Risk Report

May 2020

Reducing Overhead Expenses

How Insurance Program Modifications Can Help Firms Through the COVID-19 Crisis

GREYLING
INSURANCE BROKERAGE I RISK CONSULTING
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Reducing Overhead Expenses

How Insurance Program Modifications Can Help Firms Through the COVID-19 Crisis

KEY TAKEAWAYS

- In the current environment, all overhead costs need to be reevaluated. Business and professional insurance programs are no exception.
- Most large design firms have not been provided with insightful comparative data on the design and cost of their insurance program to identify potential inefficiencies.
- Data from comparable firms can show that you have a fair deal, or as seen many times by Greyling, you are paying way too much.
- Effective use of benchmark data has helped many firms save millions.
- Long-term relationships can sometimes be surprisingly expensive as premiums drift well above market pricing.
- Handling renewals with an aggressive timeline that allows early completion can result in savings.
- Alternative risk programs—specifically group captives insurance for certain coverages—can lead to dramatic savings. Greyling's leading clients have saved $25M in the past five years.

WHO SHOULD READ THIS REPORT

This report offers key insights and considerations designed to address concerns of the CEO, President, COO, CAO, CFO, GC and Risk Managers in engineering and architecture firms.

READ THE REPORT AND CONSIDER THIS OFFER

Greyling will provide your firm with an analysis of the program design and cost of your current insurance program. Our detailed report will show how your firm's insurance program compares to other similar firms and if there is a potential for immediate or long-term savings. If you are interested, call us or send an email and we can discuss what information is needed to provide an analysis for your firm.

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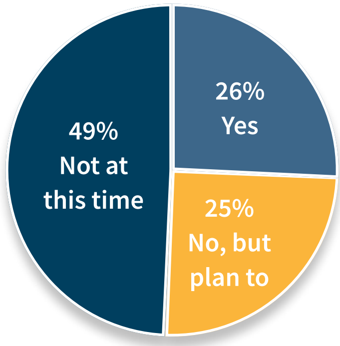
INTRODUCTION

With the sudden uncertainty of the current coronavirus pandemic and resulting economic slowdown, firms are aggressively moving to manage costs. In addition to reducing staff, a difficult step many firms have already taken, every dollar spent on overhead needs to be considered and evaluated. With project delays and shutdowns, clients processing invoices slower, and new opportunities delayed or limited, managing expenses is critical at this time.

One area for potentially significant cost reductions is business insurance. Total insurance program costs for professional services firms average from under 1 percent to as much as 3.5 percent of gross revenue. Depending on the size of your firm, the potential for savings ranges from tens of thousands to millions of dollars.

AEC Advisors Survey Results



Layoffs / Furloughs
As of April 3, 2020

Read this report to the learn the major issues and opportunities to consider regarding your firm's insurance program.

