



# EDIC

## Controlling Risk with Captive Insurance

IMARK executives are faced with many tasks day-to-day, but perhaps none is more daunting than managing a company's insurance coverage.

Through the Elite Distributors Insurance Company (EDIC), IMARK provides electrical distributors access to workers' compensation, general liability and automobile insurance coverage at competitive premiums through a concept called captive insurance. In fact, the basic idea of EDIC is similar to the buying group concept, according to John McHale vice president at Captive Resources, consultant to the EDIC program.

"We're essentially pooling a lot of similar mid-sized companies together which increases buying power and provides them greater stability of insurance costs," said McHale. "Ultimately, captive insurance allows these companies to more effectively manage predictable losses."

The program creates a true sharing of risk, so that shareholders can control their insurance costs and avoid the volatility of the traditional insurance market. "This allows EDIC to customize the program to the distributor class of business. Distributors have lower risk profiles compared with manufacturers or contractors," explained McHale.

EDIC's founding member was Chuck Steiner of Branch Electric. "In the early 1980s, Chuck was very active in TIED (the precursor to IMARK). He felt that the captive concept made a lot of sense for the right companies so he approached Captive Resources with the idea of creating a captive insurance company solely for electrical distributors. That captive was formed in 1991 and

was called Electrical Distributors Insurance Co.," added McHale. EDIC was later renamed Elite Distributor Insurance Co. when it expanded to cover other types of distributors, including building materials, plumbing/pipe valve fitting and paper distributors.

Many IMARK members already take advantage of this program, some since the program's inception. Although EDIC is in its 20th year of underwriting for electrical distributors, many IMARK members remain unaware of the many benefits available through this program.

### Overcoming Misconceptions

"Some of the common misconceptions of EDIC is that it is too complicated to understand, that the potential rewards aren't worth the bother of changing insurance companies and that it is 'quasi legal,'" said William Walker, president and CEO of Franklin Electric in Moorestown, New Jersey. "But it has been significantly beneficial. We have a formalized safety manual and safety incentive program, we receive significant return on premiums and we have a deeper understanding of the role that safety plays in the psyche of our business."

McHale added, "Captive insurance has been around for decades now and is supported by the traditional market in terms of providing policy issuance and catastrophe protection. Together with other forms of alternative insurance, it comprises about half of the U.S. commercial market. So, not only is it legal, it continues to grow in popularity as its applications expand, and the number of both on-shore and off-shore domiciles increases."

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Because each member of EDIC is an owner, criteria have been established to ensure the quality of membership and long-term strength:

1. *Management Commitment to Safety and Claims Management*
2. *Financially Strong Company*
3. *Loss Experience Better than Average for Industry Group*
4. *Business Philosophy Compatible with Elite Distributors Insurance Company*
5. *Minimum Annual Casualty Premium of \$50,000*

John Cain, president and CEO of Wiseway Electric in Florence, Kentucky and current IMARK chairman, has been a part of EDIC since 1995 and looks at it as a privilege of growing his company. "Not every member can be in a captive and we're one of the smaller members in EDIC. We have greatly reduced our insurance expense. If you operate a relatively safe company, you will receive financial rewards," he said.

McHale noted that members participating in EDIC actually have a lot of say in the type of companies they want to let in. In addition to vetting prospective members, "the membership evaluates current members to make sure they're meeting their obligations, such as controlling losses. The Board can recommend non-renewal if necessary because it could ultimately impact all of them if there is an issue," he explained, adding that this drastic step happens very rarely.

### **Cost-Savings When Every Dollar Counts**

According to Walker, after payroll, casualty insurance is the next biggest expense any distributor has. "Membership in EDIC provides control of that cost through stable and competitive premiums, and the opportunity to get significant premium dollars back for years that you have excellent loss experience," he said.

McHale explains that captive insurance is a risk/reward program. "The risk is that distributors can be assessed up to a pre-determined amount if they have a lot of frequency type claims. The reward is any underwriting profits earned are returned to the member-owners as dividends. EDIC has returned in excess of \$24 million to its members since the program's inception. With traditional guaranteed cost insurance, a company might buy in to have peace of mind, but it's not going to get those dollars back. EDIC provides a very good opportunity to recoup some of those dollars," he added.

Plus, all pricing is done individually by independent actuaries. "So if you're comparing to traditional class underwriting, distributors get lumped in with the whole industry. In EDIC, the actuary will look at your numbers separately from the industry and your cost is truly based on your own losses," McHale continued.

Additionally, EDIC utilizes service providers that are held to a very high standard dictated by the EDIC Board of Directors, with oversight

by Captive Resources. "EDIC conducts member satisfaction surveys twice a year to evaluate risk control and claim service providers. If there are any issues, we know about it and can take action to correct them," he said.

It's this emphasis on service that also helps guide distributors through the insurance process with access to knowledgeable, actively engaged service provider staff. "The claims service is very customized. For example, in an Open Claim Review, you can get on the phone and go through the details of a large, complex claim with the adjuster and a Captive Resources claim manager. Both know the details and can assist in helping a member navigate a difficult claim. So it helps if you're not comfortable with different procedures in the claim world," said McHale.

### **More Than Just Money**

While the obvious benefit is cost savings, there are a host of other rewards to this program.

"If you're going to come into EDIC, you might get excited about the dividends, but you'll stay because of the extra service that helps get you to the dividends," said McHale.

"EDIC increases awareness of potential safety issues, provides insight into best practices in safety and is a good opportunity to network with other distributors," said Tom Isenberg, president and CEO of Western Extralite in Kansas City, Missouri.

