

Message From the Chair

by David M. Hall, CPCU, ALCM

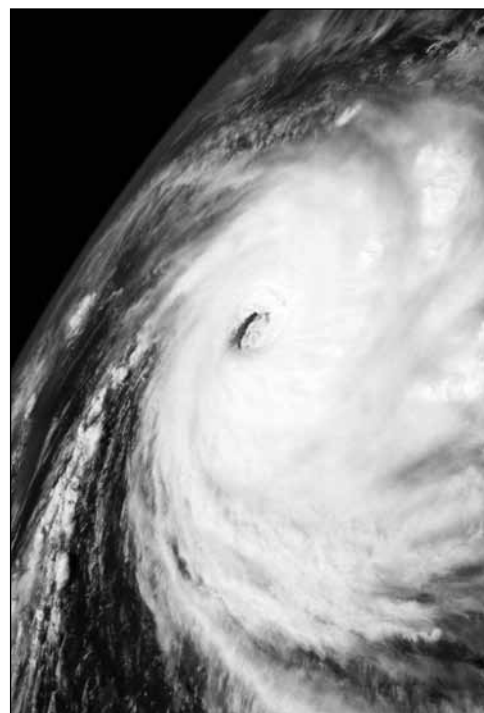


David M. Hall, CPCU, ALCM, currently serves as the section manager for Innovation and Small Business Solutions for the Central Zone of State Farm. He has worked in commercial lines his entire career at State Farm, passing through Pennsylvania, Indiana, Louisiana and now Oklahoma offices. Hall frequently speaks around the country on small business continuity planning. He also shares his expertise in volunteer roles with numerous professional and community organizations, including the Institute for Business and Home Safety, Tulsa Partners (as board vice president) and the Disaster Resistant Business Council (as chair) in Tulsa.

As we begin 2013, we are once again reminded that weather is unpredictable. While hurricanes are a global phenomenon, it occurs to me that, for the most part, hurricanes are seen as an issue for just the Gulf of Mexico and southern Atlantic states. Yet over the course of the last two years, we've witnessed Hurricanes Irene and Sandy inflict substantial damage in one of the most densely populated areas of the United States. Our hearts and prayers go out to all of the affected families in the Northeast U.S.

I tell this story as a way of reminding all of us of the importance of preparation. As a nation, we tend to have "catastrophe amnesia." The media cover an area 24/7 during the days and weeks after the storm, but our attention usually wanes during the longer rebuilding process and dissolves when we should be discussing personal and public loss control, preparedness, and mitigation.

As insurance professionals, we should be standard-bearers for the back half of the equation. We should be the ones still talking about things like impact-resistant roofs, hurricane straps, and business continuity plans. Think of it as a value-added service for your clients, your customers, and ourselves.



No matter where you are, if you have the opportunity to do something to assist in the relief efforts, please do. As with most major events, things will be a mess for quite a while. And if you're already involved—thanks and keep up the great work! ■

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Editor's Note

by Maurice E. Southwell, CPCU, CLU, ChFC

Maurice E. Southwell, CPCU, CLU, ChFC, is a manager in the Commercial Property Division of Insurance Services Office, Inc., responsible for developing commercial inland marine, equipment breakdown, capital assets, and agricultural capital assets Insurance.

In this issue, there are a number of articles relating to loss control being applied to motor vehicles and their drivers. "Crashes and Fatalities on the Rise" states that in the first three months of the year an estimated 7,630 people died in motor vehicle crashes.

In the articles titled, "Do You Know If Your Drivers Are Properly Licensed?" and "Medical Marijuana & Driving Safely: Compatible or Paradox?," the authors postulate as to whether the apparent increase in motor vehicle death rates can be ameliorated by the greater usage of motor vehicle reports (MVR) and by more screenings of drivers who may be drugged by medical marijuana use.

The rate of speed that an automobile driver engages in has a direct relationship to the rate and cost of automobile crashes, speeding ticket fees, maintenance costs, and fuel consumption. "The Need for (Controlled) Speed," explains how a new speed-control technology is being used

by fleet owners to monitor and modify the behavior of their drivers.

As people age, senses such as vision and hearing tend to decline. However, the article titled, "Aging and Workers' Compensation" points out that even though aging is inevitable, measures can be taken to prevent workplace accidents and injuries due to aging.

