Session No. 770

Insurance 101 for the Safety Professional

Diana M. Pressmann, CSP, CPCU, ARM
Loss Control Manager
Chubb and Son
Harrisburg, Pennsylvania

Introduction

As a loss control representative for a commercial insurance company and through my ASSE involvement, I come into contact with many different safety professionals. The number of these professionals who are not familiar with the insurance mechanism used to surprise me, but as my career has progressed, I have realized that the insurance operations tend to be handled by a different department, and some of the finer details regarding insurance are only briefly covered in school curriculum or are overshadowed by the technical skills needed to succeed as a safety professional. The purpose of this presentation and paper are to provide the safety professional with the knowledge to assist in evaluating their current insurance products and to better maneuver through the insurance process.

Commercial Insurance

Technically, commercial insurance is a contract that transfers the financial burden of particular losses to a commercial insurer who acts as a transferee by agreeing to pay losses to or on behalf of the transferor (insured).[1] We are all familiar with insurance – it is required by most states to cover certain types of risk (for example, worker's compensation).

When a company chooses its risk management options, management tries to ensure that the monies will be available for those losses expected to be incurred. This applies even if (especially if) using an insurance company. An analysis by A.M. Best showed that the failure rate for insurance companies went from 0.21% to 1.33% from 1995 to 2002 (see Table 1). That same analysis determined that more than half of the two hundred eighteen property/casualty insurer insolvencies between 1993 and 2002 were due to reserve deficiencies. Rapid growth accounted for 17.3 percent of the insolvencies over the period studied – particularly during soft markets.

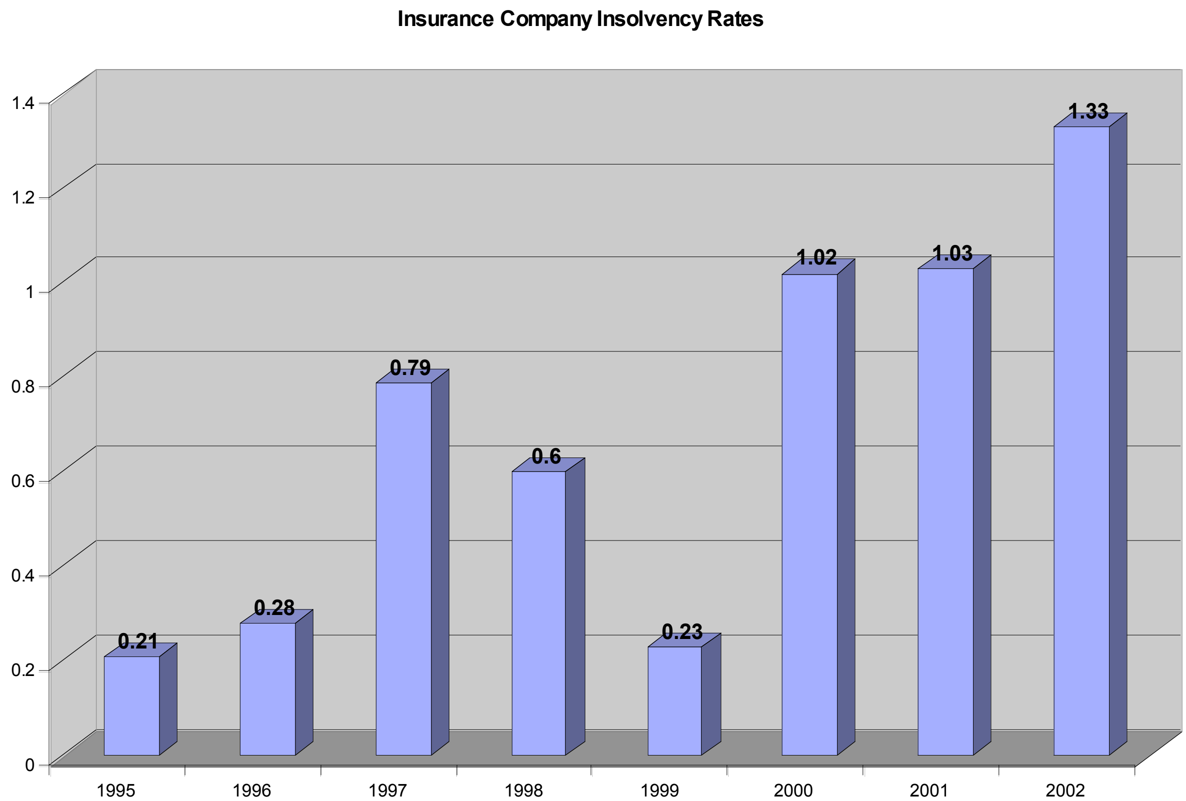

Table 1. This table shows the frequency rate of insurance company insolvencies since 1995 as determined by A.M. Best.

