

# RISK & INSURANCE®

2020 EXECUTIVES TO WATCH  
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NOVEMBER 2019



**MICHELLE CASCIATO**  
Claims adjuster and safety analyst, City of Surprise, Ariz.

## THE 2019 TEDDY AWARDS

Five workers' compensation programs that are redefining excellence.  
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Compiled by the *Risk & Insurance*® Editorial Team

November 2019 | Vol. 30 No. 9

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Cover photograph by Brandon Tigrett

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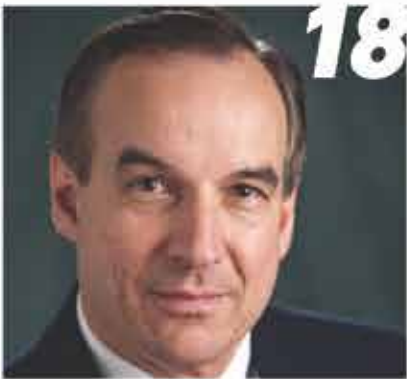
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**Rodney Escobar**

This public risk manager believes that in order to fuel successful risk management programs, risk managers must use data to gain leadership buy-in.

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**Editor-in-Chief** | Dan Reynolds  
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**GRAPHIC SERVICES**  
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**MARKETING SERVICES**  
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**PRODUCTION/AD SERVICES**  
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**Assistant Production Manager** | Suzanne Shultz

**ADVERTISING**  
**Associate Publisher** | Edward Baniak III | ebaniak@irp.com  
**Sr. Account Executive** | Nathan Yeagle | nyaeagle@irp.com  
**Client Support** | Kristine Kaloupek | kkaloupek@irp.com  
**Project Coordinator** | Amanda Taylor | ataylor@irp.com

**CIRCULATION**  
 Christopher Martin

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## FROM THE EDITOR



## Yet More Mortgage Stupidity

An Oct. 3 piece in The Washington Post laid out a financing reality that comes across as surreal to those of us who remember how devastating to shareholder value and job creation the mortgage financing collapse of 2008 was — and that should be all of us.

According to data from the Urban Institute, as referenced in The Post, the federal government now backstops more housing debt than at any point in history. The reporters at The Post also note that a growing number of homeowners face debt payments that amount to nearly half their monthly income.

About 30% of the loans Fannie Mae approved last year, according to The Post, exceeded this debt payment to household income threshold, up from 14% in 2016.

Sound sustainable? It's not. So what's going on here?

Why is this runaway train of irresponsible lending allowed to continue? Lenders and consumer groups demand these conditions, according to the article.

And guess who pays when this creaky machine cracks. Why, the taxpayers do, to the tune of hundreds of billions of dollars.

AIG's reputation got ripped to shreds during the last collapse, because the buck stops with insurers. They are contracted to pay up when schemes of this magnitude collapse.

Yes, I used the word scheme, a collusion between lenders and their enablers to crank out as much business as will yield them profits in the short term, and damn the taxpayers, fools that they are.

No one wishes for a recession, but we'll see just how badly this one will smart when the next recession does come.



**Dan Reynolds**  
 Editor-in-Chief  
 dreynolds@lrp.com

Compiled by staff from news and wire services.

# NEWS



Losses from Hurricane Dorian will be felt for years to come.

## WILDFIRES CAUSING INSURERS TO TAKE A DEFENSIVE APPROACH TO THE ENVIRONMENT

The insurance industry ranked climate change as the top risk in 2019.

California insurers spent the first half of 2019 shell-shocked from the Woolsey and Camp Fires. According to RMS, the fires burned a combined total of 245,000 acres, an area roughly the size of Dallas.

The Sacramento Bee reported that insurers dropped close to 400,000 policy holders in areas of high risk over the past year.

Because surrounding areas are going to see what is happening to insurance companies in high risk zones, companies in lower risk zones are going to follow suit to create climate-change defensive policies to withstand the test of the changing elements.

The environmental sector is seeing unprecedented changes that are likely going to transform the future of risk management.

## HARVEY WEINSTEIN'S LAWYER CLAIMS THAT MANHATTAN IS "LEAST LIKELY" PLACE FOR A FAIR TRIAL

Disgraced filmmaker Harvey Weinstein was indicted for a third time on August 21 on two counts of sexual assault.

According to the New York Times, the new charges will delay his trial, which was supposed to begin September 9, until January 2020.

In the meantime, Weinstein's lawyers want to get him out of New York City. In a motion filed with the New York State appellate, attorney Arthur Aidala suggested the former

producer's trial be moved to upstate New York or Long Island, claiming he could not get a fair trial due to the intense media scrutiny in Manhattan.

"It is safe to say that New York City is the least likely place on earth where Mr. Weinstein could receive a fair trial, where jurors could hear evidence, deliberate, and render a verdict in an atmosphere free of intimidation from pressure to deliver a result that the politicians, the activists, the celebrities and the media demand," Aidala wrote in filed court documents.

## THE SCIENCE BEHIND DORIAN

Hurricane Dorian made its devastating landfall on the Bahamas on September 1, but the losses will continue to be felt for years to come.

70,000 people are homeless, and according to investment banking company UBS, insurance companies could suffer up to \$25 billion in damages.

These numbers are particularly significant because the Bahamas' most populated island, Nassau, was largely untouched by the storm. The cyclone hovered and left the most damage on the Abacos and Grand Bahama.

A factor in the devastation was Dorian's unusually slow advancement. The National Hurricane Center reported that the eye of the hurricane moved at a speed of one mile per hour and that the cyclone spanned 45 miles.

"Like a child's spinning toy, Dorian has been wobbling around without much movement because there is no atmospheric current to push it along," wrote meteorologist Marshall Shepard for Forbes during the height of the storm.

## THE WORLD'S OLDEST TOUR COMPANY COLLAPSES

178-year-old British tour operator Thomas Cook collapsed on September 23 and went into immediate liquidation.

The travel firm's foreseen downfall left 165,000 travelers stranded, 600,000 travel plans affected and its 21,000 employees out of work.

"We are sorry to announce that Thomas Cook has ceased trading with immediate effect," the company said in a statement on Twitter.

Blame for the collapse is quick to be assigned, but factors that contributed to the downfall are vast including Brexit, excessive summer heat and outstanding debt.

The collapse caused the United Kingdom to launch its largest repatriation effort since World War II.

## THE FDA CRACKS DOWN ON TEEN VAPING

Eight vaping-related deaths have been reported in the United States and the government can't keep e-cigarettes out of underage hands.

The number of middle and high school students using e-cigarettes or vapes rose from 2.1 million in 2017 to 3.6 million in 2018.

"CDC has made it a priority to find out what is causing this outbreak of e-cigarette or vaping-related injuries and deaths," said CDC Director Robert Redfield, M.D. in a statement on its website.

A full investigation was launched by the FDA to determine the exact causes of death from those who died of vaping-related illnesses.

## Contact Us

Offices are located at 747 Dresher Rd., Suite 500, Horsham, PA, 19044, (215) 784-0910. For questions, contact: **Editorial Dept.**, ext. 6285 or fax (215) 784-0275; **Advertising Dept.**, ext. 6214 or FAX (215) 784-0870; **Subscription Dept.**, (800) 386-4176, e-mail risk&insurance@omeda.com or fax (215) 784-0317. **Reprints**, Amanda Taylor, ataylor@lrp.com; **List Rental Sales**, Worldata, (561) 398-8200 or (800) 331-8102, ext. 197. Send payments to: LRP Media Group, 360 Hiatt Drive, Dept. 150F, Palm Beach Gardens, FL 33418. For subscription-related written correspondence, send to: Customer Service Dept., Risk & Insurance, P.O. Box 2133, Skokie, IL 60076.

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## IN BRIEF

## UPFRONT



**Thomas Holzheu**, chief economist Americas, Swiss Re Institute

## GLOBAL PROTECTION GAP NOW \$1.2 TRILLION BY JARED SHELLY

Earthquake, flood and storm harbor the worst exposures.

**T**HINK THE ECONOMY is humming along just fine? Here's a haunting statement that might get you rethinking things: *The global economy has less capacity to absorb the impact of a shock than it did 10 years ago.*

That's according to a new report from Swiss Re Institute, which found that 80% of the countries analyzed had lower resilience scores in 2018 than in 2007.

Why are we *less* prepared for calamity than 10 years ago?

There's a global insurance protection gap of \$1.2 trillion in three key risk pools: natural catastrophe, mortality and health care, according to the report. That protection gap has more than doubled since 2000.

"Emerging economies have the biggest gap in relative terms. Often, less than 10% of these risks are insured. The biggest protection gaps are in emerging Asia," said Thomas Holzheu, chief economist Americas at the Swiss Re Institute and lead author of the report.

Switzerland, Canada, the United States, Finland and Norway make up the most resilient economies. Latin America's resilience levels have improved slowly since 2000.

China and Japan's resilience levels have remained roughly unchanged since 2007. India has become a little less economically resilient, mostly due to lower scores for the financial sector.

The advanced markets are facing declining economic resilience due to "a lack of structural reforms, exhaustion of monetary

***"Progress has been made, but there's still a ways to go. There's no room for complacency."***

— **Thomas Holzheu**, chief economist Americas, Swiss Re Institute



**80% of the countries** analyzed by Swiss Re have less financial resilience than they did 10 years ago.

policy options and a challenging environment for banks," according to the report.

### NAT CATS HITTING HARD

Preparation for natural catastrophes are a particular problem.

Swiss Re estimates that global natural catastrophe losses in 2018 resulting from three named perils hit \$292 billion. Meanwhile, there was a protection gap of \$222 billion in premium equivalent terms — leaving a protection gap of 76%.

That's hardly ideal.

The largest protection gaps are as follows:

- Earthquakes (\$135 billion)
- Floods (\$50 billion)
- Storms (\$37 billion)

But there's hope. The insurance market is keeping up with natural catastrophe coverage, especially in North America, parts of Europe and in the

mature regions of Asia Pacific.

"Progress has been made, but there's still a ways to go. There's no room for complacency," said Holzheu.

"It's a multi-pronged approach where you have to work together with governments, raise awareness, create new products, perform data analytics, and better understand risks so the industry feels comfortable to take on these exposures to their balance sheets."

### THE TRILLION-DOLLAR OPPORTUNITY

Countries don't succeed or fail in vacuums, especially in today's global economy.

That means resilience is a global responsibility — and an incredible opportunity for insurers.

In fact, Swiss Re estimates that closing the insurance protection gap would improve global financial resilience by more than \$1 trillion each year in the form of average insurance claim pay-outs for covered events.

It also estimates that insurers could generate an additional profit of \$60 to \$80 billion each year.

"It is a trillion-dollar opportunity for the insurance industry," said Jerome Jean Haegeli, group chief economist at Swiss Re.

"The insurance industry has largely kept pace with growing loss potentials and can do more to improve resilience.

"Emerging markets, in particular, benefit more strongly from insurance protection than mature economies, which often have greater access to alternative sources of funding."

How do we realize the overwhelming potential?

"Governments, regulators, insurers and businesses need to work together to overcome the different supply-and-demand side barriers that hold back greater uptake of insurance," the report said.

For emerging economies, that means raising awareness about the ability of the insurance market to help those economies thrive.

"To have insurance as part of policy mix of the country is as important as developing a financial sector to provide loans to a growing economy," said Holzheu.

"The industry needs to work together with governments on developing insurance markets through regulations that are modern, flexible and support the development of the industry."

In more mature economies, the industry needs to utilize the most cutting-edge technology to help gather data, attack difficult-to-measure risks (like flooding and earthquakes) and make sure they're communicating in modern ways.

"Advances on these fronts are being made but there is way more room to grow," said Holzheu.

"Communication patterns change. Buying behaviors change. The industry needs to engage with this new generation and their new needs. How to contract a policy, communicate and get information all needs to be revolutionized for the modern insurance consumer." &





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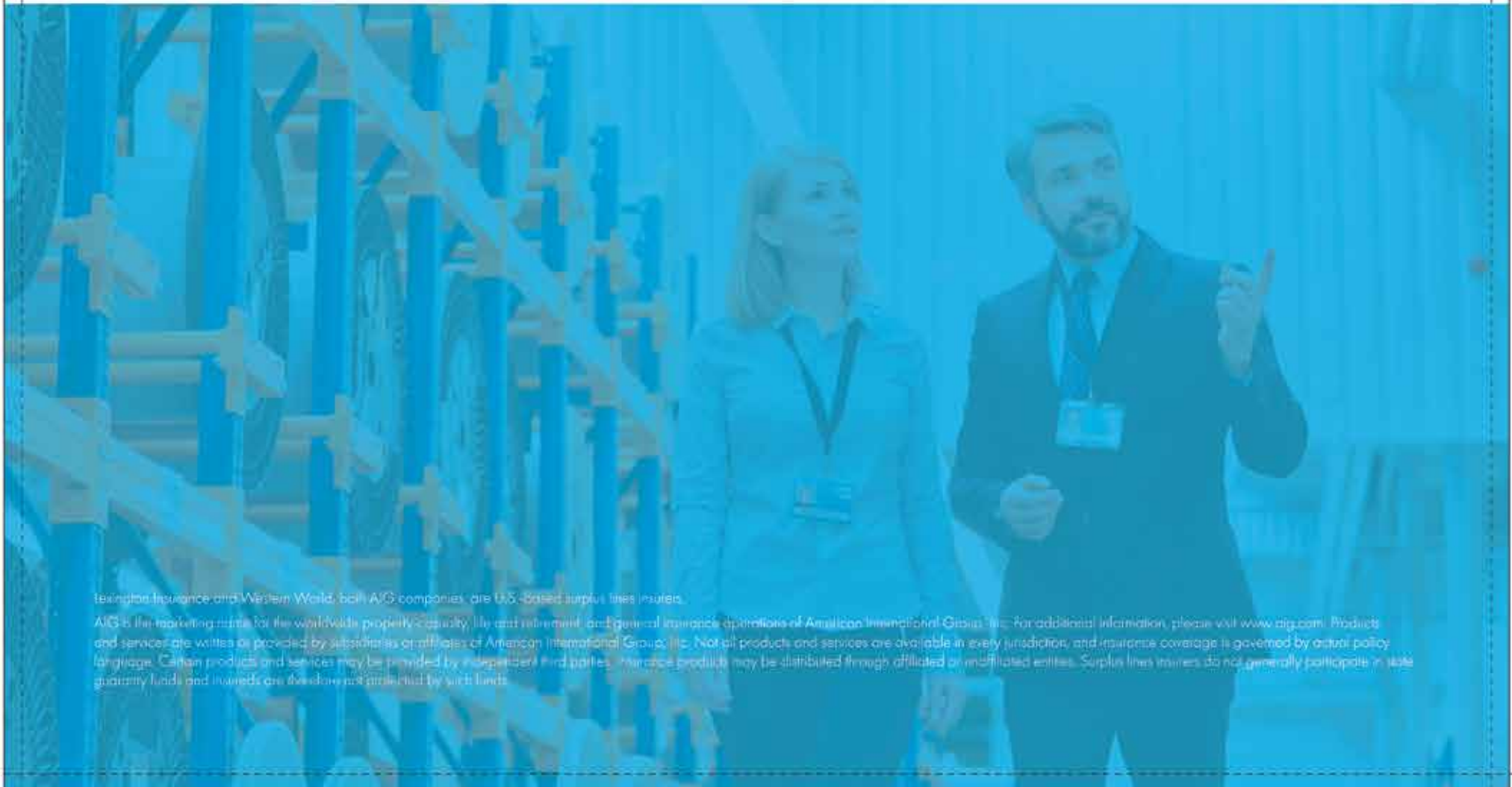
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## MARKET VIEW

# BROKERS



**Kelly Ethier**, sports and special risk broker, Gallagher

## STRENGTH IN THE PAIN BY ANNEMARIE MANNION

Broker Kelly Ethier knows what it takes to keep collegiate-level athletes safe and protected. Using integrity and attentiveness, she gets universities the coverage they need.

**K**ELLY ETHIER KNOWS the pains, strains and joys of being a high-level college athlete. Though she never suffered a major injury while playing on the women's varsity basketball team at Brandeis University, she is well aware of the potentially devastating effects of student athletes not having appropriate health insurance coverage.

Depending on her team's needs at the time, Ethier played every position from point guard to small forward on her college team and was captain for two years.

She's taken that same can-do spirit into her role as assistant vice president at Gallagher Sports and Special Risk.

"I love being able to provide solutions — whether that's seeing that a claim is paid or helping a university save money on their premium," she said.

Ethier's focus is on blanket accident insurance policies, which includes coverage for intercollegiate athletic departments and club and intramural sports.

For her work, she was recognized as a 2019 Power Broker® by *Risk & Insurance*® in the education category.

### INSURING STUDENTS

Athletic accident insurance policies are purchased by college and university clients and are designed to supplement student athletes' own insurance policies. They cover the gap until the insurance provided by the National Collegiate Athletic Association (NCAA) or other governing athletic association kicks in.

The policies cover out-of-pocket costs for medical treatment stemming from an injury that occurs during university-sponsored athletic events, including practices, training sessions, travel to and from events and other school-sponsored athletic activities.

The services that Gallagher Sports and Special Risk offers to its approximately 200 higher education clients and other stakeholders



**College athletic injuries** can linger for years, making appropriate coverage crucial.

include account management, claims advocacy, cost containment strategies (repricing and discounting), insurance verification, primary insurance options and custom claim reporting.

Most colleges and universities purchase this type of insurance for one of two reasons.

"As a best practice, they want to make sure their athletes are receiving a high level of care," said Ethier. "And it can help for compliance purposes."

### KNOWING THE CLIENTS' NEEDS

Ethier's experience as a former college athlete helps her understand the individual needs of the schools as well as the athletes, parents and other stakeholders.

"I'm able to speak their language," Ethier said. "I understand their needs and their pain points and how a college athletic department functions."

