at NUMMI plant, John Shook explains:

What my NUMMI experience taught me that was so powerful was that the way to change culture is not to first change how people think, but instead to start by changing how people behave – what they do.

In other words, start by providing the systems and processes necessary for teams to excel. Set clear expectations for behavior and establish a framework for accountability. Cultural transformation will follow.

In a [2014 article in Harvard Business Review](#), Ashwin Srinivasan and Bryan Kurey acknowledged the transformational value of quality management on organizational culture. They surveyed over 850 individuals who worked in various roles, across multiple organizations, studying the factors that contribute to quality excellence. Srinivasan and Kurey characterize top-performing organizations as workplaces where people “go above and beyond,” where employees “live” quality every aspect of their jobs, and where workers are “passionate about quality as a personal value.”

Contrast this with the old Fremont automotive plant, where employees were routinely intoxicated on the job, and even admitted to leaving loose bolts and soda cans inside of door panels, simply to annoy customers.

Quality-oriented culture matters, and it impacts a great deal more than the quality of a company's products and services.

#1: QMS HELPS REDUCE WORKPLACE ACCIDENTS, LEADING TO A LOWER INCIDENCE OF CLAIMS

Effective QMS systems and practices proactively reduce workplace accidents and equipment failures, yielding better worker safety and fewer insurance claims. Standardized operating procedures limit variability and reduce the risk of errors by ensuring that every step in the process is performed correctly and consistently. QMS systems ensure that employees are adequately trained, and that worker competency is assessed routinely and renewed periodically.

A sound QMS integrates risk management, encouraging everyone in the organization to identify, assess, and control risks systematically. This proactive approach mitigates potential hazards and improves both the quality and safety of products and services.

Many underwriters recognize the value of QMS in reducing risk, and they price policies accordingly. By reducing the likelihood of incidents, the organization can demonstrate to insurers that it is a lower risk, potentially leading to lower premiums.

“When negotiating premiums with insurance carriers and describing the operations of the manufacturing facilities I represent, it is always an easier discussion when my client has a strong quality management system. I’m able to show the carriers a commitment to product quality and a commitment to continuous process improvements. This helps the carriers understand the quality of the facility and provide best-in-class rates and premiums.”

Alush Garzon
Senior Vice President / Manufacturing Vertical Leader

#2: EXTERNAL AUDITS OFFER THIRD-PARTY VERIFICATION OF STANDARDS

External audits offer a verifiable, independent mechanism for objective accountability, with commensurate benefits that simply cannot be matched through self-monitoring. That instills additional confidence among underwriters, leading to lower premiums.

ISO 9001 certification has emerged as a global standard, embraced by industry leaders worldwide as an effective means of improving quality, efficiency, and safety. ISO 9001 emphasizes risk-based thinking, encouraging organizations to identify, assess, and manage risks proactively. This helps in preventing potential issues and mitigating their impact. Such benefits are not limited to the quality of products and services; they also extend to worker safety, plant management, and other areas where there is a potential for reducing risk.

Industry-specific and domain-specific ISO standards operate in parallel with ISO 9001, offering frameworks for things like environmental management (ISO 14001), occupational safety (ISO 45001), cybersecurity (ISO 27001), and laboratory operations (ISO 17025).

External audits for applicable standards provide a systematic review of an organization's compliance with each framework. Independent auditors review the organization's documentation, verifying that the organization is following its written policies and procedures and detailing any potential nonconformities. Audits also call upon organizations to take corrective action, which further mitigates risk.

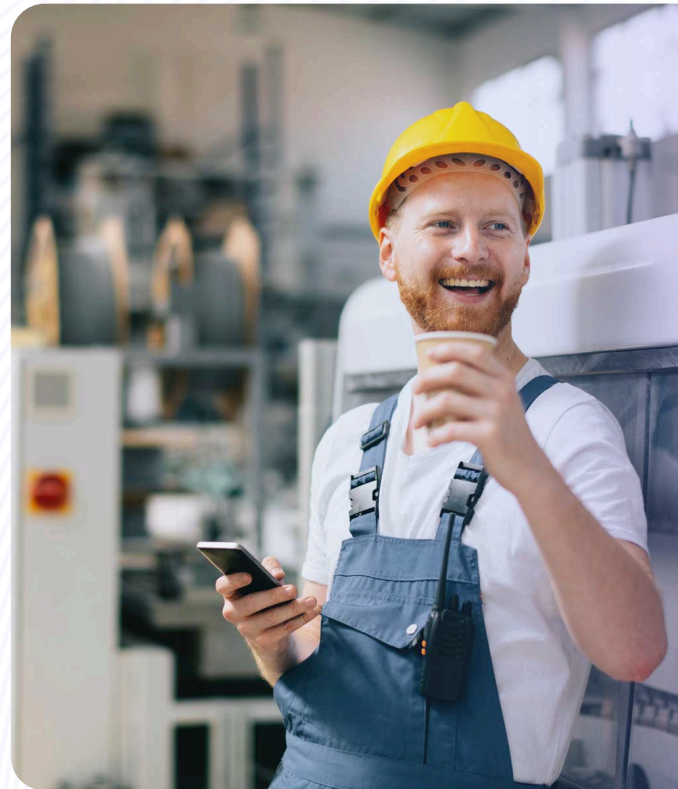
#3: QMS PROVIDES THOROUGH, ACCURATE DOCUMENTATION

