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The Advantage in the Waste and Recycling Industry

WASTE EXPO SHOW ISSUE

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ENGINEERING YOUR TRASH TRUCK

DECREASING THE RISK OF INJURY AND ILLNESS ASSOCIATED WITH BLOODBORNE PATHOGENS

Alternative Risk Management, Not a Fit for Everyone

Nathan Brainard

When the insurance marketplace begins to change, ALTERNATIVE RISK MANAGEMENT COMES TO THE FOREFRONT. While this type of approach has been around for several decades, it is not for everyone and requires not only a high-risk tolerance, but also solid financial wherewithal.

ROUGHLY TWO YEARS AGO WE BEGAN TELLING READERS and insurance buyers to prepare for a change in the insurance marketplace. Because of incidents taking place from earthquakes in Japan and Christchurch in New Zealand, and most recently Super Storm Sandy, all indications were that the insurance carriers were going to begin pulling in the reins and increasing their rates to recoup the massive amounts of dollars paid in claims. Now, we have officially entered into the hard market insurance cycle.

A Hard Market

In general terms, a hard market is when insurance carriers increase their premiums, do a thorough review of their books of business and determine what classes/industries are not performing well (what the industry calls "loss leaders") and begin to shed that business lessening the number of potential markets for the consumer. A prime example of this is the solid waste industry, which in 2012 was rated the fourth most dangerous job in America by the Bureau of Labor Statistics. Facts like this do not generate eager Underwriters and Actuaries as the insurance carriers want to make a profit just like your company does. Because of this, we are seeing rather substantial increases for the waste and recycling sector. One other very important item to point out is the (fewer) number of carriers interested in this class of business.

We have clients who consistently tell us that they don't understand how there can be more than 100 insurance carriers out there, but agents are only able to generate a handful of proposals. Not every insurance carrier is interested in all types of business. As stated above, they are in business to turn a profit and many classes of business are considered "high hazard" and are, therefore, not something they want to pursue. In some cases, the carriers are not able to purchase reinsurance for specific exposures. This is a concept insurance purchasers have a hard time grasping but one that is vital for them to understand. They often feel their agent isn't working in their best interest by shopping the marketplace. In some cases this could be true, however, if your company pays $50,000 for your auto and general liability coverage and your company is averaging $100,000 a year in losses, you are not considered to be good account. In this case, the carrier is paying out twice as much as they are taking in for you year over year. This will substantially limit the interested parties, and will certainly result in drastic increases in your premiums. Most insurance carriers feel that they "break even" with a loss ratio of approximately 65 percent.

Further to this point, if you had a number of bad years in a row and the most recent year or two have been claims-free, this does not cure all of your premium woes. Yes, your company has made improvements and appears to be heading in the right direction, but carriers want to see you can continue this trend moving forward. You could pay higher premiums for several years after you have taken corrective action until there are four or five consecutive years in a row showing the claims issues have been disposed of. Carriers anticipate a pop here or there, but they also operate under the concept that frequency breeds severity. If you have a large number of little accidents it is only a matter of time until you have a whopper.

Many consumers of insurance we speak with want to discuss ways to limit the increases in premiums they are seeing. Some of them have had little or no claim activity while others have had rather substantial losses. Unfortunately for both sides of the spectrum, and those in the middle, the current insurance marketplace is increasing for all regardless of past history. However, it is true that those companies who have had little to no claim activity will see smaller increases than those with average to high claim activity.

Alternative Risk Management

Generally, when the insurance marketplace begins to change, as it is now, the topic of alternative risk management comes to the forefront. While this type of approach has been around for several decades, it is not for everyone and requires not only a high-risk tolerance, but also solid financial wherewithal. There are several forms of alternative risk management. These range from various types of Captives (single-parent, association/group and rent-a-captive) to Large Deductible and a few other forms. We are going to discuss the various types of captives and large deductibles in this article as those are the most common requests.

It should be noted that each of the above options requires you, as the policyholder, to accept more financial risk in the event of a claim; however, they also provide for a greater reward when claims are prevented or kept at lower loss ratios. This reward can come via lower premiums, and in some cases the availability of cash dividends.

These type of program designs typically require a fair amount of "startup" funding, including irrevocable letters of credit, collateral or other forms of financial guarantee which the carrier can rely upon should the insured fail to make a payment on losses, monthly installments, etc.