Ethier, 29, graduated from Brandeis in 2012 with a degree in sociology. She earned a master's degree in sports management from Northeastern University in Boston in 2014.

From there, she started in a client service role at Gallagher in 2014, and quickly advanced.

"I was able to learn the business from the ground up," she said. "Within a year, I moved into account management, where I managed renewals on behalf of 12 higher education clients."

She was promoted to assistant vice

president in January 2019.

"I was cut loose and told to go out and find my own clients," said Ethier, who today works with 70 higher education clients.

She attributes her success, and Gallagher's, to attracting clients to its service model.

"A large part of the model is the pride we take in demonstrating we are leading experts in this niche."

She cites Gallagher's Quarterly Update Newsletter as an example. It is sent to existing clients and friends of Gallagher and includes relevant news articles about health care or NCAA regulations that could impact a school's insurance program.

She estimates that the policies Gallagher oversees cover about 100,000 student athletes nationwide. Most of these players participate in intercollegiate or varsity sports. About a quarter of Gallagher Sports and Special Risk's higher education clients cover club and intramural sports under their policies.

### REVIEWING COMMON COLLEGIATE INJURIES

Ethier notes that, on average, every college or university has about 500 intercollegiate student-athletes.

With so many athletes competing on fields, courts, gyms and pools throughout the nation, college and university athletic directors expect players to have injuries.

"With this type of insurance, you purchase it knowing you're going to use it," Ethier said. "It benefits my clients that I understand the importance of making sure that a claim goes smoothly and that I understand how difficult it is for a college athlete to have an injury."

Ethier takes client service seriously.

"We're quarterbacking for all the stakeholders involved," she said. "I think a lot of being successful in my role comes down to integrity and attentiveness. It is a lot about being responsive to clients' needs and solving problems."

While she was never sidelined by a major injury during her college-playing days, she suffered an overuse injury — tendonitis — and said many other college athletes are in the same boat.

"We've seen an uptick in overuse injuries," she said. "I think the popularity of youth sports leagues and the level of competition is driving up these injuries."

While most college athletic policies have a two-year benefit period following the date of injury, Ethier said schools may want to consider extending the period to three, or even five years. One reason relates to traumatic brain injuries or concussions. These usually don't bring big-dollar medical bills initially, but athletes may continue to experience problems years later.

"If schools notice a trend of athletes coming back and saying, 'Hey, I was injured while playing for you and I'm still having issues,' I'd encourage them to talk to insurers about extending the benefits period," she said.

### NO PAIN, ALL GAIN

As schools continue to pay attention to reducing their premiums, Ethier said she works with claims companies that focus on discounting. She also strives to balance the needs of all stakeholders.

"The biggest challenge is doing right by the client while also going out and getting them the best options and protecting our carriers as well," she said.

Insurance wasn't on her mind when she was dribbling a basketball down the court, but she's glad it is now: "I never expected I'd love this niche industry as much as I do," she said. &







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Adam Schnell, EVP  
Casualty GL and Construction  
646-956-1560  
[Adam.Schnell@ethosum.com](mailto:Adam.Schnell@ethosum.com)

Navine Aggarwal, EVP  
Head of M&A Insurance  
646-956-1562  
[Navine.Aggarwal@ethosum.com](mailto:Navine.Aggarwal@ethosum.com)

Michael Carr, EVP  
Head of Ethos Property  
404-419-2126  
[Michael.Carr@ethosum.com](mailto:Michael.Carr@ethosum.com)

David Malcom, SVP  
Wind & AOP Deductible Buy-Back  
404-419-2124  
[David.Malcom@ethosum.com](mailto:David.Malcom@ethosum.com)



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# CONSTRUCTION

11 crucial trends that are impacting the construction industry today.

### SUBSTANCE USE DISORDERS •

Employees in construction have a **60% higher rate of substance use disorders** than the national average.



**HIGH IMPACT**



### DEFECT CLAIMS •

75% of construction industry players reported experiencing a **claim or dispute in the last five years**, with the most common being defect claims.

### GROWTH AND PRODUCTIVITY •

In comparison with several industries, **less than 25% of construction firms** were found to match growth and productivity achieved in the last decade.



### SKILLED LABOR •

In an Associated General Contractors of America survey, **80% of construction firms** said they are having **trouble filling qualified hourly craft positions**.



### WOMEN WORKERS •

While the **number of women in construction has risen by 31% in the last decade**, ill-fitting personal protective equipment, inadequate training, and lack of sanitary facilities continue to present health and safety hazards.



### PROJECT OVEREXTENSION •

While billion-dollar construction projects are becoming more commonplace, **37% of contractors ranked project overextension as their number one reason for failure**.



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**HIGH FREQUENCY**

### DRONES •

While nearly **40% of construction companies use drones on projects**, many operations still lack drone safety plans in line with FAA regulations.



### NATURAL DISASTERS •

As natural catastrophes grow in size and severity each year, construction sites face **extended delays, damages and rainy, wet conditions**.



### VANDALISM •

Construct Connect estimates stolen goods and site vandalism losses average **\$1 billion or more annually**.

### WEARABLES •

While wearables are lauded as the latest innovation in worker safety, **there remains little published research that shows the technology's effectiveness at preventing injury**.



### DESIGN-BUILD PROJECT DELIVERY •

Design-build project delivery is expected to represent **nearly half of construction spending by 2021**, but this approach can open contractors to additional liability not experienced under more traditional delivery methods.



**LOW IMPACT**

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## TORT REPORT

# LEGAL SPOTLIGHT

## FREIGHT CARRIER ON THE HOOK FOR FEDERAL INVESTIGATION

**C**ROWLEY LINER, A JACKSONVILLE-BASED WATER FREIGHT CARRIER, WAS in hot water in 2008 when it attracted the attention of federal law enforcement.

Crowley Liner's VP of price and yield management, Thomas Farmer, was suspected to have been involved in communications and agreements to allocate customers and coordinate pricing. This was in direct violation of the Sherman Act, which regulates competition among enterprises in the U.S.

The FBI and the DOJ alleged there had been price-fixing in Crowley Liner's trade line between Puerto Rico and the U.S. A search warrant was issued to review the Crowley Liner facility.

Meanwhile, an affidavit was also issued, describing the ongoing investigation being carried out by the FBI. The affidavit was sealed. Both Crowley Liner and Farmer were soon subpoenaed.

Crowley held an executive and organization liability policy through National Union Fire Insurance Company of Pittsburgh. The policy would provide coverage on a "claims made" basis.

Crowley Liner reached out to National Union, providing initial "details of a DOJ/FBI investigation," including a statement that "[t]he charges that may have [led] to the subpoena and search warrant are sealed at this point in time and no indictments have been filed."

National Union acknowledged Crowley Liner submitted notice, however concluded it did not have to provide coverage, because no one was identified *in writing* as a target of the investigation. This is because while the affidavit, a 48-page record of the investigation, existed, it was sealed to the public. The search warrant did not name Farmer as a potential suspect in the investigation.

Over the next four years, Crowley Liner and National Union kept in constant communication regarding the investigation. As more details came to the surface, and the allegations against Farmer came to light, Crowley Liner asserted the claim had been reported in a timely manner. National Union still denied coverage.

An arbitration panel assessed the details given to National Union at the time of the search warrant. The insurer, in turn, encouraged the panel to ignore the affidavit because it was unavailable at the time. The panel ruled in favor of the insurer, stating that a claim had never actually been reported in 2008.

Upon further review, the court supported the panel's ruling.



According to RSUI, Worldlink failed to notify its insurer of the initial claim made against the company. RSUI agreed the claims were interrelated, however, the initial suit came under the 2014 policy. The insurer was not made aware to any such claims until the 2015 policy.

In court, Worldlink sought declaratory judgment and damages for breach of contract. A district court, however, granted summary judgment for RSUI, agreeing that a timely notice of the 2014 claim was not given.

Worldlink appealed. It countered that, because the two claims were interrelated, notice was given in a timely manner.

To support its argument, Worldlink pointed to another provision within both policies: "All Claims based on, arising out of, directly or indirectly resulting from ... the same or related facts, circumstances, situations, transactions or events ... shall be deemed to be a single Claim for all purposes under this policy."

RSUI reminded Worldlink to review the final clause of that second provision: Interrelated claims "shall be deemed first made when the earliest of such Claims is first made."

**SCORECARD:** The appeals court affirmed the district court ruling, Worldlink did not provide timely reporting of the claims.

**TAKEAWAY:** When facing potential claims, even seemingly minor ones, notifying an insurer as soon as possible is in the company's best interest.

## WORKER SEEKS RELIEF FOR SEXUAL MISCONDUCT CLAIM

**C**HELSEA FLINT WAS HIRED BY THE horse training and boarding facility Franktown Meadows Inc. in Nevada. While completing her regular duties, she alleged a co-worker sexually assaulted her while on the job.

She notified both the president and owner of the facility, as well as the facility's secretary. According to Flint, both the president and the secretary knew about the assailant's behavior but failed to act.

The work environment, she said, changed after that. It became negative and unhealthy for her, so Flint left under a constructive discharge — she felt forced to quit because of unbearable conditions set by her employer. Soon Flint filed suit.

In her lawsuit, Flint alleged nine claims for relief, including negligent hiring, negligent training, supervision, assault, tortious constructive discharge and more.

Franktown moved to dismiss the claim, alleging Flint failed to state a claim for relief because her injury was work-related. Under the Nevada Industrial Insurance Act (NIIA), Flint had exclusive remedy. The district court dismissed the complaint.

In appellate court, Flint argued the district court had erred in applying the NIIA exclusive remedy. She said the NIIA does not bar her negligence or tort claims against Franktown, because the facility never established it procured workers' compensation coverage for the incident.

Further, Flint said her injuries were caused from an intentional act, not accidentally as the NIIA statute requires.

The court agreed with the district. Flint's claims of negligence and intentional tort were rightly dismissed. The NIIA provides Flint exclusive remedy, and Franktown had immunity for liability under it. Further, Flint did not allege in her original complaint that Franktown deliberately intended to injure her.

But, it said, the NIIA would not bar Flint's claim for relief surrounding tortious constructive discharge.



## EMPLOYMENT PRACTICE SUIT NOT COVERED UNDER POLICY

**W**ORLDBLINK, A GLOBAL TECHNOLOGY FIRM, WAS FACING two lawsuits from its employees.

The workers alleged the company failed to pay overtime wages to its nonexempt employees. The first claim against Worldlink came in August 2014.

The second claim from Worldlink employees was filed in April 2015.

Worldlink, in turn, notified its insurer of the interrelated claims in September 2015. But the insurer denied coverage.

Worldlink held a D&O liability policy through RSUI Indemnity Company. The 2014 policy covered incidents from December 2013 to December 2014. A 2015 policy extended coverage through January 2016. In each policy, significant provisions were added, stating that RSUI had an obligation to pay "all Loss [Worldlink] is legally obligated to pay" in relation to "a Claim for Wrongful Act ... first made against [Worldlink] during the Policy Period."





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## ROGER'S SOAPBOX

# What a Disgrace

BY ROGER CROMBIE



**A**t last! When I read that a company was offering “disgrace insurance,” I was thrilled. I’ve always been a disgrace: Perhaps, finally, it would pay off.

No such luck. Disgrace insurance, a #MeToo-era policy offered by insurer SpottedRisk and “backed by industry-leading Lloyd’s of London syndicates,” is for companies that employ celebrities. If the star of a movie or advertising campaign is revealed to be a beast, a discovery that financially inconveniences an insured project, the policy pays out.

Since being too vile for words became unacceptable — it only took six thousand years — we have been subjected to endless unpleasant stories about unpleasant people in the public eye.

SpottedRisk calculates its premiums

based on forecasting the names of monsters as yet unreported. It’s the future arriving now, as foretold by Philip K. Dick in his short story “The Minority Report.”

Dick’s tale and the Spielberg movie based on it are set in 2054. PreCrime, a specialized police department, apprehends criminals based on the predictions of three psychics. It’s a case of “think about the crime, do the time.”

SpottedRisk has assembled researchers in India to comb the internet for doubtful tweets, racial slurs, sexts or other ill-advised social media postings by some 27,000 public figures. Examples are sent to “data specialists”

in Boston, who formulate a “risk score” for each celebrity, to assess how close they are to being disgraced (but not necessarily indicted).

SpottedRisk uses a “Public Outcry Index” it has developed, presumably based on opinions expressed on the bottom half of the internet.

Examples of uninsured disgrace abound as we smash the patriarchy. Kevin Spacey: SpottedRisk says it would have paid 80% of the \$10 million spent by director Ridley Scott reshooting the scenes featuring Spacey in the movie *All the Money in the World*. For Bill Cosby and Harvey Weinstein, the poster boys for unacceptable behavior: \$10 million apiece.

Seeking publicity for its new product, SpottedRisk said it would insure anyone except musician R. Kelly, who stands accused of numerous sex crimes, and U.S. President Donald Trump, who “would probably trigger a claim every week,” according to SpottedRisk’s behavioral scientist Pete Dearborn.

Let’s start with the positives. On social media, an accusation now equates to guilt. Losses occasioned

by the revelation, or even suggestion, of celebrity repulsiveness can be significant. Insuring against the collapse of an expensive project for any reason is only sensible.

Of course, not hiring swine whose past behavior might wreck a project in the first place would make more sense. Surely it would be cheaper for producers to self-insure, as it were, by carrying out due diligence on potential bad apples.

For example, I could be a risk for those for whom I write. That I’m not on social media and am not a bestial type might help, even if I have disgusting thoughts, which I do. Oh yes. But I keep them to myself and would never act on them. Oh, and I have editors who remove the odd outrage from my copy.

So what’s needed here is more editors. There: I have just offended every other writer in the world. I hope *Risk & Insurance*® is insured. &

**ROGER CROMBIE** is a United Kingdom-based columnist for *Risk & Insurance*®. He can be reached at riskletters@lrp.com.

## RISK INSIDER

# A Digital Claims Revolution

BY MARTIN J. FRAPPOLLI



**T**he digital revolution underway in the insurance industry is affecting nearly every facet of insurance, and claims are no exception.

Telematics that transmit billions of data pieces about driver behavior and the likelihood for accident are gaining popularity. Drones assess damage after major weather events. Sensors detect equipment breakdown.

They are also assessing damages and helping claims adjusters get to the root cause of an accident. Blockchain is also changing how insurers are notified of losses and how policyholders provide proof of insurance.

Technology is even changing the way companies interact with customers. Policyholders are demanding a higher level of digital service, including making claims adjustments via mobile app. Insurance company customer service call centers use AI-powered voice recognition software.

Ultimately, new technology brings

efficiency to the core transactions in your claims work, as long as you’re ready for it. Here are four ways claims professionals must adapt to stay ahead of the insurance digital revolution and use it to their advantage:

### 1) Become familiar with data

While advancements in data collection and management in insurance won’t require most claims managers to become data scientists, some familiarity with datasets and probabilities will serve you well. As predictive analytics becomes more advanced and accurate, claims professionals will be expected to harness this information in their assessments.

There are countless online resources that can teach basics of navigating and maintaining spreadsheets.

### 2) Analytical & investigational skills

Sensors are monitoring equipment and sending information to insurance companies that can be useful in determining the cause of an accident or breakdown. As the sheer volume of data continues to grow, claims professionals will be asked to analyze datasets to determine the cause of an accident.

They may also be asked to review drone footage of damaged property after natural disasters. Determining the relevancy and accuracy of this information and understanding how it fits into the claims process will require a new analytical and investigational skillset never before needed.

### 3) Make yourself available 24/7

Like doctors, police and first responders, claims managers must always be ready when the call comes. Technological advancements have cut expected response times to the shortest they’ve ever been. With the rise of mobile apps, policyholders can file claims, ask questions and make changes to their claims at any time.

Claims managers must be sure to keep all technology, including hotspots and laptops, charged and ready to use to ensure they can respond at a moment’s notice.

### 4) Service with a smile

Claims professionals face an opportunity to differentiate themselves by adding a truly personal and

humanized touch to their customer service. When disaster strikes, policyholders want to know there’s a human being behind the technology, especially when they’re trying to cope in a time of crisis. To excel in claims handling, professionals will need to blend the best of both technology and a human touch. Claims managers must remember the training and experience that has made them successful so far.

### A FOCUS ON FUNDAMENTALS

An insurance claims professional’s primary goals are to look out for the carrier’s financial interests, while honoring the promises made to insureds. Balancing these often-conflicting goals requires the deft touch and experience only a human can provide.

Knowing the policy inside and out, responding quickly and empathetically and working with the carrier to provide the best possible outcome must always remain the core focus of the job.

While building your technical skillset to use new technologies to your advantage, don’t leave the fundamentals behind. &

**MARTIN J. FRAPPOLLI**, is Senior Director of Knowledge Resources at The Institutes, and editor of the organization’s new “Managing Cyber Risk” textbook. He can be reached at frappolli@TheInstitutes.org.





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**WORKERS' COMP**

# Success Starts with Trust

BY MICHELLE KERR



**I**t's my story, from my heart. That's what Michelle Casciato said when she read the *Risk & Insurance*® profile of the Teddy Award winning workers' compensation

and safety programs of her employer, the City of Surprise, Ariz.

Casciato, who graces our November cover, is the City's claims adjuster and safety analyst. When *R&I* asked Casciato to chat about the City's winning program, she didn't talk much about metrics or analytics. She didn't talk much about incident investigations or claims closure or utilization review. She didn't talk about any of the things you might expect when you're discussing a best-in-class workers' compensation program.

Instead, Casciato spoke about building rapport with her people, about how much she values them

and cares about them. She spoke about earning their trust. Casciato's colleague, Brett Jeziorski, also spoke eloquently about the importance of trusting those employees in return.

Why is trust so vitally important for the health of your workers' comp program? Well, in case you've been successfully hiding under a rock for quite a few years, you might've noticed that trust is in short supply everywhere. According to a recent study by the Pew Research Center, 64% of respondents agreed that Americans' trust in each other is shrinking. Nearly half said their fellow citizens just aren't reliable anymore.

