



Surviving a Tough Economy: Expert Advice on How to Reduce Facility Insurance Premiums

By Robin Jay

A new track at this year's SECAD conference in Atlanta were symposia regarding facility management. It's no surprise that in this economy, facility administrators are focusing on ways to streamline productivity and reduce operational costs in order to remain not only competitive – but in the black financially. As a result, among the most popular facility track curriculum was on what facilities can do to make their insurance premiums as economical as possible. BHC Journal spoke with the symposium presenter, Rich Willets, Program Director for the Addiction Treatment Providers Insurance Program. He offered key advice on tactics administrators can take to reduce facility insurance costs.

BHC Journal: Rich, thanks for joining us

RW: Thank you for the opportunity.

BHC Journal: Rich, please review the highlights of your presentation on facility-related factors that impact insurance costs.

RW: Basically it's of great interest to most providers because insurance costs are usually in the top three expense items on their income statement. After payroll and lease agreements, insurance is a big ticket cost item and any way they can impact that cost to help their bottom line is usually of keen interest.

BHC Journal: Certainly. Perhaps a good place to start would be with a basic explanation of how underwriting works.

RW: The job of an underwriter at an insurance company is to accept or reject the risk or accept the risk with some modifications. Basically the underwriter sets the insurance price and the specific conditions based on an individual risk analysis of a facility and operation. When I talk about conditions, I'm referring to certain policy exclusions, policy limits and deductibles that they may choose to apply to the quotation. The underwriter starts with a baseline rate and a baseline set of conditions and then modifies based on the

individual risk. It's something that as a treatment provider you can't impact on your own. We're all just subject to the whims of the marketplace and market competition, so the insurance cycle refers to the hard and soft market cycles that the insurance industry goes through. In a hard market it's generally characterized by insurance being difficult to find, higher rates for insurance, and tougher terms and conditions kind of like the credit market is today. In a soft market cycle for insurance, you'll find insurance easy to find, at low rates, and with very good terms and conditions that are very favorable to the treatment provider.

As you might know, we've been in a soft market cycle in insurance since 2004 and again, it has just been characterized by intense competition between insurance carriers to write more premiums. That's in part because insurance companies were extremely profitable in the years 2006 and 2007. They've got an abundance of capital that they need to put to work and the way they do that is by binding insurance contracts. Now, since the end of 2008, a lot of that excess capital has dried up. It turns out that hurricanes Ike and Gustav have been worse than expected in the amount of claims payments, and of course the downturn in investment results are starting to show signs that we will be going into a hard insurance market cycle soon, and that means there's going to be less availability and higher rates. I want the treatment providers to be as prepared as they can to get the best terms and conditions and pricing that they can and control what's in their control. In getting into some of the details of the specifics of your facility, I want to start out with the property insurance line, which is the one I think you can have the most impact on as a treatment provider.

COPE

Basically a property insurance underwriter looks at four specific areas of a risk and they use the acronym COPE, which stands for Construction, Occupancy, Protection and Exposure. When I talk about construction for an underwriter, they look at a baseline. Every type of building is put into one of six construction classifications ranging from Class 1, which is a wood frame construction typical of most residential households across the country, and that ranges all the way in quality to what's considered the most superior construction. That's called fire-resistant construction. In a typical fire-resistant building, it would be a high-rise type of building or a hospital facility where it's specifically built with fire-rated walls and sprinkler systems and usually the best possible fire protection. Now rates can vary and typical treatment providers fall in the wood framed construction or a wood joisted masonry construction, which could be brick or concrete block.

Rates for those types of construction generally start about 25 cents for every \$100 of insurance limit and, to give you an example, that's five times the rate of a fire-resistant building, which generally starts at about 5 cents, and those rates, again, are modified by individual risk characteristics.

Still on the construction piece of property underwriting, underwriters are first going to look at the original construction age to determine when the facility was originally built and what codes might have been applicable at that time. Then they'll look at specifically

what upgrades a provider has made to their facility within the last 20 years. Underwriters look at electrical, plumbing, heating and ventilation, air-conditioning and roof. They'd like to see that if your building is older than 20 years, that you've made updates within the past 20 years to those four specific areas.

