Increase Profitability by Controlling Insurance Premiums

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Senior Vice President
Federated Insurance

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1.5 Continuing Education Hours.

To earn these hours you must:
– Have your badge scanned in and out at the door
– Attend 90% of this presentation
– Fill out the online evaluation for this session
As a mutual insurance company, we believe our value is measured by the success of our clients.

It’s Our Business to Protect Yours®

Which brings us to the purpose of today’s presentation…

Your Success!
Insurance Premiums

Are You Paying The Right Amount for Your Insurance Premiums?
April 15, 2015

Insurance Premiums

ABC Electric

Insurance Premium
for $800,000 property coverage

$9,000

ABC Electric

$33,000

Why the $24,000 difference?

Insurance Premiums

Schedule Rating
A Business’ Characteristics & Practices

Experience Rating
A Business’ Incidents & Claims History

Base Rates
Actuary’s Statistical Modeling

A Business’ Risk Management Culture
Industry, State &/or National Databases

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Risk Management Culture

Risk Management Culture Fosters:

- Innovation
- Productivity
- Loyalty
- Sense of ownership among employees
Risk Management Culture

How Would You Rate Your Risk Management Culture?

A Rich Risk Management Culture:

- Makes Risk Management a Priority
- Communicates Management's Commitment
- Allocates Resources
- Emphasizes Performance Management
- Designated Risk Manager
- Safety Committee
- Risk assessment
- Prioritize & implement
- Monitor progress
- Hiring practices
- Work procedures
- Workplace inspections
- Training
- Equipment
- Vision
- Expectations
- Authorization to implement
- Empower employees
- Employee development
- Evaluate progress
- Recognition
Experience Rating

WORKERS COMPENSATION EXPERIENCE RATING

<table>
<thead>
<tr>
<th>Risk Name:</th>
<th>Risk ID:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating Effective Date: 01/01/2015</td>
<td>Production Date: 10/15/2014</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>State</th>
<th>WC</th>
<th>Exp Losses</th>
<th>Expected Losses</th>
<th>Exp Prim Losses</th>
<th>Act Prim Losses</th>
<th>Ballast</th>
<th>Act Inc Losses</th>
<th>Act Prim Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>100</td>
<td>46,500</td>
<td>21,767</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>73,405</td>
</tr>
</tbody>
</table>

Primary Losses

- Actual:
  - C * (1 - A) + g
  - (A) * (g)
  - (C) * (K)
- Expected:
  - C * (1 - A) + g
  - (A) * (g)
  - (C) * (K)

Factors

- ARAP
- FLARAP
- SARAP
- MAARAP
- Exp Mod

Risk Management Culture

How Does Your Risk Management Culture Influence Your Experience Rating?
**Risk Management Culture**

Management & Employees *Instinctively*:
- Think about risks
- Look for exposures
- Consider their impact when making decisions
- Take appropriate actions

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**Experience Rating Influencers**

Risk Avoidance

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Experience Rating Influencers

Risk Reduction

Loss Prevention
- Hiring Practices
- Designated Risk Manager
- Safety Committee

Service Contractors

Construction Focused Inspection Guideline

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Attendees Only 9
Experience Rating Influencers

Risk Reduction

Loss Prevention
- Hiring Practices
- Designated Risk Manager
- Safety Committee
- Safety Policies
- Inspections/Evaluations
- Safety Meetings
- Ongoing Training

Risk Reduction
Loss Mitigation
- Managed Care Networks
- Return-to-Work / Modified Duty Program
- Claims Handling Procedures
- Prompt Reporting of Claims

Claims reported more than 7 days after the incident Cost 70% MORE than those reported promptly.

(Source: Federated Mutual Insurance 2012 Claims Analysis)
Experience Rating Influencers

Knowledge

Insight

Knowledge

Experience Rating Influencers

Frequency vs. Severity

“...the Plan gives greater weight to accident frequency than to accident severity.” NCCI

ABC Electric

Mod 1.25

$15,000

$15,000

$150,000

ABC Electric

Mod 0.90

$150,000

$150,000

Experience Rating Influencers

Work Comp Mod

Action:
9 Months Before Renewal
• Verify payroll & claims data with insurance carrier

NOTE: Difficult to change mod after calculation

Action:
3 Months Before Renewal
• Review WC Mod worksheet
• Contact insurance co. if errors

NOTE: Difficult to change mod after calculation
Experience Rating Influencers

Work Comp Mod

Knowledge

WORKERS COMPENSATION EXPERIENCE RATING

Are your taking advantage of ERA?

