Insurance Premiums Are Killing My Business!

Controlling Insurance and Claims Costs for Small to Mid-Sized Business with Risk Management

Craig A. Rowe, FCIP, CRM

ClearRisk™
Risk Management. It's Here.

The information contained in this manual is the opinion of the author. The topics discussed are very broad in scope and situations can differ greatly in different legal jurisdictions, different industries, and different companies. For advice specific to your situation please consult a qualified person in your jurisdiction.

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PREFACE

Every time I talk to business people and I tell them I'm in the insurance business, I get the horror stories. I don't complain; it goes with the territory. If I were a dentist, people would be showing me their fillings and caps.

In the past couple of years, the complaints have gotten more frequent and more vigorous! It is obvious that the problems are the same no matter what the business. It is also obvious that, although insurance and claims represent a large percentage of a business's expenses, it is an area most business people know very little about. What is even more disturbing is that it is an area where they feel there is nothing they can do but pay the bills as they come in. I'm here to say there are things that can be done, very simple things that any business can do.

This manual has been written with small to medium-sized businesses in mind, although the same principles are employed by very large businesses. The difference is that the large businesses are large enough to have a full time staff dedicated to risk management. Small to mid-sized companies still rely solely on their insurance brokers for all of their risk management advice. Many brokers are experienced in risk management; some are not. Also, brokers, like the rest of us, are very busy and cannot dedicate the time required to all of their clients to be as effective as a full time risk manager. This is why it is important for business people to understand insurance and risk management issues. It is also important to have the tools and knowledge at their disposal to have some control over these costs as opposed to accepting what is being offered.

About the Author

Craig A. Rowe, FCIP[1], CRM[2]

Craig has been in the risk and insurance industry since 1989. He has had a diverse career, having been a Loss Control Inspector, a Claims Adjuster, an Insurance Broker, a municipal Risk Manager and currently, the CEO and founder of ClearRisk. From his professional experience; his extensive work in industry associations such as the Risk and Insurance Management Society (RIMS); and as a writer and presenter throughout North America on risk management, Craig developed an approach to talking about risk that business people relate to.

Frustrated that businesses didn't realize that there were very basic things they could be doing to better manage risk and save money, in 2001 Craig wrote "Insurance Premiums are Killing My Business." The book was later adapted into a RIMS workshop that Craig regularly presents throughout the USA and Canada.

These initiatives made Craig known for simplifying risk management, which resulted in him being asked by several industry associations to speak to their members and develop materials to help them save money. Craig wrote the risk management content for the Insurance Bureau of Canada's (IBC) website as well as a publication for the Canadian Federation of Independent Business (CFIB) to help its over 100,000 members reduce insurance and claims costs. He was featured as the cover story of the October 2004 issue of Risk and Insurance magazine as an emerging leader in Risk Management.

ClearRisk has taken Craig's user friendly approach to risk management and created a web based solution that anyone can use to save their organization significant time and money. While building ClearRisk, Craig continues to volunteer as the Board Chair for his local Y, and makes sure he never loses sight of his real "raison d'être", his wife and three children!

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[1] **FCIP - Fellow Chartered Insurance Professional designation from the Insurance Institute of Canada**

[2] **CRM - Canadian Risk Manager designation from the Risk and Insurance Management Society and the Global Risk Management Institute**

About ClearRisk™

ClearRisk™ (http://www.clearrisk.com/) is an online risk management company founded by Craig Rowe and Dave d'Entremont in 2006. After working in the risk management industry for over 20 years, Craig noticed a gap in the services available for small to medium sized businesses. The risk management options were too expensive for these organizations. Also, businesses did not understand how to apply basic risk management practices. Craig conceptualized ClearRisk as an affordable, easy to understand risk management solution for these organizations. Dave has a background in technology and has additionally co-founded a successful IT company.

The risk management solution created for ClearRisk spent two years in development prior to becoming available online in February, 2009. The program creates a formal risk management plan for the user based on their industry. The plan is broken down into easy to implement steps which are assigned due dates. The user is able to track their progress, change priority and due dates, and input unique tasks. Besides helping to reduce the number of claims a business will have, ClearRisk can help businesses by making them a better class of risk. By having and implementing a risk management plan and becoming a better class of risk, the business is likely to get more favorable terms in the insurance market.

Craig also wanted to create a place where risk management best practices could evolve. He thought it was important for the users to be able to upload their current risk management policies (tools). That way, they can choose to share these tools with the community and have professional risk managers review the tools prior to entering them into the ever growing database available to the community. Users can choose to brand their posted tools and the community will rate and comment on them. This will create an active risk management community with information that is constantly evolving.

For more information about Clear Risk™, visit www.clearrisk.com

INTRODUCTION

In every business, from the small corner store to the large manufacturer, there are common challenges with insurance, claims, and risk in general. Buildings can be damaged by fire; someone could slip and fall; vehicle accidents often occur; losses can occur as a result of defective products. These are just a few of the very many things that can go wrong.

We are living in a time when people are very quick to sue, courts seem willing to compensate claimants readily and generously, and where corporations, individuals and organized groups are being held to very high standards of care. Communication has become so instant and accessible that we know what is going on everywhere in the world. As a result, people are very aware of the levels of service to expect and the recourse they can expect if they have been wronged.

Employers are being held liable for the actions of their employees, servers of alcohol are being held liable for injuries to people hit by drunk drivers, and directors of companies are being personally fined and criminally charged for the unsafe or unethical conduct of their companies.

The world is a place fraught with risk and peril. This doesn't mean we have to close our doors and hide under the bed. The risks may be different today, but that just means we have to find new ways to adapt. Something we humans are very good at. When the risk was saber-toothed tigers, we made weapons out of sticks and stones. Now that the risks are financial in nature, we use risk management tools to protect ourselves. Then, as now, no protection is fail-safe. However, if we hone our skills and use the right tools, we can operate in comfort, not in constant fear that ruin waits around every turn.

This manual is a quick reference guide to basic techniques to reduce losses, control claims costs, and keep insurance premiums down. The techniques are employed every day by professionals in the insurance and risk management business to save companies a lot of money.

As a prudent risk manager, I would be remiss and irresponsible if I didn't use a caveat here. Every organization is different. Different products, different legal jurisdictions, different insurance policies, different activities, and different circumstances make it impossible to make a cookie cutter solution for **all** organizations in **all** situations. The sample forms in this manual, the techniques outlined, and the opinions of the writer, are all generalizations. Any reliance on the material contained in this manual is at your own risk. The forms and templates are meant as a guide, and should be tailored for your business by a qualified professional.

Twenty-Five Quick Tips to Get Started

There are Quick Tips scattered throughout this manual. I have summarized some of them here as a quick and easy way to get started. These are discussed in more detail later.

1. **Minimize the variability of insurance costs.** A key goal of any good risk management plan is to keep insurance and other costs of risk low and in a narrow band, with fewer and less extreme peaks and valleys. See section 0 for details.

2. **Keep your company's loss ratio low!** A loss ratio is the premium paid divided by the cost of claims incurred. A low loss ratio will make your company attractive to insurers, which will result in competition over your account and lower premiums. See section 0 for details.

3. **Work on becoming a coveted account to insurers.** Insurance companies can only underwrite a limited amount of business. Since an insurer can only insure a finite amount of risk, they will choose what they feel to be the most profitable risks to insure. It is important to make sure you are one of the good risks that they want as part of their book of business. Clear Risk can help you with this by supplying a formal risk management plan, which can be printed to show your insurance professional how you are mitigating risk. See section 0 for details.

4. **Choose deductibles that result in the optimal cost of risk.** The general principle is: the higher the deductible, the lower the premium. By analyzing past losses in conjunction with insurance premium quotes for different deductible options, it becomes clear which deductible is best. See sections 0 and 0 for details.

5. **Make sure your property values and your policy limits are accurate.** Accurate values and limits mean you are adequately covered, but that you aren't paying an excessive amount. See sections 0 and 0 for details.

6. **Periodically check for unnecessary coverages.** Work with your insurance broker to make sure you have all the coverages you need, but that you aren't paying for bells and whistles you don't need. See section 0 for details.

7. **Make premium payments on time.** You don't want a cancellation due to "non-payment of premium" on your record. See section 0 for details.

8. **Examine how you pay your broker.** Try to negotiate a flat fee for service with your insurance broker as opposed to a commission based on a percentage of premium. This will keep your costs stable and protect you from higher fees when insurance rates rise. See section 0 for details.

9. **Utilize your insurance broker's services!** Most businesses do not fully utilize the services of their broker. Ask your broker what services they can provide in addition to the ones you currently receive. There are many things they can do for you included in your fees. See section 0 for details.

10. **Report all claims to your broker promptly!** Your broker will advise you of your rights and obligations. Failing to give prompt notice may result in denial of the claim. See section 0 for details.

11. **Use your broker to help you with the claim process.** Your broker can give you advice on the claims process, act as an advocate for you with your insurance company, and help you compile claim documentation. See section 0 for details.

12. **Risk mapping is an important tool.** It will organize your risks in a way that allows you to identify the more common and serious risks so that you know the areas to which you need to commit resources. See section 0 for details. Customizable risk maps are available through Clear Risk.

13. **Employ risk management techniques in all business decisions.** Concentrating on risk management when making business decisions will ensure that risks are factored in before resources are committed. See section 0 for details.

14. **Invest time and money in safety and loss prevention.** Insurers look very favorably upon businesses that take safety and loss prevention seriously! This can often result in yearly premium savings, not to mention the savings achieved if losses are prevented. See sections 0, 0 and 0 for details.

15. **Insurance certificates are an effective method of risk transfer.** Forward requests for insurance certificates to your broker. Ask your broker for advice on both the certificates that you request and the certificates that are requested of you. See section 0 for details.

16. **Implement and follow formal written policies.** Policies and procedures are a very effective way to defend against claims and lawsuits. Policies must be strictly followed to be effective. See section 0 for details.

17. **Transfer risk by using waivers and hold harmless agreements.** The legal effect varies, and there are no guarantees, but if properly worded, these can deflect and transfer liability. Always get legal advice on the wording of waivers and hold harmless agreements. See section 0 for details.

18. **Develop and implement a Business Continuity Plan (BCP).** A well thought out and practiced BCP will greatly improve the odds that your business will survive a catastrophe or shutdown. Free industry specific business continuity procedures are available through Clear Risk. See section 0 for details.

19. **Keep all old insurance policies and certificates**. Policies and certificates are your proof that coverage existed. They are very valuable. Some losses aren't discovered for many years after they occur. See section 0 for details.

20. **Sell yourself to your insurer at every opportunity.** Most businesses have positive attributes that are not known by their insurer. Many have policies, procedures, practices and other features that insurers would look upon favorably, if they were aware of them. So don't keep them to yourself, use them to your advantage. Through ClearRisk you can print a formal risk management plan to easily show your insures how you are protecting your assets though risk mitigation. See section 0 for details.

21. **Loyalty to your insurer is important, but shop around occasionally**. As satisfied as you may be with your insurer, from time to time you need to make sure they are being competitive. See section 0 for details.

22. **Make your insurance renewal submission comprehensive yet concise.** You want the underwriters to have all the information they need to make a decision. The submission should be easy to read and understand. Don't tie them up with unnecessary information. See section 0 for details.

23. **Physical protection can often result in direct premium savings.** Investment in sprinkler systems, burglar alarms, fire resistant construction, and other types of physical protection can save you money in the long run. Discounts are often given for these things, so you need to analyze the cost of installation versus the premium savings over time, and the potential reduction in losses. See section 0 for details.

24. **Cooperate fully with insurance inspectors.** It is very important to remember that the insurance inspector has a lot of influence with the underwriters. An insurer's perception of your business depends largely on the inspector's feedback about your cooperation and safety consciousness. See section 0 for details.

25. **Vehicle loss control is an area to focus on for many businesses.** Vehicle accidents are the greatest source of loss for many businesses. There are many ways to prevent vehicle losses and the more you employ, the fewer your losses will be, and the lower your premiums will be in the long run. Due to the high cost of vehicle accidents Clear Risk has many complimentary risk management tools to help you get started. See section 0 for details.

UNDERSTANDING INSURANCE

THE NEED FOR INSURANCE

Insurance is a mystery to many people. Simply put, an insurance company pools the money of a large group and promises that if one of the group suffers a predefined loss, then the pool will pay for the loss. Its origins go back, in one form or another, thousands of years. The product that we are familiar with today has its origins in the shipping industry. Individual ship owners were incurring more losses than they could afford. As a group, the ship owners agreed that they would each contribute a fixed amount of money each year. If a ship were lost, the owner would be reimbursed from the money collected. While the potential losses to an individual were too great to bear, the contribution to the pool, the premium, was affordable. The fundamentals are the same today. Business owners and individuals trade off the affordable cost of insurance for the peace of mind that a large loss won't mean financial ruin. In addition, insurance is required to obtain bank loans, and proof of insurance is required in many business relationships.

All too often the value of insurance is underestimated. It is only after a large loss that it can be truly appreciated. For risk managers, insurance is one of the many tools used to transfer financial risks. It is often thought of as the last line of defense.

INSURANCE COMPANIES

It is no surprise that insurance companies are profit motivated. While some insurers are government run, and others are mutuals, most have private investors and shareholders that demand a return on their investment. Insurers take the insurance premiums they collect and invest them. They pay operating expenses and claims out of the premiums collected and investment income.

If an insurance company makes a profit before considering investment income, it is called an Underwriting Profit. The converse is an Underwriting Loss. It is called such because underwriting is the decision process of what to insure and for how much. If the underwriters do their job well, then the insurance company should be able to anticipate how much it will pay in claims and expenses, and charge a commensurate premium that allows for a profit. This, however, is rare. Most insurance companies, and the industry on the whole, rarely make an underwriting profit. There are a number of reasons, but primarily it is due to competition in insurance markets and the unpredictability of claims costs in today's world.

