



**IRMI**<sup>®</sup>

**Workshop V**

***UNDERWRITING PERSPECTIVES ON  
WORKERS' COMPENSATION RISKS IN  
CONSTRUCTION***

Presented by

**Joel A. Appelbaum  
Workers Comp  
Business Manager  
Zurich North America**

***Thursday, November 11, 8:30–11:15 a.m.***

**Workshop V**

# RISK



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**Joel A. Appelbaum**  
**Workers Comp Business Manager**  
**Zurich North America**

Mr. Appelbaum is one of the speakers for Workshop V, "Workers Compensation Strategies and Outlook," on Thursday. He is the workers comp business manager at Zurich North America, located in Schaumburg, Illinois. He was formerly construction risk officer at CNA Insurance.

Mr. Appelbaum has published many articles on mold in various construction-oriented magazines and has been a speaker at several national construction trade associations.

Before joining CNA, Mr. Appelbaum served as a senior officer of the Argonaut Great Central Insurance Company in Chicago. While with the Argonaut Companies from 1989 to 1998, he held various positions, increasing in responsibility, relating to insuring and underwriting large construction operations.

Mr. Appelbaum holds a bachelor of science degree from DePaul University (Chicago) and an MBA with honors in international business from Lake Forest Graduate School (Chicago). He has a professional ARM designation from the Insurance Institute of America and holds certificates in international business from Cambridge University (England), Chulalongkorn (Thailand), and Business School Sao Paulo (Brazil).

## ***Notes***

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# **UNDERWRITING PERSPECTIVES ON WORKERS' COMPENSATION RISKS IN CONSTRUCTION**

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**Joel A. Appelbaum  
Zurich North America**

## **Presentation Synopsis:**

The construction marketplace can be a difficult place for underwriters of workers' compensation. Workers' compensation has not seen a combined ratio below 100 for many years, and construction classes are among the toughest to write profitably.

A preliminary estimate by the National Council on Compensation Insurers (NCCI) indicates an industrywide 2003 combined ratio of 108%, a 3-point improvement over 2002 after an x point improvement in 2001. Still, the NCCI's outlook remains "cautionary." Areas of concern include low investment returns, continued increases in indemnity and medical costs, and terrorism exposures.

While I share these industrywide concerns, underwriters are more concerned with the quality of the individual construction risks we evaluate everyday. My major concern is the commitment of top management to providing a safety culture that translates into a better than average workers' compensation risk.

Increasingly, the most profitable, successful construction firms are recognizing that the quality of their workforce is a primary driver of sustainable competitive advantage. This advantage carries over to their workers' compensation risk profile. Firms that strategically focus on hiring, training, screening, accountability and loss mitigation strategies tend to become better than average workers' compensation risks.

Ultimately, these firms have a non-traditional workers' compensation cost paradigm. Instead of seeing their insurance and risk management program as a cost, they see it as an investment—one that translates into a distinct competitive advantage in the long run.

## **I. Hiring.**

- a. It is no secret that hiring in the construction businesses is far more complex than it used to be.
- b. Attracting the right person as a foreman or craft worker has become a critical driver of results.
- c. Not only must this person possess the necessary skills, they also have to be able to assimilate into a safety culture that is driven from the top and executed at all levels of the organization.

## **II. Substance-abuse screening.**

- a. Drug and alcohol testing – post-job offer and randomly thereafter—can be a critical element in becoming a better than average workers' compensation risk.
- b. There are enough inherent dangers in construction operations without adding impaired judgment to the mix.
- c. In addition, firms that do not screen put themselves at a competitive disadvantage. They end up hiring the substance abusers who are screened out by their competitors.

## **III. Training.**

- a. Outstanding construction firms use training to sustain competitive advantage. Their employees are learning continually To be considered a superior workers' compensation risk, it is imperative for construction firms to establish best-in-class benchmark and ongoing reviews their training systems.
- b. Their training materials and practices such be aimed at improving job safety AND increasing productivity. This combination links the training to increased profitability—a key factor in maintaining strong leadership support.
- c. Ergonomic analysis is a good example.
- d. Evaluating material handling practices not only eliminates hazardous practices, it replaces them with more efficient practices that contribute to project completion on time and on budget.