The worst thing about mistrust is that it closes doors, said Jeziorski. "One of the reasons why a lot of people do go get legal counsel is because they have questions that aren't getting answered. Then the next thing that they see is an ad on TV for an attorney's office. 'Injured on the job? Give us a call.'"

With trust, employees are more likely to follow treatment protocols, because they believe that every stakeholder on the team is committed to a full, safe, speedy recovery. With trust, there's no need to phone 1-800-LAWYERS because injured workers know they will get the answers and the help they need. With trust, employees are more motivated to report safety hazards, because they have confidence that their employer will take it seriously and address it ASAP.

A full 70% of respondents to the Pew survey noted that low trust levels make it harder to solve problems. Quite right. Only a few years back, Surprise was spending about \$1.5 million annually on its workers' comp program. By placing a value on trust, Surprise was able to grow its workforce aggressively while driving

superior recovery outcomes, boosting morale and shrinking its annual costs down to a jaw-dropping \$250K.

Read the profile of the City of Surprise on page 36, and then read the other four profiles of companies approaching their workers' comp challenges from an employee-forward mindset and see how they're succeeding in incredible ways.

Pew gave respondents the option to include written comments. One respondent wrote: "Trust is the glue that binds humans together. Without it, we cooperate with one another less, and variables in our overall quality of life are affected (e.g., health and life satisfaction)."

Those attending NWCDC this month will go back to their employers with a briefcase full of ideas to discuss and to try. But before you run with any of those ideas, take the temperature of trust in your organization. An environment of mutual trust is vital for those new ideas to take hold and thrive. &

**MICHELLE KERR** is Workers' Compensation Editor for *Risk & Insurance*®. She can be reached at [mkerr@lrp.com](mailto:mkerr@lrp.com).

**RISK MANAGEMENT**

# Wish for Happiness

BY JOANNA MAKOMASKI



**H**ave you read your birthday cards from years past? Have you noticed the themes of what people wish for you? After we extract the funny, sometimes cruel jabs

around the perils of aging, the most common things your loved ones wish for you are health, success, love and happiness.

Happiness seems to be the most popular wish of all.

This made me wonder, how often do we really think about happiness? What truly makes us happy? Is it important to be happy? Is there anything to be gained from being happy? What do we risk as an organization, community or nation when we are unhappy?

We do try to learn about our employees' morale and happiness through surveys. It is known that productivity rises with happy employees while the risk of fraud and

absenteeism drops.

That said, I often wonder whether we measure happiness appropriately. Moreover, does how we become happy change with time? Does our ability to be happy change with how the world changes and how it interacts with us?

It appears I am not alone in exploring these notions. I recently read the 2019 World Happiness Report. It is the 7th of its kind. This comprehensive report is written by a group of independent experts who dig deeply into the science of happiness in specific regions and countries. This year's report explores how global happiness has changed over the years. It looks at how risk and governance, information technology and social

norms influence a community's sense of happiness.

The report is a "short" 131 pages, so I won't attempt to summarize it. That said, I found interesting some factors that influence happiness — the global rise of populism, use of social media for communication and interaction, weather changes, power of prosocial behavior, generosity, quality of governments and voting. Found within were interesting revelations and even counter-intuitive findings that we could all benefit from as we refresh our corporate strategic risk assessments and plans.

The report contains summarized data and charts. One chart I jumped to immediately. It is the "2016-2018 Ranking of Happiness" for 156 countries.

So, which country is the happiest in the world? Finland was ranked number 1 for happiness. Who else ranked highly? Canada was ranked at 9, Costa Rica at 12 and Israel at 13.

Countries get ranked according to their GDP per capita, social support, healthy life expectancy, freedom to make life choices, generosity, perceptions of corruption and dystopia. Yes — dystopia. I am saddened even conceding that we have totalitarian

regimes inflicting post-apocalyptic levels of suffering and injustice on their people.

Where did the United States rank? It came in at 19. Is that good? Is that what was hoped for?

Maybe it is worth comparing rank with some of the countries that seem to dominate current U.S. news cycles and influence U.S. politics, risks, governance and policies.

How do they rank on happiness? Russia ranked 68th, China 93rd, Iran 117th, Ukraine 133th, Syria 149th and Afghanistan 154th of 156 countries.

If we agree that happiness brings good things to our organizations, corporations and economies, we should really strive every day for that top spot. Emulating any of the nations struggling to rise in rank, or worse those that do not even try, doesn't seem like a good idea.

Let's not wish happiness only on our birthdays. Every decision made for the country should strive for fair, stable, prosperous, and healthy lives. That makes me happy. &

**JOANNA MAKOMASKI** is a specialist in innovative enterprise risk management methods and implementation techniques. She can be reached at [riskletters@lrp.com](mailto:riskletters@lrp.com).





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## 2019 TEDDY AWARD WINNERS

# What's Next? Moving Beyond Advocacy

This year's Teddy Award winners offer a glimpse of what comes next in workers' comp — a world where we don't need to say we advocate for injured workers, we just do it.

By Michelle Kerr

**F**or the first time in a few years, “worker advocacy” wasn't the biggest buzzword popping off of the pages of employer applications for the Theodore Roosevelt Workers' Compensation & Disability Management Awards. In some cases, in fact, it was even missing altogether.

Except that it wasn't.

Five Teddy Award winners were chosen in the 2019 contest, which is sponsored by PMA Companies, from a range of industries and organization sizes, hailing from across the country. What they have in common is meaningful. They are putting workers first in ways that strive to move beyond an advocacy model and into a model where we simply put employees first, period.

These employers defined the problems they strove to solve, not in terms of fiscal pain points first but in terms of employee pain points. Things like, “Workers had to wait too long for treatment” or “Workers didn't always know who to ask about their claim,” are the problems they seek to solve.

Along the way, these employers are living the ideal that if you do right by your people, the savings will follow. Read the stories of this year's winners to learn how they're not just advocating for injured workers. They're putting their people first both pre- and post-injury, and they're being rewarded with strengthened employee satisfaction as well as dramatic cost savings.

Caesars Entertainment installed full-service medical clinics at its locations in Las Vegas and Atlantic City. Injured workers are getting better faster, and the company was able to realize a return on its investment in less than three months.

“We knew that it would be quick, we just didn't know how quick,” said Brad Waldron, vice president, risk management for Caesars.

The City of Surprise also sought out superior care for its people, investing time to gather intel on the medical providers who are seen as top notch by employers, employees and vendors. The risk management team sought unparalleled care for its people, and secured its network with an offer many providers couldn't refuse: prompt payment. Superior worker outcomes + plus happy docs + discounted rates = win-win-win.

At Kohl's Department stores, wellness centers have been established throughout the company that serve the needs of injured workers as well as everyone else.

“Things that can complicate a workers' comp claim can be eliminated through routine visits to a primary care physician. Giving the associates the option of seeing someone right on site helps to keep our associates healthy and minimize injuries,” said Laurie Frey, senior manager, workers' compensation, Kohl's Department Stores.

At Clemens Food Group, the team and its partners came up with a simple approach to meeting its workers' comp goals: the team member comes first, no matter the cost.

“It's one person at a time, one case at a time,” said John Madaus, Clemens' workers' compensation manager.

Along the way, these progressive employers are finding out what happens when a workers' compensation program is built on trust and genuine concern for their people.

Said Joseph F. Molloy, senior vice president, workforce safety, Northwell Health: “Just reading testimonials and getting emails [from injured workers saying], ‘you really helped me through a difficult time,’ ‘your team did great,’ ‘this person was great’ — that really means we're doing exactly what we set out to do, which was advocacy for the employee.” &









## 2019 TEDDY AWARD WINNER

# An Active Partner in the Claims Process

Kohl's Department Stores knew a reactive approach in claims management wouldn't help them achieve their goals. So they got proactive. By Autumn Heisler

Voted as one of 2019's World's Most Ethical Companies, it's no wonder the workers' compensation team at Kohl's Department Stores wanted their corporate responsibility to extend to their workers.

"Kohl's associates live out our values each and every day," said Laurie Frey, senior manager, workers' compensation, Kohl's. "We put customers first and take a 'yes we can' approach to everything we do ... we act with integrity."

So when Frey and her team reviewed their workers' comp program back in 2016, they realized there was work to be done in order to meet that same level of "yes we can."

"We realized our claim duration and off-work time was not correlating with our values, and we owed it to our associates to fix this," she said.

To do just that, the workers' comp team focused on what was really holding them back: a reactive approach to claims management. They realized they needed a proactive approach that would not only help associates through their injuries from the start, but also assist in return-to-work and making certain each associate had a fully engaged role within Kohl's upon their return.

Four areas were identified as potential drivers for this active approach: nurse triage and telepresence; wellness centers; a refresh to the RTW program; and aligning with the best claims practices available.

The results speak for themselves: In just three years, Kohl's reduced losses by a significant amount. Pending claim counts, new claims and the total cost of risk for the workers' compensation team decreased significantly year over year. Kohl's has also engaged new partners, invested in new practices and strives to support its associates on every level.

"We saw an opportunity to bring in other internal partners across the



By creating an active claims management approach, Kohl's workers' comp team achieved huge results in just three years.

organization and work together to create a better workers' compensation program," said Frey.

"Doing what was right for the company was top of mind. That meant determining solutions for our associates that were both helpful and cost effective."

### ADVOCACY FOR THE ASSOCIATES

Kohl's has more than 1,100 locations across the U.S. and employs approximately 140,000 associates. For this retailer, advocating for its workers was paramount.

The workers' comp team knew it had to invest in programs that would keep the associates' needs front-and-center throughout their employment with the company and any injuries that might arise. One way to do that was through the addition of wellness centers.

"Having wellness centers on site

means our associates can be treated in a convenient manner before ever having a workers' comp claim," said Frey.

The workers' comp team partnered with the HR department, establishing wellness centers within distribution buildings and credit and corporate locations. Associates, their spouses and their children all have free access to these centers and the opportunity to meet with a primary care physician. Frey added that one of the goals in having this kind of access to care is to prevent injury or illness.

"Things that can complicate a workers' comp claim can be eliminated through routine visits to a primary care physician. Giving the associates the option of seeing someone right on site helps to keep our associates healthy and minimize injuries," she said.

The benefits don't stop pre-injury, either. On the other end, "any associate injured at work has the ability to be seen immediately, on site, and without waiting in line at an urgent care center," said Frey.

As a next step in the process, nurse triage, said Frey, became the biggest driver for the team.

"We wanted associates to have access to immediate medical resources within minutes

of their injury," she explained.

Injured associates are put in touch with a registered nurse from the Kohl's nurse triage program within minutes of injury.

Frey said this mandatory incident reporting took the onus of making medical decisions off of team leadership and instead placed it in the hands of medical professionals. Additionally, associates have the ability to connect with the Kohl's nursing partner throughout the claim, whether that be over the phone or through video chat with a provider.

"Not only has this improved our results, this is the piece that most impacts our associates and provides them with the best possible resources at the outset of a claim," Frey said.

"Moreover, the nurses in the program play a large role in our return-to-work process."

### SUMMARY

- In 2016, Kohl's realized it was time to take a more active approach to claims management.
- Nurse triage, wellness programs and return-to-work became vital for injured workers.
- Claims "blitzes" furthered Kohl's success on the back end of the claims process.



**"Things that can complicate a workers' comp claim can be eliminated through routine visits to a primary care physician. Giving the associates the option of seeing someone right on site helps to keep our associates healthy and minimize injuries."**

— Laurie Frey, senior manager, workers' compensation, Kohl's Department Stores







## The Teddy Award Recognizes *Excellence in Workers' Compensation Programs*

### Winners

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- City of Surprise, AZ**
- Northwell Health**
- Kohl's Department Stores**
- Caesars Entertainment**

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## 2019 TEDDY AWARD WINNER

### REVAMPING RETURN-TO-WORK

The return-to-work program at Kohl's was proving successful, but the team wanted more.

"We have always had a successful transitional work program," Frey said. "My team wanted to enhance the program to not just get associates back into their locations, but to get them closer to a full-duty position sooner."

What makes the changes stand out is Kohl's perseverance to accommodate every injured associate regardless of possible restrictions. For the workers' comp team, building a sense of goodwill with the associate drove change.

They aligned RTW with the process used on the non-occupational health side, which reduced the need for

temporary and transitional tasks, and instead, gets associates back to their roles faster. In fact, the team has seen a decrease in temporary total disability days because of their efforts.

"The associate returns to work, returns to his or her team and is able to continue to feel like a part of the Kohl's family, which encourages individuals to want to return," said Frey.

### CLAIMS HANDLING BEST PRACTICES

Working with the associates pre- and post-claim was a successful start for the workers' comp team. But they also agreed something had to be done on the back end of the claims process in order to make lasting change.

Frey said the team wanted to find new solutions to resolve claims more efficiently to help associates put the injury behind them. Kohl's partnered with its TPA and brokerage to complete semi-annual claims reviews.

"The initiative has enabled us to put the right adjuster on a case at the right time, which makes sure the associates [of Kohl's] get the right care and claims are handled in a timely manner," explained Kohl's broker.

Over the last three years, Kohl's broker said she has seen the program evolve from a reactive take on handling claims to a more proactive role, where the team at Kohl's is helping their associates get the care and treatments they need. "They're engaged with the process from the start. It's really amazing the drive that they have for their associates and for each claim."

Part of the claims process now involves what Frey described as a quarterly claim "blitz."

"These 'blitzes' are a fun way for the team to work with their examiners to focus on particular claims, whether it's based on the date of injury, location or other feature," she explained.

"The team works with their individual examiners over the course of the quarter to see how many claims can be resolved in the best way for the associate and company. It is also a good way for the team to make sure the claims are on track to return associates to work and a fun way for the team to be more engaged."

### ACTING WITH INTEGRITY

According to Kohl's broker, Frey has created an environment that not only supports the needs of the associates, but also enables her team to continue to innovate.

"It's not about the results with Kohl's; it's about continuing to challenge themselves on ways to make the process better," the broker said. "They have already had these amazing results, but they want to do more. You don't see that level of integrity and dedication in every organization."

"Knowing that your program is never perfect and being open to learning more about how you can help your company through your program can give you the opportunity to change and improve," added Frey. &

**AUTUMN HEISLER** is the digital producer at Risk & Insurance®. She can be reached at [aheisler@lrp.com](mailto:aheisler@lrp.com).



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# Workers First: The Mission of Northwell Health

In a whirlwind eight months, Northwell Health's workforce safety department completed 800 initiatives and created a culture of worker advocacy at the company. By Courtney DuChene

As Luke Skywalker flies towards the Death Star in *Star Wars: Episode IV - A New Hope*, chaos and explosions surround him. A fellow starfighter reminds the team to "stay on target," words that remain with Skywalker and give him the mental focus needed to blow up the Death Star.

For the Northwell Health team in 2014, the chaos surrounding the health system's workers' compensation program might've made them feel like Skywalker in that crucial battle.

The health system's experience mod was 1.146, and the projected budget impact of workers' comp incurred expense and liability was approaching \$100 million.

Senior leadership had serious concerns as to where to focus resources in order to get the program back on track: "Nobody could really tell senior leadership what was going on," said Joseph F. Molloy, vice president of workforce safety at Northwell.

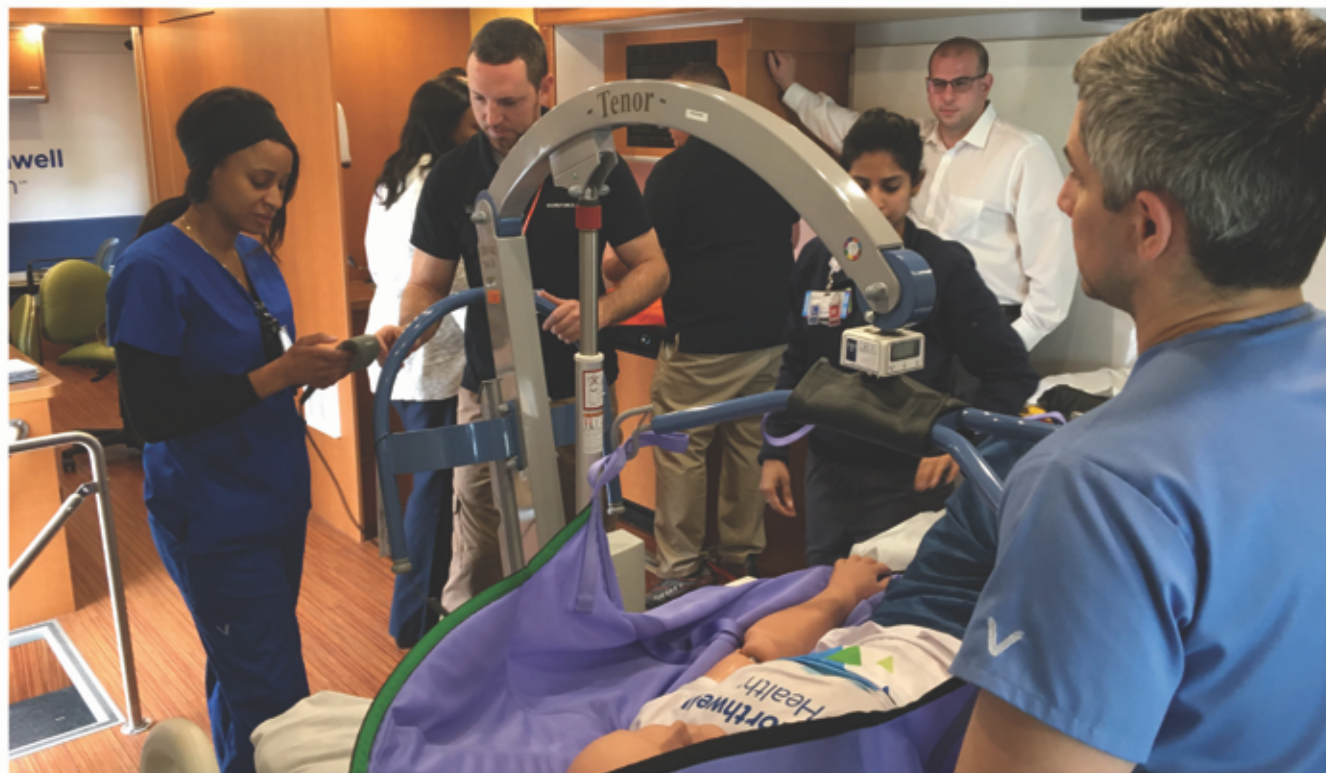
The company asked Molloy to serve as an internal consultant to get the workers' comp program to "stay on target." He began by interviewing everyone who was involved in the workers' comp process. What he found was a communication disconnect.