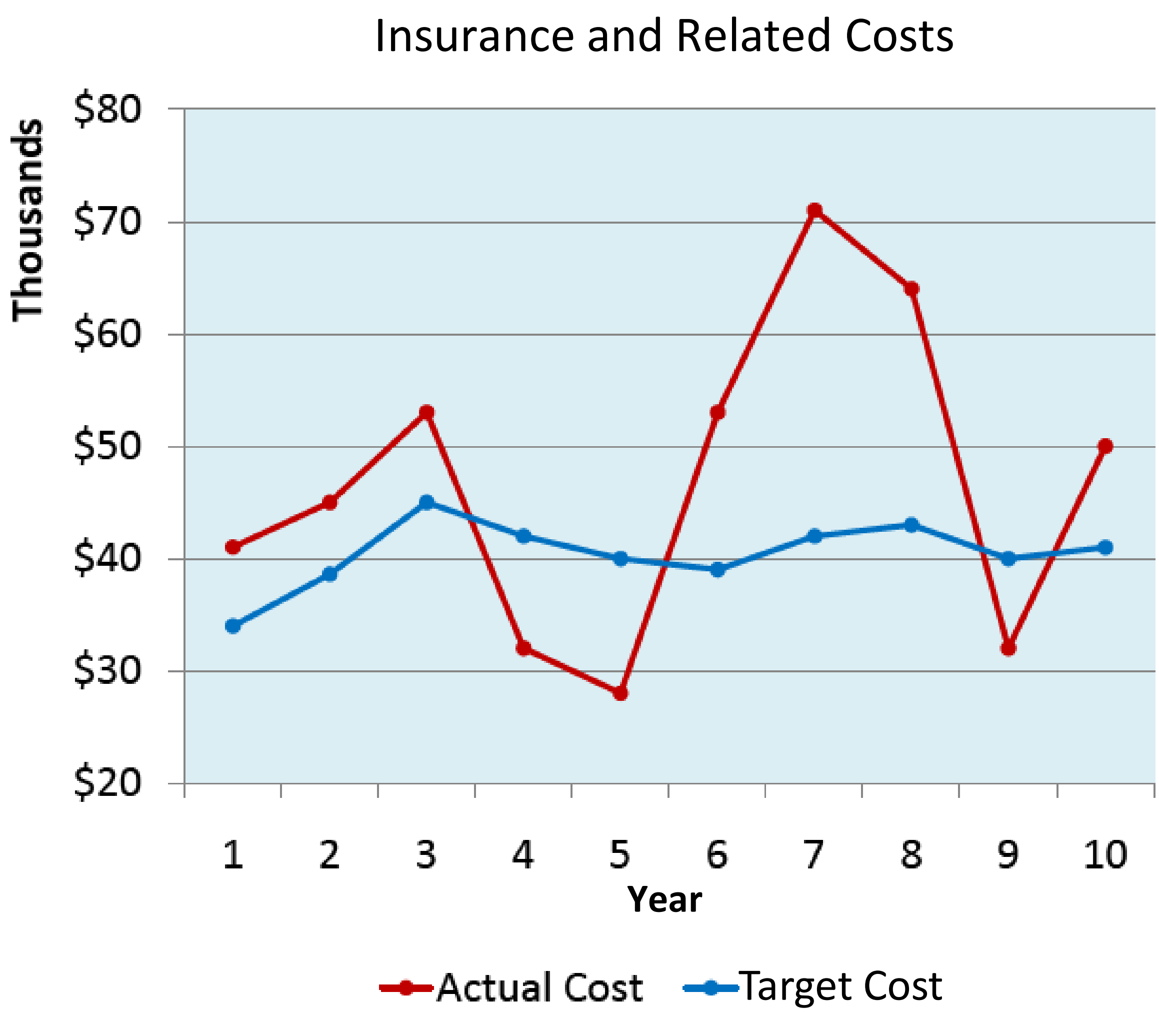
Most insurance companies make their money in investment income. They take in large quantities of money in insurance premiums and invest it. They rely on the fact that there is usually a long time between when premiums are collected and when losses are paid. When insurer ROE (return on equity) is high, then insurers can take underwriting losses and still be quite profitable. When ROE is low, they look for higher premiums to recoup past losses and to pay for future losses.

INSURANCE MARKET CYCLES

When insurers go through a few years where claims are high and ROE is low, they raise rates to make up for past losses. Then, when they've had a few good years, they get competitive again and start lowering prices. After a few years they again feel the impact of the low premiums and high claims and have to raise premiums. And on the cycle goes!

> **QUICK TIP**
>
> Minimize the variability of insurance costs.

When you are the one paying for these premiums it can get very frustrating and very difficult to budget for. Insurance rates can vary 100%, 200%, 300%, or even more from the top of the cycle to the bottom. Following the techniques in this manual should help insulate your business from the extreme effects of this cycle. A key goal of any good risk management plan is to keep insurance and other costs of risk low and less variable, with fewer and less extreme peaks and valleys. The chart below illustrates this point. The Actual Costs vary greatly from high to low, whereas the Target Costs are fairly flat and as low as possible.


Insurance and Related Costs
Thousands
$80
$70
$60
$50
$40
$30
$20
1
2
3
4
5
6
7
8
9
10
Year
Actual Cost
Target Cost

Loss Ratio

A loss ratio is the insurance premium paid divided by the cost of claims incurred.

$$Loss\ Ratio = \frac{Premium\ Paid}{Claims\ Incurred}$$

If the amount incurred in claims is the same as the amount paid in premiums then the loss ratio is 100%. If twice as much is paid in premiums as is incurred in claims then the loss ratio is 50%. Insurers track the loss ratio by their whole book of business, by industry, by underwriter, etc., but most importantly they track it by insured. When you go to renew your policy, or shop around for other insurers, they look at your loss ratio. They consider the premiums you've paid compared to what you've cost them in claims. If you've had a good loss ratio (your insurer is happy with the amount paid in claims relative to the amount of premium), then in the long run you should achieve better terms and price. If you've had a bad loss ratio, then you may pay higher rates, have exclusions added, have limits reduced, have deductibles increased, or not be renewed. What constitutes an acceptable loss ratio depends on the insurance company, the type of business, and many other factors, but obviously the lower, the better!

QUICK TIP

Keep your company's loss ratio low.

UNDERWRITING

Underwriting is the process of deciding what to insure, at what terms, and for how much. Underwriters are the people who perform this role. Underwriters will consider a number of factors in determining which businesses and individuals to insure. Insurance companies can only underwrite a limited amount of business based on factors such as its net worth, claims reserves, experience, type of insurance, etc. Regulatory bodies in the applicable jurisdictions impose these limits. Because an insurer can only insure a finite amount of risk, they will pick what they feel to be the most profitable risks to insure.

It is important to note that insurers don't have to insure your business. There may be some exceptions where regulators make it mandatory to insure certain types of risk, but this is rare. Since they don't have to insure you, it is important to make sure you are one of the good risks that they want as part of their book of business.

QUICK TIP

You are competing for insurer capacity.

RATING

Insurance rates are decided by underwriters using several sources, such as:

Rate Manuals:

Rate manuals can be either compiled in-house, or by various public and private organizations that specialize in rates. For example, property rate manuals will give rates per hundred dollars or per thousand dollars for various types of construction, types of processes, types of protection, area, etc.

Regulatory Bodies:

Many jurisdictions have regulatory bodies for certain types of coverage that set minimum and/or maximum benchmark rates. Insurers will have to apply to these bodies for rate increases to justify their position.

Company Experience:

Insurers know from actuarial information the rates required to pay for past, present and expected losses.

Competition:

As with any other type of business, insurers have to be competitive with other insurers in order to gain and keep market share.

Profitability:

Insurers have to charge rates that allow for claims payments, operating expenses, and profit.

FACTORS AFFECTING INSURANCE PREMIUMS

EXTERNAL FACTORS

External factors are those factors that are outside of your control. There are ways to insulate your business from some of the effects of these factors. These will be discussed in detail later in chapters 0 and 0.

Reinsurance Rates:

Insurers buy insurance called re-insurance. If your building is insured for $1 million, then chances are, the insurance company you are with is re-insured for most of that amount. They may, for example, have to pay the first $100,000 but have a Re-insurance Treaty with a re-insurer to pay the remaining portion of the claim. That re-insurer also has re-insurance and so on. In fact, for large losses, many insurers and re-insurers end up paying. The terrorist attacks on the World Trade Center in New York on September 11th, 2001, for example, resulted in the largest insured loss in history. Fifty billion dollars or more will be paid by the time every claim is settled. There is hardly an insurer or re-insurer in the world that didn't have a financial stake in that loss. The large re-insurers were hit especially hard. As a result, the premiums that re-insurers charged insurers went up drastically in the following years in order to recoup the losses. The insurers then had to pass those re-insurance costs on to their customers. That's just one example of the market driving premiums. Every hurricane, flood, tornado, earthquake, large corporate collapse, etc., costs the insurance/re-insurance industry millions.

Investments:

When insurance companies take your premium, they invest it. That's where they make most of their money. Insurance companies very rarely make an Underwriting Profit. That is, a profit before investment income. When stocks, bonds, commodities, etc., are doing well, insurers can make 12% to 15% ROE (Return on Equity). When markets are in a long slump, ROE can drop significantly. In the economic decline of 2001 through 2003, insurer's ROE dipped to an all time low of 1.5%.

Interest Rates:

Interest rates affect the return that insurers get on their investments and also affect the cost of borrowing money. Very high or very low interest rates can affect premiums significantly.

Type of Industry:

Some industries have a harder time getting insurance than others do. Sometimes events cause insurers to limit coverages that were previously easy and cheap to get. Medical malpractice insurance used to be reasonably priced until people started suing doctors more frequently and with more success. Now, many doctors either can't afford the coverage or are denied coverage. After the terrorist attacks on the World Trade Center in New York on September 11th, a terrorism exclusion was added to all policies that had never been included before, and insurance for high-rise buildings was difficult to get and expensive. A recent proliferation of toxic mold claims has caused insurers to exclude claims related to these substances from policies.

Industry Losses:

If you are in an industry that has had a high incidence of losses, you will pay for that increased risk even if you have not incurred losses. If you have a fleet of long haul trucks, and that industry suffers large losses in a given year or over a number of years, then you will pay higher premiums whether or not your business has had high losses. In theory, the businesses with fewer losses will still pay less than those with higher losses.

Culture (Litigiousness):

Litigiousness is people's willingness to sue. North American culture, in particular, is becoming very litigious. Twenty years ago, if someone fell on your stairs they would jump up and look around to make sure no one saw them. Now it seems like they stay down and look around to make sure there are witnesses. The cost of this proliferation of lawsuits is astronomical! Insurance companies pay most of these claims and the associated legal defense costs. Of course, these costs are eventually passed onto consumers.

Legal Environment:

Not only are people more willing to sue today, but courts also seem more willing to compensate. We've all read stories in the paper about the huge awards being given by courts, such as that received by the lady who spilled the McDonalds coffee on her lap in New Mexico. Court decisions appear more and more results oriented, meaning that they are finding ways to compensate people for whom they have sympathy, as opposed to adhering to fundamental legal principles. Due to the uncertainty in the outcome of a court case, the cost of litigation, and the potential for having a results oriented decision, insurers are often afraid to defend otherwise defendable actions. Instead, they cash-out with claimants. This is not to be underestimated and may be one of the biggest driving factors in insurance costs.

Catastrophes:

This was discussed under *Re-Insurance*. Any large-scale disaster, be it a flood, hurricane, earthquake, landslide, terrorist attack, drought, etc., costs the insurance industry millions of dollars. Every year there are several world catastrophes. However, when there is a particularly bad year, or several bad years in a row, the insurance industry can be caught short and will have no choice but to raise rates to recoup the losses.

Insurance Market:

The insurance market, being affected by all of the factors above and more, is cyclical. The market, like any, has highs and lows. If the market is "hard" then everyone pays more and coverage is difficult to obtain. If the market is "soft", rates are good and insurers are competing for your business. The techniques described in this manual can help insulate you from the market, thereby stabilizing your rates.

INTERNAL FACTORS

Internal factors are largely those factors within your or your business's control. You may say, "How can I have fewer claims? Accidents are outside of my control." Not necessarily. For instance, you can implement loss control measures to prevent accidents, or have higher deductibles so fewer claims are presented to your insurer. Ways to control these internal factors are discussed in more detail in sections 0, 0 and 0.

Claims:

> If your business has had a lot of losses, or a few large losses, there will be premium increases. Loss ratios and deductibles are discussed in detail in sections 0 and 0, but generally, if your claims consistently cost the insurer more than the premium you pay, expect an increase.

Industry:

> The type of business you are in affects your premiums. This was also discussed as an external factor. However, since it is in your control which business you are in, in theory you can change that, thereby having some effect on your premiums.

Loss Control:

> If your business has safeguards in place against loss then insurers will look at you more favorably. Your insurance rating is commonly assessed using either a discount method or a surcharge method. Either way, your premium is either discounted, or not surcharged, if you have certain loss control measures in place. Sprinkler systems, alarm systems, safe driving policies, contractual risk transfer, etc., will all likely warrant premium savings.

Operations/Processes:

This covers a lot of ground, but essentially your business will be rated based on the types of processes you employ and the risks associated with them. If your business is vehicle repair then your processes may include welding, grinding, flame cutting, spray finishing, hazardous waste disposal, etc. This type of operation is more hazardous than the usual business office and will therefore be charged more. As well, if your building is located 20 feet from a dynamite factory, expect higher premiums than if you are 20 feet from a private residence.

Deductibles:

A deductible is the amount that you pay in the case of an insurance claim. It is also known as self-insured retention. You can, in most cases, have a choice in the deductibles on your policies. The general principle is: the higher the deductible, the lower the premium.

QUICK TIP

Generally, the higher the deductible, the lower the premium.

Policy Limits:

The amounts that you choose as your policy limits will affect your premium. Obviously, a $5 million liability limit costs more than a $2 million limit. You have to carry a limit that adequately protects your business, but is not so high that you are paying extra for no reason.

QUICK TIP

Make sure your policy limits are appropriate.

Coverages:

A lot of the coverages you have will be essential for your business. However, sometimes coverages are in place that are not required. Your operations may have changed; coverages may have been thrown in as perks during a "soft" market that

QUICK TIP

Periodically check for unnecessary coverages.

you get charged for in a “hard” market; etc. It is a good idea to go through your policy with your broker every few years to identify any unnecessary coverages.

Values Insured:

Obviously, the higher your insured values, the higher your premium. The total value of your buildings or vehicles is used to determine your rate. Make sure your values are accurate.

Risk Management:

Insurers take into consideration the risk management of an organization in determining the premium. It probably won’t result in any specific discount, but an organization with strong risk management practices and a proven track record in managing risks will be looked upon more favorably by insurers.

Factor's Affecting Insurance

Canceling a Policy

Either the insurer or the insured can cancel insurance policies at any time. The policy will set out the requirements of each of the parties in this regard. If you're not sure, check with your broker.

Insurer Cancellations

> **QUICK TIP**
>
> Make premium payments on time.

There is a greater onus on insurers when canceling a policy since, if they cancel a policy, they will be leaving a business unprotected. For this reason, they must give adequate notice of cancellation. The policy will set out the terms of that notice, but a standard clause says 5 days hand delivered or 15 days by registered mail. Most cancellations are for non-payment of premium, so make sure your payments are on time! In most cases, a cancellation is made effective at the time of the cancellation; however, an insurer can also void a policy as if it never existed. This is usually only done in the case of a material breach in the policy conditions or a material misrepresentation. In either case, the breach or misrepresentation generally must have been serious enough that the insurer would not have written the policy had they known. If a policy is voided, then it is possible to deny any claims that happened during the policy term prior to the cancellation/voiding.

An insurer can also decide not to renew a policy instead of canceling it mid-term. Either way, a cancellation or a non-renewal does not look good on your record and can be a difficult obstacle to overcome. Insurers check with your previous insurer, or "previous carrier" in insurance language, to see if there were any problems. Insurers share a lot of information, so it is difficult to shake a bad insurance record.

Insured Cancellations

An insured can cancel a policy at any time and for any reason. It's always best to do so in writing, as with any other transactions with your broker and insurer. Before you cancel a policy, make sure you have alternate coverage in place with another insurer.

RETURN PREMIUM AND COMMISSION

When either party cancels a policy mid-term, there is a refund of the unused premium and broker's commission. Insurers have tables that they use to calculate these refunds. Essentially, if it's an annual policy, the premium and commission is divided by 365 days to get a cost per day and the return is based on the number of days remaining in the year. The part of the policy term that has already elapsed is called earned premium, the part that is remaining is called unearned premium. Refunds can be pro rata or short rate.

