

# **Add Value to Your Pool With Loss Control**

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**Essentials in Risk Management - ARPM 602 Project**

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**Executive Summary**

I have provided risk management and loss control consulting services to pools, risk retention groups and commercial business accounts on multiple lines of coverage for more than 10 years now. Of the numerous items I have picked up along the way, I'm convinced three are key to achieving optimal loss control success. They are: Management Support, Targeted Initiatives, and Value. I have found all three are needed to achieve continuous and measurable improvement. I have also found if any one of the three is missing, my successes will be limited unless I devote significantly more time to get there.

While there are a number of other items that are important in loss control consulting, I find my work is simplified if each of these three areas is satisfied before time is invested in the field. My purpose for sharing the following with you is I believe every loss control consultant and every pool manager can optimize their results by incorporating these ideas in their pool.

**Management Support**

So, what is meant by management support and who is management? This will certainly vary by pool, but I have two sets of management that need to buy into whatever it is I'm planning to work on or I will struggle to be effective. The two sets of management I work with are internal pool management and member management.

Internal pool management (i.e., department managers, the directors and/ or the board) should have a vision for the future of the pool and some clear direction on how they plan to get there. This should include loss control services that are planned and a clear understanding of why they are offering them. While each pool's purpose and resources will vary from one to another (there will be different reasons to offer more or less loss control service) a constant is the need for pool management to support the chosen level of services offered.

Once pool management's vision is defined, member management should be hearing a consistent message (e.g., in newsletters, e-mails, regular update bulletins, renewal meetings, underwriting communications, etc.) from pool management. These messages will establish pool management's expectations for the membership to reduce their exposures and common exposures impacting the financial stability of the pool.

I'll use a goal I'm currently working on as an example of pool management's support and good communications with pool membership to address a common exposure. The goal I'm referring to is to reduce sanitary sewer backup losses by improving sanitary sewer system maintenance policies. It was identified because these claims are

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currently a significant loss area for this particular pool. Plus pool management understands that their member cities' aging infrastructure is progressively getting worse so action today should save even more in future loss.

To achieve this goal we completed the following:

- Analyzed which cities contribute to this loss area and what the loss sources were for the claims reported.
- Devised an action plan to focus field consulting visits to a group of targeted members with high losses and frequency in this area.
- Developed best practices and model programs for the operation, maintenance, repair and inspection of these systems.
- Developed self-help and field assessments for the membership to determine their current level of control as well as areas of concern.
- Developed a loan program for cities with limited financial resources and a current need. This allows members to borrow money from the pool today for their identified needs of tomorrow.
- Identified agencies and other resources (like state and federal grant money) available to cities with declining or overwhelmed infrastructure.
- Utilized a financial incentive for completing improvements- we instituted a lower deductible per claim program once specific program elements are put into practice.
- Documented the goal and plans in board meeting minutes and posted them for member review well in advance of actions and activities completed.
- Wrote member communication notices outlining the goal and resources available to members. This communication was mailed to each member.
- We also developed presentations outlining the specifics of this goal and made presentations on the subject at annual training workshops.

This goal and the progression of activities directed by pool management would be my example of what any pool member would want to see from their pool management. In my estimation it's an ideal execution from pool management to achieve a goal.

If this is what ideal pool management looks like what does an ideal member look like? In my opinion an ideal pool member is one that is always looking to reduce exposures. The underwriters I've worked with love these members because they quote pricing based off historical losses, exposures and controls that are improving. I love them because they realize there is always room to improve.

More than likely though, the average member does not fit into my ideal member definition. Also more than likely these average members make up more than half of

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your pool. This is the group of members that needs to be targeted in your communications and I'll argue that you need to gain the support of these members to have ongoing pool success.

The pool I work with keeps each of its members well informed (as noted previously) of pool initiatives and planned activities to meet those initiatives. Communications suggest when members reduce exposures they also improve the financial stability of the pool. Communications also outline calls to action when program weaknesses are identified.

In my world as a field consultant (this means my effective pool management, one that gets pool members on board with the vision for moving the pool forward at a global level and one that devotes time to develop resources) give me the best chance at producing highly effective results on this key initiative. If they didn't get members on board, even a highly proficient loss control consultant will probably struggle to get mediocre results on those same items.