There was no clear senior leadership to field questions when they arose, and managers were instructed not to contact injured employees — creating distrust within the workers' comp process.

These concerns led to the creation of a new department at Northwell Health: workforce safety.

With senior leadership's endorsement and support, Northwell Health's program transitioned from an adversarial approach to one based entirely on employee advocacy.

They identified nearly 800 projects in a two-year plan, which was completed in eight months, earning them a 2019 Teddy Award®.



A renovated mobile home serves as the site of Northwell's safe patient handling training unit.

## MAKING WORKERS THE PRIORITY

From the beginning, the workforce safety team knew they needed to focus on initiatives that were shaped by worker advocacy, better outcomes and a culture of safety, while also being more cost-effective for the company in the long run.

But transitioning from an adversarial approach to an advocacy-based one proved difficult. Department managers pushed back, worried an advocacy model could encourage fraud.

"I told them, 'You don't build a policy and a program for the tail wagging the dog.' You build a policy and a program for everybody," Molloy said.

"We're going to change the perspective from an adversarial role to one in which we assume the vast majority of employees are legitimately injured and want to pursue the best course of treatment and return to work."

Part of changing the culture meant changing how people talked about processes, like return-to-work.

As part of their revamped workers' comp program, workforce safety created a transitional return-to-work program that gave injured employees up-to-12-weeks-long assignments that met their medical and physical restrictions while helping them heal and get back to work.

Part of the success, Molloy said, was that the program allowed the staff to eliminate the phrase 'light duty,' changing the company's culture dramatically.

"I said, 'I do not want to hear the phrase light duty, because light duty has other connotations,'" Molloy said.

In addition to the difficulties of transitioning to an advocacy culture, Northwell Health faced staffing problems. There were only three nurse case managers who were managing more than 110 cases each — almost double the 60 cases that Northwell's broker Marsh said they should each have.

"They weren't able to really medically manage the cases. They weren't interacting with the patients. They were responding to crises, and they were pushing paper," Molloy said.

To fix that problem, workforce safety created two different positions: case coordinators and nurse case managers. Case coordinators have taken

on more of an initial response role by performing the initial triage and contacting an injured worker within 24 hours.

Nurse case managers, on the other hand, work with injured workers who may need a little more attention, such as those facing lost-time claims, those with complex medical conditions, or those who have had multiple claims.

"The RN case managers here treat the employees not as employees; they treat them as their patients," Molloy said.

## ALL ABOARD THE SAFETY MOBILE

With 70,000 employees spread across 23 hospitals, it can be difficult to make sure everyone knows the best practices for staying safe on the job and reporting claims when they arise.

To help educate employees about the new programs, Molloy and his

**SUMMARY**

- **Northwell Health completed** a whopping 800 workers' comp program initiatives in eight months.
- **A first-of-its-kind** mobile safe-patient-handling training unit allows hands-on training at all their hospitals.
- **Long-term liability costs** have been slashed by nearly \$10 million.



**"You don't build a policy and a program for the tail wagging the dog. You build a policy and a program for everybody."**

— Joseph F. Molloy, vice president, workforce safety, Northwell Health







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team distributed posters, mouse pads, desktop screensavers and other “swag” branded with the workforce safety department’s information.

Northwell Health is also implementing a system where, in the future, these items will include a QR code employees can scan with their phones to report an incident as soon as it happens.

Giveaways have also played a role in Northwell Health’s workplace safety educational campaign. During the winter, the computers display “Walk like a Penguin” screensavers to give employees guidance on how to walk on slippery floors and icy walkways. The health care system also analyzed the slipperiness of its floors in high-traffic areas to see where improvements

could be made. These initiatives have decreased the number of slips, trips and falls by more than 77%.

Safety doesn’t just end with educational campaigns, however. Training sessions keep employees safer, especially in the area of safe patient handling, a major cause of injury among health care workers.

At Northwell, this is where “the

bus” comes in. “The bus” is a mobile home that Northwell converted into a ‘mock’ hospital room, complete with a bed and lifting equipment, where employees can practice lifting, transferring and moving mock patients.

A team of ergonomists, occupational therapists and physical therapists assist in the training sessions to help provide guidance on the proper way to lift patients with minimal strain on the body and, since the unit is mobile, it can travel to each facility within the Northwell health care system.

The bus has even inspired events, such as the Safe Patient Handling Olympics, in which teams compete in different lifting scenarios. The events are judged by a nurse and an occupational therapist.

“It’s been very well received, and it’s been very successful and that has led to some pretty significant decreases in length of absence days from patient handling injuries,” Molloy said.

### RESULTS THAT SPEAK VOLUMES

The response at Northwell Health to the workforce safety department and the successes they’ve achieved thus far have been overwhelming.

They’ve decreased their average length of an absence after an injury from 90 to 77 days and cut their expected long term liability costs by nearly \$10 million.

“Patient and employee safety is a top priority to Northwell. The creation of workforce safety and all of their programs really supports our mission and our vision while also demonstrating Northwell’s commitment to safety,” said Dorothy Feldman, Northwell’s chief risk officer.

“We’re pleased [to] have these resources that Joe and his team have built out to support our co-employees.”

Injured workers are taking notice as well. “Just reading testimonials and getting emails [from injured workers saying], ‘you really helped me through a difficult time,’ ‘your team did great,’ ‘this person was great’ — that really means we’re doing exactly what we set out to do,” Molloy said.

Part of why the program has been so well received is because of the inspiration Molloy took from one of his favorite films: Star Wars.

“Stay on target, stay on target, when all this other stuff is blowing up around you, that’s the key to success. You just stay on target, because things are going to happen, things are going to blow up,” he said. “You’ve got to be committed.” &

**COURTNEY DUCHENE** is a staff writer at Risk & Insurance®. She can be reached at [cduchene@lrp.com](mailto:cduchene@lrp.com).

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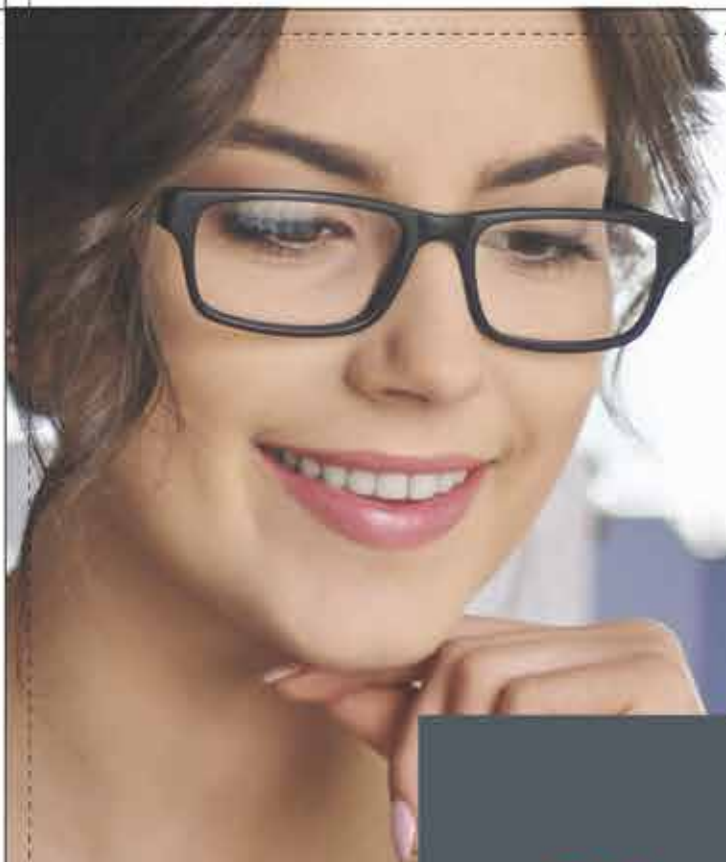


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# Protecting People, Performance and Product

By focusing on occupational health, the parent company of trusted meat brands achieved fewer injuries, faster recovery, and a shining reputation for putting people first. By Emily Spennato

When you ordered extra bacon on your cheeseburger, you probably didn't give much thought into its journey from the farm to your plate.

Not many people do, though the average American consumes 222.2 pounds of meat per year.

Clemens Food Group, producer of trusted brands such as Hatfield Meats and Farm Promise, is painfully aware of the challenges that meat production poses for its workers.

Dubbed 'industrial athletes' by the company's workers' compensation manager John Madaus, Clemens employees come face-to-face with a plethora of injury risks every time they step on the plant floor:

- Pork is processed in extremely cold environments to preserve the integrity of the product.
- Surfaces are wet from constant sanitation, presenting risk for slips and falls.
- Workspaces are scattered with knives and other hazardous equipment.
- Production lines can result in repetitive motion-related illnesses, such as carpal tunnel.

Considering its vast and welcoming opportunity for injury, retaining talented and committed workers in meat production is hard. Coming up with a plan to keep them all safe on the job is even harder.

No one knows this better than John Madaus.

### MORE THAN MEETS THE EYE

When Madaus joined Clemens in 2016, the company seemed to be rolling out a more than viable workers' compensation program; onsite care, a 24-hour wellness center, and athletic trainers accompanying employees on the floor.

On paper, things were different.

"It was evident when I got here that there were delays in service," Madaus



When it comes to injured employees, Clemens Food Group's workers' compensation program sees one option: Complete recovery.

explained.

The overall lost-time cost was \$2.1 million, and the average claim was worth \$41,150. Cumulative trauma injuries were too common. Claims were aging. Return-to-work programs were struggling.

According to Madaus, however, the real risk wasn't about the money.

"Where we are, it's the risk of the team member not getting better," he said matter-of-factly.

With all the proper incentives, the results were not mirroring the effort put forward.

"I saw that they had really done a lot to benefit the injured employees and prevent them from being injured, but they weren't getting the results that they should be getting, given everything they'd been doing," said Brian Chance, claims cost controller for ECBM, Clemens' insurance broker.

explained.

**"It's so easy to focus on different facets of the system to try and make a difference. But the key for me is if you do the right thing from the beginning for your team member, things will always work out better for us."**

— John Madaus, workers' compensation manager, Clemens Food Group

Chance and ECBM partnered with Madaus and Clemens back in March 2016, on the brink of what would become a complete workers' compensation program paradigm shift. The success of the shift would eventually earn Clemens a 2019 Theodore Roosevelt Workers' Compensation and Disability Management Award.

### A PARADIGM SHIFT

The delays in service were not due to the volume of medical claims, but to the handling process.

"The company, before I got here, had already built a brand-new wellness center and were rolling out new programs. I just took that and shifted over to the occupational health side," said Madaus.

"Our partners were aligned with us and they aligned with each other so that we can all have that same vision."

By focusing on occupational health, Clemens' aimed to prevent injuries, as well as deliver efficient and attentive care when injuries did occur.

For Madaus, adopting this preventative yet proactive mindset was easy, given his background. He was previously employed by Clemens as an occupational health nurse from 2001-2005. Now, he could transform experience into strategy within his new role.

"Being a registered nurse and

certified case manager, my immediate focus is on injury care delivery for our team members. With that being said, it's about setting the vision and getting buy-in from your coworkers and vendor partners. I had the ability to get all of the vendors in the room [so they could] see the vision."

Under Madaus's direction, the Clemens team and their partners came up with a collective and simple concept after which to model their workers' compensation goals: the team member comes first, no matter the cost.

"It's one person at a time, one case at a time."

As with any new project, the execution is not always the same as the initial vision, and modifications were made along the way.

### SUMMARY

- **Leaders of Clemens** Food Group had the best incentives for their workers' comp program but weren't seeing results.
- **The program underwent** a complete paradigm shift that turned the focus to occupational health and case management.
- **With the help** of their partners, Clemens attained one of the most top-rated workers' compensation programs in the country.







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"As with any change, there was a lot of doubt in the beginning. We had ideas, we had educated guesses, but the strategy itself was very unproven," explained Leslie Wheeling, director of People Strategy at Clemens.

"It took a bit to find vendors that were progressive enough in their thinking to join us on this journey," she said of the program's transformative

process.

"As we did, we found some great vendor partners. I am very impressed with Industrial Health Solutions, PMA, ECBM; they're all different vendors that we've worked with. We really couldn't have done it without them."

### IT'S ALL ABOUT TEAMWORK

Once the partnerships and plan

were established, the execution required some reengineering.

Chance and ECBM enacted administrative adjustments that would lead to larger policy changes.

"We reengineered their entire claims handling platform," explained Chance, giving Madaus the most freedom, flexibility and access to the injured worker as possible.

As litigation rates and administrative responsibilities fell away, Madaus had more time to engage with workers.

Programs that succeed at this level don't happen in a vacuum. They're driven by a genuine commitment to help people get better. John Madaus practices that commitment every day.

"John would get in his car and drive four hours roundtrip just to meet with one of the injured workers in one of the off-site facilities," said Chance of Madaus's desire to provide as much support as possible to Clemens' employees.

"Just talking to them on the phone wasn't good enough. He wanted to see them and talk to them about what their experiences were so he could make sure they were getting what they needed."

### COMPARING OURSELVES TO OURSELVES

If you ask Madaus, he will explain that his strategies operate on the values that Clemens Food Group was founded on in 1895: Ethics, integrity and stewardship.

"It's so easy to focus on different facets of the system to try and make a difference. But the key for me is if you do the right thing from the beginning for your team member, things will always work out better for us."

Mirroring this mantra, obvious results emerged for the Clemens' team.

Between 2016 and 2019, the company saw a 29% increase in its workforce, while simultaneously achieving:

- A reduction in average cost per claim from \$41,150 to \$29,249
- Lost-time claims avoided to the tune of \$2.1 million
- A 38% drop in total lost-time claims

• 68% medical cost containment savings, with \$4.7 million saved off of billed charges of \$6.8 million

"When you take out inflation, their loss rates dropped 60% in three years because of all of the work we've done together. It's just a phenomenal turnaround," praised Chance.

As for the future, an award does not suppress Clemens Food Group's hunger to improve.

"The Teddy Award is such an honor, to recognize that we are on a good path, but it doesn't change anything from our innate desire to continuously push forward," said Wheeling.

"We are comparing ourselves to ourselves to get better. We want to keep going." &

**EMILY SPENNATO** is a staff writer for Risk & Insurance. She can be reached at [espennato@lrp.com](mailto:espennato@lrp.com).

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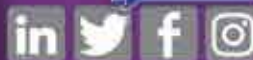
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## 2019 TEDDY AWARD WINNER

# Excellence Is No Surprise for This Arizona City

For most municipalities, achieving superior injury outcomes while slashing program costs is a tall order. For Arizona's City of Surprise, trust and respect is the foundation of that achievement. By Michelle Kerr

There's something about a city named Surprise that just brings a smile. And across Surprise, the 10th largest city in Arizona, there's also something about the City's workers' comp and injury prevention programs that brings smiles to both its workforce *and* the folks crunching its numbers.

For the past several years, the City's risk management team has solidified an infrastructure and a culture that allows it to drive continuous sharp improvements in injury reduction, provide second-to-none medical care for every injured worker, keep injured employees working at full salary and boost employee morale.

Along the way, the City grew its workforce, its ranks swelling from 721 employees in 2014 to 1,257 only five years later. Despite that fact, it also saved a pile of money.

For 2017 and 2018, the average cost of their annual program plummeted to \$250,000 per year — for a program that previously cost \$1.5 million a year. A remarkable result for a public entity, where every dollar saved matters and where every dollar spent is public knowledge. It's also remarkable to see that kind of savings for a program that covers high-risk job classifications in fire and medical, police, streets maintenance and more. For these achievements and more, the City of Surprise has been named a winner of the 2019 Theodore Roosevelt Workers' Compensation & Disability Management Award.

Surprise, which has transitioned to a self-insured, self-administered model as part of its overall strategy, has implemented a number of uncommon programs. Once the municipality transitioned to a self-administered model, it sought the input of employers, vendors and previously injured employees to identify superior medical providers known for unparalleled care and



**A lesson from the** City of Surprise, Ariz.: What's best for your people is also what's best for your program.

superior outcomes. It approached those providers one-by-one and proposed discounted cash-pay rates in exchange for prompt payment, as opposed to traditional long waits for carrier reimbursement.

Across departments, the City has also fostered a mindset of absolute flexibility on return to work. There's virtually no restriction that the City can't find a way to accommodate, even if that means no walking or lifting. Department leaders approach light-duty jobs from the standpoint of "what could someone else use help with?"

That allows the City to keep injured workers at full pay, and no matter what the task assigned, the worker is providing meaningful support to a coworker or team.

"When you're up and you're getting ready and you have a purpose in your day ... that puts a genuineness

in what we're doing," said Michelle Casciato, claims adjuster and safety analyst for Surprise. "I'm keeping you moving forward. I want that positive momentum going. We're going to get creative and keep you moving."

But what makes the City of Surprise a Teddy Award winner isn't just the specifics of its programs. It's the mindset and culture that the risk team has nurtured across the organization. While some entities stagnate in a "that's the way we've always done it" rut, Surprise encourages leaders to move in the opposite direction, asking, "What haven't we tried before?"

