An Insurance Program For the Industry

It’s called a captive insurance company.

And it could mean the best construction insurance deal ever for wall and ceiling contractors.

Culminating three years of tough, intensive work, the Association of Wall and Ceiling Contractors-International has recently announced its own, new insurance company which will make insurance available and specialized for wall and ceiling contractors.

Fifteen months ago AWCI contractor Bob Nickles, of Nickles Drywall, Inc., Geneva, IL, then chairman of AWCI’s national insurance committee, began a search and investigation into the feasibility of AWCI’s doing what many other organizations and corporations were doing: setting up an offshore insurance company that could tailor insurance premiums for its select group and thus produce a better insurance package for everyone concerned.

At the last meeting over which he presided as insurance committee chairman, Nickles brought in a series of insurance experts to make presentations on how they felt AWCI should best approach the matter. This occurred at Amelia Island, FL, where committee members heard presentation on three different ideas: management concept, marketing concept, and a captive insurance company concept.

The latter presentation was made by Arnold Powell, representing EBASCO, of New York City. It was this approach that AWCI decided to follow and under the new chairmanship of Larry Femald, of Femald & Wallace, Inc., of St. Petersburg, FL, the committee moved ahead.

As a result of the work done by the Insurance Committee you—as a wall and ceiling contractor—will soon be afforded the opportunity to improve your insurance situation considerably. AWCI now is purchasing its own captive insurance company in Bermuda. The company is the Herrford Insurance & Surety Co. LTD and policies will be sold by an American-based insurance company, the Royal Insurance Company, and these will be administered by EBASCO Risk Management. The Royal Insurance Company is an internal international insurance company.

Offshore and captive insurance companies may sound complex and shaky—but the operation is as financially solid as a Gibraltar rock. Because AWCI is now preparing to launch this extraordinary new service
AWCI Is Preparing to Launch Its Own Insurance Company
Tailored Specifically For Wall and Ceiling Contractors

to the industry—and the insurance is available to AWCI members and non-members—Fernald and AWCI Past President Jim Biddle, who worked hard to bring about the program's success, agreed to talk with CONSTRUCTION DIMENSIONS.

DIMENSIONS: Let me direct the first question at you, Larry, as chairman. Why go to the trouble of setting up an offshore, captive insurance company? Isn't insurance handled pretty well as it is?

FERNALD: There are a couple of benefits that we provide for ourselves. For example, right now insurance premiums for wall and ceiling contractors are averaged in with other construction disciplines—some of which are pretty high risk—and these average premiums reflect this higher risk element. In short, wall and ceiling contractors are subsidizing other higher risk contractors.

This is important because of the tightening money markets that insurance companies now find themselves in. As the money and insurance market tightens, many contractors will need to be placed into higher-risk, higher premium categories. If the insurance companies don't make their profits off their investments—and they're coming up short right now—then they'll need to get it in premiums. For many contractors that means higher premiums are on the way.

DIMENSIONS: And you say the AWCI captive company can avoid this?

FERNALD: Absolutely, yes. The wall and ceiling contractor is a moderate to low risk. His premiums should—but often don't—reflect this condition. With the AWCI company, our premiums can be lower for the same coverage without the additional worry of being rated up to maximize insurance company income.

The other benefits are these: every premium has built into it certain costs of doing business by insurance companies. These include advertising and promotion, a payback rate for claims and reserves of 60% to 75%, approximately 25% overhead and profit—these costs can be avoided—

BIDDLE: —the obligations in setting up reserves for claims is the major reason for offshore insurance companies. When a claim is submitted to a domestic insurance company—that's a company headquartered in the U.S. or Canada—the estimate of the amount of the claim must be paid into a set up reserve fund which is charged to policy holders immediately even though it's set up in increments to be paid over five years or more.

With a captive insurance company, this reserve fund can be invested and the captive keeps the income—a situation that is reflected in lower costs. Also, a captive company doesn't need to kick in big business expenses such as advertising and promotion because we have our own communications mechanisms already in place; we don't need big rent and overhead charges because the association already has these provisions, and the big payback rate isn't necessary because we aren't including a lot of high risk contractors. Each contractor rides on his own merits.