What does this mean for the safety professional? If you are involved with the insurance buying decision, you will want to become familiar with A.M. Best, Moody's Investors Services, Standard & Poor's, Demotech, and Weiss Rating Service. These agencies have qualitative and quantitative criteria for measuring the financial stability of insurance companies and their analyses should be viewed as complementary versus competitive information. They look at leverage, diversity of investments, loss ratios, combined ratio, return on assets, market condition, competitive position, coverages written, and, of course, adequacy of reserves. Each agency uses a different rating scale so it is important to know what the numbers mean – is "B" a secure rating or a vulnerable rating? It all depends on which agency's information you are reviewing.

Many contracts require that your insurance carrier be "A" rated or higher (in this case they are referring to the A.M. Best rating). Umbrella and excess insurance companies often require that the underlying insurance coverages be with an "A" rated carrier (again using the A.M. Best criteria).

Even though states have provisions and funds to cover insurance company bankruptcies, your company can be negatively impacted if you have outstanding claims that get outsourced for handling. Critical time may elapse while the file is being transferred and until the new adjuster becomes familiar with the case – sometimes doubling or tripling the final cost of the claim.

Getting the Most from Your Insurance Contract

Who's Who in the Insurance Transaction

With the number of folk involved with the insurance transactions, knowing the players and roles can be confusing. Isn't a carrier someone who transports freight? Isn't a broker the person who handles your investments? In an effort to help you get more from your insurance contract, here is a quick primer.

The insurance broker aka agent aka producer is the go between for the insurance company and your company (the insured). They solicit the business, gather initial information and assist with completing the applications, review your operations to make sure that the proper insurance limits and types of insurance policies are provided for your exposures, and determine those insurance companies that will be the best fit with your operations. They may be paid on a fee or commission basis. If you are not sure of how they are being paid, you have a right and a responsibility to ask.

The insurance company aka insurance carrier aka insurer actually puts up the money for losses covered under the insurance contract. The underwriter reviews the information provided by the broker along with the information gathered and evaluations provided by the carrier's loss control staff to determine the appropriate pricing based on actuarial data for your industry with credits and debits applied based on the controls you have in place to manage your exposures.

The insurance company has employee loss control representatives (or risk control representatives) and claims personnel in addition to the underwriters. The claims personnel are responsible for ensuring that losses that are intended to be covered under the insurance policy are paid, and that those losses not intended to be covered by the policy are not. Some will also get involved with client visitation. Loss control representatives have historically been called "the eyes and ears of underwriting". But that is only a small part of their role. They evaluate the hazards and controls of your facility and operations for the coverages being considered, make recommendations to assist you in controlling those exposures, and may work with you throughout the policy period on implementing those recommendations. In most cases, the insurance person that you will have the most contact with will be the loss control representative.

Many agencies also have claims personnel and loss control representatives, but the roles are not necessarily the same. The claims personnel at the agency typically will report the non-worker's compensation claims to the insurance company and will help monitor and manage the claims actually being handled by the insurance company's claims personnel. Depending on the agency, the loss control representative may provide services directly to your facility, may work in conjunction with the insurance company's representatives, or may simply review the services being provided to ensure that they are appropriate.

Services Available

Although the services offered by insurance companies vary, most have some range of products/services available – whether training for employees, help with safety committees, management training and awareness, industrial hygiene testing, ergonomic evaluations, video libraries, information on various topics on their websites, fire labs, or discounts with some safety training suppliers.

In addition to the services offered by the carrier, there may be additional services available through the insurance agency. Many agencies have been hiring safety professionals to 1) differentiate themselves from their competition, 2) to compete with the large brokerage (alphabet) houses, or 3) fill service gaps from consolidation within the insurance industry.