QMS requires thorough documentation of processes, incidents, and corrective actions. This transparency can reassure insurers about the organization's commitment to quality and risk management.

Comprehensive documentation and record-keeping provide traceability and accountability. This enables team members to more easily identify issues and initiate corrective actions. Detailed records also support compliance with regulations and standards, which lowers the risk of regulatory action and lawsuits.

Ongoing improvement initiatives documented within the QMS can show insurers a commitment to reducing risks over time, potentially resulting in lower premiums.

Perhaps most importantly, QMS can also improve the efficiency of handling claims when they do occur, reducing the time and resources needed to resolve them. Companies that run a tight ship, documenting their actions routinely, are in a better position to defend against lawsuits brought against them by customers, employees, and others. Efficient management of such claims can lead to fewer payouts and lower premiums over time.



ROBUST, FLEXIBLE QMS: A SMART INVESTMENT

Quality management systems have emerged as a leading indicator for top performance across the board. QMS provides a structured approach for the pursuit of excellence. It helps teams to streamline processes, reducing waste and inefficiency. It emphasizes a proactive approach to identifying potential problems and developing solutions before they escalate.

By implementing and maintaining a robust QMS, organizations can manage the “cost of quality” (COQ) more effectively, improving compliance, increasing operational efficiency, and building positive brand equity. It has long been accepted that the costs associated with ensuring good quality offer a strong return on investment, limiting defects and rework, minimizing waste, and optimizing the use of resources. Those benefits translate directly into stronger bottom-line profitability.

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Fostering a culture of quality, likewise, is a good investment of time and resources. Organizational culture defines the standards, norms, goals, and priorities that drive teams and individual contributors to excellence in everything within their scope of work. Creating a high-performance culture is not easy, but like so many other endeavors, it is achievable, provided that company leaders apply steady, persistent pressure in the right direction. That means putting the right structures in place to promote excellence, empower employees, and consistently reinforce desired norms.

To achieve that, business leaders should invest in flexible, easily configurable QMS solutions that can adapt to their changing needs. Intellect’s QMS solution, for example, offers ultimate flexibility, allowing non-technical users to easily configure the software to meet their unique needs. Instead of offering a prescriptive, one-size-fits-all approach, Intellect lets you tailor your QMS workflows to fit the way you work, offering superior efficiency and manageability.

While the benefits of QMS have long been understood, most organizations overlook the positive impact of quality management systems as a risk management tool, and its potential for reducing insurance premiums. When companies are able to effectively demonstrate to insurers that they are committed to minimizing risks, that leads to potential savings.

“ If you look at ISO9000, there is a requirement for management to conduct, at a minimum, annual reviews of the business, which include both business risk and business opportunities. A strong quality management system and the ability to easily track and monitor the system provide detailed insight into the risk associated with the requirements of certified quality systems such as ISO9000. In my opinion, it makes good business sense.”

Patti Gander, SSBB MBA MSM
Sr. Manufacturing Consultant & Loss
Prevention Specialist

ASSUREDPARTNERS: POWER THROUGH PARTNERSHIP

Are you ready to enhance your quality program and reduce your insurance premiums?

At AssuredPartners Manufacturing, we specialize in helping companies achieve excellence. Developed by manufacturers, our unique “Risk Mitigation First” approach delivers innovative, data-driven, and cost-effective risk management solutions.

Our expertise in risk management and insurance solutions can provide the support needed to build a culture of quality and safety, leading to significant cost savings.

By partnering with AssuredPartners, you can:

- Reduce workplace accidents and equipment failures, leading to fewer insurance claims.
- Benefit from external audits that offer independent verification of your quality and safety standards.
- Achieve savings on your insurance premiums through proactive risk management strategies.

Join the many companies that have transformed operations and reduced costs with [AssuredPartners](#).

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