Session 512

Loss Control – The Mind and Soul of Underwriting

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Loss Control has changed. The days of multiple week Home Office training programs for new hires and weeklong expert level training in technical issues has, for the most part, gone away. Each loss control representative today is more empowered, more enabled, more accountable than ever before. Training is no longer spoon fed – training must be sought out, cost justified, and sold. With these new accountabilities, come greater responsibilities to individually and collectively prove our value each and every day.

The Eyes and Ears of Underwriting

As the "Eyes and Ears of Underwriting", our reports were epistles of information. Every raw material, every process step, each special hazard, every conceivable potential misuse of a product was identified and evaluated. Forests were stripped bare; eyes ruined reading handwritten reports or steno pools driven crazy with mystical terms and magical sayings. Every loss control consultant's trunk lid was permanently scarred from coating Polaroid photos.

Eventually this degree of reporting became too expensive for carriers to afford. The "Eyes and Ears" gave way to reporting by exception. If it was good – no comment. If it was really bad, comment. If it was really good, comment.

The transition from 20 page loss control reports to mere sentences saying "Everything's fine." was too much for underwriters to handle. So, we moved to pre-formatted report forms – checklists, supplements, and survey guides. Industry based common exposures. These were the days of NCR paper if you were lucky, carbon paper if not. Gallons upon gallons of white-out (or blue-out) were consumed. Every department had at least one dog-eared set of AM Best's Loss Control Guide. You were special, or extremely lucky, to have your own set.

Then, technology came upon the industry. Computers and fax machines. With technology came exhaustive claims data analysis. Actuaries could determine major loss drivers by SIC code for every line of business. The reports changed in response to the data with industry-specific loss drivers for evaluation. Scoring was developed to illustrate the degree of exposure. Data mining was lauded as a way to quantify the impact and effect of loss control.

Eventually, technology came to loss control. Laptop computers. For some, digital cameras with 5 ¼ drives. With technology, the ability to capture massive amount of data was there, and not to miss an opportunity, we responded with massive reports. Since we were there, and being the "eyes and ears of underwriting", why not capture the data? Our only barrier was the cost of memory. Reports could be updated/changed/improved any time, versus paper based report forms. And we did – making each report a moving target and corrupting any efforts for data mining. Steno pools disappeared as loss control consultants learned to type.

As happens, just like hard and soft insurance markets, the pendulum swung back. The cost of loss control and their once-again epistemic reports came to attention. So we 'computerized' our reports with radio buttons, drop-downs, and text fields. Keystrokes were measured. Elimination of duplicity was targeted. Time was measured – travel, on-site, and report writing. Recommendations were tracked. Metrics were introduced, revised, massaged, turning into a behavior driver.

The "eyes and ears" of underwriting became "check-mark and run". And each of us hung tenaciously to our company-logoed vinyl portfolios and legal pads.

My point in this trip was to illustrate the development of loss control in execution, but not responsibility. At what point in time had the responsibility of loss control changed?

The Mind and Soul of Underwriting

The responsibility aspect of loss control has finally changed. No longer is loss control looked at as merely a yapping puppy spewing kibbles of data, but a source of information – information that is data based and evaluated according to standards and best practices.

The "Eyes and Ears of Underwriting" has been replaced with the "Mind and Soul of Underwriting".

At the 2011 PDC, an executive panel of loss control leaders with major insurance companies was held. The issues facing loss control were clearly outlined – from financial impact to measuring the effectiveness and impact of loss control surveys and service. While each company has initiative in place to address their individual issues consistent with their business planning, Bill Boyd, head of CNA's loss control department, stole the show when he stated in closing remarks that loss control is no longer the 'eyes and ears', but 'mind and soul'. In other words, the Tin Man has a brain.

But What Does This Mean?

Thanks to Tad Nosal, ISO Engineering and Safety Services Manager, and his contribution to a LinkedIn discussion, I recently learned what I really do.

I'm not a loss control consultant – I'm a management analyst. According to the Bureau of Labor Statistics,

> "Management analysts, often called loss control representatives in the insurance industry, assess various risks faced by insurance companies. These workers inspect the business operations of insurance applicants, analyze historical data regarding workplace injuries and automobile accidents, and assess the potential for natural hazards, dangerous business practices, and unsafe workplace conditions that may result in injuries or catastrophic physical and financial loss. They might then recommend, for example, that a factory add safety equipment, that a house be reinforced to withstand environmental catastrophes, or that incentives be implemented to encourage automobile owners to install air bags in their cars or take more effective measures to prevent theft. Because the changes they recommend can greatly reduce the probability of loss, loss control representatives are increasingly important to both insurance companies and the insured.

