by Jesse Denton

How to obtain a return on investment for your hotel's insurance dollar

Are you through laughing yet? A return on investment on insurance premiums? That's a novel concept.

My friends in the insurance brokerage and the carriers tell me insurance companies are practically giving insurance away now. Neither carriers nor the brokers like it very much to be perfectly truthful. A good broker works to get the client the best deal, which is not always the cheapest price, on insurance. Lower premiums result in the broker getting less commission; not good for them. I will wager that the corporate risk manager or Chief Financial Officer (CFO) does not feel insurance coverage is almost free when they write out the premium check or authorize payment of the premium.

How several carriers operate

The last study I saw indicated insurance costs were approximately 2% of the total budget of a hotel company. This quickly escalates from tens of thousands to hundreds of thousands to millions of dollars as the size of the company increases. Insurance companies typically authorize around 2% of the premium to be allocated for risk control services. In reality, 2% of 2% does not translate to a very large financial commitment to reducing injury to your guests and employees.

If your hotel is relying on the insurance company to provide all of your risk control, then only the worst of your company's hotels are going to be looked at by the carrier's loss control consultant. Generally, insurance carriers think hotels, restaurants, and resorts are really not all that hazardous. They don't blow up in the middle of the night and their employees don't lose body parts or have terminal injuries all that often.

Because of the perceived lower risks, carriers often choose to send lesser experienced consultants to visit or inspect hospitality venues; they often perceive the need to send their more experienced people to audit the power plant, the chemical plant, or the paper mill. And if you are with a large brokerage, the broker's loss control consultant may only visit two or three "challenging" lodging properties in a company's portfolio. This leaves a lot of potential loss scenario with only cursory attention.

Managing your risk

That pretty much leaves the owner and the management company standing there with a stack of paperwork from the federal, state, county and city governments, the insurance company, and the franchisor trying to figure out how to develop an effective safety program. If you want to stay in business you have to have the correct answers. You don't have to be very smart to realize the stack of paper is not going to make your property safe without the hotel actually doing something with them.

This has frequently resulted in a scenario similar to the following: The GM calls an executive team meeting and tells them we have to have a safety program. He then gives the paperwork to the Human Resources Director (HRD) and the Director of Engineering and tells them to do what they have to do to meet minimum OSHA requirements and to make the state labor board and the insurance company happy.

For hotels that are not affiliated with a large hotel brand or management company that have active loss prevention and risk management departments to support them, there is often some head scratching and phone calls to friends to inquire what they have done that may be useful. Getting procedures and policies in place go a long way toward meeting the requirements of the agencies named earlier.

Then comes training, or at least something that resembles training with names of people present, written on attendance sheets to document that some type of training took place covering chemical safety, bloodborne pathogens, emergency procedures, etc. So you are there, you have a safety program, you have your OSHA paperwork up to date, you call the insurance company promptly when there is a claim, your employees use the panel of doctors the insurance company specified, no one has failed a drug test, there is a modified duty return to work program in place (which is really a pain since business is so slow your healthy employees are hardly getting enough hours), you are doing it all. Everyone should be happy, right?

Typical effort to reduce claims

Then one day the general manager receives a call from the CFO at the corporate office in upstate wherever. Not surprisingly, the CFO also functions as the corporate risk manager. He states that the company claims are out of control! The insurance company is threatening non-renewal of the policy, or at best, a large increase in premium. Your hotel is one of the top three in the company with claim frequency and cost. The order from Corporate is “Do whatever it takes to get your claims under control. The executive staff’s bonus objectives are being revised to include reducing Workers’ Compensation numbers!” This just got serious; they are messing with your bonus!!

