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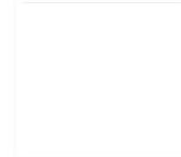
# SCOTTISH HOUSE BUILDERS HEALTH & SAFETY FORUM

## How to reduce your insurance premiums

### Doug Smith Edinburgh Office

[douglas.s.smith@marsh.com](mailto:douglas.s.smith@marsh.com) Tel DDI 0131 311 4214

# Overview – Market Conditions



## UK CONSTRUCTION

- Reluctance to underwrite fully adjustable policies – most Insurers require Min/Deposit.
- Premium reductions on risks that have not been broked in last 2 years. On other risks rates are levelling.
- RSA increasing renewal rates across the board - but still aggressive on New Business
- EL rates are still falling - greater market choice for placing on mono line basis with low claims discounts leaving CAR/PL to be place with different Insurer at competitive rates.
- Term deals and Standstill agreements still available.
- Motor fleet rates driven by claims. Many Insured's reducing to TP, TPF&T or increasing deductibles.
- AIG – not really a Construction Market, unable to write CAR and have Asbestos exclusion on PL.
- D & O, PI and other financial lines have been falling but now levelling out – Insurers expecting to seek increases in 2009

# Overview – Key Construction Insurers



Market	Adjustment Basis	PL - Asbestos Cover	DE3,4,5 wordings
Allianz	Fully	Silent	Yes
Zurich construction	Fully	Silent	Yes
RSA	Not Adjustable	Excludes 'Fear of Asbestos'	Yes
ACE	85% min/deposit	Exclusion	Yes
Other Markets – around 8 to 10 alternatives	Various	Various	Various

# How to reduce premiums – Key Steps



## Insurance Options

- Self Insure (Captives)
- LTA
- Increased Deductibles
- Manage Insurer “Reserves”
- Transfer risk to another entity
- Premium Rebates

## Risk Profile

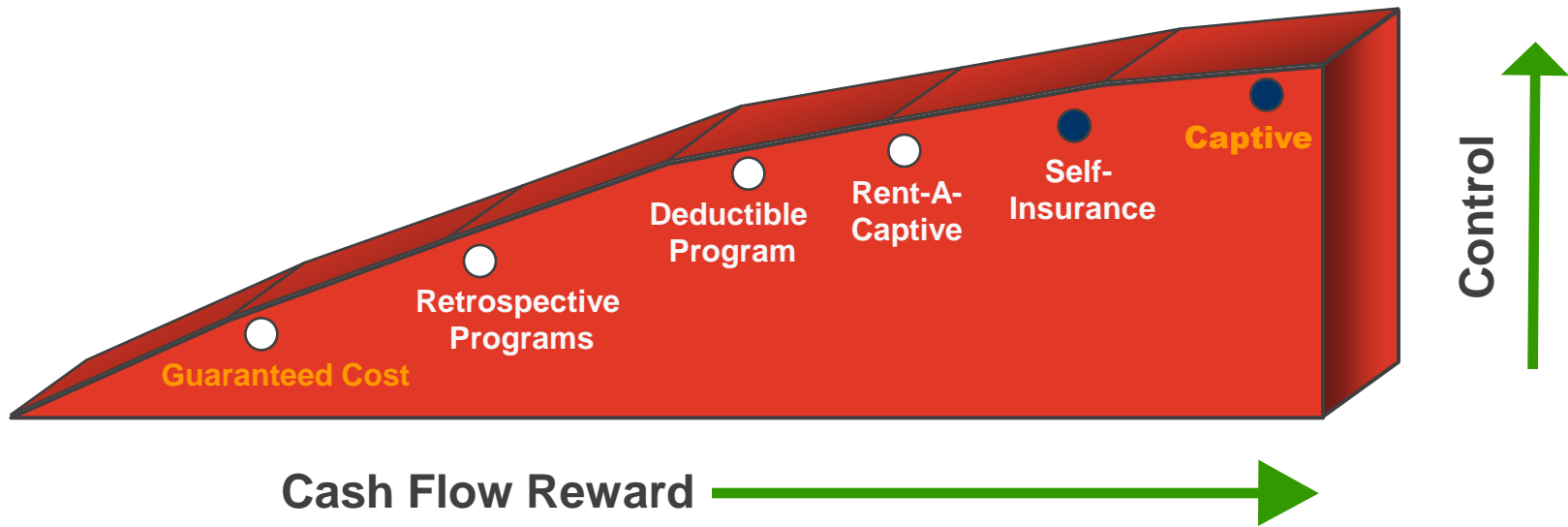
- Improve Your Risk Profile
- Proactive Brokering
- Keeping claims below the claims threshold

