

INSURANCE BULLETIN

BULLETIN #9

Improve Your Bottom Line by Controlling Claim Cost Drivers

CNA and NESPA are proud to provide you with this information. We trust that you will find it useful in understanding the insurance and risk management issues associated with your business.

One of the questions that keeps owners of spa and swimming pool companies awake at night is: "How can I improve the bottom line?" The simplest answer is to increase revenues and decrease expenses. One often overlooked expense item is the cost of business insurance (general liability, workers' compensation, automobile, inland marine coverage, etc.). It's one of the top five expense items for many businesses, but it often receives the least amount of attention, which is troubling, because insurance is the one expense item that can put you out of business if not properly managed. At a minimum, an apathetically managed and poorly structured insurance and safety program can slowly, silently drain away your profits.

So what do you need to know to reduce your insurance costs and improve your bottom line? First and foremost, you need to know the primary insurance claim cost drivers common to the spa and swimming pool industry and take a proactive attitude towards controlling them. The insurance coverages that generate the most claims activity are automobile insurance and workers' compensation insurance, while general liability coverage is third. The good and bad news about the claim cost drivers for these coverages is that they are largely related to human behavior. It's good news because the key to controlling them is to control the behavior of the employees who cause the accidents and injuries. It's bad news because doing so requires a constant, relentless focus by the company owner, the safety director and field supervisors. Let's look at each of these coverages individually and go over some simple things you can do to prevent accidents and injuries in your spa and swimming pool business.

Automobile

Everybody knows the cause of most at-fault automobile accidents are the human beings behind the wheel – in the case of your company vehicles, your employees. So what can you do to reduce auto accidents? The keys are having good driver selection procedures, controlling the use of company vehicles, discouraging bad driving behavior, rewarding good driving behavior and investigating, documenting and learning from accidents when they do occur. Taken together, these controls are often referred to as a "Driver & Fleet Safety Program." At a minimum, it should include all of the following components:

- Pre-hire **and annual** MVRs (motor vehicle reports) on **all** employees who drive company-owned vehicles or who drive their own vehicles for company business
- MVR evaluation criteria (your insurance agent can assist you with this)
- Minimum driver age and experience requirements
- Written vehicle use policy prohibiting personal use of your company vehicles by employees, their spouses and other family members, such as teenage children
- A driver disciplinary and incentive program to discourage bad driving behavior and reward good driving behavior
- A preventive maintenance program to keep vehicles in safe operating condition
- Daily safety inspections of vehicles by company employees
- Compliance with all DOT requirements for CDL drivers
- Accident investigation procedures, including an accident form and disposable cameras in glove boxes

Depending on your operations and what part of the country you reside in, there may be other controls needed in addition to those listed above. Your insurance agent and insurance carrier should be able to assist you in developing an effective Driver & Fleet Safety Program.

The importance of reviewing motor vehicle reports (MVR) for all prospective employees prior to hiring and annually for any employee who drives a company vehicle or their own vehicle on company business cannot be emphasized enough. An individual's driving record is a good indicator of the kind of driver they are and how they will drive while on company business. An individual with numerous speeding tickets on their MVR will likely make a regular practice of speeding while driving on company business, putting your firm at an increased risk of incurring automobile claims. Likewise, an individual with a serious offense on their MVR, such as a DWI/DUI, may drive under the influence while behind the wheel of company vehicles, putting your firm at severe risk of having a catastrophic claim or lawsuit. Wouldn't you rather know what kind of driver a person is before you hire them and before being faced with a catastrophic claim or lawsuit?

Talk to your insurance agent about how you can get MVRs on all of your "driver" employees, and do it at least once per year. Before obtaining MVRs, be sure to talk to your insurance agent and legal counsel to fully understand the implications and privacy requirements contained in the Fair Credit Reporting Act. Furthermore, insurance underwriters will want to see that your company has established, written criteria that you use to determine if an MVR is acceptable or not. Your insurance agent, together with your legal counsel, can help you draft criteria that will be acceptable to most underwriters and in compliance with applicable laws.

In addition to these driver selection controls, you should take time during safety meetings to discuss the importance of driving safely and defensively, as well encourage and reward safe driving behaviors. And finally, make use of any materials (videos, toolbox talks, etc.) available through your insurance carrier. This is a cost effective way to demonstrate your company's expectation of safe driving habits by all employees.

*As permitted by law. Consult your legal counsel about jurisdictions in which you operate.

Workers' Compensation

The three major loss drivers for workers' compensation injuries are employees being "struck by" objects, manual material handling (MMH) claims such as strains and sprains, and falls from heights claims. "Struck-by" and MMH claims account for the most frequent causes of workers' compensation claims, and falls from heights cause the most severe workers' compensation claims, often fatalities.