The burglar alarm security industry has been evolving since its creation in the early 1900s. "Resurrecting 'Modern' Loss Control from the Past," expounds upon the attributes of video verified burglar alarms that have purportedly increased the arrest rates for burglaries significantly.

Please send us your comments about what has been written. Let us know what additional, continued, and emerging loss control issues you would like to read about. ■

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Crashes and Fatalities on the Rise

by Paul Farrell



Paul Farrell is chief executive officer of SafetyFirst Systems LLC. He joined the company in 1999 as director of marketing. Previously, he spent 13 years in the insurance industry's loss control area in both field and home office staff positions. He has significant technical expertise, not only to the marketing arena but in staff training, as well as the writing skills necessary to create brochures, public relations materials, manuals and articles.

The National Highway Traffic Safety Administration (NHTSA) has released preliminary data for the first quarter of 2012 that show a trending increase in motor vehicle crashes and fatalities.

According to an article;

"Traffic deaths soared 13.5 percent in the first quarter of the year compared to the same period last year, and the number of deaths per miles driven also rose significantly, according to preliminary government estimates released Friday. An estimated 7,630 people died in motor vehicle crashes in the first three months of 2012, up from 6,720 deaths in the first quarter of last year, the National Highway Traffic Safety Administration said.

"If the estimate holds true, it would be the second largest year-to-year quarterly increase since the government began recording traffic fatalities in 1975. It would also run counter to historic declines in deaths over the past four years."

While NHTSA did not provide any evidence or opinions about the change in activity, many experts attribute it to the steadily

recovering economy, an increase in driving mileage and highway congestion, and more people commuting longer distances to find employment.

The question is whether this reversal in trends will continue and, if so, what it will mean for employers whose operations depend on vehicles for transporting goods, passengers, job-site crews, etc.

During the down economy, many firms reduced overhead by eliminating safety programs, training, and safety professionals from their payroll. While as a nation, we've enjoyed four years of decreasing fatalities and crashes, now is the time for responsible management teams to shake off any reservations about reinvesting in proven safety programs. Safety complacency and increasing road congestion make an extremely bad combination.

What are you doing, personally or professionally (as a loss control professional, employer, or employee driver), to educate, monitor, and/or modify driving tactics as congestion increases?

<http://bigstory.ap.org/article/nhtsa-traffic-deaths-shoot-135-percent> ■



Do You Know if Your Drivers Are Properly Licensed?

by Paul Farrell

A recent study by AAA Foundation for Traffic Safety (AAFTS), titled “Unlicensed to Kill,” found that over 18 percent of fatal crashes from 2007 through 2009 involved an improperly licensed or unlicensed driver.

Most companies that employ people to drive on the job obtain a driver abstract or Motor Vehicle Report (MVR) to verify that the employee is properly licensed to operate a motor vehicle.

The report states, “Crashes that involved a driver with an invalid license or no license resulted in 21,049 deaths, 18.7 percent of all deaths that occurred in motor vehicle crashes in the United States from 2007 through 2009.”

AAFTS researchers categorized “license status” as valid, suspended, revoked, expired, cancelled, denied, or unlicensed. They didn’t look at what factors (such as too many violations) might affect the likelihood of a driver with a valid license becoming involved in a fatal crash, only the frequency of fatal crashes involving drivers whose licenses were not valid or who were unlicensed at the time of the collision. Additionally, the category “denied” indicates that the driver had attempted to obtain, extend, or renew his or her license, but the driver’s request for the license, extension, or renewal was denied by the licensing agency.

The study also examined factors such as driver age, sex, and blood alcohol concentration; vehicle type; time of day and day of week of the crash; number of vehicles involved in the crash; and whether the driver remained at the scene of the crash or fled. Regarding these factors, the study reported these findings:

- Youthful drivers were generally more likely to be unlicensed or suspended/revoked than older drivers.
- Large truck and bus drivers were highly unlikely to be driving without proper credentials, but operators of pickup trucks and light-duty vehicles (i.e. SUVs, vans, etc.) were more likely to drive without proper credentials.



