



by Cory Strahler, ARM

Risk Assessment From the Outside In

The workers' compensation insurance marketplace has been tough the past few years, resulting in higher deductibles for many employers — if they can even get coverage. Businesses are responding to rigorous underwriting standards by looking for ways to secure renewals instead of just price shopping for a policy. The underwriting clampdown is on risk assessment and loss control, services typically provided by insurance carriers. With the need growing, many insurance agents, professional employer organizations and employers are seeking independent professional risk assessment services on a full-time or as-needed basis.

The inability to recognize potential loss exposures or skimping on risk assessment could spell disaster for a business. Risk assessment should be incorporated within every organization. Companies must keep a step ahead of risky situations and remain current with regulatory compliance.

EXPERTISE

Risk and safety professionals can call on external, or outsourced, expertise in a variety of disciplines to supplement internal staffing. Based on a particular industry's operations and exposures, specialists can supplement the internal risk assessment process and identify liabilities and controls. A large percentage of risk assessment professionals have experience working for insurance carriers, and they can provide the details, report formats and industry terminology that underwriters easily understand and prefer.

With a goal of minimizing risk in the most cost effective manner, risk assessment specialists collect and organize valuable data that helps in decision-making about safety programs or making necessary adjustments to facilities or equipment. Experts can provide concise, objective information using reports, graphs and charts.

RESOURCES

Risk assessment needs fluctuate for many companies. Individual risk management departments can range in size from a single risk manager responsible for several functions to a department with many employees performing specialized tasks.

External resources can benefit departments of all sizes. There may be the need to conduct inspections at several facilities or regions and not enough staff to cover them. A facility may undergo an equipment overhaul that requires one-time staff training and education. In some cases, a company has numerous divisions or locations that undergo normal operational change and they need to be monitored for new or additional exposures. There are all kinds of situations that call for one-time or specialized risk consultations.

Time is another resource that companies often lack. Urgency to conduct an objective risk assessment survey with corresponding documentation is a high priority when a business must provide proposals to insurance underwriters. When company personnel are not available, outside specialists can efficiently prepare these reports.

DOCUMENTATION

When one confronts the magnitude of documentation necessary for underwriting submissions, it's easy to see why businesses call on external specialists to pull this package together in a satisfactory format for underwriters. Written reports and corresponding documentation include recommendation letters, pictures and flowcharts. Most underwriting departments require survey reports that address industry-specific exposures, controls, recommendations and previous losses. Using databases and other products, the survey report contains a wealth of information about a company and its history. The final product not only satisfies the insurance submission process, but also provides the company with an excellent risk assessment "report card."

Written survey reports present a "risk profile," which first identifies the company type, i.e. corporation, sole proprietorship or partnership. Then a business is classified according to specific criteria. For example, in Florida, statute 440.02 provides a definition for a construction business, listing specific duties that qualify a company as a construction operation. A company is then assigned a class code based on its primary operation. For

example, code 5551 identifies a roofing business. The National Council on Compensation Insurance (NCCI) is the governing body that provides industry-specific information regarding class codes, scopes and rules. Additional questions in a risk profile help determine the potential for additional liability, exemptions and coverage requirements.

This information must be accurately documented for underwriters. Workers' compensation premium is based on a formula that multiplies the weighted class-code rate per every \$100 of payroll. Standard exception class codes identify employees with duties outside the scope of the governing class code — a clerical employee with administrative duties isn't performing construction tasks and isn't classified with that risk potential. Therefore, all aspects of operations and employee duties have to be identified in a risk profile to ensure adequate premium is collected to cover inherent exposures. (This is an area carefully monitored for fraud; underreporting payroll or misrepresenting an employee's duties can bring big fines or cancelled policies.)

It is equally important to identify exempt employees and know specifics about any subcontracted work. Omitting these individuals from a survey report can result in additional liability in the event of a work-related injury. It is not uncommon for a company to realize costly consequences because a subcontractor wasn't properly screened. Subcontractors should provide certificates of insurance prior to starting work on any job



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site, and the percentage of subcontracted work or supplemental labor should be documented

Written surveys usually name “expected” loss exposures and controls implemented within a company. Using standard forms to compute these projections can save time and money, but because the scope is so general, these tools may not be sufficient. Again, business owners should consider using outside risk assessment expertise for this upfront documentation. The phrase “the best predic-

tor of the future is the past” certainly applies to loss analysis and trending, which can help evaluate frequency and severity of losses and predict which ones are likely to recur. This allows business owners to focus their resources on addressing equipment, environments or employees that have the potential for repeated accidents or injuries, rather than misdirecting loss control efforts, spending money on blanket safety programs or continuing operating unaware of a safety hot spot.

What about existing controls? Loss analysis should verify that the exposure has been eliminated or reduced as a direct result of the initiative. In this area, business owners usually find that engineering controls should take a front seat to administrative programs. Changing equipment, the environment or work processes usually produce more concrete results than relying on the

unpredictability of human behavior.

Loss analysis is an effective part of the risk assessment process provided the data is complete and accurate. As a rule of thumb, more data allows for more accurate projections. Keep in mind that changes



in operations, personnel, processes, etc. may have a significant impact on future occurrences and surveys should be regularly updated. Additional documents are helpful during the risk assessment process. A company’s organizational chart

provides insight into the chain of command, functional accountability and reporting relationships. Other miscellaneous documents in a survey might include employee hiring and screening procedures, management meeting minutes, financials, visual aids, OSHA reports, first report of injury records and accident investigation reports.

Risk profile recommendations are meant to ensure that any deficiency noted at the time of the survey is addressed. These recommendations need to be presented to management representatives who have the authority to implement corrective action. When identifying risks from the greatest potential for loss to the least, management should agree to a time frame to address the issues. For example, multiple employees working on an unsafe scaffold is obviously a priority over the absence of a formalized hazard communica-

tions program, both of which could be named in a loss analysis. Complying with federal regulations is of course important, but the possibility of multiple catastrophic injuries due to falls needs to be addressed first. That may seem obvious, but without a documented risk assessment, it’s difficult to identify, prioritize and commit resources to resolving safety issues. Dangerous situations can linger unnoticed until disaster strikes.

NO RISKY BUSINESS

Risk assessment provides the opportunity to conduct due diligence and determine the acceptability of potential and continued risk according to a company’s risk tolerance level. There are many methods and tools available to conduct a thorough risk assessment. The combination of written surveys, loss analysis, supplemental documents and physical job-site surveys present a solid picture of a business’ exposures, controls and recommendations. Exposures can change at any time, and the risk assessment process should be an ongoing effort to monitor and adjust for variations. Risk managers and insurance specialists often rely on the ability of consulting firms to supplement their internal functions based on the need for expertise, timely reports and prioritized recommendations. ❖

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