



Insurance Assurance

Check out your insurance company

By Phillip M. Perry

If fire destroys your plant tonight, will you be left holding nothing but a bag of ashes? Everyone expects insurance carriers to pay up quickly...but what if they drag their feet responding to claims?

Scary questions, but worth asking now that the economy has turned soft. If your insurance provider has been suffering from the steady erosion of profits which plagues that industry, you could be left with a problem in the event of fire, flood or other disaster. Attention should now be paid to the quality of your coverage for property and casualty, workers' compensation, general and product liability, and auto.

While financial stability is an important consideration, of nearly equal concern are the premium increases in most insurance categories. Rates are escalating largely because carriers are reeling from the negative impact of many high-risk contracts written in an attempt to expand business. "Insurance carriers are trying to make up for the terrible losses they have been experiencing from bad underwriting practices," says M. Parker Blatchford, CEO of Chestnut Group, Wayne, PA.

Rates for property insurance, for example, have been rising dramatically. This is caused partly from a series of natural disasters and the aftershocks of 9/11. But it's also fueled by the normalization of rates that had been kept artificially low as insurers invested premium money in the once-booming stock market.

Bottom line: Be careful with whom you deal. "There have been some bankruptcies in the past few years, so it's important to stay on top of things," says Daniel C. Free, president of the Indianapolis-based Insurance Audit and Inspection, a risk-management consulting firm that helps companies assess insurance carriers. "You want your insurance to be there when you need it."



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Long-Term Planning

Just as important as quick claims response is long-term viability. You want a carrier that will be around for the long haul to handle such things as workers' compensation claims, which can last for years. A springmaker that switches carriers too often will end up dealing with numerous insurance organizations serving the same claims.

"One thing we value here at Barnes is our long-term relationships with our insurance carriers," says Daniel Barlow, corporate manager of risk management at the U.S. division of Barnes Group, the Bristol, CT-based parent company of Associated Spring. "Speed of payment is sometimes not as important as the carrier's overall willingness to pay claims."

Finally, carriers differ as to their abilities and proclivities in safety program development. "We're looking for carriers that can help us avoid losses altogether and minimize the cost of losses if they occur," says Barlow. "For example, a carrier might have strong engineering services to help us in such areas as safety procedures or with sprinkler systems to minimize losses from fire. And in the workers' compensation area, we look for high quality claims administration services that help us minimize the cost of workplace injuries after they occur."

Assessing Your Carrier

Get the odds in your favor by doing your homework. Start by getting reports from the commercial ratings services. It's important to stay with well-rated companies, particularly in the area of umbrella coverage, which protects you for the longest time and in the greatest amounts. Some liability claims can be made years after an incident occurs, so if a carrier fails you may be left exposed. While the spring industry is generally free from big product claims, there is always the potential for such, as well as for big personal injury claims.

There are several commonly used resources for finding out about insurance companies. All of these agencies have substantial information on their Web sites that provide free or low-cost carrier ratings. They also offer more in-depth analyses for a fee. Here are the most active firms:

1. A. M. Best. Covering the insurance field for over 100 years, A. M. Best is the granddaddy of the ratings outfits. To get ratings at no charge, sign up at www.ambest.com and use the search box at the right side of the screen. You will be asked to sign up for a free membership, which is instantly confirmed by an e-mail message. As a member you can get Best's Ratings, Industry News, content specific centers and financial data

for insurance companies. You can also purchase a complete company report online for \$75. This includes a business overview, extensive financial data, analytical commentary and the rationale supporting the carrier's financial strength rating.

2. Weiss Research. A spin-off from a newsletter, Weiss Research began rating insurance companies in 1989. Its reputation for conservative ratings makes it a recommended backup for Best. Go to www.weissratings.com and click on "Ratings Online." Ratings are \$7.95 each.

3. Standard & Poor's Insurance Ratings Services. Rating insurance companies for the past 30 years, Standard & Poor's offers free reports if you register at the service's Web site. Go to www.standardandpoors.com, enter a ticker symbol and S&P's SnapShot will deliver the company's current vital statistics, stock quotes, and equity news and analysis.

4. Moody's Investors Service. While Moody's has been rating bond issues for decades, it started assessing the financial strength of insurance companies in 1986. For free ratings, go to www.moody.com and use the search box at the right side of the screen.

5. Demotech. Covering property and casualty insurers since 1989, Demotech now provides financial stability ratings on 2,500 carriers. Visit www.demotech.com and click on "Financial Stability Ratings."

While the ratings agencies are a good start, most of us are not insurance experts, so it pays to get some expertise from other sources. Don't overlook the critical role that brokers can play in providing assessments of carriers. "Insurance brokers are very good at knowing which carriers are willing to pay claims without a battle," says Blatchford. "The broker who hopes to keep you as a client looks out for your interests. If claims are not paid, the broker gets a black eye."

Also ask the insurance company for references. What businesses such as yours have filed claims recently? Contact those companies and ask if their claim was honored quickly and efficiently.

Manage Your Risk

One of the most important things you can do is manage your risk. "Insurance brokers and companies should offer good safety services, and help you set up safety programs," says Blatchford. "A good safety program – such as the one from SMI – can have tremendous benefits in helping you manage

your exposure." Second, manage your claims. "If someone is hurt, make sure they get good care and get it promptly," says Blatchford. "And get them back to work as quickly as possible. Employees who are working don't turn sour."

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To gain control of its insurance costs, 10 years ago, The Chestnut Group joined other mid-sized companies from various industries to form a group captive insurance company. The company provides Chestnut with its workers' compensation, auto, general liability and property coverage. The members pay their premiums into the "captive," which

accumulates and invests the money for payment of the routine claims. Catastrophic risks are reinsured away. Money not needed to pay claims is ultimately returned, with interest and investment income to the insured shareholders. This alternative market for insurance is bound to increase in importance. Varieties of such arrangements include traditional self-insurance, single-parent captive insurance companies, group captive insurance companies, and buying cooperatives. "It's projected that in the next year or two, some 50 percent of property and casualty insurance will be written in the alternative market," says Blatchford. It's generally felt that a company should have at least \$250,000 in annual premiums to qualify for joining such programs.

More than 30 springmakers now belong to the five-year-old Atlantic Mutual/SMI Springmakers Insurance Program for property and casualty, general liability, products liability, workers' compensation, commercial auto, business interruption, boiler and machinery, as well as umbrella coverage.

"The nice thing about the SMI program is that it's specifically tailored for the precision spring industry," says Chuck Naso, president of Horton Risk Management Services, the Orland Park, IL-based firm that administers the plan. "In addition to offering competitive rates, it offers the member an opportunity to earn a dividend based on overall performance of the program. Last year 8.6 percent of the premium was returned in the form of a dividend."

Given the current turmoil in the economy, you need to reassess your insurance carrier. How well is that firm navigating one of the worst bear markets in history...and will it be able to manage the risk going forward? ❖