What it boils down to, for any pool, is if pool management does not build the foundation and establish global expectations, field consultants will have to work hard to establish the goals and expectations one member at a time. This becomes a numbers game and an evaluation of which staff can be most effective at delivering the message. For the pool I work with 100 hours of pool management's time building a bridge at the global level is significantly better than 1000s of hours of field consultant time laying individual bricks that may never connect to one another to form that desired bridge. My suggestion is to analyze how each message should be delivered to be most effective.

I can't finish this section without saying I'm a huge fan of pool loss control staff and using field consultants to support the goals and the direction of the pool- it is my chosen profession after all. The working example of the goal I noted previously also shows the value of deploying loss control consultants to work with pool members in the field. More to the point, the information gathered and techniques learned are shared with all the other members during these field visits. It is also shared with pool management so that they get a detailed assessment of member exposures. This is valuable information you can't get from office-only staff and what you don't get you can't share to make the pool stronger.

In addition, I want to share how loss control can help pool management minimize some of the frequent concerns voiced by members. Here are a few common concerns (and pool management issues) that can be minimized.

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Many pool managers hear members voice their concern for their lack of financial resources to implement suggested improvements. Other pool managers hear members share their frustration with the cost of insurance or pricing fluctuations. Numerous others have heard it debated that since they have not seen claims in an area there is no need to reduce exposures by improving controls. This is where consistent communications from pool management about reducing exposures will help gain member support for pool goals and loss control activities that support these goals.

- Members with limited financial resources to implement controls are often unaware of the potential long-term savings. Pool management can support this by “selling” these long-term benefits with support materials (publications discussing direct claims costs and indirect claims costs, return on investment examples and calculations, cost / benefit analysis). Field loss control consultants can be deployed to identify improvement opportunities that often reduce direct and indirect loss by improving operational risk.
- Members frustrated with the cost of their insurance or insurance pricing fluctuations are probably just as frustrated with their losses and risk management controls. A common practice of many pools is to rely heavily on risk financing. And while underwriting “for a profit” or to a favorable loss ratio with every account has its advantages, it may be one of the reasons for frequent fluctuations in pricing. If the pool relies too heavily on this strategy and does not incorporate loss control evaluations into the underwriting program, members will likely see frequent pricing fluctuations at renewals because the ability to control losses are only partially known.

Annual fluctuations in member losses make the underwriter and the buyer nervous every renewal cycle. Members want underwriters to price insurance off their best years because they want the best pricing. Underwriters have to price for the worst years because they don't know if good loss years mixed in with poor loss years mean a member was lucky or if they are good at controlling loss. This variation in wants means these two are at opposite ends of the pricing schedule before they even sit down to discuss pricing.

Pool managers communicating the need for improving controls and reducing risk are reinforcing the need to value the vision of pool management. They are in turn reinforcing the need for loss control while reducing member surprises and underwriting concerns.

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- I've sat down with many members and listened to them rationalize that since they have not seen a claim in an area they have little exposure and therefore no need to implement controls. Again, if pool management has an underwriting practice that also includes a loss control evaluation of member exposure and controls, underwriters can utilize member management's willingness and ability to control losses in their underwriting decisions. This provides an additional level of certainty for underwriters writing risk which should make pool management more successful while having members willing to improve controls. It also makes selling controls easier for the loss control staff because it adds a direct financial impact (insurance premiums) to the control which in turn provides clarity in some eyes that were previously clouded.

To summarize, pool managers and pool members can get consistent favorable results by deploying loss control field consultants if they have a good plan in place. Pool managers should consistently communicate the pool's vision, goals and the planned steps to meet them. The direction of the pool will be much clearer if pool management engages the membership from a global bridge building perspective. Pool management should also regularly communicate expectations of the members to meet the goals established so that you the pool can achieve the vision. Members should understand these expectations and be open to recommended improvements.

### **Recommendation 1 - Get pool management support!**

Loss control consultants need pool management support to be as successful as possible.