- Operators who weren’t properly credentialed were more likely to flee the scene of a fatal crash than those who were properly credentialed:
 - “An estimated 10.6 percent of drivers with suspended or revoked licenses who were involved in fatal crashes left the scene, as compared to only 1.7 percent of validly licensed drivers.”
 - “Excluding drivers who were incapacitated or killed and thus were unlikely able to flee, 31.2 percent of fatal-crash involved drivers with suspended or revoked licenses, as compared to 3.7 percent of validly licensed drivers, left the scene of the crash... indicating that among fatal-crash involved drivers who were not incapacitated or killed, drivers with a suspended or revoked license were 8.4 times as likely to have left the scene compared to validly licensed drivers.”

What Does This Mean for Most Fleets?

These factors and findings should give pause to most risk managers and safety professionals, who need to consider whether their current license validation system is performing for them on a consistent basis. Not only do they need to verify each operator’s license status, they also should have a mechanism to evaluate the content of each MVR. Data quality, scoring mechanisms, and compliance with a growing number of regulations could undermine your program if you’re not managing it closely:

- Are you getting the raw data posted from each state’s database or a paper report that was generated by a vendor’s own system?
- What is the data quality of your MVR reporting platform?
- Does your vendor use encrypted XML posting to transfer data and protect your personally identifiable information?

- Is your scoring system adjusted for each and every ACD code from the most current AAMVA data dictionary?
- Can you defend your MVR system if called to the witness stand?
- What about diversion agreements, plea bargains, or events older than thirty-six months?
- Are you (and your supplier) in compliance with the Fair Credit Reporting Act (FCRA), the Driver's Privacy Protection Act (DPPA), and state statutes and regulations?
- How often do you update records? Is the periodicity linked to the number of existing violations (i.e. those drivers with more activity get monitored more frequently?)
- Do you subscribe to any state-sponsored (or vendor-provided) alert programs which notify the employer when a change is posted to the operator's MVR? It costs extra, but may be a worthy investment in your risk management plan.

The prospect of a newspaper headline about an employee involved in a hit-and-run collision who doesn't have a valid license presents a bleak public relations nightmare. Worse, it could set up the employer for litigation based on negligent hiring, negligent supervision, or negligent entrustment depending on the specifics of the tragic crash event.

What Can Be Done?

1. If you don't currently check MVRs for new hires and again on a periodic basis, you may want to start. Studies show a direct correlation between violations and increased crash risk—these studies have been revalidated, showing the benefits of monitoring MVR data (<http://safetyismygoal.wordpress.com/2011/04/21/predicting-truck-crash-involvement/>).

2. If you already check MVRs annually, consider enrolling in a monitoring program. Currently, twelve states offer license monitoring to provide notification to employers about changes in license status during the course of the year. While there are supplementary fees associated with monitoring, they may prove trivial in comparison with the costs of defending a horrible crash event.
3. Investigate your current program and revalidate your program supplier's credentials. Are they compliant with the latest privacy regulations? Are they able to deliver meaningful scorecards, reminder notices, and automated profiling (using multiple data points such as How's My Driving reports, telematics alerts, and automated enforcement violations) based on ACD codes from the AAMVA? Perhaps this year is a good year to rebid your business relationship and upgrade to a more robust solution?

E-DriverFile is one example of a risk management information system designed to track and manage many aspects of driver safety, including MVR reconciliation and monitoring, and is available to select policyholders through their insurance providers or as a direct subscription relationship between the fleet and the supplier.

To learn more about the study:

<http://www.aaafoundation.org/pdf/2011Unlicensed2Kill.pdf>

To learn more about MVR programs:

- "Managing Driver Risk through MVR Monitoring"—<http://www.iso.com/Research-and-Analyses/ISO-Review/Managing-Driver-Risk-through-MVR-Monitoring.html>
- "Road Safety and the Law—When is a License Check Not Enough?" (CPCU Society, Loss Control Quarterly, 2009)—<http://my.safetyfirst.com/newsfart/CPCU-LCQ-July09.pdf>

- "Identifying Drivers Who May Be 'At-Risk' of Becoming Involved in a Collision: MVR Analysis" (CPCU Society, Underwriting Trends, 2006)—[http://my.safetyfirst.com/newsfart/UnderwritingTrends8-2006\(MVR\).pdf](http://my.safetyfirst.com/newsfart/UnderwritingTrends8-2006(MVR).pdf)
- "The MVR Gap"—http://www.fleet-central.com/resources/AF11supp_p22_25LR.pdf ■

Medical Marijuana and Driving Safely: Compatible or Paradox?

by Paul Farrell

A recent news article titled, "In the medical marijuana age, how high is too high to drive?" discussed writing new traffic laws to define legal limits for drugged driving.