If you're shopping for insurance, ask the insurance contact what services are available from his/her company – and what the company will actually provide based on the size and exposures of your operation. If there are specific services that you know you will want, find out up front if the carrier will commit to it.

Keep in mind, however, that even insurance companies have finite resources and your particular premium size or policy provisions may dictate the amount of service available. Some insurance companies figure one to two percent of the insurance premium for loss control services. Keep in mind that this does include visits for underwriting evaluations. Cost per hour for the service varies on the complexity of the services.

For example, if you're asking for fairly standard training on accident investigation, they may provide that for no charge, but if you are requesting detailed ergonomic evaluations or industrial hygiene work, you may be asked to share the cost. In that case, ask if they can provide a quote and names of other providers in the area so you can get the most value for the money being spent.

<u>What Your Carrier May Not Want You to Realize</u>
Some states require the worker's compensation insurance company to provide services if the insured requests the service. Usually there are distinctions based on premium, exposures, and amount/types of services being requested. For example, in Oregon, companies that have experienced three or more worker's compensation claims are to be contacted by their carrier regarding the services available from the carrier. These services may include an initial evaluation, accident analysis, and development of a written loss prevention plan.

In Texas and Arkansas, worker's compensation carriers are required to provide services at no additional charge with mandatory visits based on size of premium and current loss ratio. In Pennsylvania, worker's compensation carriers are required to provide services if requested, but the state is silent as to whether or not the services have to be provided at no charge.

In addition to services related to worker's compensation, other services might include: assistance with developing programs, driver training, contract review, product liability reviews, assistance with property conservation, or infrared inspections.

Shopping for Insurance

When you company is shopping for insurance, you are trying to sell the insurance representative on the reasons that 1) their company should want to write your insurance and 2) why they should be willing to write it for what you consider a reasonable rate. As with job offers, it is far better to have several to choose from than to only have one choice.

The more time you can give the agent and the selected carriers to work on their insurance proposal (within limits), the greater the chance that you will have several choices. Four months prior to renewal is not too soon to begin the process.

Although your agent may tell you differently, it is not in your best interest to shop insurance every year. There may be some premium changes (depending on the market), but to get the most from your insurance, you need to have developed a relationship. And if you get the reputation of shopping every year, many carriers will decline to provide an insurance quotation.

The Initial Evaluation or Survey

Most carriers will want to have loss control come out to do an initial evaluation or survey.

The initial survey will normally consist of a sit down interview where information, policies, and loss data are reviewed, followed by a physical walk-through of the facility (insurance companies hate to use the word “inspection”).

If the insurance person has provided upfront a list of items helpful to have available, he or she will ask for them during the visit. If you don’t have them available, it is not a deal breaker, but not having the information in a timely manner can impact the analysis. If you offer to send it later, do so. Otherwise any favorable impression made during the visit will be eroded.

Answer the questions truthfully – if you do not know the answer or the questions being asked aren’t within your scope of influence, get the appropriate person to the meeting – or, if he/she is not available, provide the representative the appropriate person’s name and phone number and let the person know to expect a call or email.

It is preferable that the walk-through occurs when work is occurring – if your facility has off shifts, do let your contact know that when you are scheduling the visit.

Remember, the insurance company representative is there to do their job. Being likable, courteous, and upfront with information can positively impact the evaluation. It is not the only consideration, but is an important one. Likewise, if you do not feel that you could work with the loss control representative, you need to make a note of that since that may influence whether or not you want coverages with that carrier. If that does become part of the decision process that you share with your agent, be as specific as possible about the issues, otherwise you are not helping the carrier to improve their staff.

Experience Modification Factor aka Experience Modification Rate aka EMR aka EMF aka Mod

Most of us have at least heard this term at some point during our lives. It is the result of a calculation that compares the prior three years of worker’s compensation losses with the expected losses based on our companies operations. A modification factor higher than one means our losses were worse than anticipated and our premium goes up; lower than one means our losses were better than anticipated and the premium goes down.

Although there is not as elaborate a calculation for the other lines of coverage, the number and severity of losses for other lines of coverage do impact the premiums for that insurance. The second most important question reviewed by an underwriter (after “how are their losses”) is “what have they done to prevent a recurrence?” Policies and procedures that impact product, premises, and fleet liability are factored into the premium equation.