1. Look for loss trends that can be developed into loss reduction goals and ones that adversely impact the global vision of the pool.
2. Present findings to pool management frequently.
3. Present ways to for pool management to communicate this goal and expectations to members globally.
4. Propose action plans to make it easy for pool management support.
5. Include underwriting, claims handling and any legal staff concerns in loss control's proposed plans.
6. Outline the proposed process with the estimated costs and impacts of the plan.

Your pool and its' membership will benefit from pool management support for goals and established expectations that the member will take actions on recommended controls. This is an effective strategy that will not only maximize loss controls efforts it will improve the collective pool.

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If, however, pool management isn't in a position to build those bridges for loss control all is not lost. Pool management will just have to plan extra time so loss control field staff can lay individual bricks as a foundation for improvements.

### **Targeted Initiatives**

The best way to gain pool management support and get members focused on improving their risk management programs is with targeted initiatives that focus loss control efforts on tangible and obtainable goals. With them your focused loss control effort can reduce exposures and losses. Without them you may add significant time and expense working on areas with little exposure.

To get there you will need to plan to devote time analyzing losses for each line of coverage and on a periodic basis. What loss control must determine, for the easiest way to gain the support of management and to be most effective, are the leading loss areas impacting the pool's bottom line. These loss areas will change over time, so plan a periodic analysis to stay on top of them. Studies completed every 3-5 years will identify new trends and help direct future service and commitment.

Equally important is the need to identify which of the members are producing most of the pool's loss. I usually find that about 80% of the losses are coming from 20% of the members with similar exposures. Identify these members by line of coverage and make specific plans to address each member's loss areas specifically.

To address the pool's leading loss areas and your targeted member's loss areas you will need tools and resources. A fully loaded toolbox of resources to support an initiative could include a detailed loss analysis, an outline of best practices, model policies, sample programs, surveys, training modules, self-help tools and technical memos to support the need for action. Develop them with the intent of having them sell themselves to the membership and you'll improve your success.

The next step is to start meeting with "targeted" members to discuss pool initiatives; the 20% of members producing 80% of the loss is a good place to start. These meetings are a critical step in establishing the ground work for what could be several loss control visits. Utilize pool management's vision as leverage to gain acceptance and compliance where needed. In preparation for these meetings I'd suggest you develop service plans and proposed activities for each member prior to the meeting. Bring these plans with you to this meeting so you can confirm not only the activities but who needs to be involved in completing those activities. Again, the key here is member buy-in because without buy-in loss control may only have limited impact.

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**Recommendation 2 - Validate the need for loss control!**

Do your homework well and you'll not only validate the need for loss control but you'll also validate pool management's value with pool members. Make it easy to see where you should be spending time to most effectively reduce pool losses and exposures. Here are some musts to be effective in this area.

1. Analyze the pools losses by line of coverage.
2. Identify the pool's top 3 - 5 leading loss areas by each line of coverage (those tasks or items with the potential to produce serious accidents or high-cost claims.)
3. Develop tools to address leading loss areas.
4. Develop a plan of action for each loss area.
5. Outline pool management's expectations of controls to move the collective pool towards the goal.
6. Communicate all of the above to the membership at least annually.
7. Reinforce these items in follow-up communications and through your underwriting practices.

**Recommendation 3 - Refine your loss control focus!**

In addition to figuring out the pool's leading loss areas, you'll want to know which members are negatively impacting the pool's bottom line the most so you can take action with these members- the 80/20 rule that often shows up when you analyze losses. Identify that 20% of the membership that is producing most of the loss and you'll get the most immediate impact out of your efforts.

It is important that pool management openly discuss the need for these key members to work with loss control. When positively and frequently reinforced, pool management will be much more likely to gain acceptance and commitment so loss control will be much more likely to be effective.

1. Develop mutually agreed upon action plans with each of these high loss producing members. Pool management and the service departments (underwriting, claims, legal and other) need to have input to make each plan is as successful as possible.
2. Review these plans with senior member management to gain commitment for the plan before deploying resources.
3. Establish timetables for regular communication with each member.

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4. Provide progress reports to the member and to pool management at regular intervals.

