



CAPTIVE QUARTERLY

FROM ALTERNATIVE RISK RESOURCES

QUARTERLY RISK TIP

Improving your return-to-work programs

by Ron Humphreys

A *modified duty program* is an important component of a workers compensation management program. It offers the employer more control over the time lost from work-related injuries and enables them to prevent the claims payment meter from running at full speed. This, of course, impacts the ultimate cost of the claim.

A common flaw with modified duty accommodation is the unavailability of suitable work when it is needed – *immediate* availability after a limited work release is given by the physician. Preplanning will offer more options for finding suitable and productive work.

Employers should be proactive, categorizing possible limited duty tasks as sit-down, one-handed, low-lift, or no-lift work. Additionally, they should work with company leadership to maintain a running list of possible jobs, including sorting, inspection, filing, inventory, disposing of unwanted materials, organizing, decorating, painting, labeling and bench work. Employers can even assign safety tasks such as checking fire extinguishers or conducting safety inspections.

It's important to be very clear on work accommodation as being *temporary* and to establish, in writing, an end-date for limited duty work.

Finally, a modified duty program requires a solid chain of communication and cooperation to be successful. Therefore, a written program is recommended to protect both your company and your employees.

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Wall Street Journal: Soft insurance market has ended

Premium increases expected in most lines of commercial insurance

The current economic meltdown is like the bad gift that keeps on giving. As a result of the financial crisis, which is causing increased demand for reinsurance as a form of capital relief, the world's reinsurers expect to increase rates in most lines, some by at least 10 percent or more.

"The end of the soft market in insurance has arrived," reported Evan Greenberg, chief executive at Ace Ltd, one of the world's largest commercial insurers. The year began with an overcapitalized industry and a soft market, he said in a recent Wall Street Journal article, but catastrophes and financial market declines have drained capital and are beginning to drive a need to raise premiums. He went on to say that the cost of debt and equity capital has "soared," making it far more costly to replenish depleted capital.

Ludger Arnoldussen, a member of the Munich Reinsurance Company's board of management, echoed those sentiments. "We have returned to a hard reinsurance market," he said. "To master the challenges connected with the financial crisis, primary insurance companies are more dependent than ever on reliable and financially resilient reinsurers as partners."

"We expect...percentage increases definitely going into the double digit range."

— Ludger Arnoldussen
Munich Reinsurance Company

"It's not easy at the moment to go out and raise additional capital," said James Vickers, London-based chairman of Willis Re International. "It's much easier to just buy a bit more reinsurance."

Arnoldussen pointed out that, since early September, the world's largest reinsurers have lost more than 25 percent of their value, in terms of market capitalization. "Quality and security have their price in reinsurance. In view of the increased cost of capital, the growing demand and the changed risk environment, we expect significantly higher prices, with percentage increases definitely going into the double digit range," he said at a recent news conference.

The expectation is that the credit crisis and economic slowdown could have a major impact over the next year on both reinsurance and primary insurance lines.

According to Rolf Tolle, Lloyd's of London's franchise performance director, there could be a "tsunami" of liability claims in an economic slowdown. He predicted that a flood of claims from directors and officers, errors and omissions, and professional indemnity lines will lead to a hard market for primary insurance by mid 2009.

◆ Sources: Wall Street Journal, BusinessInsurance.com, InsuranceJournal.com, Investopedia.com

UPCOMING RISK CONTROL WORKSHOPS

REDUCE LOST TIME CLAIMS

As you probably know, the costs of workers compensation claims just continue to rise. In Wisconsin, for example, the average total cost per claim grew rapidly for four of the past five years, according to a study by The Workers Compensation Research Institute.

Each year, Alternative Risk Resources takes part in various workshops designed to provide companies with new safety/claims management ideas to help them control workers compensation costs. Attendees typically include safety directors, human resource professionals, and finance directors.

The 2009 Risk Control Workshops schedule follows:

March 11-13

NEW ORLEANS, LA

June 3-4

GRAND RAPIDS, MI

September 9-11

BOSTON, MA

If you would like more information about attending one of these Risk Control Workshops, please call us at **262-754-9100** or email info@altriskresources.com.

INDUSTRY FOCUS

Strategies for surviving a declining market

Manufacturing hits a 26-year low

Orders are falling at record rates and, in the face of the current market volatility, production by the U.S. manufacturing sector dropped to its lowest reading since May 1982, according to the Institute for Supply Management (ISM). The index fell to 36.2 in November. A reading below 50 shows manufacturing activity is shrinking; a reading below 41 generally indicates the economy is in recession. In addition, employment in the manufacturing sector fell for the fourth month in a row.

Most manufacturers are hunkering down in order to survive. But, there are other strategies you can employ to help increase sales and profit margins and come out on top when the dust clears:

- 1) Pay attention to the Pareto Principle – 80% of your revenue comes from 20% of your customers.** When times turn bad, people turn to the suppliers they trust. Stay in touch with your customers, pay attention to their needs, and keep building relationships.
- 2) Analyze demand and make changes accordingly.** The slowing economy is changing buying behavior. Now is the time to thoroughly scrutinize orders to identify which products are on an upswing and which aren't. Use this information to aggressively adjust your forecasts, make strategic changes to product offerings, and modify production, ordering, and inventory policies so you are aligned with demand. Make sure you adjust safety-stock levels to reflect the shifting demand, maybe even raising levels slightly for stable products.
- 3) Repackage for smaller customers and reconnect with inactive accounts.** Flexibility is the key word here. Call on inactive accounts and reactivate old leads. Make the initial contact using a lighter approach and don't hard-sell. Take a serious look at smaller companies than you typically do business with. Consider repackaging your products so they are more affordable to customers with limited budgets. Offering economy sizes, no frills, special discounts, lower minimum orders, or payment plans can help drive business when you need it most.
- 4) Emphasize products that provide value.** As money gets tighter, customers cut back on purchases of products they consider to be premium or nonessential. Adjust your production plans accordingly, putting more focus on the value-based products in your line.
- 5) Promote over-inventoried products.** Take immediate action to reduce inventory of those products that are being affected most by the economic situation. Work with your channel partners and corporate resellers to actively promote those products and move them out. While profit margins may take a temporary hit from this action, the freed-up capital can be invested in products that have better growth potential.
- 6) Make your bids reasonable.** The worse the economy, the more price-sensitive customers become. We're not advocating rock-bottom bidding, but in this market, it makes sense to bid a little lower than you would in a booming economy.
- 7) Take control of insurance costs by joining a captive.** With the traditional insurance market hardening, premium rates are expected to climb. Captive insurance removes the unpredictability of insurance expense, and can lower premiums and return underwriting profits and investment income back to its members. Alternative Risk Resources specializes in captive insurance. Please contact us if you would like more information about how joining a captive can benefit your company.

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