

## Controlling Costs and Managing Risk in 2010

During the recent months, there has been a buzz around the wood products industry on what the year 2010 will bring. Analysts are anticipating that demand will rise 11 percent, totaling 34.5 billion board feet, as written in the November/December edition of TimberWest. This might not be as significant as we all had hoped, but it's nice to suspect that we found the floor and should be climbing upward out of the challenges that 2008 and 2009 brought.

Whether you operate a cable, mechanized, skidding, falling, or log hauling business, you are most likely feeling the challenges of this economy. As such, cash flow is tight, and you are looking for ways not only to increase profits, but to reduce overhead expenses. So for this article, we will be discussing the 2010 property and casualty insurance industry forecast, tips to best position your company to insurance underwriters, and contractual agreements tips. We hope you find this information useful.

### 2010 Insurance Forecast

The insurance marketplace is competitive, which is keeping the premiums stable for the current time, and we anticipate that this may remain true throughout this calendar year. Currently, there are many carriers offering viable options for general liability with the loggers' broad form endorsement, automobile, property, and for your equipment. As for cargo and pollution coverage, there are only a few carriers to choose from. There are two options in Oregon for workers compensation coverage for loggers. There's also capacity for Timber Bonds.

### Helpful Tips for Reducing Costs in the New Year

Each year, you review and renew your insurance coverage. Often it seems like a systematic event that information might be faxed over for you to review, you check some boxes and make a few adjustments, fax it back, and as the renewal date approaches, you receive the new terms and premium. Is this managing your insurance costs or positioning yourself to an underwriter for best considerations? No.

Meet with an insurance agent face-to-face, at least 90 days prior to the renewal (if possible) to discuss changes in your exposures and develop a marketing plan for your operation.

Insurance is a mechanism to transfer risk to another party. Ultimately, you are sharing the risks of your operation with your insurance company, by paying a premium that they determined based on the information they received about your company. This information includes your driver profiles, the number of vehicles in operation, your payroll expense, property schedules, and historical claim information. If just this information was sent to market each year, I assure you that you are not receiving the best considerations from the insurance underwriters. Each underwriting company has rating debits and credits that can be applied to your premium, along with special forms that can provide broader or more restrictive coverage.

Tip #1 – Identify the key areas that set your organization apart in your industry; i.e. maintenance record keeping, service plans, loss control, and safety protocols, even your employees. Give the underwriters a reason for applying maximum credits.



## **Managing Contractual Agreements with Timber Owners**

Just as your business transfers a portion of risk to the insurance company, timber owners transfer their risks to you each time you sign onto a new job. These contracts have been constructed by their legal counsel to protect their interests and assure that they have effectively communicated your obligations while you or your subcontractors are operating on their property. These contracts require you to name them as an additional insured including language that states you will indemnify and hold them harmless, often including a “waiver of subrogation” terminology.

These contracts traditionally specify that the insuring company have an AM Best Rating of B+ or better, and that you and your subcontractors will maintain certain insurance coverage at specified limits of indemnification.

Tip # 2 - Each logging contract from the various timber owners and managers that I have studied has different terms and conditions, so please read with care! Have an attorney and insurance agent read it as well.

## **Protecting Your Assets**

The importance of a two party contract is essential for businesses, and I have found many logging companies have not implemented subcontractor, employment or cargo hauling agreements, which would help communicate the obligations of each party and protect your financial interest.

Tip # 3 – Implement contracts with your subcontractors. Getting it in writing is the best way to assure everyone is on the same page. Additionally, do you have an employee handbook and/or employment practices liability insurance? Employment related claims are on the rise.

In conclusion, properly protect yourself and your business by a thorough review of your operations, exposures to loss, and contracts with the help of an insurance consultant specializing in the timber industry. In fact, why not make this a resolution?

Robert Funk, CIC, a consultant with KPD insurance, specializes in the timber industry, along with several of his partners. He can be reached at (541) 741-0550 or (541) 914-8323 (mobile) for questions, comments, or concerns.