



Risk Management in Challenging Times

by Gary Shapiro



For those involved in the pest control industry over the last two decades, you have seen first hand that the insurance market goes through cycles that affect your insurance buying decisions.

These cycles are driven primarily by two things that create a buyers' (soft) market or a sellers' (hard) market. For years, the property and casualty insurance market has generated profits driven by investment income, rather than profits generated by "underwriting," which is premiums less losses less expenses.

Traditionally, market cycles follow interest rates. The higher the rates are, the greater the investment income, enabling companies to offset underwriting losses. During this cycle, companies reduce rates to gain market share, broaden coverage and as interest rates fall, the industry is forced to react. This usually means rising premiums and pulling back on capacity.

Which cycle are we in now?

We are in a true buyers' insurance market with low rates, new carriers entering the industry and standard markets competing for excess and surplus lines business. Pest control operators (PCOs) should use this time to examine their insurance programs and work with their insurance agent or broker to ensure that they are getting the best value for their dollar in today's marketplace, and also to make sure they're with a financially secure carrier who has experience in underwriting this specialized class of business.

As a first step in evaluating your insurance portfolio, your current coverage should be reviewed with your insurance agent or broker to ensure your policy is suitable for your current operations. Business may have changed significantly over the past year, e.g. restructuring may have occurred, resulting in greater or lesser loss exposure, and creating different insurance needs. Your insurance advisor should understand your business niche and your exposure to loss, and should be able to steer you to products that add protection for your business. This can be in the form of additional coverage, increased liability or property limits, revised inland marine exposure or perhaps you have added a dog to your business services model and require coverage for that investment.

There are numerous coverages available in today's "soft" market that have been designed

for your operations. One you should consider is Umbrella Liability. Umbrella, or Excess Liability as it is sometimes called, provides additional limits of insurance when primary general liability and auto liability limits are exceeded. Although very affordable in this buyers' market, "In this challenging economy, we find many pest control companies do not purchase Umbrella Liability," says Dolores Adavasio of Weisburger. However, the coverage afforded by an Umbrella may be vital to the survival of a pest control company after an unexpected claim arises and the primary general liability and/or auto liability insurance is just not enough to cover damages. The following claim scenario, arising out of an every day occurrence for a pest control operator highlights the protection afforded by an Umbrella Liability policy in protecting business assets:

A technician was driving to his next job when he rear-ended a convertible, who in turn was pushed across the center line of traffic and hit a vehicle head on, causing another collision. In total, there were four vehicles involved in the accident and there was \$43,000 in damage to the vehicles. Medical expenses for the driver of the convertible who was rear-ended totaled in excess of \$305,000 due to cervical, hip, facial and back trauma, the *oncoming driver was killed*. The technician only carried an auto policy with a combined single limit of \$300K with no Umbrella Liability coverage. Without an Umbrella in place, this pest control business faces a large, uninsured loss that will have to be absorbed by the PCO himself.



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The evaluation of your insurance portfolio with your advisor should include a review of the financial security provided by your insurance carrier. In this buyers' market, the PCO should be able to purchase coverage from an admitted vs. a non-admitted insurance company. The admitted insurance company receives a license to operate in the state and is regulated by the state's insurance department. The admitted insurance company participates in the State Guaranty Association, which pays claims the insurer is liable for in the event of its insolvency. The non-admitted insurer is not licensed and is not regulated by the state's insurance department. The non-admitted insurance company does not participate in the State Guaranty Association and therefore, is not subject to financial solvency

regulation. Clearly, the PCO does not want to be insured by an inexperienced non-admitted carrier who may become insolvent and not be able to pay claims. The PCO's advisor should have the buying power needed to place coverage with an admitted carrier who has the financial security to protect the PCO's business assets. There are several non-admitted companies who may have coverage options that sound appealing, however, when capacity is available through an admitted market that has the coverage you need while providing affordable rates, your insurance advisor should highly recommend you take it.

What's next?

As insurance buyers, it is also worthwhile to look ahead to the future. While none of us have a crystal ball, it is important to at least look at current conditions with an eye to what lies ahead. The insurance industry has lost \$76 billion dollars in investment income since 2007. With interest rates low and underwriting losses growing, it could mean that the market is about to change.

Prepare yourself now for when conditions change


First, focus on what will impact your premium, losses being a very significant driving factor. If safety controls are not in place, this may contribute to the erosion of loss experience. In the realm of loss control, the implementation of a plan to evaluate prospective drivers will significantly benefit

the PCO. Today's PCO should review the driving history of all prospective employees by ordering MVR's – this is the single most important loss control activity a PCO can perform, given the time spent driving from jobsite to jobsite. The MVR will provide driving information, including traffic violations, accidents and driving suspensions. Prospective employees with histories of accidents and tickets should not be hired for positions involving vehicle operation. By following this simple loss control practice, frequency and severity of auto losses can be avoided. As well as taking measures to control auto losses, the PCO should have a safety manual for the proper handling of pest control products and equipment that each employee must follow to mitigate Workers' Compensation losses.

A thorough review of your loss experience will identify loss trends, frequency of claims and potential severity of loss. Your insurance professional should conduct a claims review with you on a constructive basis – not to find fault, but to improve claims results. If trends are identified during the claims review, the PCO must take action to correct the problems causing the losses and document both the actions taken and lessons learned.

Take the PCO who swerved out of the way of an oncoming vehicle, causing his truck to overturn. Due to the fact that all his pest control products and equipment were securely fastened in the truck in accordance with his safety manual, no pesticides escaped the vehicle and there was no clean up loss associated with the truck overturn. Telling a good story like this to your insurance professional, who can turn around and repeat it to the insurance market, goes a long way in showing that this PCO knows what he's doing.

Now is the time to examine your insurance portfolio with your insurance professional and improve your protection while we are in a buyers' market. However, don't forget to focus on what may be coming down the road – safety and loss control documentation will make your business look like a diamond in the rough for insurance underwriters who need to write above average business in a hardening insurance market.

For more information on risk management tips, please contact Weisburger Insurance Brokerage at 800-431-2794, info@weisburger.com, or visit our site at www.weisburger.com. Weisburger is the nationally endorsed insurance broker of NPMA. With over 75 years of experience, our experts are able to review your current coverage and identify ways to best protect your pest control business in today's economically challenging times. 

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