

TEN STEPS IN TOUGH TIMES

A number of our clients have asked what they should be doing in risk management terms in response to the recession. Declining workloads mean declining exposures and clients want to know what can be done to avoid unnecessary expense while maintaining appropriate protection. We offer ten steps for construction companies to consider.

- 1. Review exposures for all policies subject to audit.** Payroll and revenue estimates are often made in anticipation of economic expectations that don't pan out, leading to discrepancies that can trigger audits. In some cases, discussing adjustments mid-term with underwriters may be warranted. This will help numbers track more closely with expected volumes of work.
- 2. Review policy or rating plan minimum premiums,** especially with larger, loss responsive rating plans, where minimums can be close to 100% of the estimated exposures at policy inception. Many carriers set these minimums to cover the costs of providing capacity and underwriting services, while others have minimums dictated by reinsurers. Complications at audit time can result when the actual rated premium falls significantly below the minimum premium percentage. Although most parties recognize the difficulty of accurately estimating exposures up front, underwriters are more likely to support amending these minimums *before* audit time.
- 3. Discuss renewal terms with your carrier as you address the issue of minimum premiums.** Many carriers will consider renewal terms that mitigate the impact of the minimum on current policies. Including the minimum premium percentages in negotiations can offset the impact of the minimums as well as solidify a long-term relationship between the contractor and insurance carrier.
- 4. For Marine policies (such as Contractor's Equipment) consider how the equipment is being used.** In some cases, equipment is being stored for extended periods. It may be



appropriate to change your policy to cover only catastrophic exposures (such as a tornado hitting the yard or a major fire) rather than all operational risks on job sites. This strategy should only be applied to those pieces of equipment that will be truly mothballed. Contractors should be sure to review equipment values, as most policies cover actual cash value (replacement cost less depreciation). With the surplus of equipment in the current market, prices have flattened on used equipment, which can lower the insured value.

- 5. Engage in a comparable review for Commercial Automobile.** As contractors idle their fleets, consider taking them off the road and off the insurance rolls. They can always be put back on once business picks up and they go back into service.

6. **Focus on quality-control follow-up visits to completed job sites.** Owners under financial stress may cut corners on maintenance. This can lead to problems that generate claims of defective work against the contractor. Although always important, quality control is even more crucial in tough economic times.
7. **Look closely at the financial strength of your business partners – from owners and general contractors to subcontractors.** Many clients are now spending significant time reviewing the financial viability of their partners at all levels of the construction continuum, and we recommend that stringent review be ongoing. This includes checking on financial commitments of banks and other financing sources. In addition, good billing practices ensure that suppliers are paid. Change-order sign-off is another area where care must be taken.
8. **Stay close to your sureties!** Sureties hate surprises and they can be valuable resources when times are difficult, so make sure you nurture these relationships.
9. **Be careful about reducing limits of liability on excess policies.** In difficult times some buyers consider this approach, but these upper limits are typically an inexpensive source of significant coverage. Reducing limits should only be considered after a careful review of the catastrophic exposure that inspired the excess purchase in the first place.
10. **Be alert for claim trends.** Past recessions have brought spikes in claims, which can drive up costs long term. To get the best outcomes in handling claims, stay involved in all aspects of the claims and work closely with insurance carriers. Insurers respond to interested clients, so demand the services you expect under your policies. An added benefit to driving down claim costs will be lower collateral requirements from carriers on deductible programs. Collateral will be discussed in a future *Blueprint* in more detail, but the key to lower collateral requirements is lower claim costs – in any economy.

We expect the construction economy to flatten and gradually improve over the next few years. Meanwhile, cost savings and risk control efforts are critical to maintaining a sound insurance and risk management program in this difficult environment.

CONTACT

For additional information, please contact:

Tim McGinnis

972 715 6263

tim.mcginis@willis.com

Willis HRH is the leading construction broker in the world. With more than 650 construction Associates in North America in 200 offices, we offer unparalleled expertise to the construction industry locally, nationally and globally. Our clients range from local contractors to international integrated firms.