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About the Author



Before establishing Risk to Reward, for over five years President Stacy McDaniel served as General Counsel and Risk Manager for John Laing Homes, a nationally-recognized regional homebuilder known for the quality of their homes and superlative customer

service. Under her leadership, John Laing Homes developed a Quality Assurance Quality Control Program, which led to Laing's recognition as "best in class" from a risk perspective.

For two years prior to her position with Laing, Ms. McDaniel was employed as an insurance broker with Lockton Insurance Brokers, working as a risk-management and claims-handling specialist for the building industry. From 1989-1999, Ms. McDaniel was in-house counsel and risk manager to three nationally prominent homebuilding companies, including Lennar and Greystone Homes. Prior to becoming involved in the homebuilding industry, she practiced law for over five years with private law firms specializing in representing real estate developer clients.

Ms. McDaniel graduated from UCLA with a B.A. degree in History. She earned her law degree from Loyola Law School. She is also a graduate of John Laing Homes' intensive executive program for leadership development, as well as a graduate of the Center for Creative Leadership's Leadership Development Program™.

In addition to her legal and risk

Quality Built® Solutions

November 11th, 2011

Special Edition

Quality Built, LLC would like to introduce you to one of our strategic alliance partners. Our strategic partners are recognized industry leaders whose products and services have made significant contributions to the building industry.

All partners share our commitment to provide exceptional customer service and our passion for innovation. We align ourselves with companies widely recognized for their expertise to deliver comprehensive products and services. By leveraging each company's strengths we can offer our clients value options through increased efficiencies, integration of technology and/or data, reduction in redundancy of scope or bundled services.



RISK^{TO}REWARD

As a risk management consultant to the homebuilding industry, I am frequently asked whether an investment in risk management "pays off?" While it has been difficult to directly correlate investments in quality assurance practices to tangible loss reductions, from 2003 to 2006 (during the hey day of the last building boom), I oversaw a unique study which investigated the whether there is a correlation between the adoption of rigorous quality assurance protocols to improve construction quality and improvements in **operational efficiencies** for the builder. In short, the definitive answer was that capital investments in improving construction quality made that builder operate more profitable (in addition to the probably reduction in claims exposures).

management expertise, Ms. McDaniel lectures frequently at legal, insurance and construction industry events.

She holds the following licenses and accreditations:

- Associate in Risk Management ("ARM") from the Insurance Institute of America
- California real estate broker license
- California property and casualty broker's license; and
- Colorado property and casualty broker's license

About Risk to Reward, Inc

Risk to Reward is a legal and risk management consulting firm, specializing in team-oriented, pragmatic solutions and strategies. Our team has a proven track record of serving companies with complex multi-layer insurance programs, including general and excess liability, property, OCIPs, CCIPs, professional liability, directors' & officers, workers compensation, and environmental liability policies. Risk to Reward specializes in designing implementation strategies to assure operational compliance with conditions of coverage and negotiating complex insurance claims settlements. The company also has a strong background in regulatory compliance and resolution on a wide variety of governmental agency matters in the residential development industry, including those involving the departments of real estate, common interest subdivision regulation, contractor licensing, safety regulation, fair housing and employment, consumer protection, environmental disclosure and clean up, and other regulatory bodies. Risk to Reward also has designed a performance assessment system for evaluating prospective fee builders' capabilities and exposures to risk for consideration by prospective investors in real estate assets.

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The methodology for the study was as follows: During the study period (when the subject builder's closings per year increased from 1800 to 2824), the builder engaged an external quality assurance company to periodically audit its construction practices and assess the percentage of its operations which were "non-compliant" with established construction norms (i.e., the percentage of "defective" construction). Using that "risk assessment" data, the builder was able to objectively estimate the total projected exposure cost to the company should all those conditions be litigated. During the same period, the builder tracked certain operational benchmarks which are key contributors to profitable operation such as building cycle time, indirect cost per project, and warranty cost per home.

Using the risk assessment exposure data, which was ranked according to the cost to repair, severity and frequency of the observed non-compliant conditions, the builder embarked upon a systematic improvement process designed to eliminate the five top construction defect exposures found by the third party's risk assessment. The results of those reductions in risk exposure are as follows:

- The average cycle time to build a home decreased 35 days;
- The average indirect costs per home decreased \$1,326; The average first year warranty cost decreased \$1,227 per home; AND
- The average reduction in risk exposure per home was \$13,393;

Since the builder studied paid an average cost of \$550 per home for its quality assurance services, this data proves empirically that adherence to established practices of quality assurance to drive process improvement yields measurable increases in operating results over and above the cost of such programs.