Pro Rata

In the case of a pro rata return, the insurer returns the unearned premium without penalty. Most insurer cancellations are pro rata.

Short Rate

Short rate is calculated in the same way as a pro rata return, except a penalty is applied. Most insured cancellations are short rate. If you cancel a policy, always ask for a pro rata return, you may get lucky.

AGENTS/BROKERS

AGENT VS. BROKER

An Agent works for and/or represents one insurance company, usually a direct writer. A Broker sells insurance for more than one insurance company, usually several. Brokers essentially work for you, the client, not the insurance company. They can search the insurance markets available to them to find you the best policy terms at the best rate. For the purposes of this manual, the terms agent and broker are used interchangeably unless otherwise differentiated, in that they are both the person you rely on for insurance advice and services.

THE BROKER/INSURER RELATIONSHIP

There are many insurance companies writing business in any given jurisdiction, usually hundreds. When you approach a broker for a rate, they will apply to all of the insurance companies with which they have a relationship. They will focus on insurers that are most likely to provide the best quotes for your type of business. The broker will "market" your account to these insurers. Essentially, they take the information you give them, i.e. applications and other documentation, and try to convince the insurers to give the best possible coverages, terms and premium. The insurer that comes back with the best terms and price will be the one that the broker presents to you. You can ask them for all quotes and declinations. In other words, the response of all the markets they approached, including those who weren't interested enough to quote. This can be useful to get a sense for how "marketable" your business is to insurers, and the range of prices and products in the insurance market.

> **QUICK TIP**
>
> Ask your broker for all quotes and declinations.

Your broker will go to bat for you with the insurance companies to get the best terms and price. The amount of clout your broker will have with an insurer will depend on the size of the brokerage, the insurance company's past success with business from that broker, and the amount of business placed with that insurer by the broker.

BROKERAGE COMMISSIONS

Commonly, a Broker gets paid a commission, which is a percentage of your premium. The amount of commission depends on the type of insurance (automobile, property, liability, etc.), the insurance company, the brokerage, and the level of competition. Most commissions are in the 10 to 20% range.

Many larger organizations, usually with full time risk managers, will negotiate a flat rate fee for service or pay an hourly fee for service. Many risk managers feel that tying a broker's fee to the amount of premium is a disincentive for them to get the best price for insurance. Also, why should a broker benefit from an upturn in the price of insurance? The amount of work done by a broker doesn't have any correlation to the amount of premium!

> QUICK TIP
>
> Try to negotiate a flat fee for service with your insurance broker.

The commission is usually built in to your invoice for insurance from the broker. They will collect the premium and commission from you and pass on only the premium portion to the insurer. Often, the amount of brokerage commission is not identified. Always find out how much your broker is getting paid as a percentage of your premium, as well as the total they receive. Also ask them if brokerage services are taxable in your jurisdiction.

> QUICK TIP
>
> Always find out how much you are paying your broker.

BROKERAGE SERVICES

Most businesses do not fully utilize the services of their broker. Most use them to canvass the insurance markets for quotes, suggest and explain coverages, and for insurance certificates. There is a lot more that your broker can do for you included in your current fee.

> QUICK TIP
>
> Utilize your insurance broker's services.

Here are some services you can request of your broker that they may not charge for:

- Analysis of your insurance portfolio to determine if there are any coverage gaps, and whether you have adequate limits.
- Analysis of your claims to determine trends and give advice on how to prevent these losses.
- Cost of risk analysis to determine optimal deductibles.
- Risk management advice.
- Loss control inspections and advice.
- Claims handling advice. Your broker can let you know which claims are covered and will report them to the insurer for you.
- Exposure analysis to determine the potential losses and whether adequate protection and coverages are in place.
- Business Continuity Planning (BCP) advice.
- Seminars and training sessions for staff on various loss control, insurance and risk management topics.
- Risk management and claims administration software that you can use. The larger brokers will definitely have this type of product but may charge extra for it. Try to negotiate for its inclusion in your brokerage fee over the life of the contract. You may get a deal.
- Annual stewardship review. This is basically a report to you on what they have done for you over the past year, how they have performed, have they met their service standards,

and what they plan to do for you in the future. The size of your business will determine how comprehensive the report. At the very least, ask your broker yearly to define service goals and make sure they are being met.

Ask your broker for advice on any matter that involves potential for loss, risk, insurance, claims, or any other matter that you feel they might be helpful on. The worst they can do is say they don't do that or that there is an additional fee.

SELECTING A BROKER

Selecting a broker is a lot like shopping for any other product or service; you get the best deal when you are informed about what you are buying, and you shop around. Some organizations use Tenders, some use Request for Proposals (RFP), some use the yellow pages method. All can be effective depending on your situation. Here are some tips:

- The main thing is to get quotes from several brokers, at least three. As mentioned, sometimes these brokers may have access to some of the same insurance companies, but don't be concerned about that, let them deal with it. The insurance company will usually quote only to the first broker to contact them, or in some cases, will provide the same quote to all brokers.

- The more knowledgeable you make yourself about what you want from your broker, the better.

- Make sure the broker you select can do all of the things you require. Small local brokers can be excellent, but may not have the same expertise in risk management, claims, loss control, etc., as that of a large national or international broker. Large brokerages may not be able to dedicate enough time to very small clients.

- As with most things, the best price isn't always the best deal.

- Select a term of appointment that you can live with, one that is long enough to develop the relationship.

- Ask for references of similar business to yours in size, scope and location. Word of mouth is still the best way to judge a company's service.

- Do an interview with the brokers you are considering to get to know the people you may be working with. Find out what markets they use, their experience in your line of business, how they plan on servicing your account, etc.

- Have a brokerage contract signed that sets out the terms and conditions of the fee, services to be provided, timelines for service expectations, and length of contract. It is also wise to include an "out clause" that says you can get out at any time for any reason with a fixed notice period, for example 30 days.

SEPARATING BROKERAGE FROM INSURANCE

This strategy of separating brokerage from insurance would likely benefit larger organizations rather than smaller ones. However, the principles will help all readers gain a better understanding of insurance buying strategies.

Many businesses that use tenders or RFPs to buy insurance will ask for bids/proposals from brokers that include the brokerage services and the insurance policy. The result is that the bid/proposal is a quote for insurance premium plus brokerage commission with some mention of the broker's services. If you make a selection based on the cost of insurance, then you are not really evaluating the services and abilities of the broker. The strategy of separating broker services from insurance is a sound, well-established risk management practice. Most large organizations do this. Broker services are an integral part of a well-managed risk management program and should be judged on their merits and ability to provide the required services. When broker

> QUICK TIP
>
> Be cautious of an insurance quote that is much lower than the rest.

selection is tied to insurance, it is quite possible that a less qualified broker could have the best insurance quote for a given year.

It is also a common risk management practice to be more concerned about the average cost of risk over many years than it is to be concerned with the best price in any given year. Sometimes the lowest rate isn't the best deal. Here's an example. Let's say you selected a broker that offered a policy at a much lower price than the other quotes you received. We previously discussed loss ratios. If your premium is not commensurate with the risk, in other words, if the premium will not cover the claims and expenses incurred for your account, then your loss ratio will be high. When you go into the next year's renewal with a high loss ratio, there's a very good chance your premiums will increase, your deductibles may increase, and your coverages may be restricted. The result may be that, in the following years, your premiums and claims costs are higher than they would have been had you taken a more appropriate premium in year one. Your premium should be commensurate with the risk. If it isn't, insurers will lose money on your account and be forced to charge you more to compensate for it. As stated before, it is better to have your costs in a narrow band than it is to have peaks and valleys. The best way to take out the peaks is to take out the valleys. Be cautious about taking a much lower premium quote. Find out why it is lower than all the others. Are you getting an inferior product? Is it under priced? This is more likely to happen when brokers are competing for your business. By hiring a good broker first, then having the broker obtain quotes, this may be less likely to happen.

When you select a broker independent of insurance, there is also the advantage of having more control over which insurance markets you use. Before choosing a broker, you can find out what markets each broker writes for. The one having access to more markets in your line of business should be able to get you more quotes, which is always an advantage.

When you've selected a broker based on merit and service, not on a premium quote, it makes you more flexible. Loyalty is discussed later, but this approach allows you to choose your broker loyalties and your insurer loyalties separately. If you have a good broker, but aren't satisfied with the insurer, you can have your broker look for alternate markets. If you are satisfied with the insurer but not the broker, you can find another broker who writes for that insurer and switch the policy to the new broker.

CHANGING BROKERS

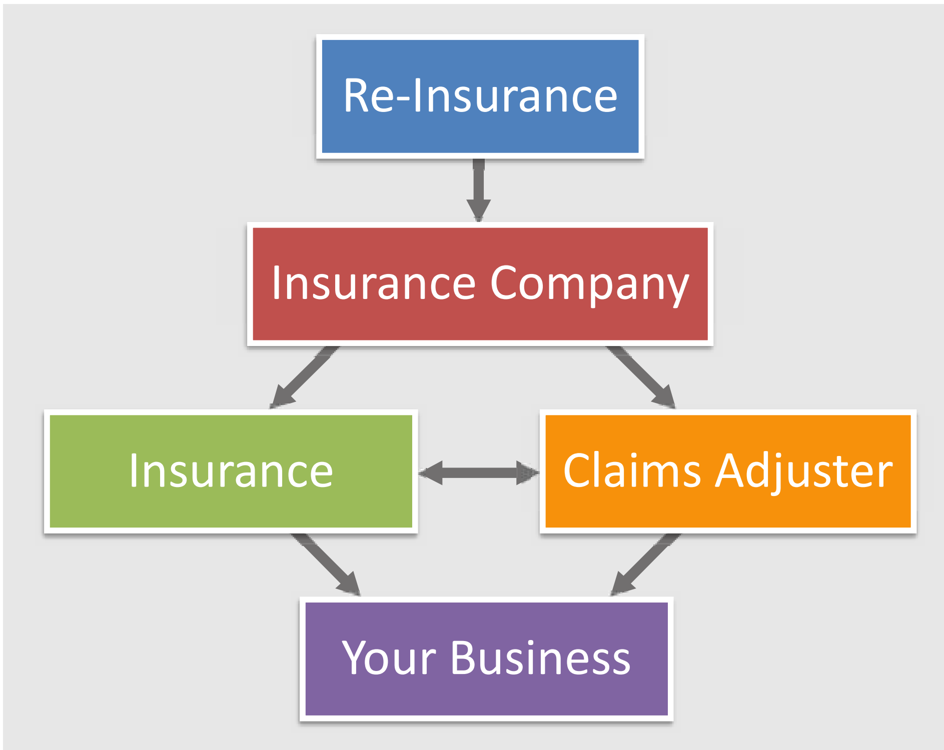
You may decide to change brokers for any number of reasons. Whatever the reason, there are ways to change broker at any time.

If you had a contract with a broker, you can wait for the end of the contract term or, if necessary, you can change mid-term. If you change mid-term, make sure you had an out clause in the contract and follow it. If you didn't have an out, be sure of the ramifications before breaking the contract. If there was no contract, just a policy purchased with no commitments, then you can change at any time. Whether changing broker at the end of a contract term or at the end of a policy term, the same selection process as described above should be used.

When changing brokers mid-term, make sure it is for a good reason. Otherwise, wait until the end of the contract or policy term, whichever applies. If it is necessary to change mid-term, your new broker will need you to sign a Broker of Record (BOR) letter. The new broker then provides the insurer with the BOR. This authorizes the insurer to deal with the new broker on your account.

Before changing brokers mid-term, make sure your new broker can write for your existing insurer. Be sure to find out from the old and new brokers what costs there are, if any, associated with the change. If you've paid a fee up front to the old broker, ask for the unused portion back. Also, it may be possible that the new broker won't charge a fee until next renewal.

Relationship Flow Chart



- Your Company's primary contact for insurance is through your insurance broker.

- Your broker solicits quotes/policy terms from insurers. Once an insurer is chosen, the broker deals with that insurer on your behalf.

- Most large organizations also have a relationship with the insurer. Risk managers will often meet with insurer's underwriters, loss control and risk management consultants, and claims examiners. Most insurance companies prefer to deal with smaller companies through brokers and adjusters rather than by direct contact.

- Insurers will deal directly with re-insurers. Some very large organizations will also have direct contact with re-insurers, especially in the case of Facultative Reinsurance.

- Claims adjusters are very often independent companies that are hired by insurance companies to investigate and settle claims on their behalf. They will usually have very little contact with your broker unless your broker needs to intervene to help get a claim settled. Adjusters will have contact with your company to gather all the required information on the claim, so be cooperative. Adjusters will recommend settlements and courses of action to the insurers, but it is the claims examiners on staff with the insurers that make the decisions as to what claims get paid and how much.

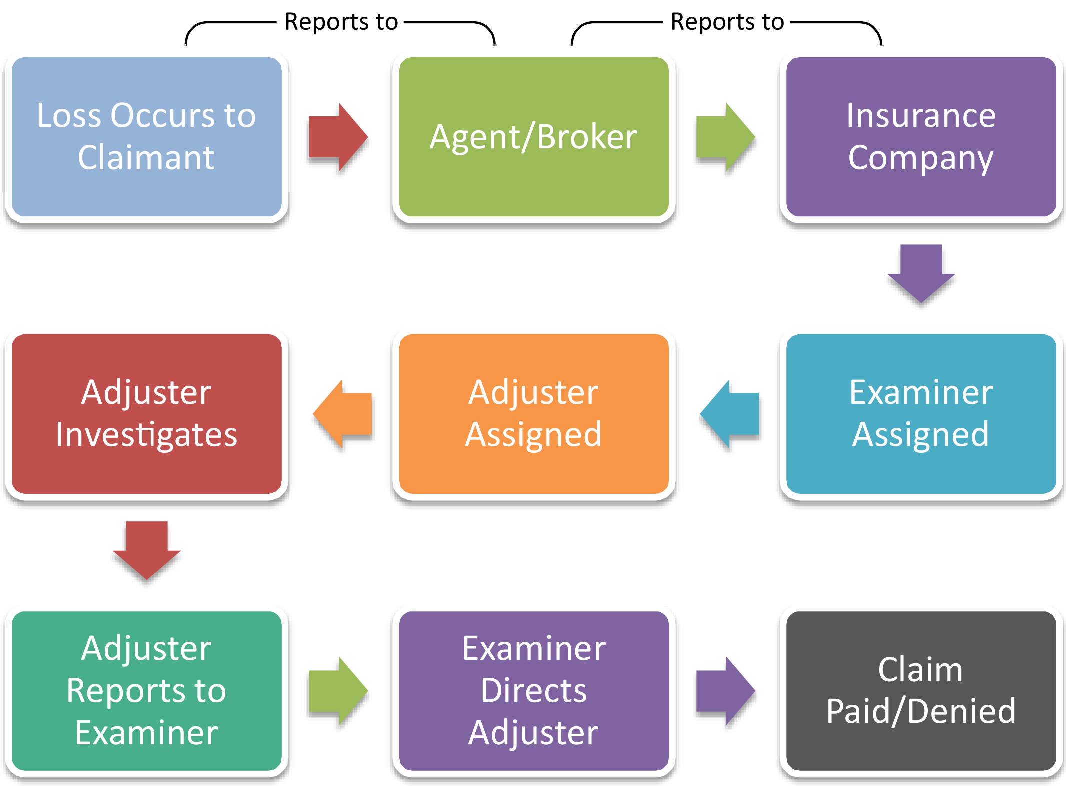
CLAIMS

STAFF VS. INDEPENDENT ADJUSTERS

A staff adjuster is an employee of an insurance company. An independent adjuster is an employee of a company that is not owned by an insurer. The type of adjuster used by an insurance company is really a matter of preference, since both essentially do the same job. Some insurers will use both staff and independent adjusters. Most jurisdictions require that adjusters be licensed to carry out adjusting services in that jurisdiction.