You should also expect member resistance and plan multiple contacts with targeted members to work through this resistance. After all, pool management is asking members to change and change is not easy for many. I look at it each new goal and opportunity in this way, if you get commitment from half of the members producing 80% of the loss you are still able to impact 40% of the targeted loss which is a great start. After you work with this first committed group, share your success with the rest of the membership. Then, contact those targeted members that were resistant the first time again to discuss the goal and to share the pool's success. Some if not several members will realize they missed an opportunity to reduce loss (or an exposure) and will be willing to work with loss control the second or even the third time around.

### **Value**

As demonstrated previously, loss control has the potential to add value both internally and externally. A great benefit to the membership is access to a safety and risk management professional that will critically review their operations, exposures and control. These professionals will develop strong business relationships over time and it is these relationships can be a great value to the membership.

A word of caution here is that loss control consultants will often be asked to get deeply involved with their member's programs and controls. If they become too involved and become part of the day-to-day operations there is a danger of losing the overall perspective. Once that is demonstrated they will often lose access to higher levels of member management and lessen their potential value to member management.

Also, the pool will benefit the most if loss control is the underwriting and claim department's eyes in the field. Loss control can evaluate exposures and verify controls for underwriting and complete root cause accident investigations to see what system failed for critical claims.

Consistent underwriting to a positive bottom line can be a challenge. One value added way to take some of the guess work out of future losses is by utilizing these field assessments. While exposures give us an expected range of losses for each member and historical losses narrow that range, loss control's field assessment can outline management's willingness, commitment and even their ability to reduce specific exposures.

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While in the field, loss control consultants collect a significant amount of data from questions asked and observations of member management. Impressions are developed and some well-reasoned conclusions can be drawn about member management's willingness and ability to control their exposures. Loss control can also determine if a member is utilizing more reliable controls for specific exposures (i.e. elimination or engineering vs. administrative or no controls) or even if a member plans to use risk financing as their chosen risk management strategy for specific exposures. By utilizing loss control for this purpose, underwriting can really sharpen their pencil and make better judgment calls on these unknowns.

#### **Recommendation 4 – Add pool management value and value to members with loss control!**

As noted previously, one of the pools I work with does a great job communicating loss trends to the membership. Claims are regularly reviewed and a report is published so that management and members are all aware of trends within the pool. Much of the loss control department's work is driven from the results found in this analysis.

For example, this report provided an overview of losses for each area and more detailed assessments within the liability and workers' compensation loss areas. It outlines where the leading loss areas are in the liability losses (Land Use, Police, Employment, Sewer Backup, Street and Sidewalk and Administrative Error & Omission) and it outlines the workers' compensation losses by critical job functions (Public Works, Police, Fire, Parks, Healthcare and Clerical). It also outlines some of the tools developed and resources available to help the membership reduce their exposure.

On the next page you'll find one example of this overview. It is the public works loss areas from a 2009 report.

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**Public Works Losses**

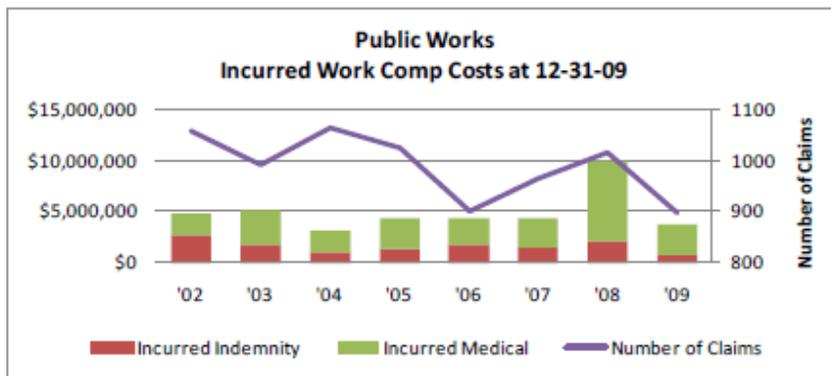
The public works job class has the largest amount of loss costs, comprising 35 percent of all incurred WC costs from 2006-2009. The blip in 2008 was due to one large claim costing about \$7.2 million. Without that data included, the trend line suggests that costs have remained fairly stable over the last five years, averaging \$4 million per year.