Other Considerations

The insurance industry has cycles just like every other industry. These cycles are referred to as "soft markets" and "hard markets". In a "hard" market, there is little capacity for insurance companies to take on new business and new exposures (and the associated losses). What this means for your company, is that insurance premiums are going up, and insurance companies are more selective about what companies they will write – i.e. it is harder to get insurance. During a hard market, you may want to consider increasing the deductible amount for all lines of insurance.

In a "soft" market, there is a lot of capacity for an insurance company to write new business – and they expect to make money doing it. Premiums tend to fall and carriers may decide to write business in states where they did not have a presence previously. During a soft market, you can generally increase the limits of insurance and add additional coverages without any net change in the overall insurance premium.

There is a positive correlation between the insurance market cycle and the stock market. Investment income for insurance companies is critical – that is how they are able to pay some of the larger, long-term losses that occur. When the stock market is doing well, there is more investment income available and they are willing to take risks by lowering the premiums (assuming they will make up the differences in the losses through investment income) thus creating a soft market. When the stock market is doing poorly, investment income is down, and it is more critical that the premiums that are collected are adequate to pay for the anticipated losses, thus creating a hard market.

Once the Coverages Are Written

There should be an initial meeting either shortly before or after the policy is effective to clarify expectations for the year. If there were services discussed during the initial survey, this would be the time to set up timeframes. Keep in mind that the loss control representative may have specific objectives to help improve your company from an insurability standpoint. The final service plan for the year will most likely include some items from your list as well as from their list. And, as with anything, if you do not understand the rationale for a certain item, be sure to ask.

Dealing with Recommendations

Recommendations are a natural part of the insurance process. Most insurance companies consider OSHA to be a minimum standard from a safety standpoint. For industrial hygiene sampling, the results will likely be compared to the OSHA PEL and American Conference of Governmental Industrial Hygienists (ACGIH) TLV. For property issues, most carriers use the National Fire Protection Association as their reference, although many have internal guidelines for specific occupancies and/or operations. Again, if you do not understand the recommendation, ask for clarification.

Most loss control representatives are also willing to help with resources or information to help you complete the recommendation. Do let them know your intentions regarding the recommendations – generally an email response within thirty to sixty days is sufficient depending on the criticality of the recommendation. This does not mean that the recommendation has to be completed within that period (unless previously agreed to), but that the status of the recommendation is provided.

Advocacy

Loss control representatives, as most individuals, prefer working with people and companies that they get along with. This does not mean that you have to agree with everything they say or every recommendation that they make, but it does mean treating each other with respect and emphasizing your commonalities. They are there to help prevent losses from occurring. Your ideas of how to do that may differ and the current focus may not be the same, but your underlying goal is the same.

If you can help your contact understand your company's culture, who the decision makers are, and their hot buttons, he or she should be able to better help you to accomplish those things that you already know you need to get done. Most in the loss control community recognize that a recommendation coming from us can sometimes prompt action on an item where you may have received resistance and, as long as the recommendation serves our common goals, do not have a problem making the recommendation.

Summary

Whether or not you are involved with the final insurance purchase, you need to be aware of the insurance buying process and how your activities as a safety professional can impact the cost of that insurance. Understanding the deductible levels of the policy, as well as the services provided, can help you reach the goals that you have set for your program. Carrier selection is not just a matter of having an insurance policy. The selected carrier can either help you do your job or, potentially, make it more difficult to do your job.

Bibliography

1. Head, G., Horn II, S.; *Essentials of Risk Management, Volume II*; Examining Alternative Risk Management Techniques; Malvern, Pennsylvania; Insurance Institute of America; 1991.

Malecki,. D. and Arthur L. Flitner; *Commercial Liability Insurance and Risk Management, Fourth Edition, Volume 1.* Liability Loss Exposures, Malvern, Pennsylvania; American Institute for CPCU; 1998.

"Insolvencies/Guaranty Funds." *Hot Topics,* Insurance Information Institute, Inc., Dec. 2004.

"Insolvency Study: Lessons of Past Failures Highlight Special Report." *BestWire*, 05/24/2004.