THE CLAIMS PROCESS

The process for claims varies by insurance company, adjusting company, type of claim, individuals involved, and the particular circumstances of the claim. The process described here is generally the way most claims are handled. However, some claims are large and complex and involve many other steps.



- The business or individual making the claim is the claimant.

- Some insurance companies have staff adjusters, some use independent adjusters.

- The adjuster investigates and settles claims on the best possible basis for the insurer. The adjuster makes recommendations as to what should be covered, and collects information to verify the validity of the claim and the amount of the claim. The adjuster will also make recommendations to the insurer as to what claims should be paid.

- The insurer's claims examiner has a staff position with the insurance company. The examiner is the one to whom the adjuster reports, and who may make recommendations to the adjuster as to how to proceed. It is the insurer's claims examiner that decides which claims are to be paid.

- The adjuster is usually the only contact the claimant has with the insurance company in the claims process.

- Whereas the insurance adjuster works for the insurer, your broker works for you. A broker usually has claims people on staff to help intervene with the adjuster and/or insurer on your behalf in the event of a dispute.

THE INSURED'S ROLE IN CLAIMS

> QUICK TIP
>
> Report all claims to your broker promptly.

As the insured, you have certain contractual obligations under your insurance policy. These obligations may include prompt written notice of loss, protection of damaged items, or cooperation with the insurer. While the requirements vary from policy to policy, all policies will clearly set out the specific requirements of the insured in the case of a loss. Not many people read their policies, let alone remember the details. With the exception of the requirement for prompt notification, you don't need to memorize your policy details in the case of a claim. If you ever have an accident or incident where a claim may be possible, call your broker immediately. Even if you are in doubt as to whether something will be covered, call your broker. Your broker will let you know if you have coverage, advise you of your obligations under the applicable policies, and will walk you through the process, as will the insurance adjuster.

> QUICK TIP
>
> Take immediate action to protect damaged property.

Another important contractual obligation is the protection of damaged items. Some people expect that, if damage occurs, it is the insurance company's responsibility to protect the property from further damage. This is partly true, but it is also your responsibility. If you suffer damage to a vehicle, building, or any other physical asset, you must take prompt action to protect the physical asset(s) from further damage. Any reasonable costs that you incur to protect from further damage in the case of an insured loss is normally reimbursed by the insurer.

It is also an obligation of the insured to avoid doing something that will prejudice the insurer's position. For example, do not admit liability or enter into settlement negotiations with a third party claimant if you expect your insurer to pay the claim. An insurance policy is a contract, which essentially gives the insurer authority to act on your behalf in the case of a claim. If you do something to interfere with the insurer's ability to settle the claim, or something to cause the claim to be inflated, then the claim may be denied.

HOW TO HELP YOUR CLAIM ALONG

Aside from meeting the contractual obligations of your policy, there are some other things that you can do help a claim along.

- Cooperate fully with the adjuster and any other representative of the insurance company, such as the damage appraiser, engineer, or other consultant or service provider.
- Respond quickly to requests for information.
- Make sure the adjuster has contact information for you or the lead employee on the claim at all times. The longer they spend tracking you down, the slower the claim will progress.
- Give comprehensive and well organized written submissions whenever providing documentation for a loss. It will take a lot longer to get the claim paid if the adjuster can't read what you have submitted or if it's incomplete.
- Have realistic expectations. These things don't often get paid overnight. Ask your broker and the adjuster at the outset of the claim for a conservative estimate of how long

your claim will take to be resolved. Even then, things don't often go as planned, so be patient.

- The squeaky wheel gets the oil! Don't be an annoyance, but call every couple of days to check on the status of the claim. If your adjuster says they expect to have an update in two weeks, make a note and call them in two weeks, don't wait three.

IF YOU ARE NOT SATISFIED WITH THE PROCESS OR SETTLEMENT

If you do all the things you are obligated to do, and more besides, yet you feel that things are moving too slowly, or if you aren't satisfied with the settlement you are being offered, you do have options. Remember, you have a contract that sets out your obligations and the insurer's, so hold them to it if they aren't living up to their end of the bargain. As mentioned, your broker represents you. A broker can be a very powerful advocate for your position and can exert a lot of influence on the insurer and adjuster. If you hit a stumbling block, or if you want to confirm that everything is happening as it should, ask your broker.

> **QUICK TIP**
>
> Use your broker to help you with the claim process.

Insurance settlements are matters for negotiation in most cases. You don't have to always take what is offered. Before you do, make sure it is fair. If not, counter offer with what you think is fair and support your position with documentation.

> **QUICK TIP**
>
> Insurance settlements are negotiable.

There are conditions in a lot of policies that set out the process of a dispute. Ask your adjuster or broker to explain the process if you have a dispute that you can't resolve.

Everyone has a boss; so don't hesitate to go over someone's head if you absolutely have to. However, only do this as a last resort, after all attempts at diplomacy have broken down.

Another option is legal action. It doesn't often come to this, but sometimes it's the only recourse. Insurance is a contract. If you feel that your insurer is not living up to their obligations, you may have grounds for a legitimate lawsuit. There are public adjusters in some jurisdictions that can work on your behalf. There are also paralegals and lawyers. Chose the one that best suits your situation.

IF YOUR CLAIM IS DENIED

You can use the same methods described above. Always get in writing the exact reason for the denial; citing which exclusion has been applied. If you are not convinced, get an opinion from your broker's claims staff. If they agree that there is no coverage and you're still not satisfied, call a lawyer.

QUICK TIP

Get the reason for a claim denial in writing.

BROKER ERRORS

Brokers are in a position to give professional, if not expert, advice on matters concerning insurance. If there is some coverage that a reasonable broker would have recommended to you, but yours didn't, then the broker may be liable if you suffer a loss but didn't have that coverage. Brokers are very sensitive to this potential exposure, so they are usually very careful to have you decline coverages in writing. Before you sue them, ask if you had been offered that coverage in writing and ask to see a copy.

THIRD PARTY CLAIMS

When a third party makes a claim against a small to medium-sized business, it is usually the insurance company that handles the claim. In larger organizations with higher deductibles, there is often a risk management department that handles claims in-house up to the deductible amounts. Some organizations can have very high deductibles, in the millions, or be totally self-insured. For small to medium-sized businesses these claims are pretty much out of your control.

Insurers have the right under the policy to settle claims as they see fit and send you the bill for the deductible (if one applies), which you are obliged to pay. Some people are surprised to find out at renewal time that their rates are going up significantly because a small fender bender that happened three years ago involved an injury settlement for $175,000. Insurers, in most jurisdictions, are not obligated to tell insureds about settlements or the reasons for them. Insurance companies are experts at settling claims on the best possible basis - for them. They make business decisions in a lot of cases. Instead of spending $50,000 to go to court and face the uncertainty of the decision, they will often settle for higher than they feel a claim is worth, believing that it will ultimately cost less. There is a real mentality in many insurance companies that the only good claim is a closed claim. Often they will pay more than they feel is justified. The perceived problem by insureds is that insurers don't care about settling because they can just increase rates to make up for it. There is some truth to this, but there is very little that you can do about it. That's not to say there is nothing you can do!

Many people think that insurance companies increase an individual's rates to collect back all of the money paid out to that individual. This is not the case. If an insurance company pays a $1 million dollar injury settlement under a policy, they don't try to collect that money from the individual. The fact that the individual was liable for a loss, and that money was paid out, is certainly considered into what type of a risk the individual is, but there is generally no dollar for dollar relationship.

> QUICK TIP
>
> Use caution when getting involved in third party claims.

If your business is large enough, you can take on higher deductibles and settle some of the smaller claims yourself. This is discussed in more detail later. You must proceed with caution here because you need to have trained people if you plan to settle claims in-house. You also need to be open with your insurer about this and let them know about all claims so that you don't prejudice their position should the claim turn out to be more than your deductible. If you are large enough, you can also ask that your insurer consult you before settling third party claims. They aren't going to do this for small companies with small deductibles and low premiums, but your broker can advise you of your chances. You can ask your broker for regular claims reports that show all the claims and lists the amount paid and the reserves, which is the amount that they expect to ultimately pay.

If you do try to get involved in third party claims, tread lightly! You don't want to hurt your relationship with the insurer. They don't have to involve you in their settlements and may not like it if you try to intervene. Do it in the spirit of cooperation and helpfulness, so that they know you want to help, not get in the way. If you are large enough, or if you are a good account, they may not mind keeping you in the loop. Remember that, at the end of the day, they will pay whatever they want to, so why damage an otherwise good relationship by trying to tell them how to do their jobs. Again, always go through your broker to contact your insurer.

ASSESSING THE RISKS OF YOUR BUSINESS

Every business has risks associated with it. Some are known and understood by the owners and managers; some are not. It is important to identify the risks to your business, to assess and prioritize them, and to protect against them. In the chapters on Loss Control and Risk Management we discuss the processes involved in reducing the overall risks, but before we do that we must first know what they are.

WHAT IS RISK?

Everyone knows what a risk is; we use the word everyday and we take risks regularly, whether we realize it or not. In every decision you make, when assessing the pros and cons, you are also doing a risk assessment. The challenge is to make it a more conscious process where your business is concerned. A risk exists where there is an opportunity for a profit or a loss. In terms of losses, we commonly refer to the risks as exposures to loss, or simply exposures. A fire is an exposure. Defective products or defamation are liability exposures. The loss of business that results from a damaged building or tarnished reputation is also an exposure.

QUICK TIP

Risk can be measured by multiplying probability by severity.

The extent of a risk can be expressed as follows:

Risk = Probability x Severity,

where Probability is the likelihood of an event occurring, and Severity is the extent and cost of the resulting loss.

TYPES OF RISK

In broad terms, risks may be broken down into two categories: pure risk and speculative risk.

Pure Risk refers to those risks where the possible outcomes are loss or no loss. It includes things like fire loss, a building being burglarized, having an employee involved in a motor vehicle accident, etc.

Speculative Risk refers to those risks where the possible outcomes are loss, profit, or status quo. It includes things like stock market investments and business decisions such as new product lines, new locations, etc.

Historically, most risk managers dealt mostly in the area of pure risk. However, there is a trend in recent years towards Enterprise Risk Management, which deals with all risks, pure and speculative. For the purposes of this manual, I have concentrated on pure risks, but some of the concepts may be applied to both.

RISK IDENTIFICATION

Identifying the risks to which your business is exposed can be a challenging task, especially for new businesses. Established businesses have a history to rely on that gives them an idea of the things that can go wrong. We also know intuitively, and from experience, about some of the risks facing us. It is a good idea to chart your risks in a way that allows you to identify the more common and serious risks so that you know the areas to which you need to commit resources. Here are some ways to identify the risks facing your business:

> QUICK TIP
>
> Identify, measure, and chart your business risks.

- Consult your insurance broker. One of the roles of the broker is to help your business assess its risks and to recommend coverages to protect against them.

- Examine past losses. Your broker can get you a loss history from your present and past insurance companies, and you can look at your company history.

- Industry associations are an excellent source of information on potential risks for particular business types.

- Employee feedback should never be underestimated and should be sought regularly.

- Customer complaints and suggestions can uncover potential risks.

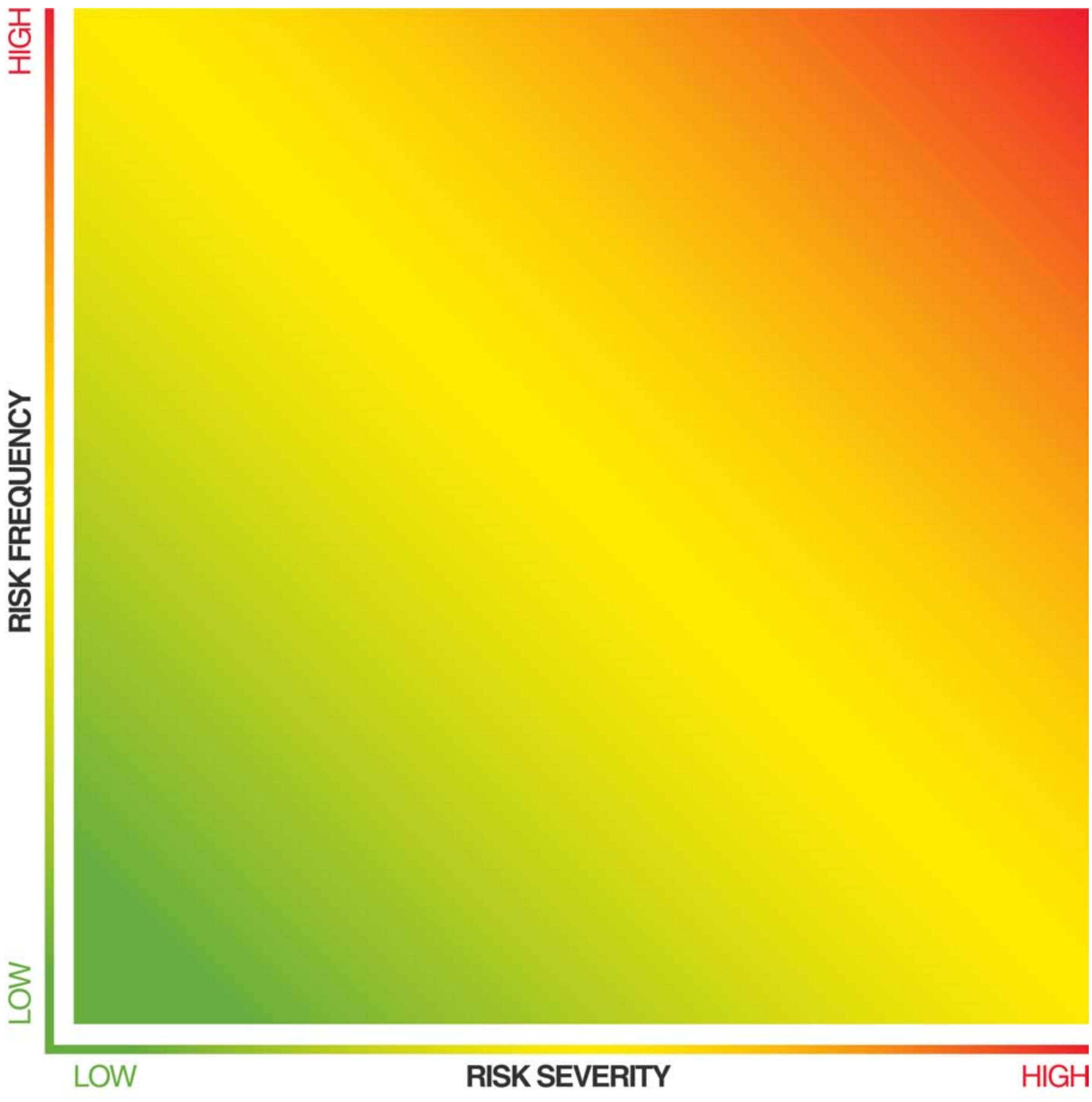
- Follow your industry's trade press and pay particular attention to losses and legal precedents experienced by others in the same business. If it can happen to them, it can happen to you.

