



BY GREGG BUNDSCHUH

AISC explores a group insurance and risk management program for members.

AIG IS BAILED OUT by the federal government. Workers compensation costs continue to rise as claims escalate. The use of technology and building information modeling (BIM) is expanding the risks of traditional service and products. Clients are demanding greater precision and faster delivery. The business of steel fabrication is changing quickly. The risk issues are more subtle and expansive. Managing these risks through shared best practices and a comprehensive, cost-effective insurance program is more important now than ever before.

This conclusion was reached by a subcommittee of the AISC Board of Directors and has resulted in a decision to explore the development of an AISC group insurance program for its membership. Working with an insurance consultant for the past six months, the committee has evaluated the current state of the insurance market for steel fabricators, the receptivity to a group program by leading construction insurers, and the ability of such a program to deliver quality coverage at an affordable price.

A fundamental conclusion reached by the committee is that the insurance community regards most steel fabricators as “high-risk” businesses and establishes premiums on this basis. However, the insurance community does not aggregate loss experience ratings of steel fabricators and therefore has no real historical data to draw a different conclusion. The committee believes that a group insurance program can provide such data and justify better insurance rates to much of the membership. Importantly, the committee has also determined that such a program can provide additional risk management resources to the membership and become a focal point for the development of future industry best practices. Such a program dovetails with and leverages AISC Certification and the Steel Solutions Center. Beginning with a survey that was recently released to the membership, the committee will solicit the feedback of the membership to identify particular needs and concerns.

A Group Insurance Program

The strategy of developing a group insurance program is often used by businesses perceived as high-risk by the insurance industry. If one high-risk business tries to buy insurance from a highly rated, front-line insurer, coverage can be either very expensive or not available—even if the business has an excellent safety record. The insurer figures that one catastrophic loss will wipe out any profit for this year and far into the future. On the other hand, if many high-risk businesses band together, the same front-line insurer sees more premium and more potential for a profitable class of business. One catastrophic loss—or even two or three—balanced against a lot more money looks more attractive.

Developing an AISC group insurance program can provide the membership with a cost-effective package of necessary insurance coverage. Further, the range of coverage can be customized to meet the unique and

specific needs of steel fabricators. Because of the numbers promised by such a group, coverage can be secured from a highly rated insurer with dedicated claims staff for AISC. And to sweeten the pie—improving performance for group members—the program should serve as a focal point for the proactive management of steel fabricators’ risk.

Benefits

Some of the benefits banding together can bring to group members include the following:

- **Cost:** Group purchasing provides greater negotiating power—more leverage—which often results in significant premium savings.
- **Avoiding coverage gaps:** Many insurers and insurance brokers do not have an in-depth understanding of the steel fabrication business. As a consequence, the steel fabricator is often left with coverage gaps and uncovered claims. Identifying uninsured risks and coverage gaps is a hallmark of group insurance programs.
- **Stability:** Right now, the insurance market is soft, but some industry insiders are predicting that will change sooner, not later. Years of decreasing premiums have thinned profit margins, and premiums will be going back up in the future. Being a member of a group means buffering yourself against wild fluctuations in the cost of insurance—and the total cost of risk.
- **Development of industry loss history:** One issue that holds insurers back from offering broad coverage at preferred pricing is uncertainty about the nature of a business and the losses it might generate. This is the case with steel fabricators as a class. There are little or no data on most lines of coverage. But a group insurance program enables collection of data. And better data assist premium negotiations, allowing insurers to fine-tune their proposal to the benefit of group members.
- **Future risk retention group and/or captive insurer:** The formation of a group insurance program is often the first step toward creating a self-insuring group. Such a group insures itself for the normal, so-called working layer of loss—those losses that become predictable in their frequency and their severity over time. Then, the group can purchase excess insurance for those less common catastrophic losses. Purchasing excess coverage is much less expensive than insuring from the first dollar.
- **Risk management services:** The insurers and insurance broker handling the group insurance program can serve as a source of steel fabricator-specific advice about risk management, insurance, and contracts.

Why Now?

The question then becomes: Why now? Why not wait until the insurance market turns? Right now, coverage is still fairly cheap and plentiful, at least for some. The answer is in the nature of a soft insurance market.

- Aggregate purchasing is more cost-effective—whether in a soft insurance market, a hard insurance market, or an insurance market in transition.
- There are more insurers willing to compete for business—particularly group business.
- There is more flexibility in coverage enhancements and services offered.
- While a group insurance program may be more important in a hard insurance market, it is more difficult—perhaps impossible—to form a group once underwriters have become less inclined to write business.

Unsteady Insurers?

The troubles in the financial markets have spilled over into the insurance markets and into the economy at large. This will likely put some insurers in jeopardy. Steel fabricators—even in a soft insurance market—must sometimes settle for buying coverage from not-so-highly rated insurers. The higher your insurer's rating, the greater the prospects of that insurer remaining available and viable over the long haul.

Banding together gives steel fabricators the leverage to purchase coverage from insurers that may not otherwise be interested. In these rocky times, there's safety in numbers and the ability to secure coverage from highly rated insurers.

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