Building Code Effectiveness Grade

The next thing an underwriter will look at to determine a proper rate is something called a building code effectiveness grade, which every city in the country by address, actually every location by address is assigned building code effectiveness grade for that community. An underwriter will look at the unique building features, such as stained glass windows or unique architecture design that might be difficult and costly to replace in the event of damage.

Occupancy

The second key area a property underwriter looks at is the area of occupancy. Is the facility designed for this specific occupancy? The more so the better. Treatment providers have some very diverse occupancies. Obviously, in the simplest sense, they have residential and outpatient treatment facilities, but they offer varying levels of care from the detox level all the way through a sober living type of facility. We look for 24-hour on-site supervision as being an ideal situation where someone is actually going to be there to spot a fire that might start.

Then we look at the characteristics of the clients that are being served at the facility -- whether they are in a detox or unstable condition, whether they are ambulatory or disabled in any way, and in some cases there are treatment programs that include mothers and infants or mothers and children, as well as treatment programs that are specific to the elderly. Each of those carry their own unique exposures.

Kitchen and Smoking Areas

Many of the larger treatment providers have commercial kitchens which get heavy use serving three meals a day for hundreds of people. They need to be kept really clean and maintained to avoid fires. We look at smoking areas. It's best to not have smoking areas within the living quarters and, quite frankly, within the building.

Structures Outside

We'll look outdoor equipment and structures including gazebos, decks, ropes courses, all types of outdoor equipment and structures. Some treatment providers will do vocational training that might include a printing operation to help with vocational skills, and that includes its own specific property risks.

Protection

The next piece of the property underwriting looks at is protection. And that breaks down into two pieces: public protection, which is specifically the fire department and other public resources available, and then there is private protection, which there are specific things that the facility has or employs to provide additional protection above and beyond what the fire department can provide. In looking at public protection, each city in the United States is assigned a fire protection class from 1-10, the best being a Class 1. Very few cities achieve that grade. The worst grade of protection is Class 10, which means you're effectively out in the country in a rural city where there is at best a volunteer fire department, certainly no fire hydrants or professional fire departments nearby. The rates will vary greatly depending on that protection class. The protection class is based on the professionalism of the local fire department, the response times, water supply, and accessibility in congested city areas, such as New York and Manhattan. Congested cities have a higher protection class because of the difficulty for fire fighters to get to the facilities. Ideally, property underwriters would like to see the nearest fire hydrant to be within 500 feet of the facility. An article recently came out on the city of Philadelphia, Mississippi, which is obviously a small town in Mississippi, which spent recently \$1 Million to upgrade its water supply system in order to retain it's public protection class ranking of a 6. If they had dropped to a Class 7, fire rates would have gone up 10 percent and a Class 8 fire rating would have made the cost go up 20 percent for every facility in the city.

BHC Journal: Who is it, just out of curiosity, who is the organization that determines those classifications throughout the country?

RW: That's an organization called The Insurance Services Office. it's a non-profit entity that aggregates data from companies and cities around the country to provide a grading of each city.

Private Protection

RW: I'd like to talk also about private protection because that's something treatment providers can impact. The very best private protection actually is an automatic fire sprinkler system and specifically one that is connected to a central station alarm that will automatically ring at the local fire department or police facility. That saves an incredible amount of property and saves lives. The alternative sprinkler system may have a local alarm, which is just a siren or a gong and requires someone to hear that alarm and manually call the fire department ,so it's not as reliable. Other types of private protection that underwriters look for would be fire extinguishers. We look for burglar alarms, video surveillance cameras, security guards and in some cases, proper fencing of a facility. Fencing is more to keep people out than to keep people in, particularly if there is construction going on or if the facility is vacant for a period of time. It's ideal to keep squatters out of the facility.