The HRD calls the claims manager at the insurance agency; she has noticed the claims were looking a little high for your hotel but had not had the time to review them closely. She will talk with the broker. He calls back and agrees to get the loss control consultant from the insurance company to come and help early next month. Help is on the way, your problems are solved. Everyone straightens up their departments for the impending visit and the morning of the visit the manager reminds everyone to be on their best behavior. The loss control consultant, the insurance broker, the general manager and department managers tour the hotel and sit down to discuss what they have observed. There isn’t a lot, the hotel looked great, only a couple of minor behavior things, and the employees said they were in a hurry and forgot to follow the procedure as they were trained. A thorough study of the accident investigation reports indicate that employees are being injured because they are working unsafely: falling off of chairs and bathtub edges, injuring backs while flipping mattresses alone, running in the back of the house area, tripping over linens used to block guestroom doors open, dermatitis from cleaning chemicals, etc. These are almost all unsafe acts! Yet, it seems strange you don’t often see employees not working safely.

You would be surprised to learn…

So, the HRD decides to interview the associates who have been injured to see what they said happened. One typical conversation goes something like this:

➔“Sally, why were you standing on the edge of the bathtub when you fell?”

➔ “Well, you know I’m not very tall and I had to put up a new shower curtain in that room.”

➔ “Don’t we have a stepladder you could have used?”

➔ “Yes, but it was in the storage room.”

➔ “You could have gone and gotten it, couldn’t you?”

➔ “Well, yes”

➔ “Why didn’t you go get it?”

➔ “It takes too much time to run to the storage room. I still had thirteen rooms to clean.”

➔ “How long would it have taken for you to go and get the ladder?

➔ “Oh, maybe 3 or 4 minutes.”

Next, the HRD then learns that Jim was the only houseman working the day he was injured due to a light occupancy. He thought he could help save time by flipping the mattresses alone. Jim thinks he may have saved half a work day, if only he hadn't hurt his back flipping mattresses alone. The Executive Housekeeper told him it was okay to flip mattresses by himself because the department was short-staffed.

Sal, in the kitchen, thought the cut resistant glove interfered with his dexterity and slowed him down too much. Sal says he has to put the glove on and pull it off maybe half a dozen times during the day; that probably takes 10 or 15 minutes total. The F&B manager did not say anything about him not wearing it when she came by to check on the food preparation for the big gala that was in the ballroom that night.

Susie thought "rubber" gloves interfered with her ability to feel when cleaning rooms. Also, taking them off and putting them on took too much time. Besides, she always tried to remember to rinse the chemicals off her hands afterwards. Mrs. Jones, the housekeeping supervisor, said she didn't like to wear the gloves either.

The HRD realizes that cutting corners to save a few minutes was a common theme. Another commonality was that was each of the employees had repeated the same activity many times prior to being injured. By doing a little "what if" accounting the HRD comes up with an approximation of the cost of the time saved by each of the injured associates. It fell somewhere in the $20,000 - $25,000 range per hour. Some very costly lessons learned.

The truths of this are: People do not usually get hurt the first time they commit an unsafe action. This teaches them they can do it again; which they will do until they or someone else is injured.

Second truth: People behave differently when they are being observed. You may not have ever said it aloud, but you have known this since you were a child. Your associates will not normally commit unsafe actions while their manager or supervisor is watching them. This is the person who taught them, or should have, to work safely and what are acceptable and unacceptable work practices.

Third truth: Even in the best organizations, manager and supervisors will excuse and even encourage unsafe behaviors when there is a rush or push on to complete a task or to meet a deadline.

Fourth truth: Behavior ignored is behavior accepted.

The answer to the puzzle is to not allow unsafe work practice to go uncorrected. Establish a culture where associates work safely alone and correct unsafe acts by their peers and where managers never, ever encourage unsafe acts or demonstrate unsafe acts. It can be done; I have seen and been part of making it happen.

Conclusion

I opened up with a tease, so I have to pay it off. The truth is insurance companies are in business only to make a profit. If your current carrier loses money on your company, the next one will not. The way to get a ROI on your insurance dollar is to reduce the loss history so the insurance company considers you a valued client, one of its bests, and knows they have little choice but to reduce your premium to keep you from defecting to the competition. Take the money you did not overpay for insurance and find a good investment that will give you an even better ROI, if you can. ✧

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