And, also from the Bureau of Labor Statics, underwriting:

> Underwriting is another important management and business and financial occupation in insurance. Underwriters evaluate insurance applications to determine the risk involved in issuing a policy. They decide whether to accept or reject an application, and they determine the appropriate premium for each policy."

--Source: Bureau of Labor Statistics: Career Guide to Industries 2010-2011 Ed.

Interestingly, the BLS doesn't mention any correlation from the information developed by loss control representatives used by underwriting. That is one of the key functions of loss control. As for the key functions, for clarity we'll break into two areas – Internal and External -- And how the new expectations of loss control pertain to each.

Internal Functions of Loss Control

This was the 'eyes and ears' area in which we lived for decades. Risk Evaluation. Observe and Report. Analysis was the sole realm of the underwriter.

Expectations were to identify hazards and make recommendations for their control. OSHA Standards and National Fire Protection Association Codes were the benchmark. Occupational safety was composed of a Safety Policy, Safety Rules, Safety Committees, and Safety Training.

As a rookie, I remember once offering an underwriter my assessment of the degree of risk and ability of the company's control measures to control their risk exposures – making the operation, in my opinion, a poor business opportunity. I still remember the response: "Your job is loss control. I make the underwriting decisions." It's important to note that's the one time I've ever heard that actually verbalized, but many times afterwards I'd felt the *message* communicated when an underwriter is not looking for a thorough and frank risk evaluation, but only a completed report.

Similarly, it's likely we've all had underwriter's want to know how many recommendations were generated from a survey. The report was secondary – the number of recommendations was the extent of their evaluation.

When working in a remote territory in the days of handwritten reports, I once accused my boss of evaluating my workload by the weight of my weekly mailing. In retrospect, that may have been a better tool than some metrics out there today. Except I always suspected some of my co-workers were 'accidentally' mailing in their junk mail.

'Eyes and Ears', But What is Behind and Between?

Today, as evidenced by leaders of loss control departments, the focus has clearly changed from reporting to assessment. Assisting the underwriter in understanding the risk's operations and controls to aid in developing the right rate, terms and conditions. For complex risks, our job is to be able to explain the risk with a crayon.

What does this mean? It means we have to let go of our safety jargon and communicate in a language anyone can understand. If the company is engaged in recombinant DNA technology, we need to translate this into an exposures/controls assessment that does not show-off the six hours of research necessary to get ready for the survey. The underwriter is looking for a clear understanding of the risk exposures and controls in place to prevent loss. In other words, they don't want to know how to build a watch. They just want to know the time.

We no longer have inexhaustible time and resources for report generation for someone else to wade through, because they just don't have the time either.

Historically, loss control has spent as much time in generating reports as it took in getting the data. Six hours of plant time would generate at least six hours of report writing time. Clearly, this was never sustainable.

Actionable Content & Predictive Analytics

Loss Control reports today must drill down to the critical risk assessments necessary for good underwriting. Needless data points – my personal favorite being number of parking spaces – just cannot be captured or reported in today's business environment. While this has been good news for many of us, it has intimidated some underwriters who really want a company person to validate the application and capture their personal favorite data points.

Basically, we cannot afford to provide the granular data of prior report platforms. We can't afford to produce the data, and underwriters don't have time to read the data. What we must provide is information – not data.

One carrier at last year's panel of loss control leaders was able to state, through predictive analytics, manufacturers with an effective Return to Work program have a proven 60 point improvement in loss ratio. Material handling best practices equals a positive 28-30 point spread. And clients who were loss controlled prospectively had a significantly higher new business hit ratio.

This was developed through data mining of loss control reports against loss ratios. Hard work requiring discipline and expertise results in this department being able to clearly evidence their direct contribution to goals and objectives of the carrier – acquisition and profitability.

I have a good friend who always put a 'zinger' in her reports. If she never heard back from anyone, it confirmed the report had never been read. My favorite was a fleet report: "Concentration of Values: All trucks are parked at the plant nights and weekends. The plant is in a flood zone, but not an issue as the yard is fenced and they wouldn't float far." It's important to note the underwriter who requested the survey never said a word.

So today our reports are concentrated, distilled down to only the most critical evaluative factors.

Responsibility & Accountability

With this distillation, our responsibilities have grown exponentially. With responsibility comes accountability. Accountability can be a scary offshoot of our new-found responsibilities.

For example, a property evaluation that requires "Adequate" or "Inadequate" for sprinkler systems is placing the entire value in one of two buckets – Good or Bad. Considering most carriers are willing to entertain from $25 to $50 million or more without reinsurance, this one evaluation, this single evaluative point, can put the entire value at risk directly against the carrier's bottom line. This is an incredible responsibility on one individual. Some individuals can handle this, are willing to 'make the call' and stand behind their evaluation with confidence.