DIMENSIONS: But why offshore? What's the advantage? Those reserves are set up to assure that claims will be paid, aren't they?

BIDDLE: Certainly, there are many tax and investment advantages in having a foreign—or what you'd call a non-domestic—insurance company. The investment rules are more
“The whole idea is to provide good insurance coverage at a premium that truly reflects wall and ceiling contracting experience—not on a premium that’s averaged out with higher risks types of contracting—and to provide better services, too... even through a contractor’s private broker.”

liberal, and the tax advantages are distinct and favorable.
You see, the states control the reserves on domestic insurance companies. The captive offshore company gets to control and invest its own reserves. Two or three states allow domestic captives—but generally the states don’t want to give up controlling the reserves.

DIMENSIONS: All the explanation aside, what’s the risk—and the benefits—to a wall and ceiling contractor going into the AWCI insurance program?

FERNALD: The risk is no greater than a domestic insurance company. Remember that Bermuda is British and the British invented insurance. If British insurance rules weren’t tough you wouldn’t have Lloyds of London as the premier insurance company in the world.

DIMENSIONS: How will it work? Who’ll handle the administration? AWCI has no experience in that.

BIDDLE: The way this concept will work—for AWCI as well as for some of the largest corporations in the world—is to contract with a domestic company that’s already licensed to do business in all 50 states and Canada.

We’ve done that. The domestic company is Royal Insurance Company. They’ll handle all policy issuing, claims, certificates, etc.

DIMENSIONS: So the Herrford Company is based in Bermuda to take advantage of tax and investment laws, and Royal does all the work. Is that it?

FERNALD: Close — but not wholly true. The domestic company functions as a full insurance company in Herrford’s behalf. They issue certificates of insurance, handle claims, and will involve themselves later in a safety program for contractors, if requested.

Royal offers professional staff, professional administration, professional claims handling, and even a safety program. Herrford—which is to say AWCI—can select from this menu of available services.

DIMENSIONS: So AWCI’s Hereford insurance company sets up the reserves and such while Royal goes ahead with the daily routine of running an insurance operation?

BIDDLE: That’s an oversimplified explanation, but “yes” that’s how it works. Royal set up reserves—in cooperation with EBASCO—so it’s to their benefit to service our business... and we can avail ourselves of a higher volume purchase—$3 million in premiums, not $3,000.

Like I say, many of the world’s largest corporations are doing this.

Herrford sets up the reserves, minus all the limitations on reserve handling that would be in effect for a domestic company—and the income off the reserves goes to AWCI for the good of the industry and to help lower premiums.

DIMENSIONS: But many wall and ceiling contractors work with a local insurance agent or broker. Often they’re friends as well. Won’t this program punch into that relationship?

FERNALD: It doesn’t need to. Any contractor can go to his local independent agent and ask him to represent him through Royal. They should be able to buy this insurance through their independent agent—and, in most cases, at a reduced premium.

DIMENSIONS: But many insurance agents have a pleasant little commission setup and I’m not so certain they’d warm up to a reduction?

FERNALD: That’s a problem that each contractor will need to address. A contractor can get a net quote so that both he and the agent will know what’s being charged for what. Or, if the contractor wants to save on commissions, he can buy direct from his own industry source.

DIMENSIONS: Most contractors aren’t insurance experts. They rather like to have someone advise and con-
sult on their insurance problems—so the local agent issue will be quite strong, won’t it?

BIDDLE: In some cases, yes. But we’re not antagonistic to the local agent and contractor relationship. We want to help the contractor get the best coverage for the best premium.

If he wants, a contractor can even submit his own claims—or have his agent do it. We’re just giving better communications. For improved cost control, we’re now putting a contractor into a position where he can negotiate his agent’s commission. I don’t feel it’s a sin for a contractor to know what an insurance agent is getting in commissions to service a contract. To me, it’s common sense that a contractor wants better control over his insurance costs: he puts a lot of money into it every year.

DIMENSIONS: You’ve told me about Herrford Insurance & Surety Co. Ltd., and about Royal Insurance. Where does EBASCO fit into this program?

FERNALD: EBASCO will handle the offshore administration and the marketing for AWCI. We chose them because they are independent consultants and they’ll review present policies, analyze what the captive insurance company can do for the industry and present suggested options and alternatives.

