Factors Impacting Insurance Premiums

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Components of Insurance Premium

- ✓ Fixed Costs
  - Selling Expense/Commissions
  - Underwriting Expense/Rating
  - Loss Control/Safety Engineering
  - General Administrative/Clerical
  - Depreciation/Amortization
  - Boards & Bureaus/Premium Tax

Components

- ✓ Fixed costs – 25% to 35%
- ✓ Profit – 2% to 5%
- ✓ Loss and Loss Adjustment Expenses – 65% to 80%
- ✓ Premiums collected and held in reserve
  = investment income

Major Types of Property/Casualty Insurance

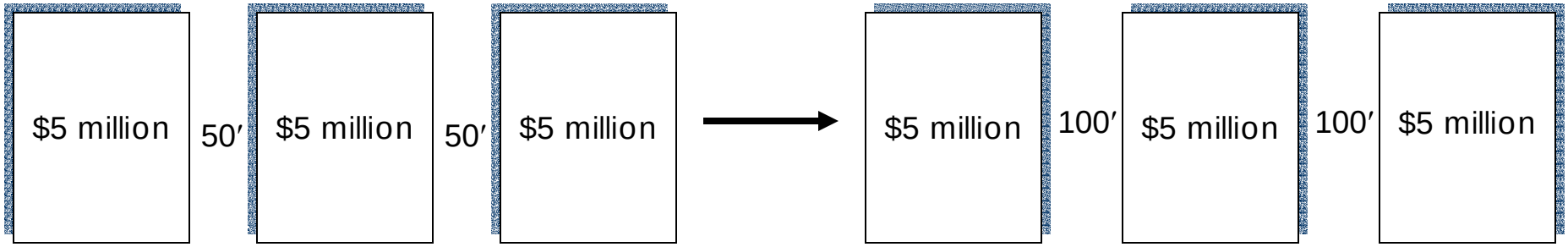
- ✓ Fixed plant and equipment – Property Insurance
- ✓ Inventory – also a part of Property Insurance
- ✓ Rolling Stock other than autos - Inland Marine Insurance
- ✓ Autos, trucks and other vehicles licensed for road use
- ✓ Loss of cash flow – Business Income
- ✓ Bodily injury or property damage to a third party
- ✓ Injury to Employees – Workers' Compensation

Cost Reduction Techniques

- **Property/Inland Marine Insurance**
  - Construction – Fire resistive – steel - frame
  - Protection – characteristics of construction that reduce the chance of loss
    - Fire suppression systems/alarms/sprinklers
    - Dust suppression systems
    - Fences
    - Locks
    - Lighting
    - Wind resistive roofs

Cost Reduction Techniques (continued)

- ✓ **Property/Inland Marine Insurance**
  - Exposure – the proximity of your property to external loss from another source or hazard.



$15 million risk

3-$5 million risks

Cost Reduction Techniques (continued)

- ✓ **Property/Inland Marine Insurance**
  - Actual Cash Value (ACV) – Replacement cost minus depreciation.
  - Replacement Cost (RV) – the replacement of existing property with like and kind materials.
  - Inland marine equipment is normally ACV.

Cost Reduction Techniques (continued)

- ✓ **Property/Inland Marine Insurance**
  - Reporting form – all grain facilities should be on an inventory reporting form.
  - Deductibles
  - Self-insure – What is an acceptable amount of risk for you to assume? Do you need to insure all of the lowered valued equipment?
  - Ask questions

Cost Reduction Techniques (continued)

- ✓ **General Liability Insurance**
  - Field grade grain versus identity preserved, food grade or organic grains
  - Premise exposures
    - General condition
    - Is Property well maintained
    - Access by general public
    - Nuisance hazards

Cost Reduction Techniques (continued)

- ✓ **General Liability Insurance**
  - Off-premises exposures
    - ➢ “On Farm” grain retrieval
    - ➢ Other people “borrow” your equipment
  - Product exposures
    - ➢ Warranties or representations
    - ➢ Product integrity
    - ➢ Reasonable protection of the food chain

Cost Reduction Techniques (continued)

- **General Liability Insurance**
  - Payroll rating issues
    - Eliminate clerical payroll
    - Eliminate driver payroll
    - Eliminate overtime payroll
    - Limit Executive Office payroll
    - Excise sales tax removed
    - Inter-company sales
    - Properly classified
    - Property damage deductibles

Cost Reduction Techniques (continued)

- ✓ **Auto Fleet Insurance**
  - Rating
    - Garage location
    - Cost
    - Usage
    - GVWR
    - Radius of operation
  - Seasonal Rating
  - Self-Insurance – Caution: number of vehicles stored in one building
  - Deductibles

Cost Reduction Techniques (continued)

- **Workers' Compensation**
  - Rating
  - Experience Rating
    - Monitor claim reserves
  - Classification
    - Multiple job duties
  - Executive Officer Payroll
  - Overtime payroll
  - Self-Insure

Cost Reduction Techniques (continued)

- **Experience/Schedule Rating**
  - Experience Rating – 25% debit to 25% credit
    - Optional – all classes except Workers' Compensation
    - Frequency and severity of claims
  - Scheduled rating – 25% debit to 25% credit
    - Optional – all classes
    - Years in business
    - Tenure and experience of management
    - General housekeeping
    - Maintenance
    - Safety programs
    - Financial condition

Cost Reduction Techniques (continued)

- **Safety Programs**
  - Goals
    - Reduce number of hazards and risks of injury
    - Decrease the rates of accidents and injury
    - Control the cost of accidents and injuries
  - Causes
    - Accidents result from unsafe acts, not unsafe conditions
    - Influence employees' decisions
  - Accountability
    - Safety standards are words on paper
    - Accountability makes them work

Cost Reduction Techniques (continued)

- **Safety Programs**
  - Evaluation - Evaluate and change your safety program to meet changing needs.
  - Measure and Reward – Positive Reinforcement
    - Structure – no “One Size Fits All”

Claims Management Program

- ✓ Claim Reporting Process
- ✓ Mitigate the claim
- ✓ Determine cause/correction
- ✓ Communication channels

Conclusion

- ✓ Understand each type of insurance you have
- ✓ Safety Program
- ✓ Effective claims management
- ✓ Select an insurance company and agent who understands your needs

Review & Questions

Thank You!!