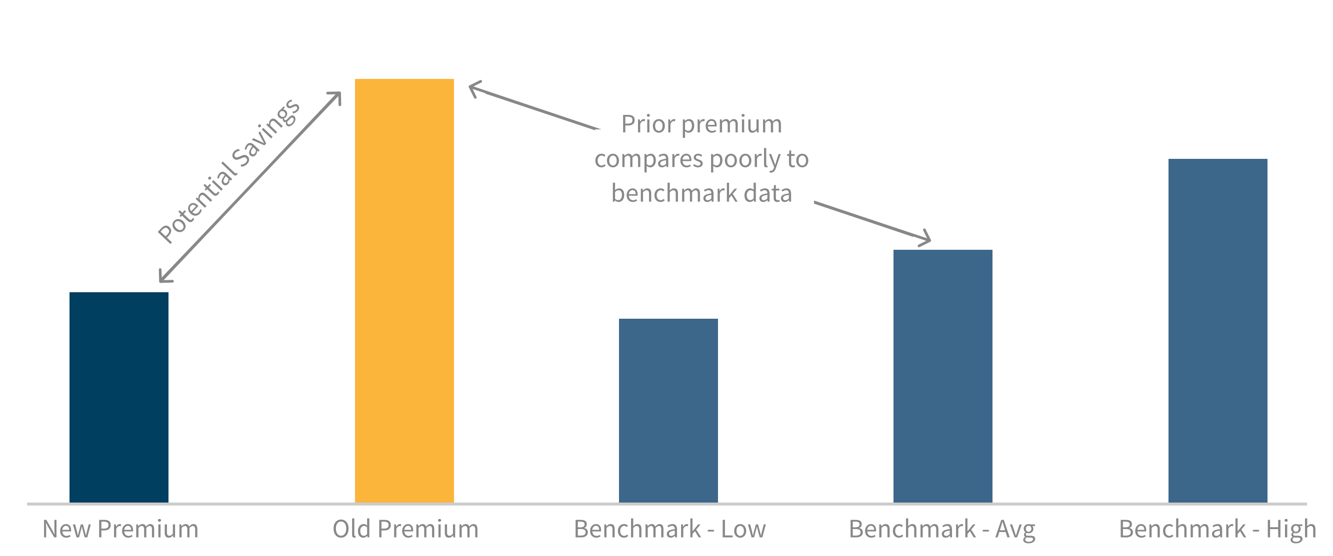
SHORT-TERM INSURANCE PREMIUM SAVINGS

Has your firm been provided with a **benchmark report** showing what comparable firms pay for insurance? Without access to legitimate and meaningful benchmark data on insurance program design, coverage, and cost, you do not have the data to determine if your firm has a competitive deal. As noted in the next section, long-term relationships are no guarantee of a competitive edge. Long-term could just mean your firm has been overpaying for many years. Unlike Greyling, few insurance brokers have the needed data for benchmarking for three reasons:

- Many insurance brokers operate only in a single regional market and do not see program design and pricing throughout the country. While it's not supposed to happen, some insurance companies are more competitive in some regions than others.
- There is no sharing of data. An insurance broker with multiple offices, or account managers who operate in silos without collaboration across teams and offices, does not aggregate information in a way that allows competitive analysis.
- Many brokers simply lack the client portfolio for effective benchmarking and thus offer only what wholesalers or insurers can provide, or offer no benchmarking at all. Even those insurance brokers with enough clients in the professional services space to create benchmark data can only do so by revenue—but not by discipline. Rates, limits, and retentions vary tremendously among disciplines.

The key to effective benchmarking is not only collection of information for similar sized firms but also those with similar disciplines. At Greyling, we work with architects and engineers in every state. Our clients range in size from solo practitioners to firms with billions in revenue. We **aggregate the relevant data** on their insurance programs and use it to negotiate competitive programs on their behalf.

Engineering Firm Professional Liability Premium Comparative Analysis



To further drive home the point on the importance of insightful comparative data, here are some examples of things we've seen in the expiring programs of new clients before they switched to Greyling:

- **Misunderstood Exposure:** The underwriter of a unique firm misunderstood the exposure thinking it was a lot riskier than it was. After several rounds of communication, the underwriter's opinion changed and the premium was reduced by 55 percent.
- **Multiple Policies:** As a design firm grew and added new services and exposures, the insurance brokers kept adding new policies. The correct solution was not more policies but simply to find a new insurance company that could handle all exposures in one policy. After switching insurers, the policies were consolidated, coverage was improved, and costs were reduced by 32 percent.
- **Range of Savings:** Greyling completed a study of a wide range of firms that switched to us as their insurance broker over the past several years. Over 84 percent saw a cost reduction, ranging from 2 percent to over 50 percent without a reduction in coverage and with an equal or better insurer. For the few that saw an increase, it was often due to poor loss history that took time to mitigate with Greyling's close involvement in risk management.