On one level, that means being willing to look for inspiration everywhere. Brett Jeziorski, the City's senior workers' compensation adjuster, noted that the City's unique cash-pay arrangement with providers was inspired by a personal experience of the city's former risk manager Brian Carmichael. Jeziorski said that Carmichael learned his copay with insurance was far more than he would pay without insurance, prompting him to ponder how that could apply to the city's program.

For Casciato, inspiration for the

City's safety efforts sometimes comes from regular meetings with leaders from surrounding cities, as part of the AGSA, or Arizona Governmental Safety Association. AGSA members meet every other month to exchange ideas and seek solutions to problems.

"It's a safe environment where we can just bounce a lot of safety things off of each other. And I take that back and I find ways to get really creative and implement new processes here in our city."

### BUY-IN BEFORE ANYTHING ELSE

Both Jeziorski and Casciato agree that the real driving force behind Surprise's success is the City's employee population and the trust and buy-in that risk management has worked hard to cultivate.

"Without the employee buy-in, I don't think that we would have the



**"One of the reasons why a lot of people do go get legal counsel is because they have questions that aren't getting answered. Then the next thing that they see is an ad on TV for an attorney's office."**

— **Brett Jeziorski**, senior workers' compensation adjuster, City of Surprise, Ariz.

### SUMMARY

- **The City of Surprise's** workers' compensation program costs a fraction of what it did five years ago.
- **Surprise incentivizes** top medical providers with the promise of fast payment.
- **Trust and buy-in** across the organization is the secret sauce that drives their success.





success with the program that we do have," said Jeziorski.

"It was hard at first," Casciato admitted. But she got out in the field and she talked to them. And she got them talking to her. She told stories and she listened to theirs. She made sure they saw her as a fellow employee with their best interests at heart.

"I've got my tennis shoes on and I throw on a vest — I'm out in the streets or I'm in a garbage truck and I'm riding — because I want to know what I can't know from behind a desk ... what drives your day?"

The risk team strives for transparency, pulling the shroud of mystery off of workers' compensation and making sure all employees understand how the wheels turn. As a self-insured entity, the City explains the funds of workers' compensation as "[funds] that we have an organization" and explains how savings can impact everything from equipment upgrades to employee raises.

This helps every employee understand that they have a stake in both the prevention of injuries, and the outcomes of the injuries that do occur.

That level of trust and mutual respect also helps ensure workers are paying attention when Casciato does safety training for various departments. But she always looks for a way to add a sweetener ... sometimes literally.

For a discussion about dangerous Africanized honey bees, Casciato brought in honey just to help make the message more memorable.

For a training session with outdoor workers on heat-related injuries, she invited a vendor to come out and provide samples of electrolyte-infused sports drinks while she discussed the importance of staying hydrated.

"I like to jazz it up. I make it fun. I always have a fun story to tell," she said. But her real message behind the fun is as serious as it is personal.

"What I always say is, 'You are someone to somebody and that's important to me. You're not a number; you're not a claimant. You're a human being. I treat you as such and the program treats you as such.'

"I want to make sure that you go home safe and sound, and that if you're injured ... I want you to get back to being with your friends, your family and loved ones and to come back to doing what you love to do, and that means a lot to them."

That high level of trust also means employees know who to call for questions or concerns after an injury.

"One of the reasons why a lot of people do go get legal counsel is because they have questions that aren't getting answered," said Jeziorski.

"Then the next thing that they see is

an ad on TV for an attorney's office.

Jeziorski also adds a reminder that trust is a two-way street.

"We trust the employee to actively participate in their own recovery.

A component of our program is educating the employee on what to expect during their treatment, it helps them to understand there is a process.

They can rely on us to stay at their side

and coach them throughout [recovery].

There are a lot of working components to every single claim, and no two claims are alike."

By setting a foundation of trust, Surprise has taken the formality out of workers' comp and made it more personalized for each employee.

"The more we worked the program and built the culture of safety and trust,

the easier it was to get our employees to come to us [for help]," said Jeziorski. We want our employees to have a great experience; to change their focus from being injured and change their perception of workers' comp. &

**MICHELLE KERR** is workers' compensation editor with Risk & Insurance®. She can be reached at mkerr@lrp.com.



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FINANCIAL





## 2019 TEDDY AWARD WINNER

# Selling Safety

A risk manager with roots in heavy industry applies skilled communication and compassion to the hospitality industry. By Dan Reynolds

When Brad Waldron came to Caesars Entertainment Corp. in 2013, the wheels at the company's roulette tables were moving, but the needle on safety improvements wasn't.

"It was a situation where it was very apparent, analytically, that things hadn't been improving. Things weren't being pushed to improve and there needed to be a wholesale change," Waldron said.

Waldron's background was in heavy industry — petroleum refining, chemical manufacturing, plastics, metals smelting and the like. These are environments in which one wrong move means a lot of people get hurt.

Waldron built a career in those sectors in which compliance, management system design and development were key areas of focus for him. But when he came to Caesars, there were a couple of additional risk management dice in his valise; both of them loaded.

One is his skill as a communicator. Scratch Waldron with some force, a colleague said, and you will release the plasma of a salesman, someone skilled at conveying a message and communicating the upside of programs to stakeholders.

The second die Waldron palms is that he comes from a small, tight-knit coastal town. Feeling responsible for members of his community is in his DNA.

"I grew up in a small town in Maine that morphed from fishing village to tourist haven and back again each year," he said.

"Those of us who called it home year-round felt a real sense of community and looked out for each other."

In cold numbers, upon Waldron's arrival, Caesars was spending way too much on workers' compensation. The company of 65,000 employees



**Safety professionals with Caesars** refuse to gamble with safety.

was experiencing 3,500 workers' compensation claims each year.

The company had a solid OSHA program. Waldron pondered. Something wasn't adding up.

The actions that Waldron and his team eventually took earned Caesars a 2019 Theodore Roosevelt Workers' Compensation and Disability Management Award.

### THE ENTIRE RISK CONTROL TEAM WAS REPLACED

According to Waldron, it wasn't that the existing professionals in risk control didn't have the best of intentions; they had just been doing the same thing for more than a decade without getting better results.

"It was really time to start looking at it from a program structure perspective,

'What can we do to move the needle?'" Waldron said.

Waldron made three key hires. Onto his team came Daemon Smith, a director of risk security at one of the company's regional properties. Waldron let it be known that he was rebuilding the risk control team and up went Smith's hand.

"What do I have to do to be considered for that?" Smith said on a conference call with 80 other people, including his boss.

"His team has really gotten creative in developing electronic tools that are available to everybody in our organization to manage behavioral safety; to look for trends in ways nobody in this organization has ever looked at before," Waldron said.

Kyla Robinson, formerly of Beecher Carlson, came onto the team as head of claims.

"Beecher was our broker at the time, and Kyla was running an engagement with us and we really hit it off," Waldron said.

"She brought a lot of experience to the table, but her open mind and her ability to think outside a historic framework really led to the value that she's created here," Waldron added.

Another safety professional with a background in heavy industry completed the trifecta: Dave Harmon,

Caesar's manager of health and safety, who came from aviation, the rail industry and construction.

Waldron credits Harmon with being a safety whisperer, of sorts. He has the rare gift of being a superb listener. He listens to workers' concerns and follows up with them, making sure processes are improved.

"I am real curious about human behavior, which is a component of occupational safety. For employees to be forthcoming about why they made certain decisions, you have to get people to trust you," Harmon said.

"I do that with an array of soft skills that I use, mostly listening. I truly believe that God gave us two ears and one mouth for a reason. A safety conversation must be a good-natured exchange of thoughts and ideas," Harmon said.

### SUMMARY

- **Opening employee medical clinics** was a master stroke.
- **The ruling principles** of communication and compassion produced results.
- **Finding the right** partner in a TPA made all the difference.



**"It was really time to start looking at it from a program structure perspective, 'What can we do to move the needle?'"**

— **Brad Waldron**, vice president, risk management, Caesars Entertainment Corp.







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### THE COMPANY HIRED A NEW TPA

Waldron brought ESIS, the Chubb subsidiary, on board in June of 2017.

"From the first time we met them, it was evident that they were interested in partnering with us," Waldron said.

"The relationship developed naturally, there was no pressure to utilize all of their service offerings," Waldron said.

"Their value quickly became apparent, and they let that develop naturally," he said.

### CAESARS OPENED MEDICAL CLINICS FOR EMPLOYEES

ESIS was hot on opening medical clinics in the company's key locations, Las Vegas and Atlantic City.

"The return on investment for those clinics, on average between the two markets, was something between 60 and 90 days.

"We knew that it would be quick, we just didn't know how quick," Waldron said.

In its clinic operating partner, Caesars found an ally that shared Waldron's approach.

"There were moments when we saw increases in our medical expense on an average basis per claim, because they were going to doctors who don't typically do workers' compensation.

"But the employees were getting better faster and that's a hard thing to ignore," Waldron said.

### THEY CHAMPIONED A NEW ALLOCATION METHODOLOGY

Waldron came to Caesars just as the company was rolling out a new allocation model for workers' compensation costs.

Historically, the company amortized each property's expenses over 12 months.

In the new model, properties would be charged a flat per-claim charge for medical-only claims, and a much more significant charge would be developed based on the property's loss history.

"I can't take credit for the allocation model, but I did take the initiative in calling every general manager and risk leader at every property and explaining the dynamics of the system to them," Waldron said.

"I also included specific directions on how to beat the allocation model and save money by bringing everyone back to work, by paying full wages when someone had to be out of work and by ensuring injured employees had immediate access to excellent care."

### THE WINNING NUMBERS SO FAR

From 2013 to the present, total claim frequency at Caesars Entertainment is down 52%. Total

medical paid is down 42%, and total open claims are down 53%.

Underlying those numbers is the principle that, managed properly, a workers' compensation program can be part of an operational success story, not merely a cost center.

It is also a place where companies can truly, in their bones, demonstrate that they care about their employees' well-being.

For Caesars, they care enough to listen to the injured workers, they care enough to pay each employee a living wage as they recuperate, and they care enough to address the employees' fears — something everyone experiences and yet so few admit.

"We know that injured workers are scared more than anything else," Waldron said.

"So every effort is made to go out of our way to remain connected and reassure them that they'll be well cared for."

Far from being a place where hard-earned dollars evaporate, the risk and safety control team at Caesars is now playing with house money. &

**DAN REYNOLDS** is editor-in-chief of Risk & Insurance. He can be reached at dreynolds@lrp.com



*"I truly believe that God gave us two ears and one mouth for a reason. A safety conversation must be a good-natured exchange of thoughts and ideas."*

— **Dave Harmon**, manager of health and safety, Caesars Entertainment Corp.



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**TECHNOLOGY**

# Technological Innovations Reclaim Comp Premiums

Positive safety trends and new technologies are driving a pull away from traditional risk transfer as carriers work to adapt.

By **Nina Luckman**



**New technologies can keep** everyone on the same page when a claim arises, and they can help insurers compete in the shrinking workers' compensation marketplace.

**F**or more than half of employers, workers' compensation risk transfer still happens in the "usual" way, via the purchase of private workers' comp coverage, according to the most recent data available from the National Academy of Social Insurance.

Self-insurance, however, is becoming an increasingly attractive option for workers' compensation, particularly for small and mid-sized employers that first adopted or explored self-insurance for their health care benefits.

According to the Self-Insurance Institute of America (SIIA), more than 6,000 corporations and their subsidiaries nationwide operate self-insured workers' compensation programs, not including employers who join group self-insurance funds.

One reason for the growth in interest is that workplaces are becoming safer overall, bringing the level of risk into a financially manageable range for a growing number of employers.

Another reason is the level of technology available to make it easier than ever for self-insured employers to manage and administer their own claims. A growing number of insurtech start-ups are setting their sights on the pain points of workers' comp claims.

These trends should be on the radar of carriers and TPAs alike as technology enables more employers to take their workers' comp claims management into their own hands and kiss the middle-men good-bye — particularly those that have been slow to invest in technology.

Ivania Koniecka, vice president for workers' compensation claims products at Liberty Mutual, knows both TPAs and traditional carriers can suffer from this inertia.

"One of the pain points in terms of handling claims is getting the funding and resources to continue to develop your claims handling practices to be up-to-date with modern workflows and highlighting all the potential risk areas in a more automated way," Koniecka explained.

As employers and claimants demand 24-hour instant access to information, claims handler workflow can influence all aspects of the claim as it matures, and good workflows can ensure that the injured worker has all of the information they need at the very beginning of a claim.

"We are investing heavily in our mobile communication touchpoints with our injured workers and I think a lot of people in the workers' comp space are trying to understand the intersection of self-service and what that really means for



**"There will be a fight for slices of an ever-shrinking pie, but the big idea that insurers need to embrace, now more than ever, is replacing the premiums that come with exposures with risk management services."**

— **Martin Frappolli**, senior director of knowledge resources, The Institutes

workers' comp," Koniecka said.

"For us, it's a marriage of the injured worker experience and those mobile touchpoints; we want to advance those touchpoints, not replace them."

Liberty Mutual has implemented a model that they call "Cat Playbook" which detects upcoming weather events that could affect injured workers in the area.

The system can identify the subset of claimants in that area that might benefit from being relocated because of the nature of their injuries, and those that lack direct deposit and are dependent on paper checks that could be delayed because mail is disrupted.

The intersection of self-service in workers' comp is also at issue on the macro scale in the use of data analytics.

Audrey Allsopp, claim consultant and workers' compensation practice leader for Connor Strong & Buckelew noted that all of the carriers and TPAs she works with offer some kind of mobile application to improve communication, but there's still more

## SUMMARY

- **A growing number** of employers are self-insuring for workers' comp.
- **Technology can help** carriers and TPAs change the value proposition of their offerings.
- **Some carriers are** repositioning their value by putting emphasis on their risk management services.







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that can be done.

Regardless of the data sources, experts generally agree that carriers need different protocols for employing data sets over time. "You can look at leveraging data on two different levels," Koniecka said.

"At the claims handler's desk, it's about driving insights and operational dashboards to the frontline managers.

If you're thinking about the wealth of data that you have, how do you really extract those components that you think they need to manage to be effective? At the larger scale, it's employing that data to make connections that humans aren't going to make easily through modeling techniques."

For his part, Martin Frappolli,

senior director of knowledge resources at The Institutes, sees the innovation push driving insurers to place more emphasis on risk management services and loss control in order to prove their value and prevent claims from occurring in the first place.

Frappolli sees wearable technology and other IoT devices as major factors in that effort. Just as job growth in the

United States is moving in the direction of services rather than labor, insurers' level of service must keep pace.

"It's not so much about reclaiming or maintaining premium at this point because exposures are shrinking," Frappolli said. "Of course, there will be a continuing fight for slices of an ever-shrinking pie, but the big idea that insurers need to embrace now more than ever is replacing the premiums that come with exposures with risk management services."

"I don't anticipate dramatic premium drops in three to five years, but in 20 to 30 years, unless there are new exposures, we'll see a dramatic drop," he added.

Those risk management services will again depend on data analytics. Geraldine Henley, senior vice president and claim services director for Conner Strong & Buckelew, put this in terms of the strength traditional carriers can have for predictive analytics on both the underwriting and claims side.

"Analytics tells a story and it's a historical story, but it's useful to avoid claims from happening in the future in certain situations," Henley said. "Carriers, on a much greater scale, have what they consider to be much greater predictive analytics and outcomes-based strategies. This is only the beginning of the use of technology in insurance because we were behind to begin with."

As insurance catches up with the rest of American business services sectors, it appears that the workers' comp line could face a continued squeeze. An S&P Global report issued late September indicated that 14 of the top 20 workers' compensation underwriters reported first-half premium declines.

Among that group, premium declined 3.5 percent, while total workers' comp market premium volume declined 2.82 percent. As Frappolli indicated, this is largely due to lower frequency contributing to declines in loss ratios.

Traditional carriers have significant advantages awaiting them as they continue to parse the value of vast troves of data, injured worker self-service, and modeling in claims, but only if they can prove their worth before an accident happens as well.

As Koniecka put it, some in the marketplace think that technology can "disengage or offset touchpoints and processing" in claims, but they do so at their own peril. Rather, it is enhancing the connection to the injured worker that maintains the insurer/customer relationship in workers' comp. &

**NINA LUCKMAN** is a business journalist based in New Orleans, focusing primarily on the workers' compensation industry. She can be reached at riskletters@lrp.com.

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## ADVERTORIAL

# Parametric Insurance Makes Businesses of Every Size More Resilient

**O**ver the past few years, interest in parametric insurance has grown to an all-time high. Thanks to the transparency of parametric policies, speed of payment, and flexibility in use of funds, more businesses are recognizing their value as a risk management tool.

"The number of inquiries for parametric cover has steadily increased," said Cole Mayer, VP, Innovative Risk Solutions North America, Swiss Re Corporate Solutions. "The most significant increase, though, has been among small- to medium-size enterprises (SMEs)."

Until now, most companies interested in parametric solutions were large corporations, who have primarily purchased the coverage as a way to fill in the gaps left by traditional coverages when it comes to the big, complex losses stemming from natural catastrophes.

Because a catastrophe could have extensive trickle-down effects for these big businesses, their parametric policies must be customized to fit their appetite and exposure at various locations.

Parametric covers for small and medium sized businesses, however, "don't need to be as tailored. Instead, these clients prioritize speed and ease of distribution," Mayer said. "We realized we needed to simplify the underwriting and distribution of parametric policies for these businesses."

To satisfy this increased demand, Swiss Re Corporate Solutions launched its parametric hurricane product STORM within a new Parametric Online Platform (POP), creating "POP STORM." The platform makes distribution of the STORM product more efficient and makes parametric insurance more accessible to smaller businesses.