Exposure

The last part of the COPE acronym centers on exposure. By exposure, I'm talking about what's adjacent to the facility or what it may be exposed to, and that includes the neighborhood -- is it residential, commercial or mixed, for example. Is the city growing, stable, or declining? Adjacent structures, like a warehouse filled with combustibles or flammables, or a vacant building, could have a fire that may spread to a treatment facility. The other big areas of exposure that underwriters typically look at is brush exposure, wind if you are in a coastal area, the Gulf Coast, or the Atlantic Coast specifically. They look at water and flood zones, another catastrophic area of loss. And finally, the earthquake landslide exposure in certain parts of the country if considered.

Third-Party Liability

RW: When it comes to third-party liability coverage, we look at whether your facility is designed for the operations that you're providing and the treatment you're providing? You have the highest safety duty owed to patients and invitees to your property. We've also all probably read the articles about the duty owed to trespassers, including people who might try to break into your premises. The article was about a burglar who fell through an open skylight and then sued the facility. This can truly happen. As long as your skylight is secured and properly maintained, you should be in good shape, but if you let that maintenance go and you create an unsafe condition, you will have a legal duty to compensate anyone injured in such situation.

Risk-Management Plan

RW: A written risk-management, safety plan should be formalized. Make sure the staff knows how to evacuate the facility and get all the patient's and staff out. It's important that once they do get out of the building that they have a safe area to go to; you don't want to survive the fire and then get hit standing in the street by a car. Exits are critically important in life safety during a catastrophe. People need to be able to get out. Exits need to be clearly marked, preferably with illuminated exit signs and proper hardware on the doors. You don't want doors that are locked and secured with chains that people can't get out of in an emergency.

Another very cost-effective, life saving device is emergency lighting. This is lighting that simply goes on when the power goes out, or an alarm that goes off to help people exit the building. The other key area is the maintenance and housekeeping. It's important to keep detailed maintenance logs so that you know specifically what was maintained on what days and even specifically what shifts. That documentation can come in quite handy in the event of an injury and a liability claim. In many facilities, clients and residents participate in the housekeeping, which is not necessarily bad, but every treatment provider should consider the level of service the residents are involved with. Cleaning bathrooms and kitchens is probably not a high liability risk, but clients and residents are not properly trained and certified to, for example, clean the ducts over a commercial stove or oven. That is work that really should be contracted out to a licensed fire inspector or a licensed company that cleans commercial cooking ducts because they are a big source of fires.

The final factor in third-party liability that we review is security. Keeping your patient's safe includes keeping intruders out by locking the doors and securing windows. Video surveillance can also be very important.

Life Safety

RW: The types of third-party liability claims that we see largely involve patient slips, trips and falls. So it's very important that a facility maintain their walking surfaces, provide adequate lighting, and make sure your stairs and your handrails are secure and not broken. Changes in elevation should be clearly marked so people do not trip on stairs they can't really see or navigate well.

It's important that patients are protected against harm by other patients and also protected from self-injury and the risk of suicide. When monitoring patients, there should not be a lot of alone time and unsupervised extended periods, particularly if they are unstable. Another third-party liability will come from visitors. Many facilities have family visit days. Visitors should not be allowed to go to certain parts of the facility unescorted.

Unique Operations

RW: Finally, an underwriter will look at the unique operations that a treatment provider has, and many of them include swimming pools. The pool's depths should be clearly marked and there should be no diving boards. We look at gymnasiums and workout rooms; whether they are properly maintained with good equipment; walking trails; ropes courses or even equine therapy.

BHC Journal: If a facility is either going to be renewing its insurance, or perhaps planning to build a new facility, can they find out recommendations or get inspections from your company to understand what it is they should improve upon before they purchase a property?

RW: Absolutely. We actually offer through our Addiction Treatment Providers Program a risk assessment in which we can have an architect design expert in behavioral health do a walk through of the facility. They will educate you about specific codes in your area, as well as have a safety inspector available to help with a physical on-site inspection. We also have self-inspection check lists that are available with our insurance program. I would recommend utilizing all of those tools before you complete the acquisition or the remodel or renovation work.

BHC Journal: Rich, what is your contact information in case there are facility administrators who are interested in getting an inspection or learning more about how they can improve their liability or their premiums?

RW: Our program website is **www.addictiontreatmentproviders.com**. There is a risk management link which will take you to various tools on life safety and NFPA fire codes.