The average number of claims received per year from 2002-2005 was 4,100, and 3,800 from 2006-2009. With the exception of 2008, the average cost per claim over the last seven years has been right around \$4,400.

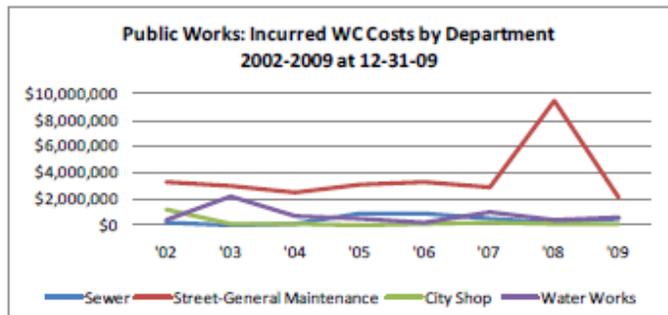
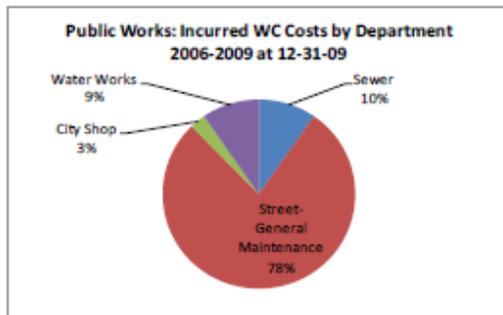
**Public Works at a Glance**

From 2006-2009 most public work costs were attributable to medical losses. Claims comprised:

- 35 percent of all work comp costs
- 38 percent of all medical losses
- 34 percent of all indemnity losses
- 23 percent of all work comp claims



By far, employees that are categorized in the street-general maintenance category incur the most work comp injuries – 78 percent. Many injuries are musculoskeletal in nature and often caused by overexertion. Back and upper/lower extremities are the most commonly injured body parts. In addition, a majority of injuries to these employees are sprains/strains. There are many activities that cause injuries to public works employees – repetitive motions, how much force is used to perform a task, vibration, etc.



*The information on this page is League of Minnesota Cities data copied from the 2009 update of the League of Minnesota Cities work product entitled Overview of Losses in the Property/Casualty and Workers' Compensation Programs.*

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**Add Pool Management Value**

1. Analyze pool losses every 3 to 5 years to identify pool loss trends. This will add value by identifying opportunities to reduce loss.
2. Develop specific tools to address the pool's identified loss sources and large loss potentials. This will also add value by identifying opportunities to reduce loss.
3. Update underwriting regularly to inform them of each member's ability and willingness to control exposures. The following are critical areas to keep an eye on.
  - Member management's effectiveness at identifying exposures
  - Member management's policies to reduce exposures
  - Member management's willingness to control lossThis allows underwriting to price accordingly and offer incentives for critical risk management controls in place.
4. Similarly, the claims department needs to identify members lacking in management or physical controls found in the discovery process of claims reported. They should inform the service team of these known issues so a plan of action can be developed to reduce reoccurrences.

You should also look to add value to each member you work with. While the items I just noted give you a place to start with each member there is a need to further drill down into each member's areas of concern and specific loss sources. This is where having a specific service plan can get you in the door with members most in need.

**Add Member management Value**

1. Analyze member losses every 3 to 5 years to identify member loss trends and specific loss areas. Deliver this analysis to top management to add value by identifying opportunities to reduce loss.
2. Develop an annual service plan to outline proposed activities (as a result of pool management meetings outlined above) to reduce loss sources.
3. Determine meaningful measures, specific to each account, to track annual progress towards desired results.
4. Track progress on recommendations.
5. Review each service plan with member management on an annual basis to confirm future service is still focused on addressing their needs.