"Struck-by" claims range from being struck by materials, to dropping something on one's self, such as a piece of equipment. In some instances, struck-by incidents are more severe, such as being hit by motorized equipment, like a backhoe. These claims can represent a significant portion of the claim costs (loss dollars) because they are often head, back or limb injuries that result in lost workdays and medical treatment, including surgery and the need for rehabilitation. Some basic ways to prevent struck-by claims are:

- Improve travel areas for moving equipment
- Make employees more visible by requiring high-visibility vests
- Use a spotter to assist drivers while backing vehicles/trailers and heavy equipment
- Implement job site safety meetings before starting each job to make employees aware of the surroundings and potential hazards on the job site

“Manual material handling (MMH)” claims involve all types of injuries resulting from the manual handling or movement of materials, tools and equipment. These are often strains, sprains and other soft tissue injuries that result from lifting, carrying or moving materials and equipment, especially when an employee’s job involves doing so repeatedly throughout the workday. Some basic ways to prevent MMH claims are:

- Decrease the weight of objects to be carried where possible, or require two people for heavy or bulky objects.
- Use mechanical assistance when available (forklifts, skid loaders, etc.).
- When lifting, keep your lower back in its normal arched position.
- Lift with your legs, not your back.
- When lifting, keep the load close to your body to minimize back strain.
- Lift smoothly — don’t jerk as you lift.
- Don’t twist your body when carrying a load; pivot with your feet instead of your spine.
- Push rather than pull heavy objects.
- Properly stage materials on the job site to reduce carrying distances and improve efficiency.
- Re-stage equipment and materials as work progresses throughout the day. This improves efficiency and reduces employee fatigue, which is a leading cause of strains and sprains associated with MMH.
- Talk about MMH injury prevention with your employees during the job site safety meeting at the beginning of each work day.

“Falls from heights” claims involve falling off equipment, vehicles, ladders and pool decks. These accidents are the leading causes of worker fatalities in the construction industry according to OSHA, accounting for approximately five deaths per workday. Some of the basic solutions to prevent them are:

- Designate and train a person to be responsible for fall protection/safety.
- Hold this person accountable and provide incentives for them to prevent falls everywhere employees are exposed to fall hazards.
- Talk about fall hazards and prevention during the job site safety meeting at the beginning of each work day.
- If your firm does work where employees are routinely up in trees, ladders, lift buckets or otherwise “at-heights,” invest in fall protection training and equipment and make sure employees use it.

A hot topic in the construction and insurance industries, as well as with many national trade associations, is the need for **new employee orientation and training programs**. Statistics show that many employees are killed or seriously injured in their first 60 days of new employment. Training and education for new workers prior to the start of work and when they arrive at the project can be critical to reducing accidents and injuries. A comprehensive training program for new hires is the perfect place and time to begin developing a culture and expectation of safe work practices. Some key components are:

- Written employment guidelines
- Employee handbook, including safety information
- Health screening (pre-employment)
- Drug testing (pre-employment, randomly, reasonable suspicion and post-accident)
- Comprehensive training plans, including safety training, for each job function.

In addition to understanding and controlling the primary claim cost drivers discussed above, spa and swimming pool companies would be well-served to develop a comprehensive safety program that addresses many other loss exposures, such as contractual risk transfer and safe operation of tools and power equipment.

The task may seem daunting, but if you don't focus on safety as the owner, neither will your employees. Conversely, if you are relentlessly focused on it and make it a part of the daily work routine and stay actively involved, your employees will likely do the same. The cost of developing and implementing a comprehensive safety program might seem high, but the cost of not having one can cost your business much more in terms of higher insurance premiums, as well as lost time dealing with serious employee injuries, not to mention the cost to your employees.

Since insurance premiums can have such a significant impact on the bottom line of spa and swimming pool companies, it demands the astute attention of the owner or CFO. The owner/CFO should be well-versed about the company's business insurance program. This includes the true costs, the claims (whether the average claim cost is increasing or decreasing; which claims are open or closed), the average number of claims (frequency), and the perspective of the insurance carriers on the company and the spa and swimming pool industry in terms of "risk." A good insurance agent or broker is key to helping you understand your insurance program and where you can make improvements. If your agent is not willing to assist you with this effort, you should find another agent. **Also, be sure to read Insurance Bulletin #10 "Stretching Your Insurance Dollar."** It's full of practical advice on ways to save on insurance.

Ultimately, business owners who invest in the development of a comprehensive safety program designed to control their loss exposures and know the details of their own insurance program will be in the best position to reduce their insurance costs. These are basic pre- and post-loss control measures that are the foundation of a sound risk management program. Over time, they will lower your insurance loss ratio, which will ultimately help reduce your insurance premiums.

Through the SPLASH program, CNA can provide a business insurance program that offers comprehensive risk control (safety) services, expert claim handling and property/liability insurance coverages designed specifically for spa and swimming pool professionals. So when your business is insured with the CNA/SPLASH program, you'll have peace of mind knowing it's a program backed by a carrier with more than 60 years experience in the construction industry. Give us an opportunity to earn your business – ask your insurance agent to obtain a quote from CNA and discover how you can benefit from this partnership.

For more information, contact your local independent agent or visit www.cna.com.

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