- **No Other Design Firm Clients:** The service team at a large national broker was not experienced in serving design firms. The bigger broker was selected for their perceived market "clout." After switching to Greyling, coverage was improved and price reduced by over 60 percent.
- **Excessive Limits:** An architect bought $40M in policy limits when the benchmark data indicated their peers purchased closer to $15M. Limits have since been reduced with commensurate savings.

All of these firms thought they had a reasonable or even a competitive insurance program—until they made a change. Access to real comparative data is critical for making effective business decisions.

> *"We recently switched to Greyling after many years with the same insurance company and same broker. We were surprised to find that equal coverage was available at half the cost. In these times, we are thankful for such savings.*
>
> Tim Milam, President and Principal
> Jordan & Skala Engineers

LONG-TERM RELATIONSHIPS

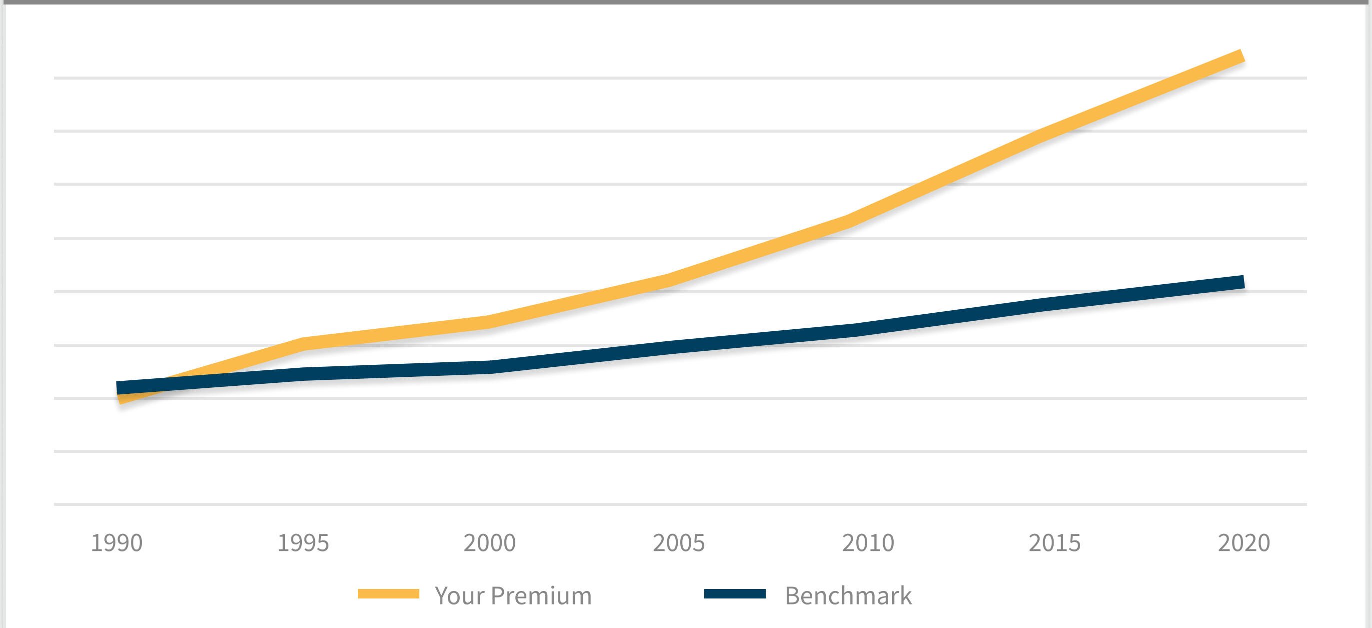
For many firms, a long relationship with an insurance company and/or broker provides certainty and peace of mind. Insurance is a product that depends on trust—design firms pay premium now for the promise of quality coverage and quality claim service in the future. A long-term arrangement should result in a good deal for both sides—defined as competitive coverage, claims service, and price. But is that always the case? And is the perceived trust warranted? As an insurance broker that serves design firms of all sizes throughout the country, Greyling often works with firms leaving long-term relationships. The reasons vary—turnover, service, cost, etc.—but a significant percentage of those firms making a change end up being surprised by one or all of the following issues:

- The premium that had been paid in the past, often for many years, is much higher than prevailing benchmarks – sometimes as much as double. The cumulative additional cost incurred can be substantial.
- Coverage gaps can be considerable. In spite of higher premiums, firms are unknowingly uninsured for major risks. As one example, a firm that mostly did work for public entities had an exclusion in their policy for all work done for government agencies!
- Some design firms outgrow their insurer. Many insurance carriers specialize in representing firms of a particular size or discipline and many focus on smaller firms with revenues below $25M. The insurer may maintain an insured as they grow in size but normally at a less competitive premium with gaps in coverage.

What surprises us at Greyling is that when we analyze the policies of an insured with a long-term relationship, we often find **higher, less competitive premium** and not the lower price you would expect. Loyalty should result in a better deal, not the other way around. What we believe happens is one of two things:

- The insurance program suffers neglect and drifts higher, just a little each year, than market pricing. Over a number of years, the cumulative difference become considerable.
- The incumbent broker has limited experience working with design firms and is unaware of what options are available.

Example Premium Growth When Not Properly Evaluated



As a broker, we encourage long-term relationships between insurance companies and insureds, but only when properly tested against market pricing so an "open-book" decision can be made on cost and coverage. This can be achieved without planning to obtain competitive options each year – which we find exhausts underwriters and leaves the insurance marketplace less competitive over time – by using the benchmark data we discussed above and the timeframe we outline below.

TIMING MATTERS

While it might seem an easy goal to achieve, few insurance brokers complete the renewal process well ahead of policy expiration. At Greyling we joke that there is one thing we always know for certain a year in advance: a policy's renewal date! Last minute renewals result in a time crunch that limits options, reduces negotiating strength, gives little time for making decisions, and causes late issuance of certificates of insurance—which can negatively affect cash flow when clients will not process invoices without a renewal certificate.

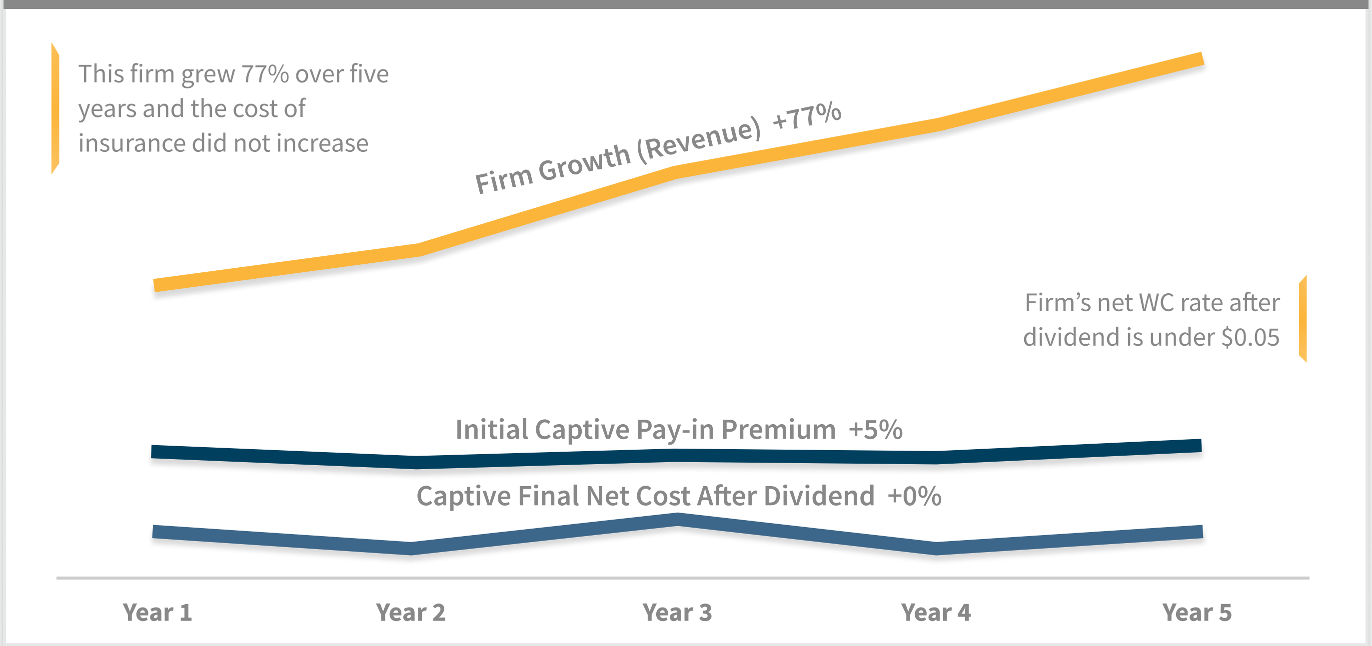
Your renewal should be started many months ahead of renewal (as much as six) and planned to finish at least 30 days ahead of policy expiration. That means if your firm's insurance renews on October 1, your kick-off renewal planning meeting should happen around May 1. Working well ahead of time not only reduces stress, it also allows time to pursue and evaluate cost-competitive options. Many firms with summer and early fall renewals this year may soon find that their renewals are progressing slower than they should because brokers and underwriters are affected by the recent sudden shift to remote working. Greyling's oft-tested timeline avoids these issues and results in a more predictable and hassle-free renewal.