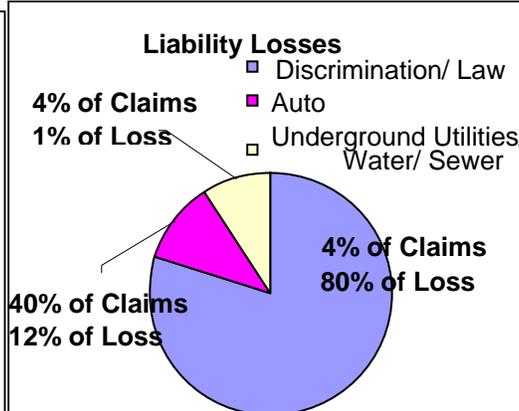
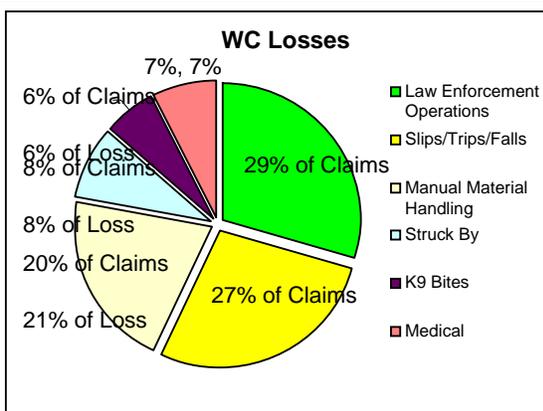
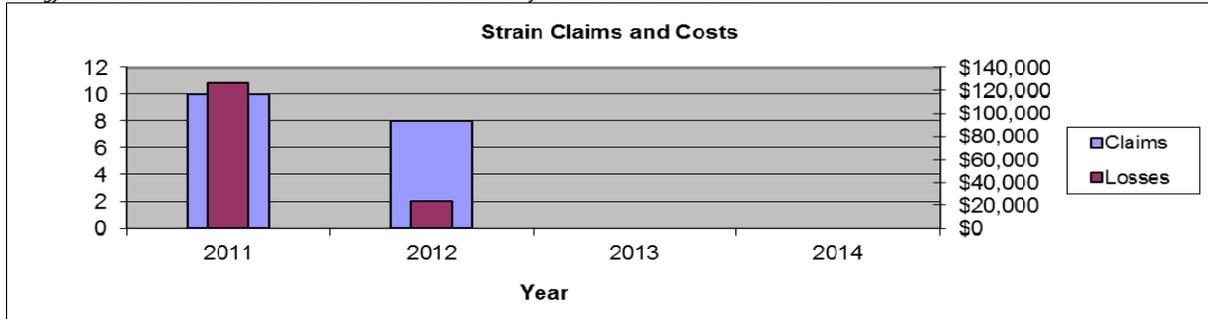
Another example of a tool I use is the service plan found on the next two pages. It outlines the value added to specific members on their specific exposures. I like it because it allows me to suggest activities to address loss sources, to "contract" or gain buy-in for future services and to track of progress all in one place. Plus, it gets the member involved and can be used as talking point during internal member meetings.

# 2012 Loss Control Service Plan for – Member Name

Primary contact: Member Contact

## Leading Loss Areas For The City

Meaningful measure to be tracked in 2012-2014 is the number of strain claims and strain loss costs.



Loss data above is a 10- year loss analysis for the city ending October 2010

Loss data below is the most current 18 months of data as of March 2012

### Worker Compensation

**22 pushing/pulling or lifting/lowering strain claims produced \$205,490 in total incurred loss.**

- Public Works claims when lifting trash, barrels, trimming trees, operating hydrants and removing manhole covers.
- EMT and Firefighter claims from handling patients and carrying them down stairs.

**16 Slips/Trips/Falls claims produced \$120,838 in total incurred loss.**

- Various occupations fell over hoses, on uneven surfaces, icy surfaces.
- Various occupations fell while exiting vehicles and climbing stairs and ladders.

### Liability

**33 Auto crash claims produced \$44,418 in total incurred loss.**

- The majority are Police crashes from backing (most frequent) and car chases (most severe) on ice.

**11 Sewer claims produced \$7,727 in total incurred loss.**

- Storms and roots and rags in mains were factors in backups.