However, some are hesitant to be held accountable. They vacillate and resist this two-bucket mandate. "Where's the I think it's OK category?" Or, sufficient data could not be obtained to provide a 100% totally accurate and 100% totally confidant evaluation of the exposure. As a result, the report is delayed. While making the wrong call in a binary system is an inherent risk, our internal customer, the underwriter, must have a clear indication of the degree of risk. We must make the call with defensible data and clear conclusions.

On the business side, when an underwriter is concerned about values at risk, they buy reinsurance to protect their company. Reinsurance can be expensive, and shows as a line item in most proposals – a direct pass through visible to the buyer. Consider the ramifications for a well-protected high-value property where loss control helps get an aggressive proposal on the table through good risk evaluation. That's differentiation. That's how we contribute to the bottom line. Oh, and you have to take credit for it as well.

Differentiation in Risk Evaluation

Loss Control is running through the tunnel into the stadium ready to play the game of your life – and not knowing the shape of the ball until you get on the field. But, that's what also makes this job so exciting.

How do we differentiate ourselves? It's best to clearly understand what we being paid to do.

We are paid to be observant.

We are paid to get appointments with the right people.

We are paid to build immediate personal relationships.

We are paid to get people talking.

We are paid to be respectful of others time.

We are paid to listen.

We are paid to ask intelligent and probing follow-up questions.

We are paid to reflect our company in the best possible light.

We are <u>not paid</u> to ask questions that can be answered "Yes' or "No".

We are <u>not paid</u> to get thrown out with any regularity.

When I did risk evaluations (way back last year), I'd always look at the sign in log to see who else had been there before. When I'd see competing companies listed, sometimes three of four, I knew two things:

1.) My contact person was going to be tired of the exercise, and

2.) It's going to be a price play, so service is likely not a value.

But, I also knew I was likely the only person from my company they'd ever meet face-to-face. I had one chance to make the first impression.

According to leaders in loss control, our customers want expertise.

Customers completely understand you might not have specific knowledge of their industry, but have little patience for those who pretend. We will be tested. Some carriers have developed specific tracks for industry expertise in their staff, while others make resources available to fill knowledge gaps in a just-in-time process.

Even if you're not an expert in, say recombinant DNA technology, a curious person would do the preparation necessary to at least recognize water jacketed pressurized reactor vessel. And all's not lost if you don't – my favorite technique is to just stare at a machine or process until I either figure it out, or admit defeat and ask. There is no shame in ignorance, only stupidity.

Leaders in loss control want staff who are naturally curious and constantly learning. And, who apply both to the objectives of the business. While there are many different camps on professional designations, I know of no better way to immediately communicate professional validity than a designation earned by examination.

As for curiosity? That's an attribute we can all develop, as long as we keep our egos out of the way.

External Function of Loss Control

The external, customer facing aspect of loss control is where the industry leaders see the most value of loss control in our brave new world of responsibilities and accountabilities.

A natural progression from the risk evaluation stage, this is where you can make the greatest impact in retention and profitability and become a rock star for your company and the client.

Leaders of loss control, carrier or broker, say the overriding objective of loss control service is to provide a value to the client. This needs-satisfaction objective is the most challenging aspect – what does the client need, and what do they want? Further, who wants what?

The human resources group will have a set of needs. At the same time, the production manager has a set of needs. Then, the controller has a set of needs. How do you know what the real needs are?

Recall the Golden Rule? No, not that one; the one that says 'the person with the gold makes the rules'. Who is the decision maker for insurance? Who makes the broker and carrier selections? While all needs are valuable and must be considered, failure to ensure the decision maker, the insurance buyer, the ultimate customer, needs are meet will doom your efforts in showing value.

OSHA Compliance

Consider OSHA compliance. While many clients may express a need to get help with OSHA compliance, to a person, the leaders of loss control do not see OSHA compliance as an impact on the profitability of their books of business. While it may be a point of entry into client service, compliance does not in itself impact loss costs. Rather, digging into risk components and not just accidents will lead to control measures, which will in turn create natural compliance with regulations.

Assisting clients with OSHA is low hanging fruit. It does not offer a differentiator because it is a standing service offering by all carriers and brokers. Reliance on this facet of service is short sighted and ineffective. Mock OSHA audits can be used by client's who don't want you to mess with their real problems – management, accountability, capital budgeting.