## **IV. Accountability at all levels.**

- a. Top management, all levels of supervisors and job-site employees must all be held accountable for the safety culture.
- b. Paying lip-service to safety does not make a better than average workers' compensation risk. Instead, an organization needs to link safety-related criteria to everyone's performance assessment.
- c. Unless employees at all levels understand that tolerance of unsafe practices will affect their annual compensation, safety will never become ingrained in the organizational culture.
- d. It is also important not to reward good luck. Rewards must be linked to best in class practices that produce better results over time.

**V. Return to work.**

- a. In evaluating a workers' compensation risk, underwriters pay considerable attention to a firm's loss mitigation strategies, and none is more important than return to work.
- b. Partnering with medical providers and modifying job duties to accommodate recovering workers are keys to controlling the long-term cost of serious injuries.
- c. These practices send a positive message to the injured worker. By contrast, once the employee feels left out and under-valued by the employer, his or her next step is often to contact an attorney.

**VI. Retention.**

- a. It's well understood that retention of good employees contributes to profitability. But retention strategies are equally important in improving the quality of a workers' compensation risk.
- b. Once a firm has hired the right person and invested in his or her training, it should also have a strategy for retaining these better-than-average employees.
- c. Most accidents involve workers who have been on the job for less than one year. There's an old saying the turnover equals turmoil. That is clearly the case from an underwriting perspective.
- d. Firms with a strong core of longer-term, safety-conscious, productive workers are able to command the best rates and coverage terms, because they are the best risks.

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# UNDERWRITING CONCERNS AND WORKERS COMPENSATION: IMPROVING YOUR INSURABILITY

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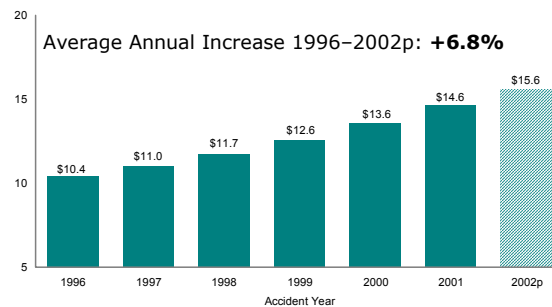
## Health Premiums Soar

- Annual cost to insure a family almost 60% higher than in 2001
- 11.2% jump this year growing 5x inflation and U.S. workers' salaries
- More firms to drop or limit insurance
  - Dramatic increase in the number of uninsured Americans

Source: Nationwide study by the Kaiser Family Foundation.  
Published in *Chicago Tribune* 9-10-04

## Workers Compensation Indemnity Costs Continue to Rise

Lost Time Claims



Source: CNA Insurance

## Workers Compensation Claim Severity

- Frequency of claims on a 10-year decline
- Severity
  - 1983-1992 total benefits grew by 170% and medical grew faster
    - Source: National Academy of Social Insurance - August 2004
  - Keynote address WC Education Conference
    - Corporate buyers missing point
    - 100% have economic incentives for production
    - RTW is a fraction of 1%
      - Source: National Underwriter - September 2004

## Improving Your Insurability

- Paradigm shift
  - Invest
  - Measurement
  - Culture
- What underwriters look for



## Hiring The Right Person

- More complex
  - Foreman
  - Craft worker
  - Skills
  - Culture

## Substance Abuse Screening

- 34% of substance abusers are employed
- 56% of employed admissions abused alcohol
- Firms that do not screen at a competitive disadvantage
- Drug abusers cost twice as much in medical and workers' compensation
- Do you hire abusers?

Source: National Institute on Drug Abuse

## Training

- Sustain a competitive edge
- Best in class benchmark
  - Use your association
- Make sure employees want the training
  - We discount for safety culture icons & adoption
  - Get input
- Link to strategic agenda
  - Improving profitability

## Accountability

- Top management on down
- Link safety to performance
- Reward safety success
  - Not luck
  - Pour champagne over it

## Return To Work

- ❑ Loss mitigation strategy
- ❑ Keeping productive workers
- ❑ Modified duty
- ❑ Sending a positive message
- ❑ Reducing settlements
- ❑ Lower experience modification factor



## Retention

- ❑ Hire, train, retain
- ❑ Most accidents occur with employees on the job less than one year

## Getting The Best Rate

- ❑ Firms with strong core, long-term, safety-conscious employees command the best rates and coverage terms.