## HOW STORM AIDS QUICKER DISASTER RECOVERY

Swiss Re's STORM policy is built around a single data point – a hurricane's wind speed at an insured location as reported by an independent third 3rd-party data provider. Insureds and underwriters determine a trigger threshold – for example, sustained 60 mph winds reported at the insured property – and an appropriate payout amount.

As long as those triggers are met,

the policy pays whatever amount was stipulated in the contract, and the funds can be used for any recovery-related purpose – a crucial difference from traditional insurance that makes parametric coverage well-suited to disaster response.

When catastrophe strikes, the impact on local businesses goes far beyond property damage and business interruption. There can be long-term



**Cole Mayer**  
VP, Innovative Risk Solutions North America, Swiss Re Corporate Solutions

losses that materialize slowly, and for which there is nowhere to turn for insurance recovery.

For example, a hurricane-battered coastal town may lose its appeal to vacationers for months even after all its roads and buildings re-open. The revenue dip is typically not a covered business interruption loss in a standard property policy, but it could be enough to eventually shutter some small businesses.

"Loss of attraction to an area and different consumer spending habits after a major natural catastrophe are very relevant risks," said Martin Hotz, Head Parametric Nat Cat, Swiss Re Corporate Solutions. "But unfortunately, these aren't risks that traditional insurance policies were intended to cover."

This is where parametric insurance can make a difference. Parametric products aren't necessarily meant to replace traditional policies but rather to complement them. In unpredictable scenarios like natural disasters, they pick up the pieces that traditional policies don't address.

"Parametric policies are very flexible in that the payout can be used to cover any loss resulting from the event," Mayer said. "Due to the flexibility the client has in the use of the funds, the payout can help mitigate things like contingent business interruption, non-physical damage business interruption, utilities disruptions, loss of attraction, and wide area damage."

STORM is also designed to be transparent. Because triggers are based on third-party data, policy response is clear-cut.

"The triggers are based on data

reported by independent third parties that are widely recognized as being at the top of their industry. We don't control or influence the data at all, it's simply based on the best science available," Mayer said.

Transparency also lends itself to speed. There is no need for the typical loss adjustment, cutting out much of the back-and-forth of the traditional claims process. The data gets reported within weeks of a natural catastrophe, and this means payments come faster.

Especially for smaller businesses working with more limited budgets, quick liquidity is necessary for effective disaster response.

## HOW POP STORM MEETS SME'S UNIQUE NEEDS

Small- and medium-sized enterprises (SMEs) face the same catastrophe risks as their larger counterparts and have an equal need for an innovative solution that complements traditional policies. But,



**Martin Hotz**  
Head Parametric Nat Cat, Swiss Re Corporate Solutions

they don't necessarily need the same degree of customization given their smaller scale.

Trigger thresholds and payout amounts are both specific to a company's risk appetite and the underwriter's estimation of their exposure. Arriving at an acceptable contract can require a lot of fine-tuning for more complex risks.

SMEs with simpler risk profiles, however, may not require such in-depth conversations. They may have a single location to insure instead of dozens; a local supply chain as opposed to a global one; a smaller workforce requiring less intensive communication procedures.

Swiss Re Corporate Solutions' Parametric Online Platform provides a direct distribution option that lets SMEs select and bind coverage quickly and get on with their business.

"In POP STORM, the broker has the ability to go all the way from indication to final bound policy without consulting us at all," Mayer said.

The platform offers three options

buyers can select from: a lower attaching option with payouts at lower wind speeds; a higher attaching option with payout at higher wind speeds; and an option in the middle.

Brokers or risk managers can enter the data on the location they want to insure and go all the way from indication through policy binding and issuance in a matter of minutes.

"Our clients get the exact same product, just with faster and more streamlined delivery," Hotz said.

## RESILIENCY AT THE CENTER OF EVERYTHING

What POP STORM really delivers is resiliency. By filling in the gaps left by traditional, indemnity-based solutions, parametric insurance provides extra security. It gives owners of small- to medium-sized businesses peace of mind that they will be able to come back quicker from catastrophe.

As natural catastrophes increase in frequency and severity, affecting regions that they previously wouldn't have touched, preparing for their aftermath is rapidly becoming a necessity for businesses everywhere. No one should consider themselves immune.

In addition to STORM, Swiss Re Corporate Solutions also offers FLOW, parametric coverage for water level exposure, and QUAKE, for earthquake damage.

"Parametric insurance is for everyone, whether you run a nationwide corporation or a beach-front restaurant," Hotz said. "POP STORM makes this tool available to a broader set of companies."

Resiliency stands at the center of all Swiss Re Corporate Solutions' products and services. It's not just about recovering a financial loss, but about building an arsenal of resources that enable businesses to better prepare for catastrophic events and rebound to their pre-loss state faster.

"The need for resilience doesn't diminish because your business is smaller," Mayer said. "We hope that this new platform puts resilience within reach for businesses of all types and sizes."

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PLUS 2019

# Heavy Losses Hit Professional Liability

Professional liability underwriters head to this year's PLUS Conference with rates on the rise and damages payouts rising even faster.

By Antony Ireland



**Heavy losses have put** PL underwriting sustainability in the spotlight. The Professional Liability Underwriting Society meets at the Gaylord National Resort & Conference Center in National Harbor, M.D. (Pictured above) Nov. 11-13.

**T**he 2019 Professional Liability Underwriting Society (PLUS) Conference takes place in Maryland from November 11 through 13, with the PL landscape undergoing an “unprecedented” period of evolution. That’s according to PLUS president-elect Todd Greeley, SVP, executive & professional lines claims for Berkshire Hathaway Specialty Insurance, who told *Risk & Insurance*®: “The real theme of the conference this year is change.”

The event, which last year attracted more than 1,300 attendees, will tackle a host of issues facing PL underwriters, from escalating damages verdicts to emerging liability risks. But the hottest topic on delegates’ lips — and the subject reserved for the final conference session on the agenda — is pricing.

After years of rate decreases, heavy losses have put PL underwriting sustainability in the spotlight and finally triggered a significant hardening of rates in pockets of the market. Not all PL lines have seen rate hardening — Deborah Bjes, head of small and mid-sized lawyers for Swiss Re, for example, noted that rates for lawyers remain relatively flat. However, carriers are broadly seeking to raise PL rates across a number of lines on the back of rate action in the D&O space in particular, where premiums have risen by 20% or more this year.

Hardening has been particularly acute for companies involved in initial public offerings and M&A deals, as well as highly-exposed sectors such as pharma, tech, life sciences and health care. With capacity tightening in these lines even on renewal business, risk managers may face reduced limits or higher premiums before their next budget reviews — and several underwriters told *R&I* in July that this year’s rate hikes could just be the start.

“Balancing pricing sustainability with what insureds and brokers want is where the challenge really comes into play for insurers,” said Amanda Hickey, VP, E&O for Allied World.

“Part of the task for D&O and other PL underwriters is explaining to certain customers why their risk has changed even though they haven’t had a claim or a loss,” Greeley said.

“However, there seems to be a growing recognition on the buy-side that these issues exist and that underwriters are not crying wolf.”

The key drivers behind the rate rises have been a spike in class action suits and a raft of high profile “nuclear verdicts,” which have encouraged even more plaintiff law firms into the space.

According to consultant Nero, security class actions are at their highest levels



**“Part of the task for D&O and other PL underwriters is explaining to certain customers why their risk has changed even though they haven’t had a claim or a loss.”**

— **Todd Greeley**, senior vice president, executive & professional lines claims, Berkshire Hathaway Specialty Insurance

in the U.S. since the dot-com crash, with 441 new cases in 2018.

Loss severity also continues to rise, with settlements in the U.S. hitting more than \$5 billion in 2018, according to Cornerstone. This included five settlements over \$100 million and 32 between \$10-50 million — a 60% increase year-on-year — while the median settlement more than doubled to \$11.3 million.

“Shareholder litigation has always been the big story in D&O, but in recent years it has taken on a new and, frankly, more concerning dimension, with troubling frequency and severity trends in both traditional securities class actions and, perhaps most disturbing, in shareholder derivative litigation,” Greeley said.

Wells Fargo, for example, recently announced a nine-figure settlement in a shareholder derivative case, and with a pipeline of derivatives lawsuits under way, Greeley’s expectation is that many of those cases will settle for “significantly higher” figures than historically seen.

## SUMMARY

- **The biggest problem** for PL insurers is balancing pricing and sustainability in a hardening market.
- **Nuclear verdicts, class action** suits and special event payouts are causing a rise in premiums.
- **Pharma, tech, life sciences** and health care are problem areas.





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In most U.S. jurisdictions, individual directors and officers being sued in derivative cases cannot be indemnified by the company, so their only protection is A-Side insurance.

"Historically, the A-Side product has been profitable for D&O underwriters, because claim frequency was relatively low and

large losses were fairly rare, but that's changing," said Greeley.

Against this backdrop, the PLUS event will feature a D&O session entitled, "Side A: Still Free Money?" as well as a session on transactional risk, which also addresses the evolution of reps and warranties (R&W) coverages.

Despite rising claims activity,

Greeley noted that increased competition has led to some softening in R&W pricing as well as meaningful expansions of coverage.

"Not unexpectedly, claim volume also has increased during this time, as has the number of claim disputes, which I suspect is driven in part by the broader scope of coverage."

#### BEYOND D&O

Special event payouts are also rising in severity and impacting a range of PL lines, particularly employment practices liability in light of movements such as #MeToo.

Privacy breaches also continue to be a hot topic, and cyber risk is a recurring theme on the PLUS Conference agenda — notably including a session on the California Consumer Privacy Act (CCPA), which adds new layers of complexity around data management and compliance for both insureds and insurers.

"Given the influence that California has on both the U.S. and global economies, there's a real concern that the CCPA is going to have an outsize impact," said Greeley, who added that with similar bills being introduced in other states, and New York's arguably going even further than California, "a patchwork system is potentially going to get even more complicated."

The conference will also feature a session specifically, intellectual property — an emerging risk area which Greeley compared to cyber risk a decade ago — as well as another hot topic for PL practitioners: the legalization of cannabis.

"This is something brokers have a lot of questions about," Greeley said, highlighting potentially "thorny" state versus federal conflicts for companies operating and trading across jurisdictions.

"Our main objective [at the PLUS Conference] is to be on the ground with all of our broker partners, to listen to them and learn how we can help them and collaborate with them," said Bjes.

Indeed, with a plethora of challenges to iron out, insurers and brokers will have to work closely in the months ahead.

"While these are challenging times, hopefully this raises awareness of the benefits of PL products and drives business to the more responsible underwriters, leading to a healthier market environment" said Greeley.

"I think this will be a great conference with an agenda focused on all of these interesting and timely issues."

The 2019 PLUS Conference will be held at the Gaylord National Resort & Conference Center, National Harbor, MD. &

**ANTONY IRELAND** is a U.K.-based freelancer for Risk & Insurance. He can be reached at riskletters@lrp.com

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**CONSTRUCTION**

# AI Throws Construction a Safety Lifeline

From jobsite safety to design efficiency and underwriting, the seeds of AI are sprouting.

By Gregory DL Morris



AI offers enormous potential for reducing construction site fatalities and injuries.

**T**here are a lot of concepts and ideas for AI in construction," said Adam Schnell, executive vice president of casualty, general liability, and construction at Ethos Specialty Insurance, a managing general underwriter in the Ascot Group.

"The reality is what you can actually implement. There are not many jobsites where workers are going to accept wearable technology."

The actual AI that Schnell has been able to implement is a real-time reporting and recording system. The fulcrum is the site safety manager (SSM), an individual at every jobsite where mandated in New York City by the Department of Buildings (DoB), the issuer of construction permits. The role is not unique to New York, but it has a higher profile than most jurisdictions.

"The SSM has to be the first person on the jobsite and the last one off," said Schnell. "They are licensed by DoB and report daily to the department all safety concerns and violations."

"There are only about 600 DoB-licensed SSMs in the city, and they are civilly and criminally liable for ensuring that all OSHA and DoB codes are followed. The DoB and its inspectors monitor them."

Ethos works through brokers, and then Schnell sits down with contractors and explains the system.

"We equip the SSM with a portal and a tablet that can collect data from key-in/key-out for all workers to documenting hazards on site," said Schnell. "Someday, we may be able to offer discounts for best practices and safe records."

For now, the system can identify hazards and fix them. "We are catching hazards before there is an accident," said Schnell.

"It used to be that I couldn't sleep for worrying. Now I can't sleep because I am so excited about the potential for this technology. I see a very long path ahead."

Ethos has already started to accumulate data and rank workers, supervisors and contractors at its insured sites. In at least one case, with the help of the documentation, a worker who refused to follow safety code procedures was removed from a jobsite.

"According to OSHA data, we should have about one fatality every decade in construction in New York," said Schnell.

Over 40 deaths a year occur, according to the NY Committee for Occupational Safety and Health, and 444 workers died in construction-related accidents between 2007 and 2017 with a record-breaking 71 construction workers killed on the job in 2016.



**"It used to be that I couldn't sleep for worrying. Now I can't sleep because I am so excited about the potential for this technology. I see a very long path ahead."**

— Adam Schnell, executive vice president of casualty, general liability and construction, Ethos Specialty Insurance

"OSHA is actually the most realistic agency of all. The codes are easy to follow, but they are not being followed."

In an instance where a worker fell to his death, the investigation found he was not wearing a harness, he was not tied off, there was no railing in the work area and there were no nets in place. "Any one of those might have prevented the death," Schnell said ruefully.

There are numerous benefits to an integrated system. "If there is a collapse on a jobsite with 200 workers, and 198 key out, the SSM can tell first responders exactly how many people are unaccounted for, and also their names, their jobs, and the areas in which they were working."

The current benefits and long-term potential of AI are clear, but the seeds are scattered widely. "AI in construction is all over the place," said Gary Kaplan, president of the construction business unit at AXA XL.

He is sanguine about the potential. "Project insurance is the most

## SUMMARY

- **New technologies** have enormous potential to minimize construction workplace hazards.
- **Eventually discounts and premium reductions** can be tied to the use of smart technology.
- **There is not** enough data yet for robust AI applications, but collection efforts are underway.





interesting risk to write. There are so many different life cycles from conception to planning to execution and then through the working life of the structure.”

Justin Gress, director of strategic operations, North American construction, AXA XL noted his firm is implementing the Technology Adoption Maturity Index to evaluate

AI in construction and hopes to have it fully in place in November.

It is a simple index that measures from zero, which is no technology in place; to 1, which means starting to implement; to 2, which is mature. In construction, that means full building information modeling (BIM) systems in place for all activities.

Even so, true AI remains a next step.

“True AI needs billions of data points, and we are just not there yet,” said Gress. “There is not yet enough data.”

But there is wide eagerness: “A few years ago we started getting emails and calls from many startups,” he added. “We had to sort which to take seriously, so we looked across our customer base and found some technology that was mutually

beneficial to them and to us.”

Through that collaborative approach, AXA XL is now into its second series of data-gathering, and has also “dabbled in insurtech,” said Gress.

From the underwriter’s perspective, one of the most important uses of AI is providing guidance on when the best course of action in a claim is just to write the check, Kaplan explained.

“One of the most expensive things we do is try to recreate what happened in a loss. That is expensive because of the lawyers. If we can establish quickly that a claim is valid, it is better to write the check than to spend years in litigation.”

Looking even further ahead, Kaplan added, “we could really see different types of policies in the next few years. We could see new categories of wraps and builder’s risk.”

Liberty Mutual is thinking similarly. General contractors (GCs) today are expanding how they use BIM, said Aldo Fucentese, SVP of national insurance specialty construction: “It started as just a design tool. Now they are using it for clash detection — where structural elements, air-conditioning ducts, wiring or mechanicals would interfere with each other.”

That is making a big difference in cost estimating, he explained. “A lot of buildings are bid on a guaranteed maximum. Anything over that, the GC has to eat. Broader use of BIM can dramatically reduce risks for GCs.

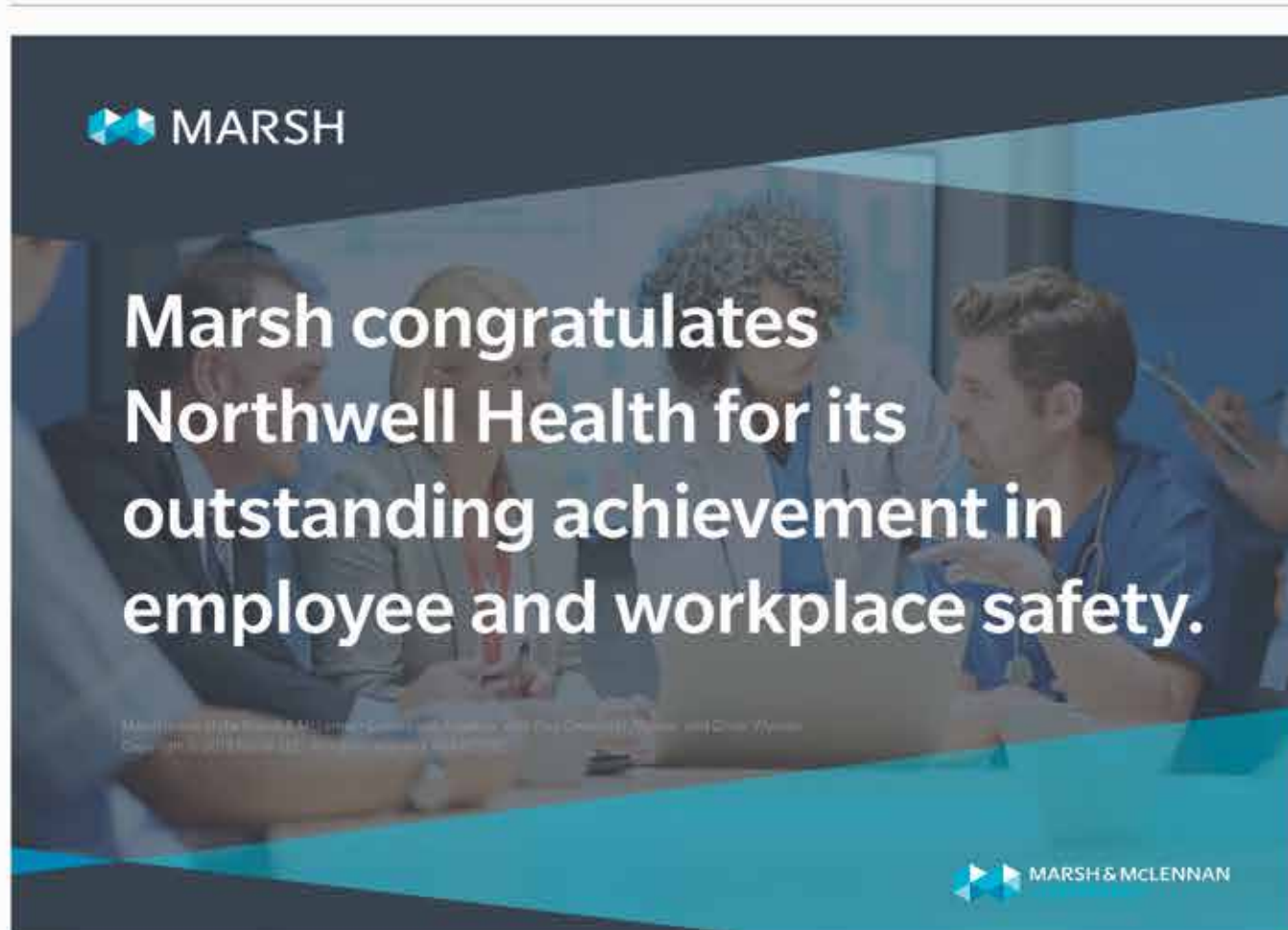
“We are already seeing that in cost estimates that are different from historical assumptions. BIM is also being used for scheduling to identify the critical path for on-time deliveries.”

