Risk Profile Improvement

Make your company more attractive to insurance companies to reduce premiums

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Today’s Goal

- Provide you with insight on:
  - How underwriters determine your premium
  - What impacts their decisions
  - A different approach to marketing your insurance
  - Ultimately, how you can reduce your premiums
  - Plus a few items for thought...
Special Thanks

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Hardwood Manufacturer Challenges

- **Timber**
  - Increasing costs to acquire
  - Difficulty finding loggers

- **Finding, Hiring, Managing & Retaining Good Employees**

- **Economic Conditions/Sales**
  - Volatility of Markets (Industrial, Construction, Pallets, etc.)
  - Foreign Competition
  - Profitability

- **Increasing Insurance Costs**
  - Frustrated By
    - ACA/Healthcare
    - Workers Compensation
    - Property

- **Governmental & Environmental Regulation**
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Frustrations?

- **Property**
  - How do they determine my premium?
  - My premium is up, but I have had NO claims
  - Why is my premium going up because of the claims of other companies?
  - My insurance company/agent is not involved
  - Why are my rates so high?
  - I’m not sure if I am properly covered
Frustrations?

- **Workers Compensation**
  - How do they determine my premium?
  - My premium is up, but my losses are down
  - My premium is 3-5 times what my claims are
  - My insurance company/agent is not involved
  - Are they managing claims to my best interests
  - I don’t understand the system
  - Why is doctor putting employee off work?
Frustrations?

• Insurance
  • It chews up a lot of time to shop my insurance
  • Transition is painful
    • Something missed that will come back to haunt us?
  • Agents do not really understand what my needs are
  • I do not understand the system
Insurance Marketplace

- Fewer Main Insurance Companies
  - Pricing – Supply/Demand
    - PA Lumbermens – IN Lumbermens Merger
    - Lumbermans Underwriting Alliance – Gone
    - Lumbermens Mutual – Gone
- Few “dabblers” are entering
  - Many require sprinkler systems
  - Layered programs
  - Surplus Lines Ins Companies
- Industry - Claims Trending
What to do?

Make yourself more attractive!

Risk Profile Improvement!
The ongoing process to make yourself more attractive
Perception VS. Reality

Premium vs. Risk  Agent’s Role  Loss Control Role  Underwriter
Making Yourself More Attractive: Focus on Risk Management

1. Risk Identification
2. Risk Analysis
3. Risk Control
4. Risk Transfer & Implementation
5. Risk Review & Refinement

Inspection
Innovate

Insurance
Investment
Implementation
Instruction

Implication & Impact

Hardwood Manufacturers Association

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Understanding Risk Profile Improvement

Insurance Renewal
Risk Management Assessment

Risk 1
Risk 2
Risk 3
Risk 4
Risk 5

Insurance Negotiation Advantage
Do you do business the same way you did 20-30 years ago?
Insurance Companies Do Not!

Underwriting - Then
- Agent Applications
- Loss Runs
- Loss Ratio
- Photos?
- Loss control report?
- Rating Territory
- Class Codes
- Protection Class of Property
- Experience Modifier
- Sales & Payrolls
- Insurance Company
  - Underwriter Experience
  - Appetite

Underwriting - NOW
- All this, PLUS...

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Underwriting Today

- Experience modifier
- **Ratio of claims to number employees**
  - loss ratio
- **Wages to medical claims ratio**
  - number of claims with wages greater than 25,000 to number of employees ratio
  - track history of judges in your area
  - do you offer benefits, percentage of employees that have benefits
  - do you have disability insurance
- **Average age of your workforce**
  - age, economic and social aspects of your area
  - average wage of your employees (which is total wages divided by number of employees)
  - proximity to quality healthcare
  - number of lost time claims to number of employees ratio
- **the insurance companies loss ratio and results in your area**
- **the insurance companies loss ratio and results in your class a business**
- **known industry trends in your class a business**
- **Is your area infrastructure in decline (towns water supply, fire company)**
  - the rankings/scoring of your local volunteer or paid fire company
- **Can your fire company respond to the types of far your industry might have in terms of men and equipment**
  - do you have the water supply needed to be able to fight that fire
  - is there enough water pressure to support enough fire trucks that are needed to fight the fire
  - **Maximum probable loss**
- **How are your values segregated, protected**
- **Fire load of your building**
- **Sources combustion in your facility and your product**
- **Financial condition as displayed by Dun & Bradstreet and other credit rating authorities**
  - what your website says about you and what you do versus what you really do
- **OSHA visitation history and finds**
  - known lawsuits against you
- **Housekeeping**
  - **How well do you screen your drivers**
    - the overall score of your employees motor vehicle reports
    - type of equipment used in delivery, distance and duration of delivery
    - material handling issues, meaning if you have heavy products do you have the mechanical lifting means
    - job rotation or repetitive job?
  - Loss controls opinion as to quality of management and dedication towards safety and eliminating or reducing claims
  - how often have they seen a submission on your business in the last five years
  - how many times you change carriers in the last five years
  - **New employee screening processes**
    - **Drug testing**
      - the quality, and dependability, of the information provided by the agent quality control program
      - do you have a dedicated safety professional on staff or use a safety organization that insurance companies recognizing as being outstanding, or do you just have somebody just wearing a safety hat or using a safety company that they recognize is only OSHA focused and not safety focused
      - do they have formal return to work
      - to their formal quality control processes
      - do they have formal safety programs
    - **Do they have a progressive disciplinary program**
      - pre-employment physicals
      - functional capacity testing
    - **Turnover ratio**
    - **Lag time in reporting**
    - **Safer Report**
Why the change?