- Hire a consultant. There are many risk management consultants out there that can do a risk assessment for you. Again, ask your broker. They may provide this service, or may be able to recommend someone who can.

Once the risks have been identified, they need to be quantified and prioritized. Risk mapping is one way to do this.

RISK MAPPING

The chart below is a sample risk map with instructions. Essentially, you chart all of the identified risks on the map. The map will make you aware of those risks on which you need to focus. Work with your broker to make sure that you are covered for all of the appropriate risks and look for ways to prevent and mitigate these risks. Risk mapping tools and procedures are available at ClearRisk.



- Plot your perceived exposures on the map depending on expected frequency and potential severity. These can be determined using experience, past losses, industry statistics, etc.

- Those exposures that are very unlikely, or even if they did occur would have a low cost or impact on the organization, would be plotted in the lower left. Very little time or resources are spent on these exposures.

- Those exposures that are either more frequent, and/or would result in a higher cost, would be plotted further up and right.

- Those exposures that are frequent with a potential high cost would go in the top right. These are the exposures that you spend the most time and resources on.

BE RISK SENSITIVE, NOT RISK ADVERSE

Being risk sensitive is not the same as being paranoid. Realize that there are risks associated with everything. Take a deliberate and methodical approach to dealing with risk, while at the same time being realistic.

Being realistic is the key to a well-balanced approach to identifying and dealing with risk. If we were too risk adverse, we wouldn't do anything. There is a tendency in many people to overreact when presented with new or unusual risks. Don't! The key is to understand them. If you are looking at buying a building that is a great location for your business, don't be scared off by the fact that there is an underground fuel tank that has been leaking. There are ways to control and mitigate virtually every risk. Most successful businesses take risks and turn them into opportunities.

> QUICK TIP
>
> Don't be deterred by risk. Try to understand and manage it.

IDENTIFYING RISK IN BUSINESS DECISIONS

In every SWOT analysis (strengths, weaknesses, opportunities, threats) or cost/benefit analysis, careful attention should be paid to the potential risks. Very large organizations incorporate risk identification and risk management into their due diligence in business acquisitions and other important business decisions. Large organizations are now using the concept of enterprise risk management (ERM), where the risk management process is applied to all business risks, pure and speculative. Identifying risks in business decisions is much the same as with the process of identifying any risk. The key is to be thorough and use all the sources available. These risks can be prioritized and mapped in the same way.

> **QUICK TIP**
>
> Employ risk management techniques in all business decisions.

Some of the things to consider in a business acquisition, for example, are incurred but not reported losses (IBNR), environmental assessments of all sites, any contractual transfers of risk that exist, outstanding insurance deductibles, claims experience and loss ratios, and contingent liabilities. Use your broker and other experts to assess these risks if the expertise does not reside in-house.

Consider the cost of insurance for any new acquisitions!

RISK MANAGEMENT BASICS

Risk management is the process of making and carrying out decisions that will minimize the adverse effects of risk on an organization. The adverse affects of risk can be objective or quantifiable like insurance premiums and claims costs, or subjective and difficult to quantify such as damage to reputation or decreased productivity. By focusing attention on risk and committing the necessary resources to control and mitigate risk, a business will protect itself from uncertainty, reduce costs, and increase the likelihood of business continuity and success.

Once the need and value of risk management is recognized, and senior management makes a commitment to it, then risk management practices can be integrated into the business's structure.

WHY MANAGE RISKS?

There are many reasons for managing risk. Here are some:

- Saves resources: people, income, property, assets, time
- Protects public image
- Protects people from harm
- Prevents/reduces legal liability
- Protects the environment

THE BIGGER THE BUSINESS, THE BIGGER THE TARGET!

One of the biggest risks facing business today is claims and suits for liabilities. No individual or business is immune from liability. Businesses are greater targets than individuals, and larger businesses are more likely to be sued that smaller ones. For many businesses, it is these potential liabilities, more than any other risk, which makes them realize the need for risk management. Here are some of the reasons for the trend towards litigation, and why businesses are being targeted:

- Businesses and organizations are perceived as having a lot of assets. Big or small, the public expects an organized company or group to have assets and a means to pay for claims.

- Businesses and organizations are perceived as having large insurance policy limits. The public expects an organized group or incorporation to carry insurance and they expect that the limits are high.

- In today's society, people are becoming more and more willing to sue. Many claims are frivolous in nature.

- Courts are often sympathetic to injured people and, as a result, give the benefit of the doubt to the claimant over a corporation.

- Deep pockets pay. Many legal jurisdictions employ a legal doctrine called joint and several liability. This is a legal concept whereby a court can make a decision binding on more than one party in such a way that the party having the greatest ability to pay does so and has to collect from the other parties. For example, if you are 1% liable, but are most able to pay, you may have to pay 100% of the judgment and collect from the other party(ies). If the other party(ies) cannot pay (bankrupt, no insurance, etc.), you have to pay the entire amount.

THE RISK MANAGEMENT PROCESS

Many businesses do things to prevent losses or mitigate risks every day, but don't think of it as risk management. Most prudent business people and managers take great care to do things like prevent accidents, protect property, and keep customers and employees from harm. Any effort to manage risks is positive. It is important, however, to follow a formal process to ensure consistency and thoroughness. The following are the essential elements of the risk management process.

IDENTIFY POTENTIAL EXPOSURES TO LOSS

- What can possibly go wrong?
- Possible sources of information:
    - Your experience and your business's experience
    - The experience of other business's similar to yours or in a similar industry
    - Past accidents and incidents
    - Statistics
    - Complaints/suggestions of customers, the general public, and other stakeholders

MEASURE FREQUENCY AND SEVERITY

- What is the likely number and size of claims?
- Of the exposures identified in the process above, which are most likely to occur and which, if they occur, will have the greatest impact on the organization?

- Risk Mapping (see sample risk map in Chapter 0)

EXAMINE ALTERNATIVES

Risk Control

- Risk avoidance: can the activity be discontinued?
- Prevention: what steps can be taken to reduce the likelihood of losses occurring?
- Mitigation: what steps can be taken to lessen the impact of losses should they occur?
- Accept the risk as is: some risk is inherent in your operation, so you have to live with it.
- Transfer: through contracts or waivers, transfer the risk to others.

Risk Financing

- Retention: is it financially possible for the organization to retain this risk? Can it bear the financial burden should a loss occur, either by way of deductible or other self-insurance methods?
- Transfer: is it necessary to buy insurance?

DECIDE WHICH ALTERNATIVES TO USE

- Of the possible risk management techniques, which strikes the best balance between effectiveness and affordability?
- Analyze the alternatives, how much will each cost versus the resulting effect?

IMPLEMENT THE CHOSEN TECHNIQUES

- Utilize necessary resources to develop the plan.
- Get buy-in from senior management, staff, customers, and other stakeholders.
- Ensure that staff and others are trained and informed about the plan.
- Set up a process whereby the plan is implemented consistently and continuously.

MONITOR RESULTS

- Set up a monitoring process.
- Is your plan working? Are changes or updates required?
- If the plan doesn't have the desired effect, does it need revamping or should it be scrapped for other alternatives?

EVERYONE IN AN ORGANIZATION IS A RISK MANAGER!

No one person can be everywhere at once. All employees must be risk sensitive. They must be constantly informed about the value of risk management and about risk management techniques. Employees have to be trained in the use, purpose, and application of all risk management policies and procedures. They need to be shown how to complete the appropriate forms and reports. Emphasis must be given to the consequences of not adhering to policies. Employees should be regularly updated on accident and claims frequency and cost. Costs such as claims, insurance premiums, and loss prevention programs should be allocated to departments. That way, each division manager will be responsible for the division's cost of risk. When these costs are borne by a department head, they are more likely to be controlled. It should be regularly reinforced that most losses can either be prevented or minimized. Finally, employees must me made aware that everyone in a business suffers the consequences of increased cost of risk.

Risk Management Tools

INSURANCE CERTIFICATES

An insurance certificate is proof of insurance coverage, but it can also confer certain rights to the certificate holder. A certificate contains all the relevant information that a contracting party might need to know about the other's insurance. It is usually required by one organization of another when one party is put at risk due to the nature of the relationship or agreement between the parties. If someone requests this of your organization, forward the request to your broker with all the relevant information, and they will issue the certificate. Only someone with binding authority for the insurance company can issue a certificate of insurance. This includes authorized insurance company employees, usually underwriters, and insurance brokers or agents that have a contract to write business for that insurer. When reviewing a certificate of insurance, make sure that it is issued by an "authorized representative" of the insurer(s) listed on the certificate.

> **QUICK TIP**
>
> Forward requests for insurance certificates to your broker.

ADDITIONAL INSURED

When providing an insurance certificate to an organization, or when requesting one, the requesting party requires that they be named as an "additional insured" on the other party's insurance. This means that the certificate holder is treated as an insured under the policy for the purposes of defending and settling claims that arise out of the operations that the parties are undertaking together. Do not mistake this for "additional named insured"! There's a big difference! If someone requests this they are probably mistaken, so just have them added as "additional insured". Most insurers and brokers know the difference and wouldn't add someone to your policy as "additional named insured".

> **QUICK TIP**
>
> Make sure the certificate lists your company as an additional insured.

CROSS LIABILITY CLAUSE

It is prudent to have a cross liability clause added to insurance certificates that you are requesting for liability insurance. This clause means that, should a loss occur, all insureds under the policy, including additional insureds, are treated as though separate policies exist for each. This is important if there is a conflict between the parties and one has to defend against another.

NOTICE OF CANCELLATION CLAUSE

When requesting an insurance certificate, it is important to require a notice of cancellation clause. This means the insurer will notify you if the policy for which the insurance certificate was issued is cancelled. You can request the amount of notice you need. Most state 15, 30, 60, or 90 days, but 30 days is acceptable in most situations.

COVERAGES AND LIMITS

When requesting a certificate, or having one issued, consult your broker on the coverages and limits that are appropriate for the situation.

EFFECTIVE DATES

Check the effective dates, or policy term, on the certificate to make sure the dates cover the activities in question. Any time an activity or relationship will outlast the expiry date on the certificate, make sure to request a new one prior to expiry.

QUICK TIP

Remember to get new certificates prior to expiry.

OPERATIONS

If the operations or activity is unusual or out of the ordinary, such as fire works or blasting, it's a good idea to have the activity listed as an insured activity. If you are concerned, ask for a list of the endorsements and exclusions to the policy.

Sample Certificate of Insurance

To: *Your Organization Name and Address Here*	**From:** *Insurance Company Name and Address Here*

Name of Insured:	
Address of Insured:	
Location(s) to Which This Certificate Applies:	
Operation(s) to Which This Certificate Applies:	

Kind of Policy/Coverages		**Insurer**	**Policy Number**	**Policy Period**	**Limits of Insurance**
1. Comprehensive General Liability	**Y/N**				1.
a. Products b. Completed Operations c. Tenants Legal Liability d. Host Liquor Liability e. Non-Owned Auto f. Personal Injury g. Other					a. b. c. d. e. f. g.
2. Automobile					2.
3. Property					3.
4. Other					4.

POLICIES AND PROCEDURES

> **QUICK TIP**
>
> A written policy that is strictly followed can be an excellent defense.

A very good way to defend a claim or legal action is to have formal written policies and procedures in place, and to strictly adhere to them! One common type of policy is an inspection and maintenance policy. This can apply to any type of operation, location, or process.

Here are some guidelines for a generic Inspection and Maintenance Policy:

- Put the policy in writing.
- State who is responsible for the policy, its purpose, inception date, and any revision dates.
- Make all management and staff aware of the policy.
- Set out what is to be inspected, by whom, how often, where, and any other details specific to the situation.
- Use qualified people for the inspections. If it is complex machinery that is being inspected, an engineer may be required.
- Develop an inspection form that covers all of the key elements that need to be assessed on a regular basis.
- Provide space on the inspection form for information such as the date and time of the inspection, the person doing the inspection, the findings, and the actions taken.
- Set out the procedure for handling problems if they are found.

- Keep all daily logs and reports on file. Get legal advice on how long you should keep these. It will depend largely on the statutes of limitations in your jurisdiction.

- Make sure the policy is consistently used and strictly enforced. The strength of your defense to a claim will rely heavily on the consistency and reliability of the process.

- Train the people who will use the policy to fill out the required forms, do inspections, carry out repairs, do reports, etc.

SIGNS

Signs are only warnings and a type of disclaimer. The primary purpose is to prevent losses. They shouldn't be relied on to deflect liability, although they may help.

Here are some points to remember about signs:

QUICK TIP

Signs can be an effective way to prevent losses.

- Keep them simple.

- Use plain language.

- Make sure they are in a visible place.

- Use as few words as possible to get the point across.

- Use universally recognized symbols where possible.

- Use a size and color that is appropriate and visible.

- Make sure all common languages are used.

HOLD HARMLESS AND INDEMNIFYING AGREEMENTS

These are usually clauses in contracts or agreements whereby one party agrees to protect the other party from legal action arising out of the contract or agreement. If a person or company agrees to indemnify another party they are agreeing to reimburse them for all the costs of any loss, damage, injury or other claim. A properly worded and executed hold harmless and indemnifying agreement can provide good protection from a claim or suit. Legal advice should be obtained for the best wording for your specific situation. Sample agreements are available at ClearRisk.

WAIVERS

A waiver is a clause that states that users, customers, etc., waive their right to make a claim or sue the waived company for a specific activity. Waivers can be short and simple or very long and complex. Some are used in conjunction with an "informed consent", which is designed to make the users, customers, etc. aware of the risks of an activity so that they can understand and accept the risks associated with that activity. Waivers are a controversial topic. They are never fail-safe. They may be a good idea in your situation, and may hold up, but think of a waiver as a deterrent to claims as opposed to a bar to claims. Remember that parents/guardians can't waive the rights of a child.

> **QUICK TIP**
>
> Get legal advice on wording for waivers and hold harmless agreements.

Some points to remember about waivers:

- Keep them simple.
- Use plain language.
- Make sure the waiver clearly defines the activities being waived.
- Get legal advice.

BUSINESS CONTINUITY PLAN (BCP)

> **QUICK TIP**
>
> Develop and implement a business continuity plan.

Invest some time in planning how your business will cope with a shut down or major loss. Business continuity planning is a discipline all to itself and deserves a great deal of attention. There are many trained and experienced BCP consultants that can help you develop a plan for your business. Insurance brokers and adjusters may have experience in this, especially the large national and international ones. Companies with a good BCP can survive and thrive in the worst disaster. Many large companies lost a lot of staff and resources in the 9/11 disaster but were operational at other sites the same or next day with very little interruption to business. Conversely, companies with no plan or a poor plan can suffer irreparable harm due to a business shutdown. ClearRisk has a wide range of complimentary BCP tools, including easy to follow implementation procedures. Here are a few things to think about:

- Develop and implement a written BCP.
- Practice your BCP and make the necessary adjustments.
- Duplicate and backup essential resources such as electronic data.
- Identify bottlenecks in supply lines and look for backups.
- Store backups in secure off-site locations.
- Develop mutual aid agreements (MAA) with competitors and/or other similar companies to share resources such as office space, production lines, phone lines, mainframes, etc.
- Segregate essential business units using different locations or physical protection such as fire separations.
- Plan on how you will communicate with suppliers, employees and customers.