There has been a lot of attention on wearable sensors and their potential when built into the structure. Building managers can know the moisture level of drywall before mold gets established, preventing expensive remediation.

That said, Ben Beauvais, EVP and CUO, U.S. casualty, Ironshore Insurance, noted that “the proprietary nature of what GCs do limits broad uptake and overall efficiency. AI has the potential to improve transparency and transferability. Then we can understand risks better.”

“With AI and [distributed-ledger technology] we can share information from an owner to the GC to the subcontractors, to the brokers and underwriters,” said Fucentese. “That way we can price risk more granularly as it evolves.” &

**GREGORY DL MORRIS** is an independent business journalist based in North Carolina with 25 years’ experience in industry, energy, finance and transportation. He can be reached at riskletters@lrp.com.



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## ADVERTORIAL

# Partnering Through Turbulent Times: Weathering a Difficult Insurance Market, Together

**T**he most effective and enduring partnerships share successes and weather challenges. Today, health care providers and their insurers find their partnerships tested by an unprecedented frequency of severe liability claims.

Leo Carroll, Head of Healthcare Professional Liability at Berkshire Hathaway Specialty Insurance (BHSI), shares his perspective on the shared challenges of market conditions and how working collaboratively on solutions can strengthen partnerships even in difficult times.

## WHAT THE LAST FEW YEARS IN HEALTH CARE HAVE SHOWN US

The last three years have produced an unprecedented rise in judgments against health care providers, with severe verdicts rendered far beyond the traditionally difficult venues like New York City, Philadelphia, Chicago and Miami.

As troubling, during the same period of reported claim activity (2011-2014), the number of judgments are rising steadily at every level measured: Above \$5m, \$10m and \$15m. In other words, severity activity appears to have moved well beyond an occasional shock loss or 'runaway verdict,' but rather a sustained escalation in the number of large value claims.

This persistent and troubling trend has created challenges for health care providers and their insurers.

After several consecutive years of underwriting losses as measured by combined ratios above 100 in the medical liability industry segment, insurers continue advancing corrective actions. With diminishing reserve redundancies from prior years, the pressure has increased to address poor underwriting results produced by unrelenting severity.

Global, national, regional and mutual carriers are substantially reducing capacity or exiting the health care market segment altogether. The years of surplus capacity is winding down. Brokers and health care providers are facing difficulty renewing existing limits, and pricing on renewal options reflects worsening severity.

Consequently, health care providers nationwide face the prospect of renewing programs with significantly

increased rates and altered terms and conditions. Coverage provisions may vary by layer, both on excess programs and within captive reinsurance structures.

Some buyers may struggle to secure commitment to large limit towers (> \$150m) due to shrinking appetite among carriers for large limit higher-excess placements at minimum premiums.

On the surface, market dynamics have the potential to create friction between insurers and insureds at renewal, particularly in the absence of effective dialogue.



*"We understand a challenging insurance market can impact our customers' and brokers' budgeting and planning processes."*

— Leo Carroll, Head of Healthcare Professional Liability, BHSI

## EFFECTIVE PARTNERING: A COLLABORATION AMONG PROVIDERS, BROKERS AND INSURERS

At BHSI, we approach market changes as an opportunity to collaborate. In our experience, four practices are key to strengthening partnerships in volatile times.

### 1. COMMIT TO SHARED LONG-TERM OBJECTIVES.

Health care providers, insurers and brokers do share common objectives: effectively managing risk and maintaining a healthy, resilient insurance market.

To achieve this, we're identifying structural options that are sustainable over the long term and through varying market cycles. Maintaining a long-term focus provides stability through the challenges of a difficult market cycle.

### 2. EARLY AND ONGOING COMMUNICATION AND TRANSPARENCY.

In an effort to set informed expectations, BHSI aims to avoid surprising customers and brokers with

difficult information.

We understand a challenging insurance market can impact our customers' and brokers' budgeting and planning processes, and approach conversations realizing issues such as premium increases can create stress for our customers.

To minimize this, we promote a dialogue early in the underwriting process that includes insight into our technical analysis, changes in the tort environment, strategies of defense and plaintiff firms, shifts in territorial results — and observations in how to effectively navigate these conditions.

and effectiveness. CRPs can help to enhance patient safety, preserve patient-provider relationships and ensure lessons are learned to lessen the chance of and even prevent future incidents.

BHSI is helping to deliver expert resources to our insureds and our industry through sponsorship of the Collaborative for Accountability and Improvement (see [bhspecialty.com](http://bhspecialty.com) for more information), a physician-led organization that advocates and provides training in the use of CRPs.

Early engagement, clear explanations and advocating for a compassionate dialogue between providers and patients sets the stage for the most positive outcomes even if harm occurs. CRPs can help by encouraging acknowledgement and prompt communication following an unexpected outcome.

By reaching out with candor and compassion, the door remains open to early resolution (including compensation where appropriate) and the avoidance of protracted and costly litigation. Early, transparent intervention and communication are recognized as meaningful strategies as BHSI partners with customers during claims resolution.

The trends driving severity of health care liability claims show no signs of abating. Medical inflation, exaggerated life care plans, and plaintiffs' strategy to pit doctors against hospitals to drive up litigation awards, will continue. Uncertainty around emerging issues, such as continued threat of liability related to opioid addiction, adds to the pressure of recent verdicts and settlements.

There is no question it's a challenging time for the healthcare industry.

BHSI believes there is no better time to demonstrate the strength and benefits of partnership as we tackle market turbulence together with our customers and brokers.



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RISK & INSURANCE 53





**DISASTER RECOVERY**

# Why Your Incident Response Plan Needs a Refresh

In an unpredictable risk landscape, businesses need a dynamic and fluid response strategy.

By Katie Dwyer



The nature of disaster recovery is changing.

**B**usinesses today operate in a “not if, but when” risk environment. Every entity at some point will likely experience a significant disruption from one cause or another, whether a natural catastrophe, cyber incident or reputational crisis.

Digital transformation and interconnectivity could be pinpointed as the underlying factor that ties these exposures together. Reliance on technology means the strength of both physical and virtual IT infrastructure is a critical component of incident response — no matter what type of incident it is.

“IT and operations don’t just dance together. They are one entity,” said Sean Murphy, crisis management & business continuity leader, BDO USA.

In an environment where risks rapidly emerge and evolve, business leaders need to ask if their business continuity and disaster recovery plans are still relevant. So what’s changed? There are four key trends that have coalesced to dramatically shift risk profiles over the past five to 10 years.

**1) INTENSIFIED NATURAL CATASTROPHE RISK**

Rising global temperatures have contributed to more frequent and severe storms. Even communities without direct exposure to hurricanes’ battering winds and sea level surges are vulnerable to historic rainfalls and flooding.

“Increasingly we see cyber as a peril, but mother nature hates computer systems. Flood, fire, hurricanes and tornados can do harm at large scale, and in many cases, the physical damage will exceed any cyber-related event,” said Ian Thornton-Trump, head of cyber security at AmTrust International.

The picture gets more complicated if a damaged building houses your system’s main servers or, for manufacturers, any robotic production equipment.

“When you rely heavily on automation, the downtime could extend for weeks or months due to the specialized and expensive nature of the equipment,” said Megan Linkin, VP, parametric nat cat, Swiss Re Corporate Solutions.

**2) RISE OF CYBER CRIME**

Digitization and automation have also amplified exposure to malicious hackers and system failure: “Advances in technology and global interconnectivity have made the world a better place; they also have created a fertile playground for cyber criminals. Not only are criminals targeting intangible assets and the companies that make, control, store, process them, but they provide the surveillance, extraction and getaway cars, in ways that are continuously evolving,” said Elizabeth Queen, VP risk management, Wolters Kluwer.



*“How an organization is perceived to be responding to an incident can have a direct impact on shareholder and brand value.”*

— Elizabeth Queen, VP, risk management, Wolters Kluwer

The key difference between planning for a cyber incident versus a physical event like a storm is that often businesses are managing the event in real time.

“Take ransomware as an example. You’re in the middle of the event making decisions ... If you haven’t practiced a response and you’re making decisions on the fly, you may make one that’s not covered,” said Jeff Phillips, managing director of insurance & federal claims services, EY.

**3) REPUTATION AS BALANCE SHEET ASSET**

A company’s response to any event can cause more damage if it doesn’t satisfy consumers’ expectations: “How an organization is perceived to be responding to an incident can have a direct impact on shareholder and brand value,” Queen said.

According to a Pentland Analytics/Aon study, “Reputation Risk in the Cyber Age,” companies that fared best had a clear and transparent response that was consistent across the company and reinforced by actions of atonement. Companies without such a plan saw a 30% decrease in shareholder value.

**SUMMARY**

- Digital transformation and interconnectivity have created a more unpredictable risk landscape.
- A multidisciplinary approach is needed for a more comprehensive response plan.
- Employee involvement and regular practice are crucial.







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#### 4) VULNERABILITY OF INTERDEPENDENCY

Globalization has linked companies and countries together in so many ways it can seem impossible to work out all the potential consequences of one event. Incidents that affect a partner, supplier or key customer can hurt a business as much as if that incident had happened to the business itself.

Companies must consider these key players' exposures as much as their own.

"There's much more of a chain reaction to any one event today, leading to longer delays in a full economic recovery," Swiss Re's Linkin said.

#### A NEW INCIDENT RESPONSE MODEL

Traditional business continuity and disaster response plans deal with

traditional (read: tangible) exposures. In most cases, this means a reactive approach to recovery. An event happens, you assess the damage, gather the resources you need to fix it, and move forward as quickly as possible.

Intangible assets are more difficult to protect but have grown vastly more valuable — and the threats against them more unpredictable. To contend

with these risks, businesses need a decision-making framework that allows flexibility and collaboration on real-time response. There are three prominent tenets to this modern plan:

**1) Practice** BDO helps companies do this by turning disaster response training into a game. Flash cards brandishing crisis vignettes are presented, and participants must explain what should happen first, who would do what, and who's in charge. The exercises are not designed to lead to a final plan but rather to open discussion and encourage participants to think through impacts that hadn't occurred to them before.

"We suggest doing these at least once per year, running through different hypothetical scenarios, sometimes based on recent events," EY's Phillips said.

Practicing a response also helps to work out the kinks, helping participants identify what parts of the plan don't make sense anymore.

**2. Multidisciplinary Approach** Practice can't be effective without representation from every department. A multidisciplinary approach is critical.

Input from all parts of the company helps to demystify some of the unrealized connections between risks and in turn helps to prioritize resources for a response and establish a realistic timeline. For this, the IT department needs to play an active role.

"Most organizations want all their systems back online as fast as possible — that is just not realistic for the majority of organizations," Thornton-Trump said.

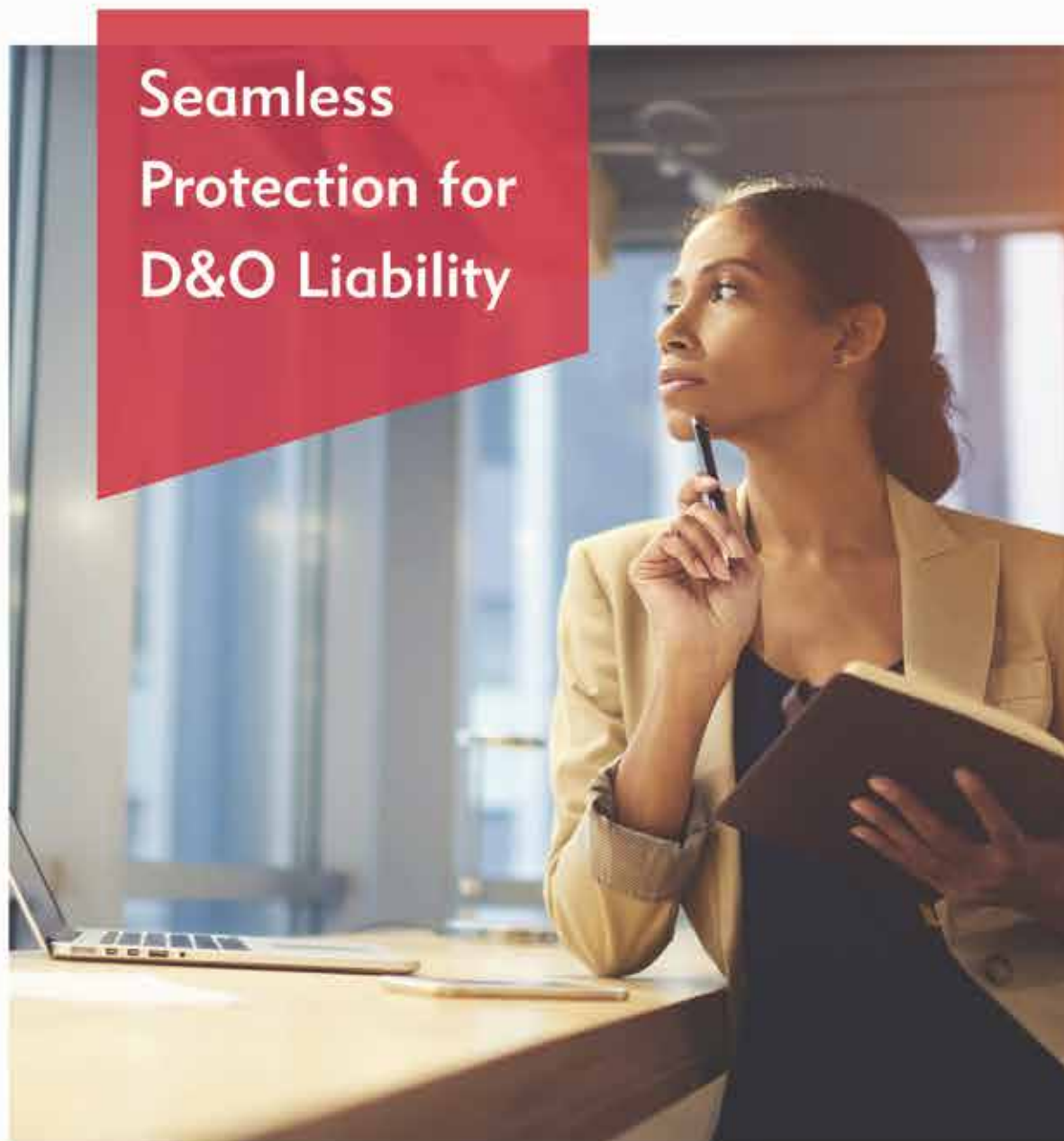
**3. Employee Engagement** Managing incident response might seem like a job for high-ranking members of an organization. But the front-line employees are often the ones executing the details of the plan.

"When something happens, you're not going back to normal in a month or two. It can take a minimum of a year and sometimes up to two to four years to actually get back to pre-event condition," Phillips said.

Employees have to be invested in the incident response plan and have input themselves. This allows them to move faster and more efficiently.

"Every soul working for the organization should have a role in the disaster recovery and business continuity plan," Thornton-Trump said. "These plans are called on in situations when there is a dire threat to the organization and the future of the organization may be in jeopardy ... Everyone needs to know the plan." &

**KATIE DWYER** is a freelance editor and writer based out of Philadelphia. She can be reached at riskletters@lrp.com.



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**AUTOMOTIVE**

# Mixed Bag of Risk for Electric Vehicles

While luxury “green” cars gain in popularity, insurance must be made aware of the additional risks these vehicles pose to pedestrians.

By Katie Dwyer



Auto insurers have a new risk to worry about: “Green” cars are more likely to be the cause of accidents.

**A**XA XL recently reported that, according to its liability insurance claims data, electric luxury cars and SUVs are 40% more likely to cause accidents compared to their combustion-engine counterparts. The findings were based on 1,000 vehicles that had been on the road for seven years — referred to as 7,000-year risks.

Electric vehicles accelerate much more quickly. They can reach top speed almost instantaneously, whereas regular cars take a few seconds to rev up. In a survey conducted by the insurer earlier this year, half of electric car drivers attested to the learning curve associated with “green” cars’ more sensitive acceleration and braking. Faster speed and reduced reaction time are a recipe for crashes. National data shows that even a 10-mph speed increase ups the risk of a crash by 9.1%.