## Claims Defensibility

- Health and Safety Systems
- Event management
- Post event management

# Captives – Why Become Your Own Insurance Company?

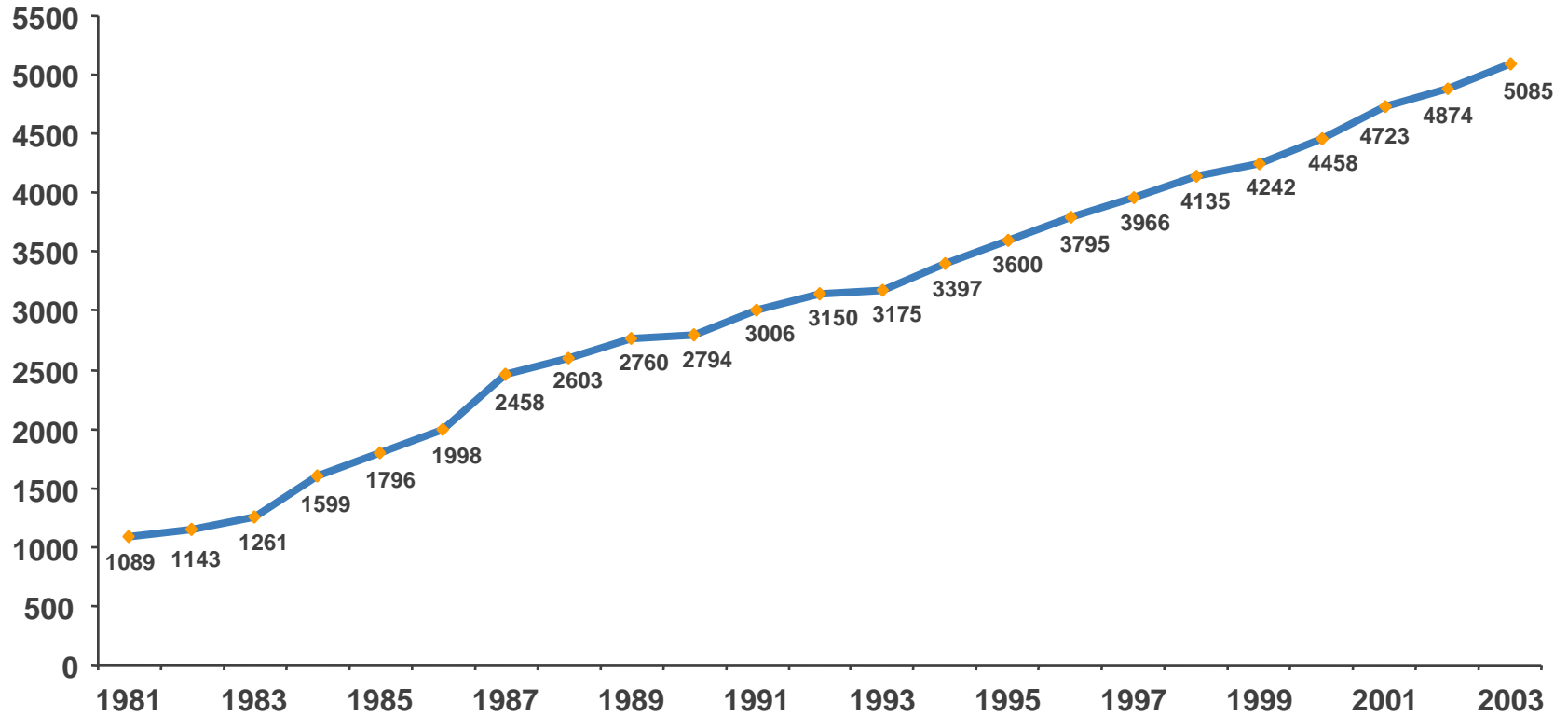
## Insurance Options



For illustrative purposes only.