Sample Accident Report

File Number: __ __/__ __/__ __/__

(Accident Date) y y / m m / d d / #

Time of Accident: am/pm

General Details

Location of

Accident____

Operator & Vehicle Details

Department

____

Operator ____________________________ Employee No.__________ Driver's License #

____

Third Party Vehicle No. 1

Driver

Third Party Vehicle No. 2

Driver

Witness No. 1

Name

Witness No. 1

Name

Property Damage (Other than to Vehicles)

Pedestrian_____, Motorcycle_____ or Bicyclist_____

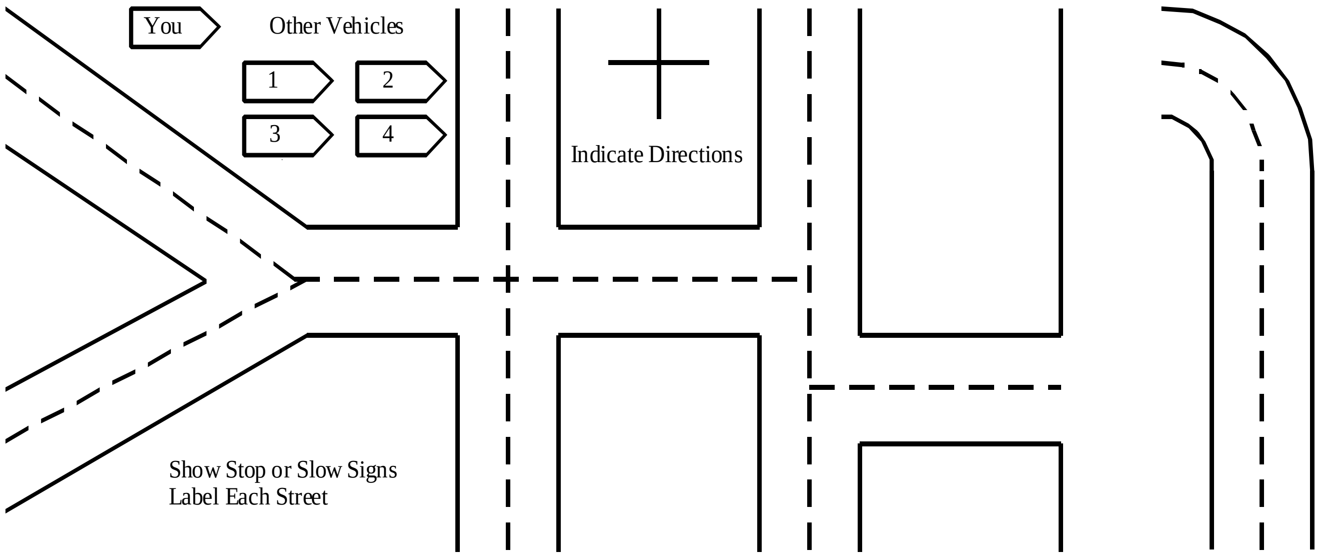
Name ______________________________ Address

ACCIDENT REPORT FORMS

When accidents or incidents occur, it is important to get all of the relevant information at the scene. There is a sample accident report form on the next page. Whatever form you use, tailor it to your situation to include the information you will need. Ask your insurance broker and insurance adjuster for advice. Sample customizable forms are available at ClearRisk.

Illustration of Accident

(Illustrate position of vehicles at the time of the accident. Show skid marks).
(If any street is more than two lanes or is one way only, please indicate.)



Accident Statement

(If more than one occupant in vehicle, each occupant must write a separate statement.)

Describe in Detail How the Accident Occurred:

___________________	____________________	_______________________
Operator Signature	Date: YY/MM/DD	Wtness Signature

RISK MANAGEMENT TIPS

KEEP OLD POLICIES AND CERTIFICATES

Consider old insurance policies and insurance certificates as assets. They are your proof that coverage existed and they set out the terms, conditions and limits of coverage. Many liability policies are occurrence-based. This means that a loss claim is made against the policy in place at the time of the occurrence responsible for the loss. It is possible for a significant time to have passed between the actual occurrence and the eventual loss. Without the old policies, there is no proof of coverage and it is likely that the insurer responsible at the time in question will be forgotten.

> QUICK TIP
>
> Old insurance policies are valuable and should be kept.

INSURE TO VALUE

Do not over or under insure! Either way it could cost you money. Make sure that the values you report to the insurance company are accurate. Some insurers and brokers may provide building valuations, so ask. If you aren't sure of your values, have appraisals done. Your premiums are usually a rate per hundred or thousand times the value of the property in question. If you value a building at $1.2 million that is actually only worth $1 million, you are paying premium on the extra $200,000 needlessly.

> QUICK TIP
>
> Don't over or under insure your property.

It is also important that you don't under state your values since you can be penalized for partial losses. This is where the coinsurance clause comes in. Almost all policies have this type of clause. It requires you to insure a minimum percentage of the total property value.

For example, if your building has a replacement value of $100,000 and the policy has an 80% coinsurance clause, you have to insure it for at least $80,000. In this case, if you have a total loss, the most you'll get for the building is the policy limit of $80,000. In the event of a partial loss, however, say $10,000, you'll get the full amount of the partial loss claim paid, or $10,000.

If you insure the same building for $40,000, the most you would get for a total loss is $40,000. In this example, you have only insured the building for half of the coinsurance requirement. Therefore, in the event of a partial loss of $10,000, you would only get half of the loss claim, or $5,000. This applies to contents, stock and equipment as well. The following is the formula for the above example:

Amount Payable =

$$\frac{\text{Amount Property is Insured For}}{\text{Full Property Value x Coinsurance Requirement}} \text{ x Amount of Loss}$$

$$= \frac{\$40{,}000}{} \text{ x } \$10{,}000$$

$$= 0.5 \text{ x } \$10{,}000$$

$$= \$5{,}000$$

ACV VS. REPLACEMENT COST

Property policies can be based on the actual cash value (ACV) of the property or the replacement cost. Replacement cost does not take into consideration depreciation, whereas ACV is replacement cost less depreciation. The percentage of depreciation can vary from zero to 100% depending on the item, its age, and its condition. Even new items can be depreciated. Replacement cost may be included in some policies and may be added to most others by endorsement for an additional charge. In the case of a claim, you have to itemize the stolen, damaged, or destroyed items and give their description, age, where and when they were bought, the original cost, and the current replacement cost. If you have a replacement cost endorsement, the insurer will first pay you based on the depreciated amount. After you've replaced the items and submitted the appropriate receipts, you will be topped up to the replacement cost. It can be very time consuming and difficult to itemize lost property after a loss has occurred, so keep an ongoing inventory with values.

> **QUICK TIP**
>
> Ask your broker whether ACV or replacement cost suits you best.

SPEND MONEY AND TIME ON LOSS CONTROL

Loss control is discussed in detail in the next chapter, but generally it is a good risk management practice to allocate money and other resources to loss prevention every year. There are many adages related to prevention. For example, "an ounce of prevention is worth a pound of cure". This is one case where the adages are true! Study after study, no matter what the subject, illustrates that money spent on prevention is saved many times over.

Once you have completed your cost of risk analysis and risk mapping, and have prioritized the risks, you need to look at the costs associated with these risks compared to the costs associated with implementing prevention techniques. Decide, based on your budget, how much to invest in prevention each year and where to spend those dollars.

> **QUICK TIP**
>
> Prioritize your risks to know where best to spend your loss prevention dollars.

PROTECT YOUR IMAGE

Image risks are often underestimated. Protecting your company's image and brands is essential. Part of any risk assessment should include consideration of risks to your image. Damage to reputation often goes hand in hand with a loss; so include image risk management in claims handling procedures and business continuity planning (BCP). Communication with customers and the public is key, so have staff trained in crisis management or consult a crisis management expert and/or an image consultant.

DON'T HIDE YOUR STRENGTHS FROM YOUR INSURER

Most businesses perform risk management functions without being aware of it, or without thinking it relevant enough to tell insurers. A big part of my job as a risk manager is to brag to my insurers about my organization. You should do the same! Make sure you tell your insurer (through your broker) about all loss control/prevention measures in place, policies and procedures, physical protection, contractual transfers, etc. Give them copies of any policies, inspection forms, accident reports, training programs, etc. Sell your organization! Remember, not only are they competing for your business, you are competing with all the other businesses for their capacity and for favorable consideration. Formalizing risk management will allow you to easily show your insurer how you are protecting your assets.

> QUICK TIP
>
> Sell yourself to your insurer at every opportunity.

RISK MANAGEMENT ATTITUDES

Incorporate a risk management attitude/awareness into all aspects of the business, i.e. hiring, acquisitions, training, decisions, investments, etc. Large risk managed organizations do this and so should you. It doesn't mean you need to spend large amounts of money or time; it's just about having top of mind awareness about the potential risks and associated costs when making decisions.

COOPERATE FULLY WITH INSURERS/BROKERS/ADJUSTERS

If you are in business for yourself you don't need a lesson in relationship building. However, some people have a tendency to get into confrontational situations when it comes to insurance and claims. I think this is mostly due to a lack of understanding about insurance by the general public, one of the reasons for creating this manual. In any event, make every effort to cooperate with your insurance contacts and develop these relationships. You don't want them thinking you are hiding something or being dishonest. That's one thing that insurance/claims people have no tolerance for.

> QUICK TIP
>
> Constantly work on building your relationships.

LOYALTY VS. SHOPPING AROUND

There are pros and cons to staying with an insurance company for a long time. Long term customers tend to get preferential treatment, may get better rates, develop a rapport with the service providers, and may be given other perks. However, it is a good idea to look around every two to three years, or if you've gotten a big rate increase or unsatisfactory service. Insurers don't generally like customers who change every year. They prefer long-term customers. If you change often, you might find that some companies won't want your business. Also, if you've had a lot of claims, it's probably a good time to stay put until you can get the claims under control. If you are thinking about looking for a new insurance company, have your renewal documentation in your broker's hands at least 90 days before the renewal/expiry date of your current policy. This gives them plenty of time to make submissions to their markets, for underwriters to consider your account, and for negotiation. This will put you in a much better position than if you wait until the last minute.

> QUICK TIP
>
> Loyalty is important, but shop around occasionally.

INSURANCE RENEWALS

Make your insurance renewal submission comprehensive yet concise. You want the underwriters to have all the information they need to make a decision in a form that's easy to read and understand, yet not be bogged down with unnecessary information. If a broker asks you to fill

> QUICK TIP
>
> Take the time to prepare a professional renewal submission.

out an application, keep a copy so you can provide the same application to others who request similar information.

Your broker will let you know the specific items needed for your business, but here is a list of things that may be useful to include in your submission:

General

- Copies of all applications from existing brokers from your last renewal
- Claims histories from current brokers for all lines
- Copies of existing policies with premiums blacked out
- Copies of your latest financial statements
- Copies of relevant brochures or other publications that will help describe your business's activities and programs
- Copies of any risk management, loss control, or other safety policies or procedures
- Details of any inspection and maintenance policies and procedures of the various locations for defects, hazards and safety
- Details about employee and volunteer screening, hiring practices, and training
- Anything else that describes what you do and how you do it, and which might impress an insurer
- Updates of all information since your last renewal (buildings, vehicles, etc.)

Comprehensive or Commercial General Liability (CGL)

- Specific information about activities at each location, i.e. processes, number of employees and customers, waivers/hold harmless wordings used, safety precautions for preventing injury to customers, members, guests, other users, etc.

- Annual revenues by division/building/etc., if not included in the financial statements above

- Annual payroll

Property

- A list of locations owned and rented, including a description of building construction, protection (fire alarms, burglar alarms, security, sprinklers, etc.), building and contents values, and the operations at each location

- Names and branch locations of any banks where mortgages for property are held, including mortgage amounts

Crime

- Amount of cash on hand at all locations at any time

- Details about how regularly deposits are made, security precautions, etc.

- Details of any safes at all locations including the make, model, serial number, rating, size, construction type and location in building

- Details about who has signing authority on checks, how many signatures are required, and any other security precautions taken

- Details of any other security precautions to deter/prevent theft, forgery, burglary, or any other type of crime

Automobile

- A list of all vehicles owned, rented, or leased by the organization, including the make, model, VIN, year, lien holder, and drivers

- Details of all drivers of the above vehicles, i.e. name, DOB, address, claims history, number of years driving, average mileage and area of use, and information for any spouse, child or other person who uses the vehicle

- Information on any fleet safety programs, preventative maintenance programs, driver training, etc.

- Check with your broker before compiling these lists to determine if they are required depending on what type of form you have

Directors and Officers

- A list of current board members

- Board nominating/selection processes, i.e. how board members are chosen, the screening performed, experience required, and other due diligence done in selection

- Copy of Constitution and Articles of Incorporation.

HANDLING ACCIDENTS AND LOSSES

No matter how cautious you are, accidents can still happen. The way that an accident is handled can greatly affect the outcome of any resulting claim. For example, if an injured claimant feels they have not been treated with respect and compassion, their resolve to be compensated may be strengthened. The potential damage to your image or brand can also be great if poorly handled incidents are publicized. Staff should be trained to do/not do the following:

- Never admit liability! Never!
- Administer first aid.
- Secure the scene to prevent further loss.
- Don't be pressured into discussing the situation with a third party. Staff can always say:

  "I'm not permitted by my employer and insurer to discuss the circumstances of the accident. I will, however, be reporting the incident immediately, and an authorized person will contact you."

- Document! Document! Document! Document! Write down all the particulars: Who, What, Where, How, When, Why, ...
- Report an incident immediately to a designated manager. The manager then decides whether the insurance company should be notified. If it is a potential claim, report it immediately.
- Take names and numbers of all victims, witnesses, staff, and anyone else around.
- Be observant. The details gathered by the staff at the scene of an accident can make the difference between having a good defense and having no defense.

- Be courteous and sympathetic to people who are involved. The last thing you want is someone who is not only injured, but who has an axe to grind!

- Keep disposable cameras in all vehicles and instruct employees to take photographs of an accident scene. Pictures should show the position of the vehicles in the street, the resting place of the vehicles, damage, skid marks, and the accident debris field.

KEEP CLAIMS RECORDS

Insurers keep claims records for all insureds. These records are only for insured losses and your access to this information may be limited to summaries. It's always best to keep your own detailed records of losses. Maintain a database or spreadsheet and itemize claims by type, location, employee, vehicle, amount of claim, and any other relevant criteria that you may have. Keep good accounting records of your losses and create separate budget items for common types of claim payments.

CHOOSING YOUR DEDUCTIBLE

This can be one of the most important things you do! It should be done in consultation with your insurance broker. A risk management consultant may also be useful in determining optimal deductible levels.

> QUICK TIP
>
> Choose your deductibles carefully!

A deductible is the amount you pay in the case of an insurance claim. It is also known as self-insured retention. You can, in most cases, have a choice in the deductibles on your policies. The general principle is: the higher the deductible, the lower the premium.