According to McHale, EDIC holds risk control workshops twice a year

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which include featured speakers on a variety of topics including fleet safety and wellness. Webinars are also held on a monthly basis on certain topics geared toward specific member employees, depending on their role.

"Membership in EDIC creates a climate where the safety of your associates will receive the attention and priority it deserves. EDIC's risk control workshops and webinars provide excellent training resources," said Walker.

One of the bonus benefits of EDIC is networking among like-minded distributor owners. "There are networking opportunities with a diversity of distributors that represent the elite in their industry," Walker continued. "As a member of EDIC, you are in the company of other businesses that distinguish themselves by their entrepreneurial spirit in wanting to manage their insurance costs, and are concerned for the safety of their company," said Walker.

#### **Advice for Those Considering EDIC**

Looking at the big picture, McHale underscores that EDIC provides a unique opportunity for long term stability. "Traditionally, a company would spend maybe three to five years with one insurance company. Some have been with us 20 years, which is rare in the traditional insurance world," he said.

McHale's advice to those "on the fence" is to talk to other IMARK members that participate. "Ask them what their experience has been like. EDIC has a very high member retention in excess of 98 percent. I believe our members don't leave because they like the

ability to control their own insurance destiny."

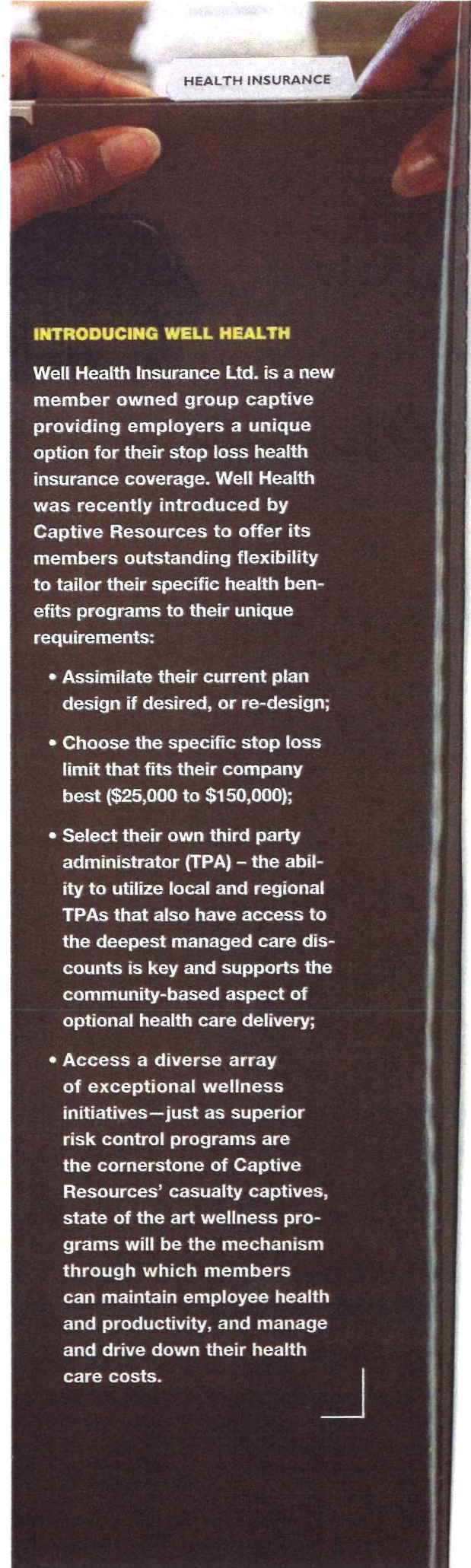
"We have two enemies when it comes to getting people to join EDIC. First, they'll say 'it's not what we do' or 'I just take the lowest bid.' EDIC provides a competitive bid and you're getting money back. The second biggest enemy is also that people have decent relationships with their insurance broker—it might be their brother-in-law, golfing partner, etc.," said Cain.

#### **The Traditional Insurance Rollercoaster**

Ultimately, McHale, who has also worked for traditional insurance companies, explained the insurance market pendulum swings between a hard and soft market, making it difficult to predict when prices will jump up. "It's a rollercoaster ride in the traditional market and that is the antithesis of captive insurance. It's a soft market now so pricing is very reasonable, but I've been involved with a hard market and you'll see companies with good loss performance receiving 30-40 percent increases in the traditional market," he said, citing experts who say conditions are ripe for the pendulum to swing again toward a hard market.

"Insurance is something that most people don't think about because they don't bid it out every year. But it's a necessary evil. We periodically go out to the open market and get insurance bids and EDIC routinely comes in as competitive," said Cain.

*For more information on EDIC, contact John McHale at [jmchale@captiveresources.com](mailto:jmchale@captiveresources.com) or IMARK's service broker, Chip Ciconte at Marsh USA-Inc, at [chip.conte@marsh.com](mailto:chip.conte@marsh.com).*



#### **INTRODUCING WELL HEALTH**

**Well Health Insurance Ltd. is a new member owned group captive providing employers a unique option for their stop loss health insurance coverage. Well Health was recently introduced by Captive Resources to offer its members outstanding flexibility to tailor their specific health benefits programs to their unique requirements:**

- **Assimilate their current plan design if desired, or re-design;**
- **Choose the specific stop loss limit that fits their company best (\$25,000 to \$150,000);**
- **Select their own third party administrator (TPA) – the ability to utilize local and regional TPAs that also have access to the deepest managed care discounts is key and supports the community-based aspect of optional health care delivery;**
- **Access a diverse array of exceptional wellness initiatives—just as superior risk control programs are the cornerstone of Captive Resources' casualty captives, state of the art wellness programs will be the mechanism through which members can maintain employee health and productivity, and manage and drive down their health care costs.**