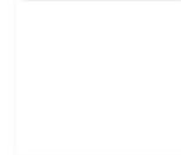
# Captives – Why Become Your Own Insurance Company?

## Growth in Captives



Source: A.M. Best

# Why Are Captives Created?



- **Philosophically: Why pay for insurance that you hardly ever use?**
- **More control over loss control and claims**
- **Difficulty in finding insurance**
- **Volatile insurance market pricing**
- **Your losses determine your costs**
- **Greater opportunity to manage the total cost of risk**
- **Insurance company accounting and taxation**
- **Construction clients will pay for insurance**
- **How can I make a profit using a Captive?**

# Benefits of a Captive

- Your loss experience determines what you pay
- Premiums are paid to insurance entity you own
- Share in the underwriting and investment profit
- Superior loss control and claims services
- Insulation from cyclical marketplace
- Potential wealth transfer mechanism
- High quality membership selection
- Reduced fixed costs



# Captives



## Captive Types/Benefits

- Single Parent/Group/Rent-a-Captive
  - Single Parent – Loss projections \$2.0M or greater
  - Group Captive – Loss projections \$250k - \$4.0M
- Savings/Profit through:
  - “Validation” of insurance costs included in bids to Owner
  - Insurance premiums paid to captive are generally tax deductible and cover your expected losses insured by the captive
  - Captive tax benefits

# Captives

(Continued)



## Captive Types/Potential Benefits

- Minimize earnings volatility – captives are priced based on contractor's own loss experience/take out the volatility of insurance market
- Wealth Transfer Vehicle
- Builds equity

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# Improving Your Risk Profile

# Understanding the business context



How does your capital structure inhibit or enhance your growth strategy?

How is investment in your risk portfolio optimised?

What are your key business challenges and how are you addressing them?

MARKETING STRATEGY

HOW ARE YOU RUNNING YOUR BUSINESS?

OPERATIONAL MODEL

How are your business decisions made?

VOLATILITY

HOW ARE YOU MANAGING RISK?

RISK GOVERNANCE

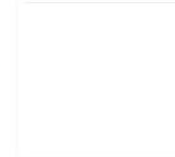
What policies, tools, procedures and training are in place to manage risk?

RISK INVESTMENT

How are your risk strategy, governance and investments integrated?