Computers

Hard Drive Cost per Gigabyte
1980 - 2009
Why the change?

Computers
Why the change?

Internet

• Access to data sources
  • ISO/Shared underwriting Data
  • SaferSys.org (Fleet Statistics)
  • GoogleMaps (Satellite view of your property)
  • Credit Scoring
  • Your Website (Facebook/YouTube)
  • OSHA.gov
  • Etc.
Property Insurance Concerns

- **Maximum Probable Loss (MPL)**
  - Insurance Value
    - Building
    - Contents
    - Business Income
    - Other coverages (Ordinance/Law, Inland Marine)
  - Proximity to other structures/materials
    - Too close – aggregates multiple structures to increase MPL
    - Materials stored between buildings can create problems

- **Reinsurance affects insurance company**
  - Insurance company can only provide a certain amount of MPL coverage
  - Basically a *Can* or *Cannot* insure you threshold
Property Insurance Rating Concerns (Risk Profile)

- Management Involvement/Company Culture
- Employee Screening, Training, & Safety
- Housekeeping
- DUST! & Dust Collection System
- Facility & Equipment Maintenance
- Welding & Painting
- Sprinkler System/Fire Protection/Water Supply
Risk Profile Focus Areas

- **Management Involvement**
  - Company Culture
  - Safety Culture

- **Employee Screening, Training, & Safety**

- **Housekeeping**
  - DUST! & Dust Collection System

- **Facility & Equipment Maintenance**
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  - Sprinkler System

- **Injury/Claims Management**

- **Fleet Safety**
Risk Profile Focus Areas

Management Involvement/Company Culture

- Is ownership/management involved?
- Do you demonstrate it not just say it?
- Who is responsible?
- *Inspect* what you *Expect*
Risk Profile Focus Areas

Employee Screening, Training & Safety

- Hiring
  - Hire Smarter
- Initial Orientation
  - Introduction to “zero-injury/zero-incident culture”
- Training/Mentoring
  - Issues surrounding many younger workers
  - Needs to be longer than 1-2 weeks
- Safety Training & Enforcement
Risk Profile Focus Areas

Housekeeping
- Impediments to Fire Safety
- Slip, trip & fall
- Frequency

DUST! & Dust Collection System
- A Property AND Life Safety issue!
- Frequency, what, & depth
Risk Profile Focus Areas

Facility & Equipment Maintenance

- Proactive vs. Reactive
- Mechanical & Electrical Systems/Equipment
  - Consider Routine Thermal Imaging
- Welding
  - What, where, preparation, protection
  - Hot Work Permit Program
- Painting
  - How, where & storage
Risk Profile Focus Areas

Fire Protection/Water Supply
- Location, How Much & Flow
- Conduct a Pre-Fire planning meeting with Fire Department(s)
- Annual Fire Company inspection & practice response

Sprinkler System
- Design, How Much & Flow
- Backup Systems for own supply
- Maintenance & Impediments
Risk Profile Focus Areas

Injury/Claims Management
- Insurance Company concerned – Why?
  Coverage is Unlimited!

Accident Investigation
- Root Cause/Corrective Action
- Helps Prevent Fraudulent and Exaggerated Injuries
- Supervisor/Employee/Witness Statements
Risk Profile Focus Areas

Injury/Claims Management
- Medical Clinic Relationship
- Formal Transitional Duty Program
  - Medium, Light, Sedentary
- Job Descriptions/Functional Capacities
  - Employee may not need to be “100%” to return
  - Doctor may want transitional duty job description
  - Also ties into hiring process
Other Risk Profile Improvement Thoughts

- What does the agent’s submission look like?
  - Quality of submission?
  - Who are they approaching?
  - What are the actual responses?
  - What are they proposing to cover?

- Manage Your Experience Modifier
- Act as if you are Self Insured!
Why Do You Have Insurance?

Because you have to (Regulations/Banks) or because you want a claim paid?

Following a catastrophe, why do 50%-70% of companies either do not reopen, or close within 3 years, despite being insured?

- Concerns:
  - Replacement Cost Coverage does not mean “Brand New”
  - Coverage limitations/exclusions in policies
  - Improperly protecting cash flow post loss
  - Workers Compensation is not really insurance
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