



# Insurance Renewal

## Are You Prepared?

By Tracey Kinney and Skip Parry

**H**aving survived the hard market conditions of the post-9/11 years, contractors in multiple sectors today face many uncertainties because of the economy, wartime, inflation, politics and our retiring baby boomers. The bottom line continues to demand efficiency on all fronts and to squeeze margins in search of profitability. Most contractors are coming out of a conservatively good 2006, but have been forced to consider facing energy and fuel costs, stock market corrections, material pricing and manpower issues.

If these items have not kept you awake, the contracting world also faces insurance renewal at some point in the calendar year. Where do you stand? What is your trending, mod rate, total incident rate (TIR), total recordable incident rate, days away from work, restriction or job transfer (DART) measurement, etc.? If these items are questionable, then you may do well to begin planning for next year. Keep in mind there are a number of issues to face.

- Since the hurricanes of 2005, the economy in affected areas has not fully recovered.
- Residential building is on the decline.
- Energy rates are unpredictable.

Insurance industry pricing reflects these and other issues, including market fluctuations. Competition in the insurance marketplace is increasing with the addition of smaller regional competitors. In essence, more carriers may be inclined to present quotations for your business, but where will they be in the near future (or whenever you need them), what kind of capacity do they carry and can they sustain results?

Carriers are looking to grow, but contractors need to be sure of their stability. Reliable carriers are looking for operations with solid control processes in place, clean records and significant volume. Every meeting with a prospective customer counts, and the business operations of carriers and contractors alike are closely explored.

In today's economy, savvy owners are finding they need to continue advancing their risk management programs, which will provide insulation from the everyday potential losses inherent in the business of construction, which ranks in the top three high-hazard industries, and has a long and storied association with risk.

In today's marketplace, managing risk is as important to bottom-line profitability as the ability to execute contracts on time — with high quality. Insurance can no longer be distinguished from profitability, because the investment is no longer merely a “cost of doing business.” Rather, insurance may serve a profit center role by helping control costs when the contractor engages in aggressive risk management strategies.

The Insurance Institute of America defines risk management as, “the process of making and carrying out decisions which will minimize the adverse effects of accidental losses upon an organization.” The key word here is “process.” As you reflect on your organization in preparation for the coming term, consider a review of your firm's risk management processes. Consider employing these key actions:

- Evaluating critical exposures inherent in your work
- Considering lower-risk alternatives to how that work is performed
- Reviewing controls in place or implementing new ones

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- Determining the policy or procedure for implementing controls
- Tracking outcomes of the above
- Reviewing near-miss incidents

Work closely with your broker and insurance carrier to take the temperature of your organization's risk management outlook; then face those critical areas head-on with top management focus, support and leadership — by example. Other areas to explore in assessing your outlook should include:

### **Selection of an Insurance Agent or Broker**

Select a broker who knows your business and is comfortable with the contracting area you cover — while being well informed of current issues.

### **The Difference Between Price & Cost**

Seek a construction-focused carrier that can deliver value-added services. Dedicated construction claim expertise is an advantage for contractors. Risk engineering (loss control) service expertise that provides program development and consulting can be another advantage for your business.

### **Insurance Market Conditions**

Trade associations often sponsor forums in which industry updates can provide valuable insights into market trends and steps for your firm to make the most of market conditions.

### **Know Your Insurance Program**

Work with your broker to understand your insurance coverage. Make certain your insurance policy covers what you need it to cover. Explore alternatives that could save you money (e.g., increased deductibles on property, auto, workers' compensation and/or general liability).

### **Education**

Educate managers and supervisors about the impact of insurance and claims on bid costs, profit margins and indirect costs — not to mention public relations and reputation in the construction marketplace and with the general public.

### **Reviewing Your Safety Program**

Accidents cost owners money — not only direct costs, such as medical and compensation expenses, but indirect costs such as lost production time, employee morale and customer goodwill. These can run seven to 10 times those of direct costs.

### **Create an Accountability Culture System**

Are your personnel performing at peak safety efficiency? Bonus and incentive structures should contemplate safety integration in the field as an extension of the risk management process. Don't be afraid to tie expectations to dollars; you may be pleasantly surprised by the results. Similarly, consider allocating premiums and charge-back costs of preventable losses to divisions/departments that

may be questioning the value of risk management in your corporate philosophy.

### **Pre-planning Your Insurance Renewal Early**

Many organizations renew coverage effective with the calendar year, which dovetails nicely with year-end closing, tax and accounting efficiencies. Don't shy away from starting that process early on or adjusting the date so you can develop a more considered approach.

### **Getting Involved**

Collaborate with your insurance carrier and be proactively involved in claims, underwriting and loss control. The better your carrier understands your firm's culture, the better it can service your needs, which can only bode well for your firm at renewal. Take advantage of the resources your carrier has to offer and be responsive in addressing any concerns it may have. Communicate your approach and respond in documented form to complete the process.

### **Carrier Ratings**

Review your carrier's ratings and understand their reasoning behind it. A.M. Best Company, Standard & Poor's and Moody's Investors Service are three agencies that track the financial status of surety, property and casualty carriers.

Other cost-containment strategies to consider with your broker and carrier can include: zero-injury techniques; new hire orientation and employee training; substance abuse testing; accident investigation procedures and internal claims handling; aggressive medical case management; return-to-work program; designated occupational medical clinics; wellness and workplace stretching programs; benchmarking losses; incentive program and charge back accountability system for losses; and fraud prevention and surveillance.

In summary, all of the above points — if implemented properly — can reduce overall insurance costs. However, not all are applicable for every contractor. You may wish to review your firm's current outlook based on all of these considerations to raise the bar where necessary. If you are on the mark, your insurance renewal should fall easily in step with the rest of your business.

To implement the best risk management program, it is important to know your firm's capabilities, the marketplace and alternative insurance programs and resources available to manage the process. Focus on turning your existing firm's weaknesses into strengths.

Implementing an effective risk management program is not an easy task, and the results may take some time to appear. However, if done properly, your company will realize the benefits in an overall reduction in insurance costs, improved morale, increased profitability and reputation than can be critical in the current marketplace.

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