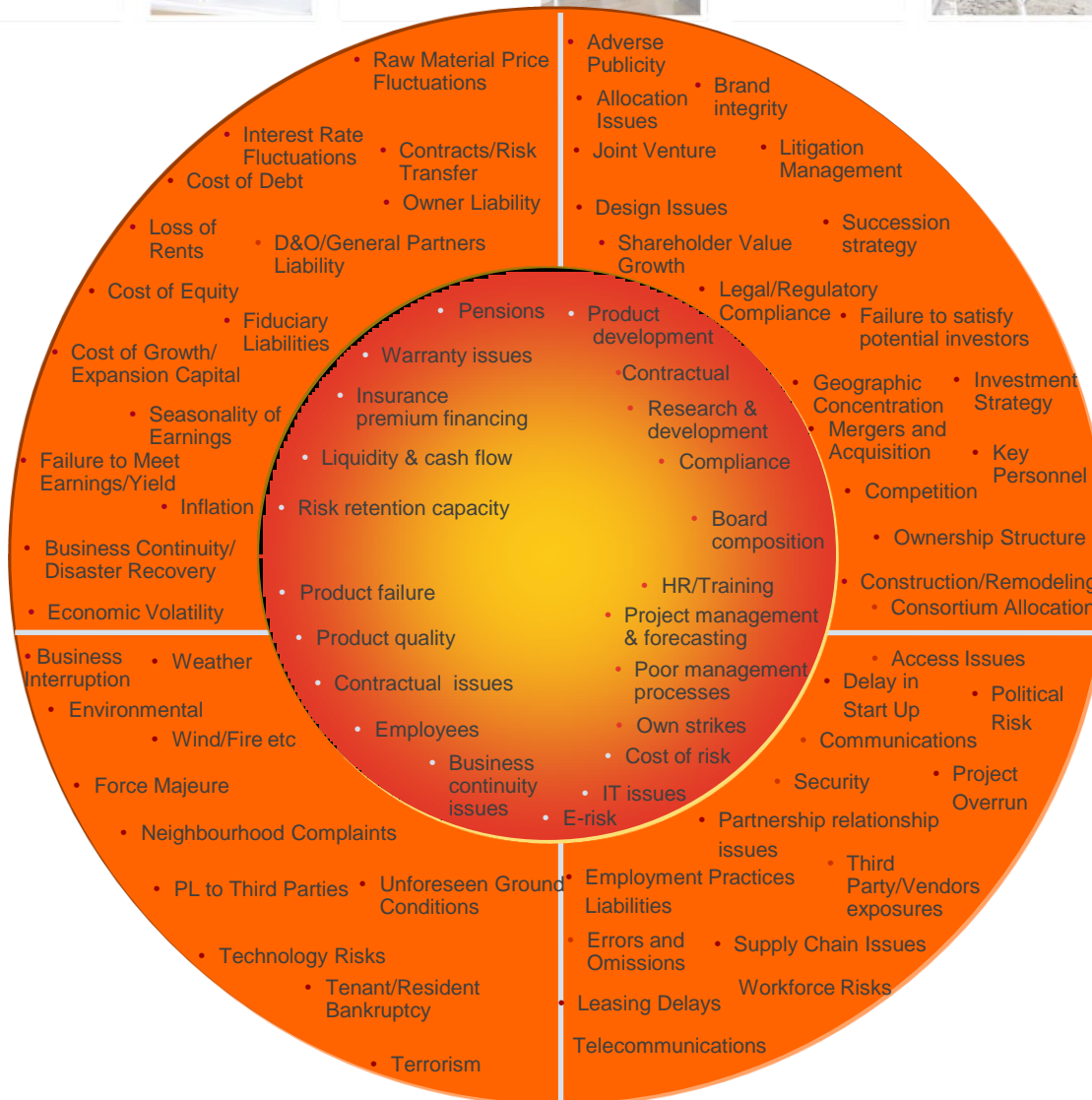
RISK STRATEGY

# Risk Radar



## Financial Risk Sources

## Strategic Risk Sources

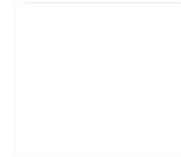


# Proactive Brokering



- Are they marketing your risk on a regular basis?
- Are they getting insurer contributions for risk management work?
- Do they have the appropriate corporate leverage?
- How do they use your claims data?
- If you have above average safety records do your insurers know?

# Staying below the optimal loss ratio



- Do you know what the claims to premium ratio is for EL / PL in your business?
- Keeping below the optimum can have a positive impact on your premiums
- Watch out for insurer reserves – what should you be reporting?