The last thing you want to do is trade dollars with an insurance company! A maxim in risk management is "don't insure losses that you can predict and afford to pay." The key is to strike a balance between premium savings and claims costs. The challenge comes in determining where that equilibrium is. Most people choose deductibles in very unscientific ways. As well, most deductibles are probably at levels that don't achieve the best possible cost of risk. The cost of risk, for the purposes of determining deductibles, is the cost to your business of paying insurance premiums and claims below the deductible.

COST OF RISK ANALYSIS

A cost of risk analysis is a good way to determine optimal deductibles. To do this analysis, you'll need your loss history for several years (the more, the better). Five years may suffice. You'll also need insurance premium quotes for different deductible levels. The best way to explain this is with an example.

Let's say you want to analyze your general liability (GL) deductible. Your current deductible is $1000 per occurrence, and the annual premium for this coverage this past year was $200,000. Your insurer is suggesting a 50% premium increase this year at renewal. You decide to shop around and also look at different deductible options. You ask for quotes based on $1000, $5000, $10,000, and $25,000 deductibles. The best quotes you get are as follows:

> **QUICK TIP**
>
> A cost of risk analysis can help you identify the best deductibles.

Deductible	Premium Quote
$1000	$300,000
$5000	$175,000
$10,000	$100,000
$25,000	$45,000

Your five-year loss history for GL claims is as follows:

Year	Number of Claims	Total Cost of Claims	Your Cost at $1000	Your Cost at $5000	Your Cost at $10,000	Your Cost at $25,000
1	15	125,000	9000	37,000	81,000	125,000
2	12	120,000	8000	35,000	75,000	110,000
3	18	150,000	12,000	48,000	90,000	135,000
4	16	170,000	11,000	52,000	93,000	140,000
5	19	210,000	15,000	63,000	106,000	185,000
Total	80	775,000	55,000	235,000	445,000	695,000
Average	16	155,000	11,000	47,000	89,000	139,000
Premium at Different Deductibles			300,000	175,000	100,000	45,000
Cost of Risk at Different Deductibles			**311,000**	**222,000**	**189,000**	**184,000**

Based on this analysis, your optimal deductible is $25,000. Since your cost of claims is an estimate of future claims based on past experience, you may want to be conservative. Just because your average claims cost over the past five years was $139,000, doesn't mean that you won't have years with $200,000 or more. Being conservative, you might be wise, in this example, to go with the $10,000 deductible. This will achieve a slightly lower cost of risk, but give you the comfort of knowing that a year with a few large losses won't "hurt" as much. In this example, by taking the higher deductible, you will save your company $122,000 per year, or a 40% savings. This example is not unrealistic.

By selecting a deductible where expected claims are paid out of pocket, your insurers will likely achieve a satisfactory loss ratio for your account. This will make your company more attractive to insurers, which is an important goal!

It is important to note that your broker should help you in this exercise so that you don't make any mistakes and choose a deductible you can't afford. Also, you may be limited in the deductibles you can carry based on the size of your business. Obviously, results will vary greatly depending on all the factors affecting premium described in chapter 0.

Loss Control

Loss Control is anything that you do to prevent or mitigate against potential losses. Loss Control is a function of risk management, which is discussed in chapters 0, 0 and 0. However, it is an important issue all to itself and warrants particular attention. Insurance companies are very concerned with loss control. Many do loss control inspections using staff and independent experts. Whether or not your insurer does any loss control, you should. Time and time again, studies show that for every dollar spent on prevention, many more are saved. Budget for loss control every year. It's a good investment.

ACCIDENT/LOSS PREVENTION

There are many things a business can do to prevent accidents and losses. Here are some general tips to use as a guide for all activities:

> **QUICK TIP**
>
> Invest in Loss Prevention.

- Invest time and money in safety and loss prevention.
- Dedicate staff to stay on top of safety and loss prevention issues.
- Implement written policies and procedures for safety and loss prevention.
- Constantly encourage staff to follow the rules.
- Staff should be reminded that your company's image is reflected in their actions.
- Be courteous to others and always remember that some people are more sensitive than others.
- Use proper equipment for every job and make sure equipment is regularly inspected for damage and maintained.

- Obey the rules of the road when operating vehicles.
- Report hazards immediately.
- Foster a safety conscious workplace.
- If in doubt, ASK SOMEONE ELSE.

PHYSICAL PROTECTION

Discounts are given by insurers for many types of physical protection: sprinkler systems, fire doors, burglar alarms, bars on windows, surveillance cameras, self dyking oil tanks, safes and vaults, etc. This is a very broad area that can vary greatly, depending on your type of business, building types and locations, scope of operations, processes, etc. Check with your insurance broker to determine what types of physical protection would have a positive impact on your premiums and claims.

> QUICK TIP
>
> Physical protection can often result in direct premium savings.

LIABILITY LOSS PREVENTION

Liability loss prevention can be as broad as physical protection. Again, check with your broker for things you can do specific to your business, but there are some general areas of concern common to most businesses. Generally, policies, procedures, training, equipment maintenance, safety equipment, employee screening, etc., are all things you can do to prevent liability losses. Almost all businesses are exposed to potential losses from slip/trip and falls. The maintenance and inspection policies previously described can go a long way to preventing these losses.

From your risk identification and risk mapping you will identify these exposures. When you do, you will know which areas to concentrate on. With so many potential liabilities, it is difficult to give specific advice. Here is an example that may illustrate how to prevent one specific type of liability exposure.

Liquor Liability, an Example

There are a growing number of claims and legal actions involving liquor liability. If your business has staff parties that involve alcohol, if you sell or serve alcohol, or if you are in any way involved in the facilitation of the consumption of alcohol, you could be liable for damages or injuries where that alcohol consumption is a contributing factor to the loss. If you identify this as one of your exposures, here are some things you may want to implement to prevent losses:

1. A written policy adopted by the board and senior management that includes the information contained herein.

2. Strict enforcement of policies and procedures with meaningful consequences.

3. Strict regulations for alcohol use on your property. Some possible controls and deterrents are:

    - Limit alcohol consumption.

    - Ensure that bartenders are experienced and do not serve obviously intoxicated persons.

    - Offer food service.

    - Encourage taxi use and possibly provide vouchers.

    - Provide reduced/subsidized taxi and hotel rates.

    - Encourage car pools and designated driver programs.

- Remind guests before and during the event not to drink and drive and of the other options available.

- Have several trained doormen/bouncers/spotters who remain sober and watch people leaving and encourage/insist on taxi use.

- Inform guests that intoxicated persons will be put into taxis.

- Use MADD or similar posters to display outside and around consumption areas.

4. All staff that serves alcohol should attend a “safe server” or “server intervention” program.

5. Have groups/individuals that rent the facilities sign a rental agreement that includes a hold harmless and indemnifying clause.

6. Provide groups/individuals that use or rent your space with your alcohol service policy and encourage them to follow the procedures. Also encourage regular renters to have their servers attend the training mentioned above.

7. Check with your broker before you are involved in any alcohol consumption to make sure your policy does not exclude liquor liability. If it does, and the alcohol use is infrequent, check to see if you can have the coverage added or get a special events policy to cover each event.

8. If you don’t normally serve alcohol as part of your business, and your only exposure is staff parties, have them off site at a licensed establishment and make sure they have trained staff and coverage for host liquor liability.

INSURANCE INSPECTIONS

Some people cringe when the insurance inspector comes around. Don't! Look at it as something positive and helpful. They aren't trying to catch you with something, they are trying to identify hazards and make recommendations to prevent them. Their goal and yours should be similar in this regard. Cooperate with your insurer, and embrace insurance inspections. Most risk managers ask the insurer for inspections because it is a way to help identify hazards and make recommendations as to how to correct them. The insurer pays for them, so they don't cost you directly.

> **QUICK TIP**
>
> Consider insurance inspections as a perk, not an intrusion.

When an inspector comes to your location, walk around with him or her and ask a lot of questions so that you understand the issues. After the inspector is finished the inspection, have a post inspection meeting to discuss the findings and recommendations. The meeting should include essential and relevant employees like the maintenance foreperson, plant engineer, fleet manager, or anyone else relevant to the type of inspection performed. By having these staff present, they can often explain and alla**y** concerns. They can also find out first hand what will be recommended and why.

> **QUICK TIP**
>
> Have a post-inspection meeting with the Inspector to discuss findings.

When the recommendation report comes back, work on completing the recommendations promptly. Sometimes recommendations are negotiable. If they recommend something that you think is unreasonable, or if you think they didn't see the "big picture", go back to them and make a well reasoned case for why it is as it is and the measures you take to make it safe. Also, if they give you a specific amount of time to do something, but you need more time, ask. They will likely give an extension if the request is reasonable. For example, if they ask for upgrades to a boiler room and you have renovations planned for the building that include upgrades to this room 6 months after their deadline, they might be happy to accommodate your plan.

> **QUICK TIP**
>
> Insurance Inspectors have a lot of influence with your insurer, so put your best foot forward.

It is very important to remember that the insurance inspector has a lot of influence with the underwriters. An insurer's perception of your business depends largely on the inspector's feedback about your cooperation and safety consciousness.

WHAT IS THE PURPOSE OF AN INSURANCE INSPECTION?

The reasons that insurers do inspections vary. Some possible reasons are:

- Inspection prior to binding coverage. Many insurers will do inspections of all potential new accounts before agreeing to insure them.
- Inspection on new accounts. Even if they don't do an inspection prior to accepting you as a new account, they may do an inspection shortly after agreeing to insure your business.
- New locations or operations. If your business buys or builds a new building, takes on new or different operations or processes, or makes any other major change to the risk, then inspections are common.
- Change in values, limits or coverages. Changes in the amount and type of insurance you require may prompt an inspection.
- Insurance company preferences or changes. Some insurers inspect all of their accounts; some inspect risks in a certain area, or certain types of operations. Sometimes insurers change their underwriting and loss control practices to place more emphasis on inspections.
- High loss ratio in an area, industry, or in a broker's book of business might prompt inspections for businesses in that particular group.

WHAT DOES AN INSPECTOR LOOK FOR?

This can vary depending on the reason for the request. An inspection may be to look at the building and physical protection; it may be to look at processes; it may be for liability exposures; or it could be for all of these reasons and more. Some things an inspector looks for are:

- Construction: type, age, stories, condition, location, maintenance and housekeeping, roof covering, electrical, plumbing, heating, and building systems.
- Occupancy: operations, processes, tenants.
- Protection: sprinklers, fire extinguishers, alarms.
- Exposures: what is in the area around your property, and how close, like buildings (how high, type of construction, operations and processes), roadways, water, or any other detail that may reflect on the risk to your location. If your building is surrounded by a residential area, for example, that may be considered an acceptable risk if you are a clothing retailer. However, it may be considered an unacceptable risk if you are a chemical manufacturer due to the possibility of an escape or discharge and the impact that would have on a residential neighborhood.
- Liability Hazards: any visible exposures to loss by third parties. For example, floors that have no trip or slip areas, no sharp corners on displays or shelves, quality control to ensure no defective products, containment of hazardous materials, etc.
- Process Hazards: anything you do that may be hazardous, such as spray painting, welding, flammable liquids handling/storage, cooking, product manufacturing.

FLEET LOSS CONTROL

Insurers want to know that you are being proactive in preventing motor vehicle losses. In many businesses these can be the most frequent and most severe losses and result in some of the highest insurance costs. There are many ways to prevent fleet losses and the more you employ, the fewer your losses will be, and the lower your premiums will be in the long run.

QUICK TIP

Vehicle accidents are the largest source of loss for many businesses.

DRIVER SCREENING

The best way to control vehicle losses is to hire the right people. If your business has company vehicles, you should employ some level of loss control. The amount of time and money spent will obviously depend on the amount of exposure you have. A large fleet of trucks will require more attention that a small business where the owner has a company car. Here are some key things to do (make sure that the human rights laws in your jurisdiction, and/or labor contracts, allow you to do these things before you proceed):

QUICK TIP

Hire drivers with a proven track record.

- Implement written policies that state the minimum qualifications for employees that will be operating vehicles. For example, number of years operating with the class of license you require, maximum number of accidents and convictions acceptable, etc.

- Get a motor vehicle abstract from the Department of Motor Vehicles for all drivers and a copy of their license.

- Ensure that drivers are medically cleared to drive the vehicles that the job requires. Using independent, occupational doctors is preferred over family doctors of the drivers. Laws in your jurisdiction may require regular medical clearance. Even if it is not required by law, drivers should re-qualify every 3 to 5 years.

- Give preference to drivers with defensive driving courses, few or no accidents and convictions, and a safety “attitude”.

- Get regular updates of motor vehicle abstracts to verify that there have been no changes to the status of the license (every 6 or 12 months is reasonable).

- Make it a condition of employment that drivers notify you of any change to the status of their license.

- Have a qualified person do road tests with prospective drivers.

DRIVER TRAINING

Once you have the right employees, then you need to give them the necessary training, both before they start and throughout the term of their employment. Here are some tips:

> **QUICK TIP**
>
> Driver training is essential!

- Determine the training requirements for the job and implement a training program. There are many commercially available driver training resources and consultants that can assess your company’s needs and provide the training.

- Develop a written driver training policy.

- Do regular refresher courses and upgrading.

- Do regular spot checks of drivers by qualified instructors.

- Identify drivers with accidents and convictions and give them more training.

- Have drivers do defensive driving courses, even for drivers of private passenger vehicles (cars, light vans and trucks).

- Keep records of all driver training.

VEHICLE ACQUISITION AND MAINTENANCE

You not only need qualified, trained drivers, you need to provide them with safe, reliable vehicles. Here are some key points:

- Choose the right vehicles for the job. Consultants are available.

- Spend time developing the vehicle specifications to make sure they match the job.

- Implement a vehicle Preventative Maintenance (PM) policy that has key mechanical components inspected/repaired/replaced on a regular/scheduled basis. Commercial PM software is available.

> **QUICK TIP**
>
> A good Preventative Maintenance program is essential.

- Do regular inspections of vehicles.

- Implement a driver inspection form and policy where drivers are required to complete an inspection checklist before every shift. Identified problems must be corrected immediately, and the inspection checklists kept on file. Drivers must be trained in the inspection procedures.

- Repair damage and mechanical problems as they occur and don't allow unsafe vehicles to be operated.

ACCIDENT REVIEW

The way that accidents are dealt with administratively is also important. Here are some pointers:

- Implement a written Accident Review Policy that covers off the purpose, structure, role, duties, etc.

- Create an Accident Review Committee comprised of the relevant senior managers, for example the fleet manager, the manager responsible for insurance and claims, the OHS manager, etc.

- The overall goal of accident review should be to prevent and/or reduce losses.

- The Accident Review Committee oversees the internal investigation into accidents. It looks for causes and contributing factors to losses. If, for example, the cause is determined to be driver error, it also looks at what may have contributed to the driver error, such as lack of training, inexperience on the equipment, lack of supervision, poor vehicle maintenance, or lack of clear policies and direction. The Committee also looks for loss trends, such as losses by driver, time of year, type of vehicle, geographic area, etc.

- When driver error is identified as a cause or contributing factor, look for positive ways to deal with it like training, rather than discipline.

- Whatever causes are identified, use the experience gained to develop safe practices and policies to prevent future losses.

