



RICK KOCH, CIC

# KNOW RISK

## THE PRACTICAL GUIDE TO RISK MANAGEMENT & YOUR BUSINESS

Vol. 1, No. 2 | Nov./Dec 2008

### THE SEVEN GOLDEN RULES COMMERCIAL INSURANCE & COVERAGE, WITH CHARACTER

#### #1 MYSTERY SOLVED! UNDERSTAND THE MYSTERY RATING FORMULA

- Avoid confusing lower premium rates with cost reductions since rates alone do not determine overall cost.
- Use an experience modification factor—or mod—to tailor the cost of insurance to your unique loss performance. Lower losses=lower the modifier=lower the premium.

#### #2 BE ALERT! NO SNOOZING ALLOWED

- Do not be blinded by lower cost.
- Investigate changes in the insurance industry that you will benefit from.
- Avoid auto-renewing, or simply renewing because of time constraints.
- Keep the *focus on cost containment and claims management.*
- Facts are that medical costs continue to rise and indemnity costs are trending higher.

#### #3 CHOOSE TO LOSE: A PEEK AT WHAT'S DIRECT & INDIRECT

- Look beyond just cost. Direct costs of loss often only represent 20 to 30 percent of the loss.
- Indirect cost of loss range from 2-10 times the value of the claim.
- The median indirect cost is 4 times the claims cost.

#### #4 SLAP YOURSELF! SEE IT AS AN ASSET!

##### Avoid viewing insurance as a cost.

- View insurance as risk transfer.
- The known of premium exchanged for the unknown of loss.
- Could insurance be the asset of protection?
- Insurance is a controllable aspect of ones business, if managed properly, will have a measurable and positive return on your investment.

## #5 CRASH THE CLAIMS PARTY!

- Go, push and pressure, especially when claims are complex.
- Do not allow a complex claim to find its own course. You will be disappointed.
- Participate in the overview of complex claims through active claims review.
- Rule of Thumb: The longer a claim remains open; the higher the claims cost, reserves rise and adversely affect the experience modifier. This drives future insurance costs up!
- Find a relationship with partners to help contain costs.

## #6 AVOID THE COMMODITY CONUNDRUM.

- The old adage applies, “You get what you paid for.”
- Focus on insurance partnership and relationship with your agent.
- Thoroughly evaluate an agent/broker like you do with other service providers, i.e., CPAs, bankers and lawyers.
- Chasing the lowest rate can result in a short fall of coverage.
- Pay attention to the “Waiver of Subrogation and Additional Insured language.”
- Engage the total resources of your agent/broker--risk management, safety, contract review, claims assistance and review, and more

## #7 ELIMINATE THE ULTIMATE FAILURE. IT'S TIME TO REMEMBER AND REFRESH

- **Do not measure the wrong thing.**
- Coverage is critical 365 days a year.
- Do not follow the crowd—most forget about cost after the renewal decisions are made.

...

*About Rick: Rick Koch is partner and vice president at MHBT, a Dallas risk management provider specializing in manufacturers. Contact him at [rick\\_koch@mhbt.com](mailto:rick_koch@mhbt.com), or at 972.770.1691.*