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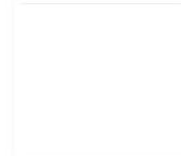
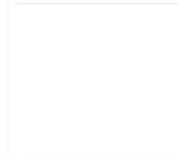
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# Claims Defensibility

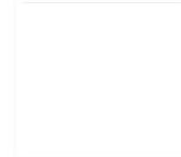


# Introduction



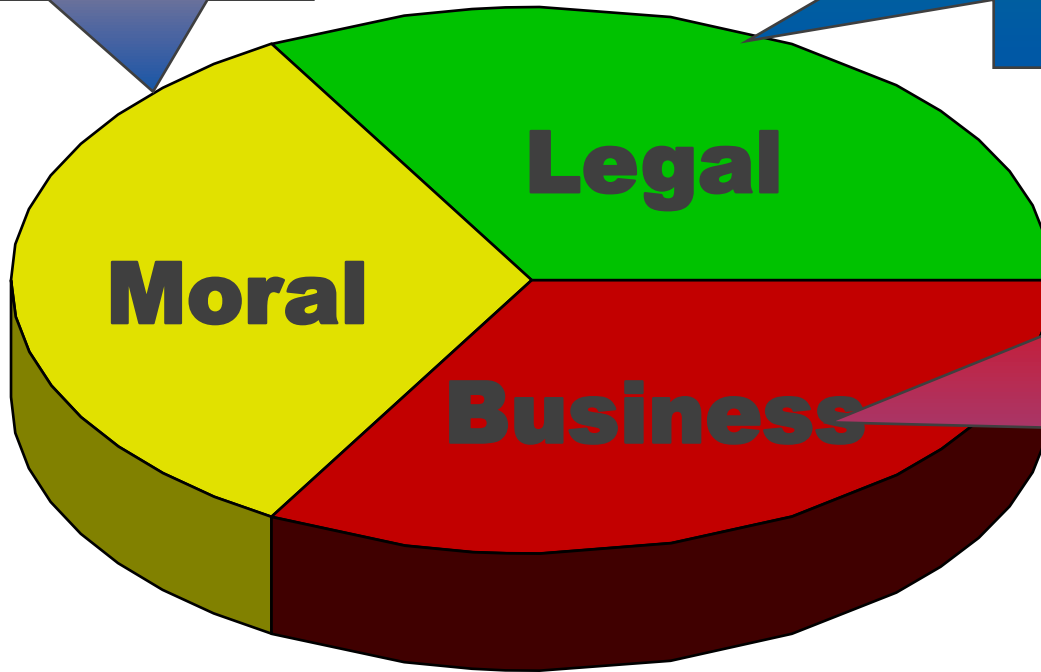
- Why have a Health & Safety management system
- Benefits arising from a good Health & Safety management system
- What is a Health & Safety management system
- Benchmarks

# A Good Health and Safety System



Look after employees  
and others

Prosecutions  
Enforcement notices  
Civil liabilities



Premiums  
Uninsured losses  
Reputation  
Morale  
Productivity

# Benefits arising from an effective Health & Safety management system

**Royal Mail Group plc Vehicle Services**

Vehicle Services is the vehicle management division of Royal Mail Group. Formed in 1997, it has implemented a comprehensive health and safety management system. This has improved employee health and safety, reduced accidents amongst the 1500 staff, reduced days lost and assisted with civil claims management.

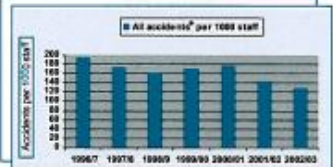
- No. of employees:** 1500 in Vehicle Services
  - Business sector:** Public sector
  - Business activities:** Maintaining Royal Mail's fleet of 30,000 vehicles
  - Stakeholders:** Employees, managers, Royal Mail Group, customers and Government
  - Location:** UK-wide
- Implementing a Management System**
- When Royal Mail Group formed Vehicle Services in 1997 it recognised that its principal challenge was to develop effective safety management processes.