Another question that is often posed is whether investments in improving customer satisfaction result in tangible improvements to builders' operating results. The same builder who participated in the first study also commissioned a graduate school economic study to determine the answer to this question. Because homeowner satisfaction is directly correlated to construction quality and the delivery of solid customer service to address any conditions of defective construction, reviewing the results of that study is also informative to the ultimate question: Does investment in quality assurance pay off?

From 1985-2009, that builder routinely had an independent third party survey all of its customers (at 30 days after move in and at 11 months after move in) to determine satisfaction levels with its construction quality and customer service. Specifically with regard to the homeowners within the first study population, the builder was able to track the following improvements in customer satisfaction as a direct result of the adoption of the process improvements related to removing the top 5 construction risks:

- The average improvement in customer satisfaction ratings at both the 1 month and 11 month surveys increased 6%.

As part of the methodology of the economic study performed, the business school graduates compared data from two different types of customer satisfaction surveys administered to the builder's homeowners and by performing a regression analysis, were able to

specialist for the building industry. From 1989-1999, Ms. McDaniel was in-house counsel and risk manager to three nationally prominent homebuilding companies, including Lennar and Greystone Homes. Prior to becoming involved in the homebuilding industry, she practiced law for over five years with private law firms specializing in representing real estate developer clients. Ms. McDaniel graduated from UCLA with a B.A. degree in History. She earned her law degree from Loyola Law School. She is also a graduate of John Laing Homes' intensive executive program for leadership development, as well as a graduate of the Center for Creative Leadership's Leadership Development Program.

For additional information:
www.risk2reward.com

About IRMI



International Risk Management Institute, Inc. (IRMI), was founded in 1978 to provide important risk and

insurance information to business, legal, risk management, and insurance professionals. In the years since it was founded, IRMI has published the most comprehensive library (45,000+ pages) of practical manuals, books, and newsletters available. IRMI also sponsors seminars and conferences, and the annual IRMI Construction Risk Conference is the premier national symposium devoted exclusively to the management of construction risks. To maintain objectivity and avoid conflicts of interest in its research, IRMI does not offer insurance sales, consulting, expert witness, underwriting, or similar services.

This year's IRMI conference is Sunday, November 13th-Thursday, November 17th, in San Diego, CA.

Please join us at this year's conference where we will present on:
Wednesday, November 16th at 1:30 p.m.:

Practical Strategies for Managing the Risks of Distressed Assets

Presented by:
Stacy W. McDaniel, Risk to Reward, Inc.

Elizabeth Michaelis, Quality Built, LLC

Erik Davis, R-T Specialty Insurance Services, LLC

determine that there was a direct correlation between customer satisfaction levels in the key areas of construction quality and customer service delivery to the overall revenues and profitability of the builder. Specifically, the economists established that:

- An 8 point increase in customer satisfaction on the sales, construction and customer service experience (the 30 day survey) yields a 19% increase in revenues, and an 28% increase in operating profits; and
- An 8% increase in satisfaction with home quality (the 11 month survey) yields a 17% increase in revenues and a 13% increase in operating profits.

When all these results are studied, in connection with observations I have made among the building industry in the intervening years, the conclusion is obvious: Builder investments in assuring quality construction not only pays for itself, but also offers the opportunity to improve overall operating results.

Stacy McDaniel
President, Risk to Reward, Inc.

About Quality Built

Quality Built®, headquartered in Fort Lauderdale, Florida, is a leading national construction quality assurance and inspection management company. Quality Built provides third-party quality assurance services and a full spectrum of quality and risk management solutions such as property condition assessments, tainted drywall assessments, building evaluations, data collection tools, collateral inspection services, reporting and support services on high-quality residential and commercial construction projects nationwide.

Quality Built is well known for its work in Total Quality Management and was one of the first firms to transition from using a traditional quality assurance approach into implementing a proven, user-friendly and fully automated, online inspection system. Quality Built's proprietary software is cost efficient, paperless, fully customizable and completely scalable to handle the demands of most inspection and quality assurance protocols.

Quality Built's Quality Management System is ISO 9001:2008 registered

For more information about Quality Built or if you are interested in automating your Energy Star program or learning about other construction related processes that can be automated by Quality Built, contact Beth R. Michaelis, President, at bmichaelis@qualitybuilt.com.

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Quality Built's Commitment

Quality Built is committed to being a visionary leader in the insurance, financial and construction industry by providing reliable and innovative Third Party Quality Assurance Services to our clients and by providing those services in the most professional and efficient manner utilizing cutting-edge technology, proprietary software and employees who maintain the highest level of integrity and expertise. Contact Quality Built today at 800-547-5125 or email: sales@qualitybuilt.com

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Sincerely,



Elizabeth Michaelis - President
Quality Built LLC