### Primary WC Loss Area(s) for Pool

- Strains - Public Works – 10% of all Pool claims are PW strains. 35% of all Pool loss and 23% of claims are PW strains.
- Slips/Trips/Falls

### Primary P&C Loss Area(s) for Pool

- |                      |                             |                          |
|----------------------|-----------------------------|--------------------------|
| 1. Land Use 23%      | 2. Police 21%               | 3. Employment 15%        |
| 4. Sewer backups 11% | 5. Streets and sidewalks 7% | 6. Administrative E&O 7% |

## 2012 Loss Control Service Plan for – Member Name

Primary contact: Member Contact

<b>Activities To Reduce The City's Leading Loss Areas</b>	
<i>Date: 3/6/2012</i>	
Strains & Repetitive Motion	<p><i>Activity: Complete</i></p> <ul style="list-style-type: none"> <li>- Discuss and propose PW Ergo Survey for various departments - PW, Streets, Utilities and Parks</li> <li>- Present Loss Areas to Safety Committee</li> <li>- Plan 2012 service activities</li> <li>- Discuss and propose train the trainer training for office ergonomics</li> </ul> <p><i>Contacts required to complete activity:</i></p> <ul style="list-style-type: none"> <li>- Name, City Administrator</li> <li>- Name, Human Resource Attorney</li> <li>- Names, Department Managers</li> </ul>
<i>Date: 6/15/2012</i>	
Strains & Repetitive Motion	<p><i>Activity: Complete</i></p> <ul style="list-style-type: none"> <li>- Complete office ergonomics training with designated "go-to" person(s).</li> </ul> <p><i>Contacts required to complete activity:</i></p> <ul style="list-style-type: none"> <li>- Names, Department Managers</li> </ul>
Emergency Services & Sewer	<p><i>Activity: Complete</i></p> <ul style="list-style-type: none"> <li>- Discuss emergency services policies and Pool initiatives</li> <li>- Discuss sanitary sewer toolkit (sample policies and best practice programs) and completing a self-assessment</li> <li>- Send assessment electronically</li> </ul> <p><i>Contacts required to complete activity:</i></p> <ul style="list-style-type: none"> <li>- Names, Police Chief and Fire Chief</li> </ul>
<i>Date: Sept/Oct</i>	
Strains & Repetitive Motion	<p><i>Activity:</i></p> <ul style="list-style-type: none"> <li>- Complete proposed PW Ergo Survey with PW</li> <li>- Discuss Slip/Trip/Fall Assessment</li> </ul> <p><i>Contacts required to complete activity:</i></p> <ul style="list-style-type: none"> <li>- List Names</li> </ul>
Sewer	<p><i>Activity:</i></p> <ul style="list-style-type: none"> <li>- Complete proposed sanitary sewer assessment</li> </ul> <p><i>Contacts required to complete activity:</i></p> <ul style="list-style-type: none"> <li>- List Names</li> </ul>
<i>Date: Jan/ 2013</i>	
Slips/Trips/ Falls & Ergonomics	<p><i>Activity:</i></p> <ul style="list-style-type: none"> <li>- Complete Slip/Trip Fall Survey</li> <li>- Follow up on office ergonomics training</li> </ul> <p><i>Contacts required to complete activity:</i></p> <ul style="list-style-type: none"> <li>- List Names</li> </ul>

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**Summary**

A focused loss control effort with targeted initiatives will reduce losses and potential exposures for both the pool and its members. It will also reduce the time and expense related to working on areas with little exposure. By implementing the following suggestions, pool management will make loss control more productive for their pool.

- ✓ Plan to devote a significant amount of time studying losses for each line of coverage to focus loss control efforts.
- ✓ Develop a plan to gain management commitment.
- ✓ Identify which members are producing a disproportionate amount of pool loss and have a plan to work with each of these members.
- ✓ Plan time to develop tools and resources to address leading loss exposures and plan time to support the use of these tools by the membership.
- ✓ Maximize loss control's internal benefit by making them the underwriting and claim department's field representative to evaluate and verify controls.
- ✓ Maximize loss control's external benefit by communicating member expectations.

Loss control can be the needed complementary piece to an insurance pool. Internal pool management and member management that buy into loss control service plans will benefit the most from this service if there is Management Support, Targeted Initiatives and Value.