**"Employee safety is paramount: improved safety is key to increased effectiveness and cost control"**

Phil O'Gorman, Vehicle Services Director



- BUSINESS BENEFITS**
- 40% reduction in days lost per employee through accidents and ill health
  - Reduction in days lost over five years equivalent to around £700,000 savings
  - 50% reduction in the yearly number of civil claims from around 25-30 per year, to 17 in 2002
  - A tried and tested health and safety management model that will be rolled out into Royal Mail's Logistics division



\* Includes non-lost time accidents

- HEALTH & SAFETY BENEFITS**
- 40% reduction in reportable injuries per 1000 employees since Vehicle Services was formed
  - More than 30% reduction in 'all accidents' per 1000 employees since 1997
  - More effective accident investigation, monitoring of safety improvements as a result of investigations, and better records
  - Better audit data enabling benchmarking and continuous improvements

**"Vehicle Services can be proud of its improvement in health & safety performance; a 40% reduction in RIDDOR accidents over 5 years should not be underestimated."**

\* Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995

Melvyn Hodggett, Vehicle Services' Health & Safety Manager

Case Study  
HSC The Business of Health and Safety HSC

**St Regis Paper Company**

St Regis produces over a million tonnes of paper a year, and employs 1800 staff. By carrying out a full review of their health and safety management systems, seeking maximum employee involvement and making substantial investments in guarding, the company has reduced accident and injury rates.

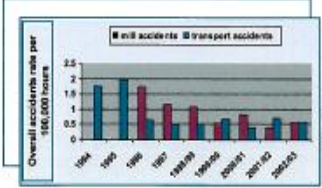
- No. of employees:** 2,400 in 1995, now 1,950
  - Business sector:** Manufacturing (Part of FTSE-listed company, DS Smith PLC)
  - Business activities:** Paper making
  - Stakeholders:** Employees, St Regis and shareholders
  - Location:** UK-wide
- Improving Health and Safety Performance**
- In 1995/1996 there were 2 fatalities in St Regis. The company in common with the industry, had an increasing accident and injury rate and recognised that a step change in their health & safety performance was needed.

**"By improving our health and safety management, we're protecting the health and safety of our employees, visitors to our sites and also our shareholders' investments"**

Don Coates, CMAI Executive



- BUSINESS BENEFITS**
- 73% reduction in employee insurance claims from 833 to 222 per 100,000 employees
  - Reduction in rate of increase of Employers Liability Insurance premiums
  - 18% reduction in numbers of days lost to injuries (adjusted to account for smaller workforce)
  - Developed a co-operative approach with the HSE to implement the PABIAIC "Making paper safety" initiative



- HEALTH & SAFETY BENEFITS**
- 61% drop in RIDDOR injuries from 4.9 to 1.9 per 100 employees
  - 64% reduction in the overall accident rate from 2.37 to 0.85 per 100,000 hours worked

\* Reporting of Injuries, Diseases and Dangerous Occurrences Regulation 1995

# Paper and Board Industry Advisory Committee

**"By involving all employees and the Trade Unions, everyone has got behind the approach. It's been a real team effort and is showing results"**

Gary Seeger, Father of the Chapel GPMU - Kenilworth

Case Study  
HSC The Business of Health and Safety HSC

# What is a Health & Safety management system



## 1. Management Commitment

- Company Health & Safety Policy
- Resource commitment
- Roles & Responsibilities

## 2. Risk Assessment



## 3. H&S Risk Control Programmes

- H&S training
- Control of contractors
- Slips & trips
- Fire Safety
- Manual handling



## 5. Management System Review

- Independent audits
- H&S review meetings

## 4. Proactive & Reactive Monitoring

- Housekeeping checks
- Monthly Inspections
- Incident Investigation

# Claims Defensibility – Most Common Issues



- The need for more robust accident and incident investigations including the taking of photographs and statements
- Training on accident investigations to understand and implement appropriate cause analysis particularly at line manager/supervisor level
- Ensuring risk assessments are completed, suitable, sufficient and specific to all of the risks of the business
- Incomplete health and safety policies or not updated and communicated to employees
- Not able to evidence good or safe working practices
- Providing evidence of routine workplace inspections and housekeeping operations
- Need to evidence involvement of safety considerations in procurement procedures
- Improved systems for reporting and acting upon near misses
- Lack of evidence of firm action for breaches of health and safety (e.g. multiple oral warnings given to employee who does not wear PPE but no formal record made)

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