That's why they call it Work

Do the hard work first. Find out how the client measures their performance. Determine how they define value. Loss Costs may not be the driver – an example being a company that didn't care about loss costs as they were performing well, self-funded and highly capitalized. They wanted to build a culture of safety. Not a priority or an initiative that comes and goes with each quarterly earnings report, but a sustainable belief that avoidance of accidents is fundamental to their company. Imagine if the loss control consultant had missed this need of the client and instead offered the standard menu items?

With knowledge of the business' metrics and values, developing objectives in safety aligned to those clearly known objectives can be easy, or hard. Easy if they involve data which you can obtain readily, like lost days or claims costs. Hard if they require data from the client, like hours worked, reject/rework, number of doors, threshold crossing, same store sales, or net margin on sales.

The easier the metrics, I firmly believe the less value associated. For example, I cringe every time a loss control representative mentions, much less includes loss ratio in a customer letter. For a multitude of reasons, this number has absolutely no credibility or relativity to loss costs, much less value to the insured. Considering the loss development factor for incurred worker's compensation claims at 12 months valuation is over 200%, at best the number is understated, at worst only a reflection of reserving practices to earned premium.

Or number of claims, even incurred claim costs. Without an exposure base, these numbers are icebergs adrift on the ocean. Payroll changes, locations and shifts are added and dropped. Without an exposure base, the numbers are meaningless to a client. In fact, they are dangerous.

Dangerous to a person's credibility. Envision your charts and graphs say location X is a problem because of injury volume. At the client presentation, the HR manager simply says that location has more employees than the other locations. Roll the fire trucks – we've got a crash. I know – been there, done that.

Once we determine the most important two or three measures used by the company, aligning to loss costs may require creativity, but the benefits are monumental.

Indicators – Leading and Trailing

The second aspect of the scorecard is leading indicators. Loss costs are trailing indicators – you cannot drive looking out the rearview mirror. Leading indicators relate to activities that will have an impact on the future – Accident Investigations Effective in Determining Cause & Correction, Self Inspections Completed, Safety Meetings, Plant Manager Present at Safety Meetings, Preventative Maintenance Safety Item Backlog, etc.

Service Planning

This scorecard, or windshield, is the most important foundation of a service plan according to the leaders of loss control. The scorecard will guide risk improvement service towards the problem areas, and you will not see resistance as they are based in the language of the decision makers. They reflect the values of the client, and are an immediate illustration of your understanding of their operations.

The service plan is a listing of activities to achieve a Scorecard objective. Without the objective, it's just a list of activities that may or may not been seen as valuable by the client. This is the most important part of a service plan.

Lastly, 'As a Result'

Any customer receiving loss control service gets a service summary, right? Call it Stewardship Report or Pre-Renewal Report, it has to be done. Without, the decision maker will be unaware of the services provided and results attained. Recall the Golden Rule?

Services provided, no matter how incredible, responsive, or time consuming, are immaterial if they cannot generate an 'as a result' statement of value to the client.

Putting on fourteen accident investigation workshops is immaterial if some valuable outcome is not generated. It was an activity, not an accomplishment no matter how hard you worked. However, if fourteen accident investigation workshops were done and 'as a result' the scorecard for "Accident Investigations Effective in Determining Cause & Correction" improved, it's an achieved valued objective.

Or, if a communication strategy and accountability program was effective in driving down lag time, and 'as a result' lag time and indemnity costs responded accordingly, an objective was accomplished. And another 'as a result' for lowering indemnity costs. Fast on your way to Rock Star status.

The risk evaluation leads to the service plan which leads to the service summary. Three easy steps that can consume countless hours of analysis, research, questioning, and on-site time. Without, you may have worked hard, but if no results are attained, what have you done?

Conclusion

Loss Control has changed radically in the last 20 years. New expectations are being placed on a shrinking number of persons in this field.

Our workforce is graying, and new blood is rare. Change is a constant.

We are being called on to do more, think better, and show results.

Turnover is attributed to 'not being able to adapt to new expectations'

Performance Metrics are a constant challenge to us.

… In other words, we are like every other profession in the world.

However, we must remember we have the best jobs in the world.

The Loss Control Best Job in the World Top Ten:

1. We live “How Things Are Made” every day.
2. Our children, when young, thought every day was a field trip.
3. Others are jealous of our profession – we get to save lives, prevent fires, and protect the environment every day. And we do it without lights and sirens.
4. We are most effective when nothing happens.
5. We control our work schedules and seldom see our bosses.
6. Our lawns are best kept in the neighborhood.
7. Most of us work in Home Office – we commute from the bedroom to the kitchen table or if lucky, a spare bedroom. And the coffee is free.
8. We get to expense account high speed internet for the whole neighborhood.
9. We have no idea of the price of gasoline.
10. But, casual day has absolutely no meaning to us anymore…..