Experience Rating Influencers

Work Comp Mod

ERA (Experience Rating Adjustment)

70% Reduction if "Medical Only"

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Experience Rating Influencers

Work Comp Mod

Code Description

01 Death
02 Permanent Total Disability
03 Major Permanent Partial Disability
04 Minor Permanent Partial Disability
05 Temporary Total or Temporary Partial Disability
06 Medical Only
07 Contract Medical or Hospital Allowance
08 Compromise Death (CA Only)
09 Permanent Partial Disability

ERA does not apply in CO, DE, MA, NJ, NY, OR, PA, TX.

Action:

• Return-to-Work / Modified Duty
• Managed Care
• Encourage employees
• Communicate with insurance co.
• Review WC Mod worksheet

Experience Rating Influencers

Knowledge

Action:

Regularly
• Review claims history
• Communicate with insurance co.
3 Months Before Renewal
• Review WC Mod worksheet

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Work Comp Mod

Out of Your Control

Workers Comp Mod Formula

\[
\frac{[I + ((C * (1-A) + G)) + (A * F)]}{[E + ((C * (1-A) + G)) + (A * C)]}
\]

A = Weight Factor
C = Expected Excess Losses (D-E)
D = Expected Incurred Losses
E = Expected Primary Losses
F = Actual Excess Losses (H-I)
G = Ballast
H = Actual Incurred Losses
I = Actual Primary Losses


Out of Your Control

Split Point

Splits a loss into its Primary and Excess portions

<table>
<thead>
<tr>
<th>Primary/Excess Split Point per NCCI</th>
<th>2012 &amp; Prior</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5,000</td>
<td></td>
</tr>
</tbody>
</table>

Experience Rating Influencers

Work Comp Mod

Out of Your Control

<table>
<thead>
<tr>
<th>Example</th>
<th>Gross Claim Amount</th>
<th>If 2012, Adjusted for Split Point</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>$10,000</td>
<td>$5,000</td>
</tr>
<tr>
<td></td>
<td>$5,500</td>
<td>$5,000</td>
</tr>
<tr>
<td>Year 2</td>
<td>$10,000</td>
<td>$5,000</td>
</tr>
<tr>
<td></td>
<td>$15,000</td>
<td>$5,000</td>
</tr>
<tr>
<td>Year 3</td>
<td>$14,000</td>
<td>$5,000</td>
</tr>
<tr>
<td></td>
<td>$16,000</td>
<td>$5,000</td>
</tr>
<tr>
<td>3 Year Total</td>
<td>$70,500</td>
<td>$30,000</td>
</tr>
</tbody>
</table>

Mod Premium | 0.91 | $49,800

Experience Rating Influencers

Work Comp Mod

In Your Control

- Risk Management Culture
- Work Comp Managed Care Network
- Return-to-Work/Modified Duty Program
- Prompt Reporting of Claims
**Experience Rating Influencers**

**Knowledge**

**Claims Handling**

Immediately
- Contact emergency responders
- Take photos
- Take statements from witnesses
- Report claim to insurance carrier

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**Experience Rating Influencers**

**Knowledge**

**Claims Handling**

Promptly
- Provide details to Safety Director
- Investigate
- Evaluate
- Take action to **prevent** or **minimize** future claim

Seize the Opportunity to Improve!
### Experience Rating Influencers

#### Knowledge

<table>
<thead>
<tr>
<th><strong>Unmanaged Claim</strong></th>
<th><strong>Managed Claim</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical Bills (retail)</td>
<td>$5,000</td>
</tr>
<tr>
<td>Non-network treatment</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>$5,000</td>
</tr>
<tr>
<td>Lost wages; no RTW program</td>
<td>$3,000</td>
</tr>
<tr>
<td></td>
<td>$8,000</td>
</tr>
<tr>
<td>Late reported claims</td>
<td>$2,400</td>
</tr>
<tr>
<td>cost 30% more (on average)</td>
<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td>$10,400</td>
</tr>
</tbody>
</table>

### Schedule Rating

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April 15. 2015
Risk Management Culture

How Does Your Risk Management Culture Influence Your Schedule Rating?

Schedule Rating Influencers

- **Business & Leadership Team**
  - Time in business, financial strength, business culture, business plan/model, franchise/brand, management experience, succession plans...
- **Employees**
  - Hiring practices, pre-employment drug testing, MVR program, experience, training, incentive programs, employee turnover...
- **Safety**
  - Commitment to safety, designated risk manager, safety committee, safety program, safety meetings, availability & use of safety equipment, review of accidents with employees...
- **Building, Business Property, Vehicles**
  - Use, age, condition, maintenance, housekeeping, security...
Risk Management Culture

Recap ...

Risk Management Culture

Insurance Premiums

Schedule Rating
Experience Rating
A Business’ Characteristics & Practices
A Business’ Incidents & Claims History
A Business’ Risk Management Culture
Why Pay Insurance Premiums?

