

Risk Management | March 14, 2013 | CFO.com | US

The CFO as Insurance Buyer

One of the biggest risks at educational institutions is sexual harassment, says the CFO of an insurer that covers colleges and public schools.

[Caroline McDonald](#)

As CFO of United Educators, an insurance company formed in 1987 that focuses on the perils of colleges, universities, public school districts and the like, Michael F. Horning plays the traditional roles of a finance chief, heading up accounting, human resources and facility management. But besides those responsibilities, he assumes roles commonly assumed by risk managers at corporations whose main business isn't insurance.

For one thing, he has the circular responsibility of buying insurance from other insurers to cover the property-casualty risks of the \$147 million insurer he works for. He also buys reinsurance to cover the risks the company underwrites. And he works with the company's policyholders to keep claims and rates down.

The 1,185 schools that UE insures include Yale, Stanford, and Cornell, and the private schools Choate Rosemary Hall and Phillips Exeter Academy. There are also the higher education systems of Alabama and Michigan, and the public school system of Texas. "If you [can] name them, we probably insure them," he says.

As part of an executive team promoting risk management, Horning gets involved to help educational institutions identify their risks – risks unique to educators, like tenure and employment practices. Sexual molestation also is "clearly a big issue for educational institutions," he says, adding that while many carriers will exclude that coverage, UE covers the entire risk.

"We're able to do that because of the risk management we provide, and [because we work] with our members to...preclude these types of claims from happening," he says, adding that "If they do happen, that's when our claims people step in and are able to address this in a way that mitigates the losses."

One of the biggest issues for educational institutions is reputational. Thus UE's plan is to "do the right thing" for the victims as well as responding to the public. A professional crisis communications firm, which provides services as part of the coverage, can also be engaged, he says.

The insurer offers help in risk management with a variety of materials to help educators keep claims at a minimum. They include publications, checklists, webinars and online classes. “We’ve developed an online sexual-harassment class that has had users in the tens of thousands now,” he says, noting that the course comes at no cost with the purchase of coverage. “Many educational institutions are using this to do their employment harassment training programs,” which also fulfills educators’ legal requirement to do this training, he says.

As it turns out, insurance buying is commonly part of the portfolio of finance chiefs who work for insurance companies. “If you talk to any insurer, you will find that their [CFOs are heavily involved](#) in both procuring the insurance for the organization – to cover its exposures as an operating company – and also on the reinsurance-buying side,” he says.

CFOs who work with insurance companies are also prone to pore over risk-exposure models with their companies’ actuaries, he says. He explains that they look at the “tails” of injury-causing accidents or events – claims not yet known about that may eventually result in lawsuits against UE’s clients. In that way, Horning and his peers can gauge how much risk their companies can retain and how much reinsurance to buy to cover the excess.

CFOs in other industries that have risk managers on staff “are probably working very closely with them. Insurance is part of the budget, and as companies are scrutinizing their operating expenses more and more, it’s another line item to look at, to see if there are other ways to save money,” he observes.

Finance chiefs also want to make sure the appropriate amount of insurance is being purchased and if the company is paying too much for it, Horning adds.

When the risk manager is the point person of insurance-buying at a non-insurance company, the CFO is most likely involved in making decisions about the pricing and the coverages being bought. Finance chiefs at companies that don’t have risk managers are probably doing the purchasing themselves, he notes.

An important coverage for United Educators is liability insurance. Directors & Officers “is a big purchase for us. And as an insurance company we also buy [errors & omissions coverage](#) [designed to protect professional advice-and service-providing individuals and companies]. We have protection for bad faith in our reinsurance program as well,” he says.

Horning explains that his broker, Aon, helped to find a new carrier when their E&O coverage was dropped after several years with the same insurers. “Our broker is very involved,” he says.

Horning also buys workers’ compensation coverage for about 130 employees in UE’s Chevy Chase, Md. home office. “Our workers’ comp policy did renew and we saw a

small decrease in the rate per \$100 of payroll,” he said. Rates went down because the company has a good claims record and is a safe place for people to work, he contends.

Policyholder Involvement

Educators “have a very large role” in the running of the company, he says. “First, they collectively own the company.” Indeed, the company is structured as a "[risk retention group](#)" (RRG). In the mid-80s, because of the high number of lawsuits, the commercial insurance industry backed away from writing liability insurance. As a result, Congress passed the Liability Risk Retention Act, which enabled homogeneous groups of insureds to band together and insure their own liability exposures.

Unlike traditional insurance companies, which are regulated and licensed by each state, RRGs are regulated in only one state. In UE's case, that's Vermont, the largest domicile of [captive insurers](#), which includes RRGs, nationally and one of the largest internationally.

Another aspect of the presence of educators at UE is that all of the board's 14 members, except for its president and chief executive officer, are either employed by or are a trustee of an educational institution.

For the past two years, he says, UE has paid dividends to policyholders. The dividends are based on the company's capital position and function to reinforce the concept of policyholder ownership, according to Horning. They also demonstrate the company's efficient use of capital to the RRG's policyholder-owners, thereby helping to retain them.

Because most policies have deductibles, policyholders retain some of their own financial risk and thus have an inducement to prevent losses. If the insurer sees problems an educator is not addressing, the company can suggest risk management measures to address them.

The company's risk management and claims handling are aimed specifically at the exposures faced by educational institutions which are “a true differentiator for us in the insurance marketplace. We are able to overcome significant premium differences, when compared to other insurance carrier competitors, because our members strongly value those services,” Horning says.

In fact, the company's policyholder retention ratio “year-in and year-out runs at mid-to-high-90%, compared to the commercial market ratios of low 80%. That ratio is clear evidence of [policyholders'] commitment and loyalty to the company and the value they place on our risk management and claims services,” Horning says.