



AlperGram

www.AlperServices.com

AlperGram@AlperServices.com

BUSINESS, FINANCIAL & INSURANCE SOLUTIONS

60 West Superior Street ★ Chicago, IL 60610 ★ {Fax (312) 944-7000 Fax} ★ Phone (312)642-1000

The Pricing Formula

How are your insurance premiums determined?
 How can your insurance premiums be reduced?
 Many businesspersons believe that the way to reduce premiums is to ask three brokers to quote their insurance. That's marketing. But that isn't what influences underwriters to reduce price.

Your insurance premiums are determined by a formula:

$$\begin{array}{rcccccc}
 C & \times & E & \times & M & = & P \\
 \text{Claims} & \times & \text{Exposure} & \times & \text{Marketing} & = & \text{Premium} \\
 10 & \times & 5 & \times & 2 & = & 100
 \end{array}$$

To minimize your premium, you need to have each of the three above variables as low as possible.


This is the first of a 3-part series that will discuss the three variables that affect your insurance premium. If any part of your formula is incorrect (broken), then you will overpay for your insurance. The first part in our series will discuss the importance of making sure your Claim History is accurate.

Underwriters study your claims history because they know prior experience is the best indicator of future experience. But what if your claim history is wrong? How many claims on your loss runs should have been closed, or reserves lowered? Four thick manuals govern the calculation of your WC experience modification rate. Twenty-two separate calculations result in a single number. If your mod is over 1.00, your experience is worse than your peers. If your mod is under 1.00, you are statistically better than your peers.

A high mod does not always indicate a bad risk. It can mean there has been an error, or that claims are incorrectly applied. Even if your mod is under 1.00, don't rest on your laurels. The lowest possible mod is about .60, depending on size and class. If you're at 1.00, and you could be at .70, you have the opportunity to reduce your costs by 30%!

To make matters worse, insurance company personnel send what is know as the Unit Stat Cards to the WC bureau, relaying your claim data to the bureau. Do they make mistakes? You bet. Could the auditor have made a mistake? Of course. Is a normal insurance broker likely to catch the mistake? No, but we will through our AuditRate experts. ➔

Your Old Life Policy Has Value

Even if you believe your Life Insurance Policy is no longer needed, it is still important to pause before allowing a lapse or surrender. Among other considerations, your Life Policies should be appraised to determine their current market value. All types of life insurance -- term, universal or whole life -- can have market value much like real estate or equities. However, this market value would be gone forever if you allowed your Life Policy to lapse. An appraisal is valuable information. Consider the case of a 71 year-old policy-owner who could no longer afford his increasing cost term insurance. Instead of letting the policy lapse and receiving nothing, he received a cash payout of \$195,000 through a Life settlement. For further information, call our Herb Singer, 312-335-2150. 


Why Join a Captive in a Soft Market?

For years, many have viewed captives as a safe harbor during hard market cycles. Rising insurance costs drove insurance buyers to alternatives such as captives. With this in mind, then why has captive participation and formations continued to climb—even in a soft insurance market?

First, insurance cycles are just that: cycles. What goes up must come down. And of course, what is down will inevitably rise. The next hard market is predicted to hit in 2010 according the Insurance Information Institute, close enough for savvy business managers to take notice. Many businesspersons find that a captive program is an improvement over their current traditional insurance. What if insurance prices were to climb dramatically and quickly as they have done in the past? What if a terrorist attack were to occur? *(over)*



(Pricing Formula... continued)

The claims you have today will become part of your history tomorrow, and increase future premiums. That's exactly why we have our "Team of Experts" to help minimize your claims. And this claim history will stay with you for at least five years as a critically important variable in your insurance Pricing Formula. 

(*Captives...* continued)

Buyers are looking at their profit margins and wondering, realistically, how they will be impacted should insurance costs double, as they did in 2001.

Although captives are alternatives to insurance, there is an element of insurance – reinsurance. Captives stabilize their underwriting results by capping individual and collective losses through the purchase of Specific Excess and Aggregate Excess reinsurance. Reinsurance typically cost 10 to 15% of total captive costs. If reinsurance costs were to double, the overall impact would be minor.



Probably the second biggest reason captives are flourishing in the soft market is Control: control over claim handling, and control over risks. We recently consulted to an insurance buyer who couldn't understand why their WC experience modification rate continued to rise while they were doing all the right things from a

tactical standpoint. What we learned was surprising. They poured almost all their energy into risk control and marketing their insurance coverages every year. Little attention was given to the management of claims. Lag time (late reported claims) was out of control, claims were being misdiagnosed and incorrectly reserved. There was no Early Intervention program in place that would have allowed an RN to step into the process early. With a mod spiraling out of control, few markets wanted this account, which allowed the offending insurance company to hold the risk at increasing premiums.

A captive would have offered them complete transparency in every expense element of their program. A captive would have allowed them to better manage their claims after they occurred. Simply put, a captive would have given them the control they needed, wanted and deserved. *A*

Employee of the Quarter

SABINA PIETKA

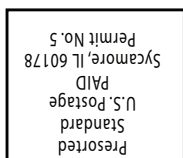
Sabina became an Alper Team Member right out of college, a little over 4 years ago. She started in our Commercial Lines Division as a Client Service Representative. She subsequently was promoted to Account Representative reporting to Chris Breck. Her duties include designing individual Client/Prospect risk management programs, identifying insurance markets available to meet coverage needs, placing required insurance, and being of service to our Clients. She majored in Economics, and has a Bachelor of Science degree from the University of Illinois-Chicago.



Sabina lives with her husband in Brookfield. In her spare time, she enjoys live performances at the theatre, and bike riding.

She is a very intelligent, dedicated Team Member, in addition to being extremely knowledgeable, and happy to be of service to our Clients. We are fortunate in having Sabina's expertise, and look forward to her being an Alper Team Member for many, many years to come.

The information in this newsletter is provided for general information only. Specific implementation and action should be undertaken only after individual consultation with your professional insurance and/or legal advisor.



Alper Services LLC
60 West Superior St.
Chicago, IL 60610