BUSINESS NEWS

SCJ ALLIANCE TRANSITIONS TO EMPLOYEE-OWNED COMPANY October was a month filled with excitement for **SCJ Alliance** employees and President/CEO Jean Carr.

"I was privileged to announce to our employees that SCJ is now a 100 percent employee-owned company," Carr shared. "Being a 100 percent employee-owned company is a way for our founders and previous owners to reward our employees for their dedication and commitment, as well as preserve our unique culture."

The decision to establish an ESOP was a natural evolution, according to Carr. Under the plan, all eligible employees earn a yearly allocation of stock and the stock value increases as the value of the firm increases. The ESOP allocates stock to employees in the form of a retirement benefit similar to a 401(k) plan.

SCJ engineer Scott Sawyer shared his enthusiasm for the change, "I am very excited we have implemented a long-term solution for ownership transition. It lets us keep our focus on being great with our clients and with each other. With everyone pulling in the same direction I am certain we will continue our track record of success!"

ESOPs are most often implemented by shareholders who would rather see their company continue with employees as the new owners, rather than selling to a competitor or private equity group, and that was the case for SCJ. "We've been working on transitioning to an ESOP for the past few years and I'm very happy this has become a reality," Carr said.

ESOPs firms are also elligible for special tax advantages. These tax advantages enable employees to become shareholders at no cost to themselves. There are about 7,000 ESOPs in the U.S.

Founded in 2006, SCJ Alliance is a multi-discipline consulting firm serving public and private sector clients, large and small, urban and rural, with foresight, insight, imagination, and perspective. SCJ has been nationally recognized multiple times for award-winning projects, growth, and as a great place to work.

ROB HUGHES, from page 11

1) **Know how your carrier calculates the renewal revenue base.** Most but not all carriers draw on a three-year averaged revenue to calculate your ratable revenue base. However, there might be a significant swing in the average if the underwriter uses the past three years versus the past two years plus the projection for next year. A few carriers use just the most recently completed year as the only year in their calculation, while some use a five-year revenue average. It's also important to know if your underwriter has the leeway to use a longer period of years in its calculation; that might draw in a fourth or fifth year with lower revenues that bring down the overall average.

> "For the most part, rates were not decreasing further as we worked through 2019 policy renewals. In fact, there are actually some potential signs of a slight increase in rates, in particular for design firms with higher risk profiles."

2) **Know which service areas are viewed as higher risk.** At the same time, be aware of the impact increasing or decreasing activities in specific disciplines of service might have on the renewal premium. A recent renewal offers a good example. The design firm provides architectural services, urban planning and design, and landscape architecture. Last year, 49 percent of the firm's revenues came from architectural design; however, at this renewal that amount jumped to 59 percent. Architectural services are considered among the higher risk services and coverage may be priced at three to four times the rate of either urban planning/design or landscape architecture. The increase in architectural services increased the gross renewal rate by 10 percent for this firm. That translated into a premium increase of $15,000. In the abstract, this firm may have thought the premium increase was unjustified. Nonetheless, given the context, the firm chose to renew with the incumbent carrier (it also took the time to double-check the 59 percent amount and confirmed it was accurate).

3) **Know your firm's loss experience.** All carriers use at least a five-year loss window when evaluating whether they will consider even offering to quote your firm. Then, they use that same loss experience together with other underwriting factors to determine the specific terms of the quote. This is true whether you've been with the same carrier all five years or if you've been with the carrier only for part of that time. Insist on seeing your firm's five-year loss runs (carrier issued summary of claims reported each policy year) at least once a year. The loss runs typically list the loss reserves for each file reported.

However, some carriers no longer list actual reserves on the loss runs they issue; so, ask your assigned claim contact with the carrier if they've established any reserves. Do not assume that if the carrier hasn't informed you it has posted a reserve, you're "free and clear;" many carriers aren't proactive in keeping their insureds apprised of these "internal" decisions.

Losses incurred in excess of the applicable policy deductible trigger underwriting action; the underwriter will debit your account depending on the amount and frequency of these losses. This will potentially increase the proposed rate by double digits while potentially prompting an increase in the renewal policy's per claim deductible. If you're not aware of loss reserves by the carrier, this "corrective" action may come as a total surprise even though it may be justified given any losses.

That said, there is a benefit in having a long-term relationship with a carrier: the underwriter may have discretion to go beyond the five-year loss window as the guiding measure, stretching the loss window to your tenure with the carrier up to 10 years or more. If other years are loss free, your loss ratio (reserves – both posted and paid out – divided by premiums collected over the same period) will be lower. A recent example: a firm with a $250,000 loss was presented with only a 9 percent rate increase because the loss ratio for that firm over the 11 years of the insured-insurer relationship was still less than 50 percent. The five-year loss ratio was much worse and would have prompted a large rate increase.

As market conditions for professional liability insurance begin to evolve, there's a great deal you can do to position your firm for a more favorable renewal. It starts with understanding how underwriters view and price risk. It also calls for taking stock of your firm, including reviewing its loss experience and recognizing how its project mix and services affect its overall risk profile.

ROB HUGHES is senior vice president and partner at Ames & Gough. He can be reached at rhughes@amesgough.com.