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Business Insurance Update — Moving to Plan By Kendall Hoyd, WTCA Management Committee Chair

As has become my custom, I am writing to tell you that we are again at somewhat of a standstill with respect to developing an industry association insurance program. Many of you probably recently received yet another information request, even more detailed and comprehensive than the others.

Needless to say, this request fell a little flat with our members, as it is a challenge for us to stay motivated to provide continuous information and not see quick results in the form of an association program.

John Elder, the Lockton Insurance representative (broker-partner for our industry insurance program) who has been working on this program, requested additional information by February 1, and was needing to have about \$5,000,000 in premium represented in the form of complete information submissions. When the amount and type of information that came in didn't meet his needs, we agreed that the industry association insurance program, as we had planned it to be based on Lockton's guidance, would not be a reality in the near future.

There have been many, many meetings and teleconferences between Lockton and our insurance subcommittee involving, but not limited to exasperation, hope, determination and resolve. The bottom line, however, appears to be that in the current insurance market, the insurers are not working very hard to get any kind of insurance premium, and especially not the kind associated, as ours is, with the construction industry. This, I believe, is why the carrot of an industry association program appears to be at the end of an increasingly long stick.

PLAN B

While we still don't have a lot to show for our efforts on the insurance front, we do, however, have some ideas for making the best of our difficult situation. Our Plan B consists of a few basic elements:

- In the short to medium term, Lockton will offer brokerage services to our customers individually in cases where any individual company member feels that they might be better served by changing to Lockton as their broker. We have a partnership agreement with Lockton, whose goal is to serve our membership with the ability to have greater options for getting affordable insurance. Our management committee also discussed setting up partnerships with additional brokers across the country to provide more regional options for our members.
- We will create an online educational program for our industry and its brokers regarding claims handling. One finding we have made during the long process of trying to create an insurance program is a high percentage of the members that have participated have indicated that they

don't feel our industry's claims are handled very well by the insurance industry. We believe that our members and the brokers who serve them would benefit from some basic training on handling claims specific to our industry. This leads to the concept below.

- Our management committee is also considering the development of a business plan for an industry captive insurance company. The discussion of a captive is an enormous issue, and whether or not it even makes sense at the association level still needs to be proven. Concerns about who invests the equity to start the captive, how risks and income are determined and allocated, who can be insured by the captive and who can't, all need to be considered. Most importantly, we need to decide whether or not a captive creates enough advantage for the membership at large to even pursue it any further.

In addition to the online educational program regarding claims handling, having an insurance vehicle with its own industry-adapted claims handling strategy and expertise may be a good reason for our association to participate in the creation of a captive. One of the reasons insurers have given for avoiding our industry is its claims history. If that is being handled poorly by the insurers to begin with, then it becomes a self-fulfilling prophecy.

WHAT TO EXPECT

Why are you asking me?!? I obviously don't know, since I've basically taken you down the garden path every time I've written or talked about this in the last year-and-a-half. Here are some things I think you can expect:

- Discussions on structuring a deal with Lockton and other brokers to become association-endorsed brokers.
- A feasibility study for an industry association captive insurance company. We have a few companies that are both very active in our association and are substantial enough to participate in the formation of a captive. This process could take several weeks to evaluate, and several months to execute if we decide to go ahead with it. Ultimately, if the benefits created by a captive can't be leveraged to our overall membership, or at least a segment of the membership that meets some pre-determined risk criteria, we will not pursue this option.
- More development work which will incorporate some of our existing risk management practices and literature, and perhaps creation of some new items that members can use in marketing themselves more effectively to the insurance industry. We will be evaluating our risk management structure and strategy closely to come up with key activities that will have a direct positive cause and effect. We will also be adding insurance data collection to our Financial Performance Survey, so that we can track loss and premium information on our industry.

It may well be the case that an industry insurance program doesn't make any sense because it doesn't solve a real problem for enough members to sustain itself. Additionally, it may well be the case that an insurance captive doesn't make any sense because it can't be structured in such a way as to benefit the general membership.

We have, I believe, answered the first question about industry insurance programs, and we are going to answer the second one in the coming months. In any event, we are in the process of developing a safety certification program and we will end up with a comprehensive program for

establishing, documenting and marketing risk management procedures for our members to use in their dealings with the insurance industry. We believe our industry would also benefit from information about the pros and cons of hiring insurance consultants (fee-based) rather than brokers (commission-based). A future article in SBC Magazine will cover this topic. We may also develop association services or work with a third party to offer services that improve our claims handling.

I think that, although results have never failed to disappoint so far, we have done as much as we can with what we have, and out of this adversity we will ultimately end up with something of solid value for our members. As always, your suggestions and input are valued and solicited. Let me know if you think there is another path to explore.

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