DIMENSIONS: But EBASCO doesn’t write insurance: Royal does that, right?

BIDDLE: That’s right, EBASCO doesn’t sell insurance. But they know the turf and in a review of your insurance policies if they see that you’re overprotected you’ll get advice. EBASCO will help you get the best coverage and protection if you do decide to go ahead.

DIMENSIONS: Let’s touch on a tender subject—confidentiality. That’s important to a contractor. What guarantees does he have that his proprietary information will be held in the strictest confidence? HOW will it be achieved?

FERNALD: A company’s proprietary data goes only to the experts at EBASCO & Royal. It’s that simple—and it stays with them and with no one else. No one else is privy to it—no one. Not even the Board of Directors.

DIMENSIONS: What’s the contact point? So many of these insurance deals have fallen down in the past because the salesmen were either too lazy or disinterested enough to go make a sales call on a contractor prospect?

BIDDLE: At the point of contact, we’ll depend on EBASCO. EBASCO is our hired consultant on the captive insurance company program.

DIMENSIONS: What are you telling me? Should contractors wait—and hope—for a salesman to show up?

FERNALD: Not at all. The best way is to mail your current policy into EBASCO rather than wait for a salesman to show up. You’ll be contacted then by EBASCO with advice—and if successful then Royal will get into the act.

BIDDLE: If you are interested, I’d recommend that the contractor take the initiative. Don’t wait for someone to call on you. Contact Arnold Powell at EBASCO, or Joe Baker at AWCI right now.

DIMENSIONS: Who are we talking about here—AWCI members only or non-members, too?

BIDDLE: AWCI functions for the good of the entire wall and ceiling industry. So the answer to that question is: we’re talking about wall and ceiling contractors.

DIMENSIONS: Are significant savings involved here for contractors?

BIDDLE: Yes. Currently, contractors pay commissions of about 10%-15% for their insurance—and even up to 28% in New Jersey. That’s an awful lot to pay for servicing your insurance . . . especially if you pay $20,000 or more a year in premiums.

DIMENSIONS: Let’s address the security issue. How does a contractor know that his claim will be paid? Limitations are put on reserves to
assure that the money is there to pay for the claim?

**BIDDLE:** Bermuda law makes certain that the reserves are available to pay for claims, too. It’s just that British law takes a different attitude on who gets to keep the income off the reserve investment—plus the unique nature of the group that you’re insuring allows you to avoid obvious expenditures that otherwise must be expended in a standard insurance—overhead, advertising, bigger commissions, that sort of thing.

You’ve always got Royal Indemnity to guarantee that your claim will be paid. They can insure policy holders with other substantial insurance companies and they’re the ones fronting the insurance.

The money — the safety — the security — is there in abundance. That’s really not an issue.

**DIMENSIONS:** Earlier you indicated that now is a good time to address your insurance program because some massive changes are looming? What are these changes?

**FERNALD:** All indications are that the insurance market is tightening and that higher premiums and more selective underwriting will be forthcoming . . . including cancellations. Insurance companies are not getting the returns on their investments so it will have to come in higher premiums. Costs now are 110% or more of premiums in the industry.

**DIMENSIONS:** Briefly, what are all the benefits? What does a wall and ceiling contractor gain by going with the AWCI program?

**FERNALD:** A contractor can save premium dollars. He’ll get good service from a longtime national company with an outstanding reputation. He’ll have direct access to his industry’s insurance consultant—not some local rep who may not understand the industry all that much. And his contribution will help the industry because the income will be used by AWCI for the benefit of everyone.

**DIMENSIONS:** And if he wants, the contractor can still work through his own local agent?

**BIDDLE:** Exactly. A contractor can continue to deal with his own agent and still get more for his money. Furthermore, there’s no limit on contractor size.

I guess you’d have to say that if you want to save money—call AWCI or EBASCO. No one’s going to hassle you. To get a salesman to make a call on you costs you plenty in commissions—and our interest is in helping the industry.

The first obligation, though, is to decide you want to help yourself and review what’s being offered. If it’s right for you, then you can act in the manner you want. If not, you’ve at least taken a careful look at your insurance coverage and that’s a solid plus.