- Encourage staff to report incidents as well. An incident is a situation where a mishap occurred but where no damage or injury resulted. Treat incidents the same as accidents,

- Have the Accident Review Committee report quarterly to senior management on trends, initiatives, loss statistics, progress, etc.

Summary

No one can give you a cookie cutter solution to all of your problems! I hope, however, that this manual has given some helpful information that will save your company money. I also hope that it has helped to un-muddy the waters of insurance and risk management by giving you a better understanding of them and where you fit into the process. If you don't do anything else, make sure you have a good broker and fully avail of their services!

Feedback

I would love to have your feedback! Did this manual help you? Was it informative? Did you like the way it is laid out? Do you have some suggestions for improvement? Your specific success stories would also be very welcome. If you employ some of these techniques and they work for you, let me know. I would really like to share your experience with others.

Speaking Engagements

I regularly speak to groups on risk management and insurance topics, and on the topic of this manual. If you would like to avail of these services please contact me.

My contact information is as follows:

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DICTIONARY OF RISK AND INSURANCE TERMS

This manual is intended primarily for use by laypeople, not risk and insurance experts. Therefore, definitions are rudimentary for the purpose of gaining a general understanding of the terms.

Actual Cash Value	Or ACV, is replacement cost less depreciation. The percentage of depreciation can vary from zero to 100% depending on the item, its age, and its condition. Even new items can be depreciated. See Replacement Cost.
ACV	See Actual Cash Value.
Additional Insured	The status that may be given to a party outside of an insurance contract. If an insurer names a person or company as additional insured, the person or company is treated as an insured under the policy for the purposes of defending and settling claims. Additional insured status is usually requested of one contracting party by another. This status is limited to claims that arise out of the operations that the parties are undertaking together under the contract. See Additional Named Insured.

Additional Named Insured
A term often confused with "additional insured". The difference between the terms is that an additional "named" insured is listed as an insured person or company on the policy. As a "named" insured you not only have rights to coverage and defense, but you have obligations under the policy, such as payment of premiums or deductibles. See Additional Insured.

Adjuster
A person hired by an insurance company to investigate, negotiate, and settle claims on behalf of the insurer. A staff adjuster is an insurance company employee, whereas an independent adjuster works for a company not owned/operated by an insurance company. Some jurisdictions have public adjusters that are usually hired by claimants to help them with their claims.

Agent
An insurance salesperson who is either on staff with an insurer, or who only sells for one insurance company. An agent generally works for the insurance company. See Broker.

BCP
See Business Continuity Plan.

Binding To bind insurance coverage. When an insurer, or an agent or broker with binding authority for the insurer, binds coverage, it has the same effect as having an insurance policy, even if one has not yet been issued. You are insured (covered) because they say you are. For example, if you call your broker on Saturday to say you have a new building, the broker can tell you that they will bind coverage, which means that the new building is insured under your policy. It will be officially added to the policy at the first opportunity and you will be charged the additional premium.

Binding Authority The authority given to an agent or broker by an insurance company to write or change insurance policies underwritten by the insurer. The agreement will clearly state the limits, types of coverage, geographical area, etc., to which the authority applies.

BOR See Broker of Record.

Broker An insurance salesperson who is independent of any insurance company and sells insurance for more than one insurance company. A broker generally works for the insured. See Agent.

Brokerage Commission The fee paid to a broker/brokerage for providing insurance brokerage services. The fee is often a percentage of insurance premiums, although flat rate fees and other arrangements can be negotiated.

Broker of Record	The broker(age) that is the official representative for an insured with the insurer. If an insured changes brokers but not insurers, a broker of record letter is required by the insurer to officially change the broker they are to deal with for that insured. The letter is a brief, signed statement by the insured advising the insurer that a new broker has been retained.
Business Continuity Plan	Or BCP, is planning done to minimize the impact of loss on a business. It can involve disaster recovery, crisis management, emergency planning, business resumption and contingency planning.
Cancellation	Either the insured or the insurer can cancel insurance policies. Insurance policies will state the requirements of each party when canceling a policy.
Capacity	A common term used to describe the ability of insurers to write insurance policies. Capacity is measured by the maximum amount of business an insurer is willing to accept.
Claim	This is when a loss occurs that is reported to the insurer, with the expectation of payment. An insured under the policy or a third party can make a claim under an insurance policy. Claims can also be made by loss payees and additional insureds named on the policy, or un-named insureds.
Claimant	A person making a claim. See Claim.

Claims Examiner This is the person who will give direction to adjusters on claims and make decisions on claim settlements. It is usually an insurance company staff position.

Claims Made Based Policy This type of policy covers losses during the policy term in which they occur, or, if the insured had no knowledge of the loss prior to the inception of the policy, may cover losses prior to the current policy. For example, your policy with XYZ Insurance Co. runs from January 1st 1999 to December 31, 1999. You are an engineer being sued for a building collapse that occurred on July 20, 1999. You will be covered by XYZ if you report the collapse to them as soon as you know about it, provided it is before December 31, 1999. If the collapse happened in November 1998, but you didn't know about it until February 1999, and you report it to XYZ as soon as you find out, they will also cover the loss. See Occurrence Based Policy.

Co-insurance This is a clause in most property policies that states the minimum value that property must be insured for. It is usually represented as a percentage, and common clauses are 80% or 90%. This means that property must be insured for either 80% or 90% of its total value. If the insured value is below this minimum, penalties will be applied to full and partial losses.

Cost of Risk Insurance premiums, deductibles, uninsured losses, money spent on prevention, safety, and any other costs associated with losses to a business. In simple terms, for basic analysis, many refer to the cost of risk as insurance and claims costs.

Cross Liability Clause	A clause that may be included in a liability insurance policy, or which may be added, which allows insureds under the policy to be treated as being insured under separate policies should the need arise, as in the case of a dispute. This allows insureds to be defended against each other by the insurer.
D & O	See Directors and Officers.
Deductible	A deductible is the amount that you pay in the case of an insurance claim. See Self Insured Retention.
Directors and Officers	Liability insurance that covers the potential liabilities of the directors and officers of a company.
Direct Writer	An insurance company that sells its product through its own staff agents.
Duty	A legal term that refers to the standard of care required. Legal duties are set out in legislation and legal precedents. See Standard of Care.
Earned Premium	The portion of the premium that represents the period of time that has already elapsed where insurance coverage has been in place. If you are 6 months into an annual policy, then half of the premium is earned. See Unearned Premium.
E & O	See Errors and Omissions.

Enterprise Risk Management	Or ERM, a somewhat recent development in risk management where all of the risks of the organization, pure and speculative, are included in the risk management process.
ERM	See Enterprise Risk Management.
Errors and Omissions	Liability insurance that covers the potential liabilities of professionals. Also known as a professional liability policy.
Estoppel	A legal term that means that a commitment or agreement has been made whether expressed or implied. In insurance, estoppel most commonly occurs when an insurer gives the insured the impression that they will cover a claim, and they actually deny it. If estoppel can be proven in this case, then the claim must be paid even if there is a valid exclusion. See Reservation of Rights and Non-Waiver Agreement.
Examiner	See Claims Examiner.
Facultative Reinsurance	Reinsurance that is placed on an individual basis. This applies mostly to large organizations, projects, or locations, where specialized reinsurance is required and treaty reinsurance is not applicable. See Treaty Reinsurance.
Frequency	In risk and insurance terms, the likelihood of losses occurring and how often. See Severity.

Hard Market The common term used to describe the insurance market when premiums are high, capacity is restricted, underwriting is tightened up, and more restrictions are placed on coverages. See Soft Market.

Hold Harmless A legal agreement where one party assumes responsibility for the actions of another. Commonly used in conjunction with an Indemnifying Agreement.

IBNR See Incurred But Not Reported.

Image Risks Reputation, brands, and other intangible assets related to the public's perception of a company all have value. Image risks are all risks related to these assets.

Incurred But Not Reported Or IBNR, refers to losses that have already happened but that are not yet known to the insurer, or known losses that develop into larger losses than expected. For insurance companies, IBNR is considered a liability that they try to predict and account for. Businesses also need to be concerned about IBNR for losses not insured or lower than deductibles, and they need to be accounted for.

Indemnify To compensate someone for loss.

Indemnifying Agreement	A legal agreement where one party agrees to put the other back in the same financial position as before the loss. Many insurance contracts are indemnifying agreements. Individuals and companies can also include indemnifying agreements in their contracts to compensate the indemnified party in the case of loss.
Indemnity	Compensation for loss, where a person or company is put back in the same financial position as before the loss.
Independent Adjuster	An adjuster that works with a company independent of the insurance company that hires them. See Adjuster.
Informed Consent	An agreement intended to ensure that both parties understand the activities being undertaken and the risks associated with them. Often used in conjunction with a waiver or hold harmless and indemnifying agreement. Informed consents are commonly used to get parental consent for activities involving minors.
Insurance Certificate	An insurance certificate is proof of insurance coverage, but it can also confer certain rights to the certificate holder. A certificate contains all the relevant information that a contracting party might need to know about the other's insurance. It is usually required by one organization of another when one party is put at risk due to the nature of the relationship or agreement between the parties.
Insured	The individual or business that purchased the insurance and is named as the insured on the insurance policy.

Insurer	An insurance company.
Joint and Several Liability	A liability where the creditor can sue one or more of the liable parties together or separately at the creditor's option. The creditor usually chooses to collect from the liable party with the greatest financial means ("deepest pockets").
Litigious	Willing to claim, sue or take legal action.
Loss Control	All efforts aimed at preventing, reducing, mitigating, or managing losses.
Loss Payee	A person or company listed on the policy as having the right to indemnity under the policy. Banks and mortgage companies are often listed as loss payees.
Loss Prevention	Taken literally, means efforts aimed at keeping losses from occurring at all. However, it is more commonly used synonymously with loss control. See Loss Control.
Loss Ratio	The premium paid divided by the cost of claims incurred.
Mitigation	In risk and insurance terms, mitigation is any effort to reduce the impact of losses.

Non-Waiver Agreement	A standard form used by insurance companies and adjusters. The agreement states that the insurer will investigate the claim, but makes no commitments that the claim will be paid. The insured is asked to read, understand and sign the agreement. Its purpose is to prevent estoppel. See Estoppel and Reservation of Rights.
Occurrence Based Policy	This type of policy covers losses that occur during the policy term. Losses will be covered whenever reported to the insurer, even after the policy has expired, but only if the insured reports the loss as soon as the loss is known. For example, if someone slipped on your floor in 1999 and is injured, but you are only made aware of it in 2001 when you receive a legal letter, then you will be covered by the insurer who covered you in 1999, even if they aren't your insurer in 2001. See Claims Made Based Policy.
Physical Protection	Tangible things done to protect assets such as sprinkler systems, reinforced concrete construction, security guards, or guard rails.
PM	See Preventative Maintenance.
Premium	The money paid to an insurance company in return for an insurance contract.
Preventative Maintenance	Maintenance done on a regular structured basis to identify and correct problems and to keep equipment and property in good, safe working condition.

Pro Rata When an insurer returns unearned premium without penalty. Most insurer cancellations are pro rata.

Pure Risk A risk where the possible outcomes are loss or no loss. It includes things like fire loss, a building being burglarized, having an employee involved in a motor vehicle accident, etc. See also Speculative Risk.

Reinsurance Insurance that is purchased by an insurance company to cover a part of its risk. An insurance company will only risk up to a certain amount, and over that amount they will buy reinsurance to pay claims over that amount. Reinsurance can be treaty or facultative.

Renewal When an insurance company agrees to continue to insure an insured for an additional period of time.

Replacement Cost Replacement cost is a basis of insurance settlement where no depreciation is applied. See Actual Cash Value.

Reservation of Rights A standard letter used by insurance companies and adjusters. The letter states that the insurer will investigate the claim, but makes no commitments that the claim will be paid. This may be used in conjunction with, or instead of, a non-waiver agreement. Its purpose is to prevent estoppel. See Estoppel and Non-Waiver Agreement.

Risk Adverse Unwillingness to accept a risk, or engage in an activity where the perceived risk is too great.

Risk Avoidance To refuse to undertake an activity because the perceived risk is too great.

Risk Control Risk management techniques aimed at preventing or reducing losses and their resulting cost. Examples include loss prevention (inspection and maintenance polices) and contractual transfer of risk (hold harmless and indemnifying agreements).

Risk Financing Risk management techniques aimed at paying for losses that occur. Examples include retention (deductibles) and transfer (insurance).

Risk Management The process of making and carrying out decisions that will minimize the adverse effects of risk on an organization.

Risk Management Information System Or RMIS, is computer software designed specifically for use in managing insurance, claims, and risk management. These systems are databases that help organize losses, identify trends, generate reports, and contain other risk management tools.

Risk Manager A person who performs the risk management function.

Risk Map A risk management tool used to plot the risks of an organization and rank them in terms of their potential frequency and severity.

RMIS See Risk Management Information System.

Self Insured Losses not covered by insurance or that are below the deductible amount.

Self Insured Retention That portion of a loss that the insured pays. See Deductible.

Severity In insurance terms, the extent of losses and the resulting costs. See Frequency.

Short Rate This is where the insurer returns the unearned premium but applies a penalty. Most insured cancellations are short rate.

SIR See Self Insured Retention.

Soft Market The common term used to describe the insurance market when premiums are low, capacity is generally more available, underwriting is less stringent, and fewer restrictions are placed on coverages. See Hard Market.

Speculative Risk A risk where the possible outcomes are loss, profit, or status quo. It includes things like stock market investments and business decisions such as new product lines, new locations, etc. See also Pure Risk.

Staff Adjuster An adjuster that is an employee of an insurance company. May also be referred to as in-house adjusters. See Adjuster.

Standard of Care A legal concept that refers to the duty owed to other people. The standard of care owed or required is usually described as doing what a reasonable person would do in the same situation. Standards of care are set out in legislation and legal precedents. See Duty.

Third Party A person or company that is not a party to the contract in question. In loss/claims terms, a third party is a person other than an insured who suffers a loss and/or makes a claim.

Treaty Reinsurance Reinsurance that is placed to cover off all of the underlying risk of an insurance company. An insurance company will negotiate treaties with re-insurers to cover the risk of all of their policies over a set amount up to a maximum amount. For example, an insurance company may have a treaty that says that they will pay the first $100,000 of all losses, and the reinsurer will pay the next $900,000 on all losses. See Facultative Reinsurance.

Underwriter A person who performs the underwriting function. This is usually an insurance company staff position. See Underwriting.

Underwriting The process of deciding what to insure, at what terms, and for how much.

Underwriting Loss This is the shortfall of revenues over expenditures before investment income. The formula is Earned Premium less Claims Incurred and Operating Expenses. Underwriting losses are a lot more common that underwriting profits. See Underwriting Profit.

Underwriting Profit This is the excess of revenues over expenditures before investment income. The formula is Earned Premium less Claims Incurred and Operating Expenses. Underwriting profits are rare, and most insurance companies make their profits on investment income from premiums between the time they are collected and the time that claims are paid. See Underwriting Loss.

Unearned Premium The portion of a premium that represents the period of time that has yet to occur in the policy period. If you are 6 months into an annual policy, then half of the premium is unearned. See Earned Premium.

Void Not legally binding. In insurance terms, a policy that is not valid.

Waiver Intentionally giving up a right. A waiver can also be a document, or a clause in a document, that states that rights are being given up or waived.

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