

STRUCTURAL BUILDING COMPONENTS MAGAZINE

January/February 2002

An Update on the WTCA Insurance Program by Kendall Hoyd

Hopefully you weren't so bored by the title of this article that you didn't bother to read this far. A lot of the elements of managing component plant operations are more interesting and immediately satisfying than insurance and risk management, and there will be nothing in this article as sexy as lowering your cutting costs or speeding up the design of offset-scissor, dual-pitch hip systems with cantilevers. Try to stay with me, however, and I'll give you an update on the WTCA insurance program, primarily from a financial perspective. (I'd promise more, but then I'd just disappoint you in the end.)

STATE OF THE INSURANCE INDUSTRY

The currently unsettled state of the insurance industry increases the urgency to improve the tools available to manage risk and insurance costs. In 2001, the insurance industry was already in a state of change when the terrible tragedies of September 11 took place. Spring of 2000 marked the end of over ten years of virtually uninterrupted upward movement in the equity markets, and that started to drive a change in insurance company strategies. Many of us saw our insurance costs drop in the '90's because insurance companies make a significant portion of their income by investing the premium money they collect. The more attractive the investment opportunities, the more valuable premium money is to insurers. When insurance companies are confident in their ability to earn 20 or 30 percent a year on premiums, they will lower their prices just to get the money to invest.

With the S&P 500 dropping 20 percent, and the NASDAQ dropping about 60 percent (remember when it peaked at 4,700?) in 2000-2001, insurance premium money and the related insurance losses took on a much different appearance. When investment gains are uncertain, and/or claims losses are piling up, underwriting income (the difference between insurance premiums collected and loss claims paid) becomes the primary profit driver.

The end of the great bull market of the 90's and the huge claims that the insurance industry will be facing as a result of what happened on September 11 (combined with the other factors you have been reading about in previous issues of SBC Magazine) mean that insurance premiums are probably going to rise. It doesn't make risk management any more exciting, but it does make it a little more urgent.

THE STRATEGY

The WTCA strategy is centered on two initiatives:

- Give members the tools to improve their risk profiles, making them more attractive to already loss-sensitive insurance companies.
- Provide an opportunity for members to participate in a custom-tailored program that will

market our industry to insurance companies.

Both initiatives hinge on the creation of a database of industry underwriting and loss information from the insurance survey that members should have received in November. Following are some opportunities that will be provided to members participating in the program:

- Get a quote to compare. Almost everyone¹ who completes the survey, and participates in the insurance program, will get a quote from Lockton, the insurance brokers we selected to market the WTCA program. Lockton will market the WTCA companies as an industry, and will present quotes with discounted agents' fees to participating companies. If you participated, you may take this quote and compare it to the one that your broker received while marketing your company individually. You will then have the option of selecting the one that makes the most sense.
- Get industry loss and risk information. Participating in the survey will get you access to a summary of the results. You can use this information to benchmark your own risk management and safety results, practices against the industry and ideas for improvement.
- Use industry-specific safety materials. Through the course of this year, we will augment the existing risk management program with component industry safety information and training materials for managing workers' compensation risks. The tools available to you for controlling risk, and therefore insurance costs, will be better than ever.

Now, I'm very sure that the time you just spent reading this article wasn't disappointing. I'm sure of that because I was careful to lower your expectations about the article in the first paragraph. I hope you stuck with me long enough to understand our insurance program strategy and see where it will provide value to WTCA members.

As we enter an era in which it's hard to tell where the insurance industry is going to go and at what price, it's more important than ever to control what you can control, which is your risk profile. Insurance issues still may not climb into the top ten most interesting things involved in running a component plant, but the stakes are probably going to keep getting higher and WTCA is committed to helping you manage this issue.

¹The bottom 20 percent of respondents in terms of risk will not be included in the WTCA group marketed by Lockton. They will still benefit from the safety and risk management programs that WTCA will develop for the industry.

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