Becoming a Best-In-Class Risk

Let's be honest, insurance underwriters ask a lot of questions.

And it can be frustrating gathering information without knowing why it is needed or how it is used. However, to give your operation the widest array of risk financing options, it is crucial to work with a broker and insurance carrier who specialize in your industry and give them reason to believe in your operation.

Have you ever thought about the data that insurance carriers look at when getting to know your operation? It is helpful to view your operation from an underwriters' perspective. Their job is to evaluate retrospective data to help predict the future. In effect, they are driving down the road while only looking through the rear-view mirror!

Understanding the intricacies of your operation allows thoroughness that can benefit in several ways. First, an underwriter will be able to provide more accurate pricing. Second, if an underwriter has an in-depth understanding of your exposures and risk appetite, they may be more willing to provide new and unique risk financing options that you may not have considered in the past. Here are some common items an underwriter will use to get comfortable offering a quote and to make pricing decisions:

Supplemental information
Supplemental applications can be cumbersome, but this information helps provide a more complete picture of your business. You may even consider putting together a narrative to highlight different aspects of your operation. This is a great opportunity to outline your risk appetite. Willingness to bet on yourself opens a world of possibilities when it comes to creative risk financing options.

Keep in mind that insurance carriers are not always able to visit before releasing a quote, so the supplemental application is a critical piece to understanding your operation. If an insurance carrier offers a visit to get to know each other (either in-person or virtually), take them up on it! Nobody can tell your story better than you and you can learn a lot about each other that often helps both parties get more comfortable.

Historical data

Underwriters want to understand how your operation has evolved over the past five years and where you plan to be five years from now. If growth is on the horizon, it is better to be upfront about it rather than notifying your insurance carrier after the fact. If you are not working with your insurance advisors before making a material change in risk (such as an acquisition), that could end up doing more harm than good. Insurance carriers want to understand how you plan on managing growth without sacrificing your commitment to safety.

Loss history
Digging into your loss history with a fine-tooth comb is common during the underwriting process, with a focus on your average frequency (number of claims) and severity (cost of claims) over the past five years. Understanding what type of action was taken after a particular claim is another area of concentration. Was a policy changed or implemented as a result? What type of training or action occurred if your employee was at fault? Making sure to focus on the root cause after an incident and being able to articulate it shows your desire for continual improvement.

One thing that often sticks out to underwriters is claims lag time. This is the number of hours or days between an incident and when it was reported to the insurance carrier. Are you reporting your claims (regardless of fault) to your carrier in a timely manner? Insurance studies confirm that late reporting increases claims costs and underwriters value companies that understand the importance of timely reporting.

Employee pool
Your employees are representing your operation and a big piece of what is being insured. Do they have experience in your industry or with the equipment they will be working with? What types of violations are occurring on their motor vehicle records? What is their tenure with your operation? Due to a shortage of commercial motor vehicle drivers, many companies have turned to hiring less experienced drivers. Hiring drivers with less experience may help fill an immediate need, however, liability increases when an inexperienced driver is involved in an accident. Companies that hire less experienced drivers still have the responsibility to ensure drivers who operate their commercial motor vehicles are qualified, trained, competent and safe to do so. Having a comprehensive and well-documented training program is essential to hiring drivers with less than two years of verified commercial driving experience.

Vehicle/ equipment schedule

This is another large exposure, so it is common for underwriters to dig in to understand the type, values and age of vehicles or equipment during the underwriting process. After all, they need to understand what they are insuring.

Financial strengths
Oftentimes, insurance carriers will request a set of recent financial statements to ensure financial responsibility prior to offering coverage. With large deductible programs, carriers want to make sure they will be reimbursed for claims paid within the deductible layer. Alternative risk programs will require financial underwriting to protect the interests of existing members.

Safety/training data

Every company should have a training program that focuses on continuous improvement to ensure employees are educated and understand how to perform their job safely. Successful training programs will provide training during the hiring process, recurrently and remedially. Insurance carriers have access to view your safety scores and DOT ratings, but they will also want to understand what programs your operation has in place. This can include Driver Hiring Guidelines, Safety Initiatives, Electronic Safety Equipment and more.

Best practices

The best time to plant a tree was 20 years ago. The second-best time is now. There are many practices that will help you become a best-in-class risk, and an expert insurance broker and specialty insurance carrier can help you decide which practices will have the greatest impact. The sooner you identify which practices you want to implement, the better position you put yourself in the future. Implementing these techniques will not change your operation overnight but can lead to some quick improvements.

- Physical Abilities Testing. PATs are a fantastic way to determine if your employees can perform the essential functions of their jobs and can make a significant impact on your workers' compensation claims and associated expenses.
- Return to Work Program. An effective RTW program will keep your employees engaged while offering an opportunity to continue working in a modified light duty environment as they recover. Again, this may reduce the cost of a workers' compensation claim.
- Automated Event Recorders. Through proper utilization, AERs can reduce unsafe driving behaviors, mitigate claims costs and take a proactive approach to safety program.
- Defensive Driver training. According to the CDC, motor vehicle crashes are the leading cause of work-related deaths in the US.[1] All drivers should practice defensive driving skills to help avoid the dangers caused by other motorists.

There are many different aspects that underwriters look at when determining if they want to take on risk. While this can be overwhelming, your insurance advisors will guide you through the process.

Sources

1. "Motor Vehicle Safety at Work." https://www.cdc. gov/niosh/motorvehicle/resources/crashdata/facts. html N.p. 22 September 21. Web 14 January 22.