CREATIVE SOLUTIONS

Larger firms have even more creative solutions available to address cost savings related to their business insurance programs. For firms close to or more than $50M in revenue, this is particularly true. Examples of what has been achieved for Greyling clients include:

- A firm doubles in size over five years with **no increase in premium**.
- Firms with good loss experience get significant premium refunds.
- Premium rates that benchmark up to **80 percent lower** than traditional insurance.

Example Premium Savings in a Group Captive Insurance Program



The above graph is an example of what is currently being achieved for Greyling clients that use a **group captive insurance program** for their workers compensation, commercial general liability, and business auto coverage. Greyling works with more design firms in group captive insurance programs than every other broker in the United States combined.

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As a result we have extensive experience with and benchmark data for such programs. A group captive works and looks like traditional insurance with two key differences:

- The investment income on that insurers normally keep is instead paid to policyholders.
- The premium is not fixed regardless of losses. If your firm has favorable losses in these lines of coverage, as most design firms do, then the group captive program will provide a refund of most unused premium dollars.

Greyling recently completed a study of its seven largest clients in a group captive over five years. The savings vs. traditional insurance is over $25 million.

> “ *JB&B switched to Greyling five years ago. We had been with a big national broker and were astounded that Greyling could improve our coverage, move us to a better insurer, and cut costs by 60 percent. And costs have stayed that low ever since. For any firm looking to reduce overhead costs in this current difficult environment, I strongly recommend you talk to Greyling. Access to their benchmark data has helped us save millions of dollars over the years we’ve been with them.*
>
> Mitch Simpler, Partner
> JB&B
> Past Chair, ACEC Executive Committee

CONCLUSION

Access to benchmark data and creative alternative risk programs, plus being open to competitive options, has the potential to save your firm significant dollars at a time when reducing expenses is critical.

Greyling is pleased to be the leading broker throughout the United States working with design firms of every size. We hope to have a virtual meeting with your firm to discuss how we can help you managing you firm’s bottom line.

CONNECT WITH GREYLING AND REDEEM OUR OFFER

After reading this report you can see the value we deliver to our clients. We understand their business and develop insurance programs that reduce their overhead costs. Let us put that expertise to work for you.

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