Risk
Risk

There is a lot to think about…

Risk Management

Where do you start?

1) Identify perils
2) Evaluate exposure
3) Review risk management options
4) Determine your risk tolerance
5) Implement risk management
Risk Management

Identify Perils

Risk Management

Evaluate Exposures

<table>
<thead>
<tr>
<th>Likelihood (Frequency)</th>
<th>Consequences (Severity)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Insignificant</td>
</tr>
<tr>
<td>Almost Certain</td>
<td>Moderate</td>
</tr>
<tr>
<td>Likely</td>
<td>Moderate</td>
</tr>
<tr>
<td>Possible</td>
<td>Low</td>
</tr>
<tr>
<td>Unlikely</td>
<td>Low</td>
</tr>
<tr>
<td>Rare</td>
<td>Low</td>
</tr>
</tbody>
</table>
Risk Management

Review Risk Management Options

- Avoid
- Mitigate
  - Loss Prevention
  - Loss Reduction
- Transfer

Determine Your Risk Tolerance

Likelihood (Frequency)

Consequences (Severity)
Risk Tolerance

How Confident Are You In Your Risk Management Culture?

Risk Tolerance

- Risk Management Culture
- Risk Tolerance Options
- Risk Financing Opportunities
Risk Financing

What Are Your Risk Financing Opportunities?

- Guaranteed Cost
- Aggregate Retention
- Captive Arrangement
- Aggregate Reimbursement
### Risk Financing

#### Guaranteed Cost

<table>
<thead>
<tr>
<th>Direct Costs</th>
<th>Indirect &amp; Preventive Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium</td>
<td>Loss of Reputation</td>
</tr>
<tr>
<td>Deductible</td>
<td>Loss of Goodwill Administration</td>
</tr>
<tr>
<td></td>
<td>Lost Productivity</td>
</tr>
<tr>
<td></td>
<td>Cost of Down-Time</td>
</tr>
<tr>
<td></td>
<td>Loss of Quality</td>
</tr>
<tr>
<td></td>
<td>Safety Programs</td>
</tr>
</tbody>
</table>

#### Aggregate Retention

- Guaranteed Cost (Traditional Insurance)
- SIR (Self-Insured Retention)

The more effective you are in preventing losses, the less retention you pay out.

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An insurance company that provides insurance to and is controlled by its owners.

The more effective you are in preventing losses, the less you pay out.
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April 15, 2015

Risk Financing

Aggregate Reimbursement

- Guaranteed Cost (Traditional Insurance)
- Aggregate Reimbursement (Large Deductible Plan)

The more effective you are in preventing losses, the less retention you pay out.

Recap...
Risk Financing

Guaranteed Cost (Traditional Insurance)
Aggregate Retention (Self-Insured Retention)
Captive Arrangement (Small Group Captive)
Aggregate Reimbursement (Large Deductible)

Premium
Premium
Fixed Costs
Premium

Captive
Captive

Arrangement

- Client
- Federated Agent
- Federated Insurance Co.
- Federated Reinsurance
- Federated Loss Control
- Federated Claims
- Claimant

Captive

Ownership

- All insureds are owners
- One vote per member
- Operates with committee structure
- Incorporated under Cayman Islands law
- Management of claims is critical
- Participation is required
- Members help the captive to grow
Captive

The CaptiveResources Advantage

• Independent consultant
• Over 25 years’ experience
• Captive Investors Fund
• Kensington Management Group Ltd.
• Group purchasing programs

Captive

Why Are Costs Lower?

• Premiums based on your loss experience
• Insulated from market conditions
• Operating costs are lower
• Only good risks are accepted
• Enhanced loss prevention and claims management
• Return of unused loss funds & investment income
• You are the owner
Captive

Fundamental Benefits

• Long-term control
• Enhanced loss prevention
• Enhanced claims management
• Lower operational costs
• Upfront savings
• Potential for significant returns
• Investment income accrues to you
• Income potentially accumulates tax deferred

Risk Financing

Summary
Risk Financing

Risk Management Culture

Risk Financing Opportunities

Premium Savings Opportunities

Risk Management Culture Is Key to Influencing Insurance Premiums.

Seize the Opportunity!
Seize the Opportunity...

✓ Find the best long-term solution.
✓ Identify the most cost-efficient method of managing risk.
✓ Take control of your insurance destiny!

Questions

Up Next: Interactive Break in the Mezzanine
– Taking Your Company's Safety Training to the Next Level: Augmented Reality
– Personal Branding for Professional Success: Leverage Every Employee's Digital Footprint
– The Lost Art of Listening
– NECA Manual of Labor Units
– The Value of Membership