TARGETED RISK CONTROL, CLAIMS REVIEW KEY TO REDUCING CLAIMS COSTS

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In today's litigious environment, claims against construction companies are inevitable, and off-the-shelf solutions to manage liability risks are too often inadequate. Take, for instance, lawsuits alleging shoddy workmanship against a contractor or subcontractor. They are among the most common construction claim types and can be unusually complex, given the numerous parties typically involved in a project. Construction defect claims are compounded by the fact that not all are covered by insurance. This is usually the case when it is not clear whether the damage was due to work product or consequential damage, a disagreement that often results in a protracted and costly litigation nightmare.

Getting Under the Hood

John Campbell, who leads USI Insurance Services' construction practice, believes the key to effective claims management begins with having a complete understanding of an organization's claims history. This means getting under the hood to analyze claim trends that adversely impact loss experience and total cost of risk, developing a risk control plan based on this review, and clearly spelling out the financial improvement to be expected by implementing the recommended plan, said Campbell. When done correctly, targeted risk control based on claim review can help construction companies with low loss activity reduce premiums by up to 5%, and those with high loss activity by up to 15%. This process was incredibly successful in a recent case involving a large mechanical contractor that performs work on both public and private projects. The company was having difficulty qualifying for projects because of its poor workers' compensation claims experience. Upon being retained as broker, USI analyzed the workers' compensation claim results and isolated the major causes and trends that were creating the most claims. USI helped the company design and implement a targeted safety program that addressed the specific causes of those claims which included fall protection procedures as well as minimizing slip and fall exposures. This effort reduced the company's annual claims by over $350,000 in the first year. The improved claims experience resulted in the company's experience modifier being reduced by. 21 points over three years which allowed them to bid on and win several contracts worth over $12 million. In addition, the company garnered premium savings of $325,000 over a three-year period.

'Close 'em Quickly'

The best way to keep claims costs low is to get them closed quickly. In many cases the inability to close general liability or workers' compensation claims promptly is linked to an overreliance on the insurance carrier to lead the claims process.

USI's process allows the insured to take a more proactive approach to managing claims. For example, the Construction Practice team, in partnership with the construction client, conducts claim reviews with insurance company claim adjustors at the table to determine if claim reserves are too high and need to be adjusted downward, or, if open claims should be closed based on the circumstances of the claim. This has proven to be particularly effective at reducing outstanding open claim amounts which, in turn, improves premium pricing. According to Campbell, this process can help companies with loss sensitive plans reduce premiums by up to 12%, or 7% for companies with guaranteed cost plans. In a recent example, an excavation contractor that provides services in urban areas for both private and public clients was experiencing an uptick in third party liability losses because of unmarked utility lines. Many of the larger claims stayed open for several years without the contractor knowing why or how decisions were being made on these claims. When USI got involved as the firm's broker, it established a quarterly review process and a 30-60-90 day strategy to close open claims prior to their renewal. This effort drove total claim reserves down $325,000 and reduced renewal premium the first year by $75,000.

Screening Before Hiring

Preventing workers' compensation claims from occurring is highly correlated to the quality and scope of a company's hiring practices. USI loss control representatives and claims advocates can provide the framework for a pre-employment screening procedure whereby medical providers evaluate candidates' physical abilities based on detailed job descriptions. With pre-employment screening, employers are able to avoid candidates more likely to be injured on the job. For example, USI worked with an HVAC contractor that was hiring a large amount of unskilled laborers to meet increased contract demands. Unfortunately, the company also was experiencing a spike in workers' compensation injuries, which was driving its workers' compensation premium up. USI performed an analysis of employee injuries and identified several claims that could have been avoided had the company appropriately screened the employees prior to hiring. To further reduce post-hire claims, USI recommended a more extensive pre-employment screening, including background checks and drug testing. By implementing the processes recommended by USI, the company was able to realize a 20% reduction in employee injuries and a reduction in both its Experience Modification Rating (EMR) to. 96 and OSHA Frequency and Severity Rates. The company also realized premium savings of $120,000 over the first two years.

Keeping Comp in Check

Workers' Compensation premium is driven by an Experience Modifier which is derived from past loss experience. If losses are not controlled, this modifier increases and premium costs go up. An incorrect Experience Modification Rating (EMR) can drive premium costs higher and negatively impact a companies' ability to obtain additional contracts. To help its clients manage workers' compensation claims, USI routinely performs the same evaluation of the experience modifier as regulators to determine accuracy and forecast future financial impact on premium. Inaccurate EMR calculations are typically the result of errors in payroll amounts, inaccurate job classifications, improper claim reserves, and open claims that should be closed. This solution and others cited are only a few examples of how USI – leveraging the USI ONE Advantage®, its unique approach to risk management – works with construction clients to manage claims and mitigate the financial impact of adverse loss trends. *To learn more about the solutions discussed here and the USI ONE Advantage, contact Sean Flaherty at sean.flaherty@usi.biz or call (516) 419-4082*