## RISKS OF DRIVING ELECTRIC

Without the signature hum of a motor, electric cars may also pose increased risk to pedestrians and cyclists who can’t hear them coming. The problem is so pertinent that The National Highway Traffic Safety Administration is requiring U.S. manufacturers of all new electric and hybrid vehicles to install software that will emit sound when travelling at or below 19 mph. With a compliance deadline of Sept. 1, 2019, those vehicles will just be hitting the streets en masse.

Sales of both private passenger and commercial electric vehicles have been on the rise and are only projected to grow. This is thanks to more affordable cars, greater availability of charging stations and, of course, a societal desire to reduce CO<sub>2</sub> emissions.

A market analysis by BloombergNEF concluded 56% of light commercial vehicle and 31% of medium commercial vehicle sales in the U.S., China and Europe are expected to be electric by 2040.

But more electric cars on the road could translate to higher crash frequency. Crash severity may also worsen as drivers and first responders learn the nuances of managing a scene involving electric cars. Because they can’t hear the engine, those on site may forget to ensure it’s turned off.

The batteries of electric cars are also likely to overheat and can catch fire up to 48-hours after a crash, which could impair the accident investigation and endanger the environment through the emission of toxic fumes.

## WHAT THE DATA DIDN’T ADDRESS

Interestingly, AXA’s claims data study found the opposite to be true for compact and micro electric vehicles, which are slightly less likely to be involved in accidents compared to standard versions. The reasons for that difference are not entirely clear.

One factor not accounted for in AXA’s study was the effect of new and increasingly common safety features like seat belt alarms, lane departure and front- and rear-end collision warnings. According to 2016 data from the Insurance Institute for Highway Safety, automatic braking reduces rear-end crashes by about 40%, while forward collision warning alone reduces crashes by 23%.

These features are becoming standard in newer combustion and electric vehicles alike and could potentially offset some of the risk posed by quick acceleration. As drivers gain more experience behind the wheel of nimble electric cars, it’s also likely they’ll adopt the lighter foot needed to drive electric cars safely.

## WHAT IT MEANS FOR AUTO INSURERS

According to A.M. Best, the combined ratio for the U.S. commercial auto market was 112.9 through Q3 2018, up from 111 in 2017 and 110.4 in 2015. The rating agency said this sector hasn’t had a combined ratio under 100 since it hit 97.9 in 2010.

More cars on the road, rising medical costs, increasingly tangled questions of liability and skyrocketing verdicts are all contributing to the eroding ratio, as well as years of less disciplined underwriting common in a soft market.

Amid these factors, the relevance of AXA’s findings for auto insurers’ underwriting and reserving strategies remains unclear at this point. In comments on the study, AXA’s head of accident research and prevention Bettina Zahnd noted that its findings were not statistically significant, and that overall, the accident rates between electric and standard vehicles are roughly the same.

She acknowledged that the connection between electric SUVs and accident frequency was a trend to watch but does not yet elicit a specific call to action. Currently, many auto insurers offer discounts to drivers of environmentally friendly vehicles. While there’s no sign of that benefit disappearing, it will certainly be worthwhile to keep an eye on emerging claims data to get ahead of any worsening exposures. &

**KATIE DWYER** is a freelance editor and writer based out of Philadelphia. She can be reached at riskletters@lrp.com.

## SUMMARY

- **Through Q3 of 2018**, the auto insurance combined ratio was above 112.
- **By 2040**, it’s likely 56 % of light commercial vehicle sales will be for electric cars.
- **Electric luxury cars and SUVs** are 40% more likely to be involved in an accident.





**2020 EXECUTIVES TO WATCH**

# THE 2020 EXECUTIVES TO WATCH

Insurtech, climate change, cyber and talent risk give rising insurance executives plenty to think about.

By Dan Reynolds

**W**ith the catastrophe horrors of 2017 mostly behind it, some observers of the global commercial

insurance industry might sense an industry catching its breath, assured by more digestible loss ratios and ample net income.

And there are certainly many bright points to take solace from.

Cash supplies are ample. Workers' compensation combined ratios, for one, are historically low; sub-90 for many companies.

Property rates are on a steady march upward, which gives underwriters the courage they need to write more business.

According to a report by Willis Towers Watson, overall, lines experiencing rate increases were expected to outnumber lines with rate decreases by a ratio of seven to one in 2019.

On the dark side, commercial auto is an ongoing nightmare. General liability is a minefield, the danger amplified by what executives refer to as "social inflation," a dynamic where plaintiffs' attorneys and naïve jury pool members combine forces to sock corporations with liability verdicts that expand to the 10 figures.

The industry is also beset with the conundrum of advancing technology.

Insurtech solutions and new-found companies touting them ride into inboxes on an almost daily basis. How can insurers take on or own these solutions and marry them to their legacy systems? That is the question.

Insurance companies that are going to make it and not break down are also going to need to be blessed with leaders who are skilled enough communicators to sell the relevance of insurance to a new generation of professionals.



An industry, such as insurance, that is hiring new talent at nowhere near the rate it needs to fill holes left by departing talent is not in a stable place.

We cannot fail to mention climate change and the ongoing peril of cyber attacks. Insurers are writing more premiums in cyber, but it remains to be seen if they can make a steady profit in that discipline.

Rising waters due to climate change may yet wreck Manhattan and Miami. And there are no balance sheets, anywhere, that are big enough to take that hit.

In 2020, our executives to watch, those taking on a new job title or a new area of responsibility, will be taking on all these challenges and more.

Brief descriptions of their companies and areas of responsibility follow. &





# RISK INSIDERS

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St. Peter's University



### Martin Frappolli

Senior Director of Knowledge Resources  
The Institutes



### James Curbeam

Risk Manager  
Las Vegas Valley Water District



### Stacy Warren

Chief Sales and Customer Experience  
Officer  
Vault



### Cory Jorbin

Central Region Compliance Officer  
Hub International



### Malcolm Roberts

Executive Vice President  
FM Global



### Gregory Bangs

Senior Vice President  
AXA XL

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## 2020 EXECUTIVES TO WATCH



**DAVID PEREZ**  
Chief Underwriting Officer,  
North America Liberty Mutual  
Global Risk Solutions



**JEANETTE WARD**  
COO, Texas Mutual



**YAFIT COHN**  
Chief Sustainability  
Officer, Travelers



**ERIC SANDERS**  
Head of Claims, QBE  
North America



**VINCE TIZZIO**  
Executive Vice President, Head  
of Global Specialty, The Hartford



**KEVIN INGRAM**  
CFO, FM Global



**TOBY SMITH**  
President, Ironshore  
Environmental



**JOE TOCCO**  
Chief Executive North  
America, AXA XL



**DUNCAN ELLIS**  
Head of Retail  
Property, AIG



**CHRIS FOY**  
EVP and Head of North  
American P&C, AmTrust



**DR. HAOMING ZHOU**  
General Manager and  
President, Starr China P&C  
Insurance Ltd.



**JOANNE MUSSELLE**  
Chief Underwriting  
Officer, Hiscox



**BRYAN SALVATORE**  
President, Specialty, The  
Hanover Insurance Group

Watch for detailed profiles of these executives at [riskandinsurance.com](http://riskandinsurance.com) and in our award-winning daily newsletter, The Daily List, in the remainder of 2019 and into 2020.





**INDUSTRY RESOURCES**

# Risk Central

Access these white papers or find others by searching the extensive database at RiskCentral.com

**Five Critical Factors for Claims Success That Are Often Overlooked**



These overlooked factors are significant in determining if your company can survive a loss.

**How Off-Label Prescribing Drives a Claim Off Course**



While off-label use of drug therapies is sometimes medically warranted, there are many examples of it in workers' comp that are ineffective and can present a safety risk to the patient.

**Seeing the Bigger Picture: Three Misconceptions About Physical Therapy In Workers' Comp**



When employers have a focus on workers' compensation cost control they may miss out on the optimal benefits of physical therapy, both for their injured workers and the health of their workers' comp program.

**Sports Facilities Need Specialized Expertise to Mitigate These 5 Critical Risks**



Every facility faces these risks, but determining the best way to mitigate or cover them demands the help of industry experts.

**Drug Trends Infographic Series: Part One – Evaluating Retail and Mail-Order Prescriptions**



In part one of this year's series we reflect on the retail and mail-order trends our clients experienced between 2017 and 2018.

**Determining Liability Is No Longer Black and White. These 3 Macro Trends Are Blurring the Line**



Technological, social and economic trends are converging to complicate liability exposure, driving up claim frequency and severity. Here's what every company needs to know about this rapidly shifting landscape.

**3 Requirements for Fast-Tracking Machine Learning at Insurance Organizations**



Predictive and prescriptive models can help insurers make smarter decisions faster, but implementation is stymied by lack of direction, legacy systems, and fear. This plan can help.

**Towards A Flood Resilient Future: A US-Perspective**



Insurance plays a major role in developing resilient communities. There are studies that highlight the importance of high insurance penetration and the correlation to strong resilient countries. Where does the insurance industry stand in terms of flood resilience in the U.S?

**4 Surprising Ways to Reduce Workers' Compensation Insurance Costs**



Employers don't realize how controllable workers' compensation insurance costs can be – here's how they can control them.

**Regulatory Uncertainty has Created a Management Liability Pressure Cooker**



In today's heightened regulatory environment, noncompliance can cost millions. Management liability underwriters can be critical partners to mitigate the risk.





ON THE JOB

# THE PROFESSION

*“When the new mindset toward utilization of captives occurs as an industry norm, it will eventually change the insurance industry as we know it today.”*

This public risk manager believes that in order to fuel successful risk management programs, risk managers must use data to gain leadership buy-in.

**R&I: How did you come to work in risk management?**

I was a police lieutenant with the City of Franklin, Tenn. The City of Franklin leadership recruited me to lead the risk management program for the city government. When the city’s HR director asked me if I wanted to be the city risk manager, my response was, “What’s a risk manager?”

**R&I: What is the risk management community doing right?**

The risk management community continues to seek ways to introduce technology within their risk programs that have the capability of improving operational processes that lead to cutting losses for their organizations. It is imperative for risk managers to understand, explain and know how to apply the information provided from a robust software platform.

This data assists risk managers with developing a strategic plan of action, which leads to establishing or continuously building political capital for the risk management programs.

Promoting ideas and operational change cannot be achieved without valid and accurate data, which technology gives us as a tool to expand and move our risk programs forward. I have learned technology helps risk managers gain buy-in from leadership, which is vital for the continuation of successful risk programs. However, if a risk manager is incapable of using tech as a tool, today’s successful risk management program will fail going forward.

**R&I: What could the risk management community be doing a better job of?**

I believe the risk management community needs to hold its vendors more accountable via contract as it pertains to managing cyber risks. Risk professionals should ensure their vendors procure cyber liability coverage. They should also be able to provide proof that they can execute on their business continuity and disaster recovery plans. That includes having redundancies in place for the data and workflows that are crucial to their organizations’ daily operations.

**R&I: What emerging commercial risk most concerns you?**

I am still concerned with the frequency and severity of cyber incidents and breaches, such as ransomware, email attacks and malware attacks. I believe most people think about cyber incidents and breaches as they involve the company’s IT systems. Many organizations fail to recognize that some of the most common breaches involve employees improperly handling hard copies of PII.

**R&I: What’s been the biggest change in the industry since you’ve been in it?**

For risk management, the biggest change is the new faces. People are retiring or leaving the industry to pursue other things. Vendors, private businesses and governments are trying to attract and retain risk talent, adding to the challenge.

For the insurance industry, the current property markets and the hardening of these markets (due to companies leaving the world market) financially has been the biggest change for me so far. The hardening of the property markets has had a negative impact on budgets across the U.S. for large self-insurers.

I believe we will start seeing risk management professionals who administer large self-insured programs begin to explore and eventually move to a captive insurance program. I am certain captives will be the future for financing risk exposures for some private and public organizations. But this will have to start with changing the mindset of risk managers and how they finance their risk. With that said, when a new mindset toward utilization of captives occurs as an industry norm, it will eventually change the insurance industry as we know it.

**R&I: Is the contingent commission controversy overblown?**

No, I think there is a valid concern, as contingent commissions could have the appearance of creating an incentive for a broker to work with specific insurers against the best interest of the private or public entity.

**R&I: What have you accomplished that you are proudest of?**

Professionally, I am proud of working every day with my team to seek continuous improvements with our state self-insured programs. One of our greatest achievements was changing the culture of the State of Tennessee’s workers’ compensation program, which has resulted in significant financial savings for Tennessee taxpayers. The state has reduced total incurred paid losses from approximately \$27 million to \$16.5 million since fiscal year 2013.

**R&I: If the world has a modern hero, who is it and why?**

James Shaw Jr., who disarmed the Antioch Waffle House shooter here in Nashville in 2018. He demonstrated distinguished courage and I admire the bravery and selfless

act of saving lives during a horrific tragedy. And now, Mr. Shaw has started the James Shaw Foundation that seeks to address mental and social health issues. Mr. Shaw is someone who works toward change.

**R&I: What is your favorite book or movie?**

Gotta love “Tombstone” with Kurt Russell.

**R&I: What is the most unusual/interesting place you have ever visited?**

Bubblegum Alley is one of the most unusual places I have visited, located in San Luis Obispo, California.

**R&I: What is the riskiest activity you ever engaged in?**

As a law enforcement officer, over the years, there were so many incidents and calls to service that placed me at risk, from traffic stops, domestic violence calls, undercover narcotic operations and high-risk search warrants, which I would say all were the most riskiest activities that I have ever engaged in — but I would do it all over again if I could.

**RODNEY ESCOBAR**  
**Director of Claims and Risk Management**  
**Company:** Tennessee Department of Treasury  
**Years in risk management:** 11  
**Previous position:** Risk Manager, City of Franklin, Tennessee  
**Place of Birth:** California  
**Alma Mater:** Wichita State University and the University of Cincinnati  
**Degrees and certifications:** B.S. Administration of Justice; M.S. in Criminology; RMPE







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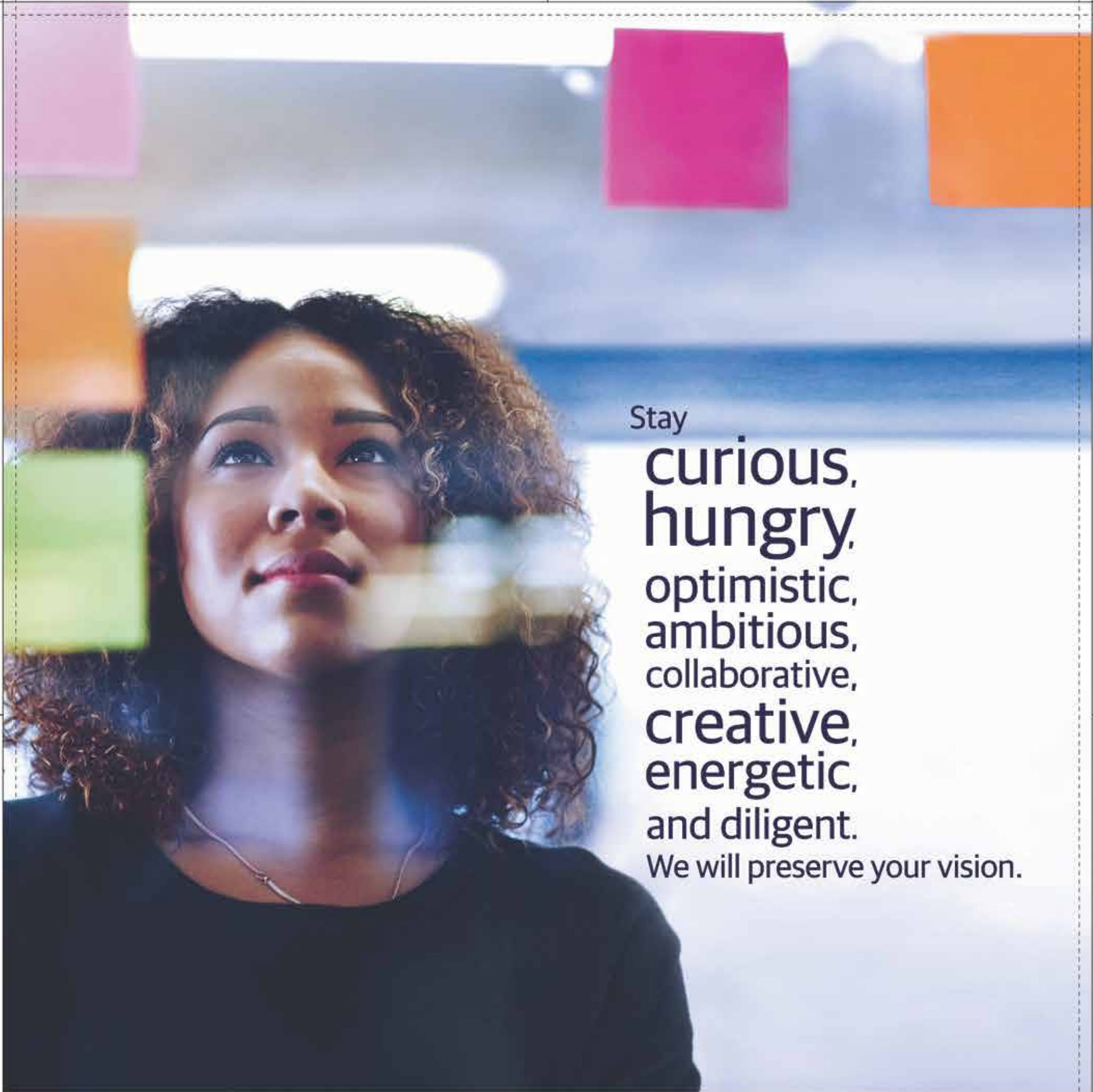
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