This concept was brought to light in Colorado by state Senator Steve King. Twelve years ago, Colorado legalized the use of marijuana for medical purposes, and reportedly more than 85,000 people have been certified by the state health department to use it. Looking at the time period from 2006 to 2010, there were more than 300 fatal accidents involving drivers who tested positive for cannabis.¹ These sobering facts are the main reason for introducing the concept of a legal limit for marijuana intoxication.

Other state legislators are making the connection between drugged driving and traffic fatalities. In California, Assemblywoman Norma Torres reportedly wants to set a zero-tolerance ban on driving under the influence of any drug, including marijuana.²

Critics of these proposals argue that the ways that cannabis affects the human body are different than alcohol, the practical testing has not been developed, and medical science has not yet concluded what limit of marijuana should be set as acceptable versus unacceptable for driving.

How are states handling this now and what do they propose? Presently, seventeen states have "per se" laws to address drugged driving. This approach considers anyone caught driving with traces of an illegal or impairing drug as having broken the law. By comparison, this approach is closer to a zero tolerance policy than the current 0.08 percent blood alcohol content method that states have for dealing with drunk driving.³

Where it becomes tricky is in states that have both "per se" laws and medical marijuana laws that allow for getting high. This sets up an inherent conflict between those statutes—on one hand you may get high, but on the other, you definitely can't drive while having ANY trace of the drug in your system, and THC (marijuana) takes a long time to fully exit your bloodstream.

Further, there's a conflict between federal and state law. Marijuana is a Schedule I drug according to federal law, and federal agencies don't respect state laws permitting its use or application. For instance, commercial truck drivers holding a federally recognized commercial drivers license (CDL) may never use marijuana under any circumstances if they intend to drive a commercial motor vehicle. There is no exception for state-sanctioned permitted use.

Regardless of these conflicts, two states have proposed setting a new mechanism in place to measure nanograms of THC per milliliter of blood as a means to identify inappropriate levels of THC versus acceptable levels. Advocates of medical marijuana don't like this approach, stating that "science isn't supportive of adopting such specific limits."⁴ At risk are drivers who are not impaired to drive but who have lingering traces of THC that may cause them to lose their licenses. Simply put, research has not yet delivered a satisfactory substitute for the blood alcohol content standard used to measure drunkenness.

While most over-the-road truckers have substance abuse screening programs in place, many commercial fleet operators are not closely regulated in this area.

This topic raises many questions for fleet operators:

- Will drivers who get approved for medical use of marijuana and report for duty drive safely?
- What happens if one of these drivers is involved in a tragic collision with fatalities and the circumstances lead to extended litigation with discovery of the alleged impairment of the driver?
- Would these laws (as proposed in Colorado and California) be enforceable and/or helpful in curbing driving under the influence of medical marijuana?
- Do these proposals go far enough?
- Is it equally important to document what concentration of antihistamines, antipsychotics, barbiturates, codeine, etc.,

is too much in a person's system for him or her to drive safely?

Note: We displayed this article on SafetyFirst Systems' Facebook page.⁶ The Facebook link was accessed over 550,000 times in the course of two weeks. Clearly, this is an issue that generates controversy and interest among drivers and employers. ■

Endnotes

1. "In the medical marijuana age, how high is too high to drive?" *The Joplin Globe*, April 12, 2012, www.joplinglobe.com/national/x611951676/In-the-medical-marijuana-age-how-high-is-too-high-to-drive (accessed April 13, 2012).
2. "In the medical marijuana age, how high is too high to drive?"
3. "In the medical marijuana age, how high is too high to drive?"
4. "In the medical marijuana age, how high is too high to drive?"
5. U.S. Department of Transportation Federal Motor Carrier Safety Administration, "§ 382.213 Controlled substances use," August 30, 2012, www.fmcsa.dot.gov/rules-regulations/administration/fmcsr/fmcsrruletext.aspx?reg=382.213 (accessed April 13, 2012).
6. www.facebook.com/SafetyFirstSystems (accessed April 13, 2012).

The Need for (Controlled) Speed

by Jonathan Hubbard



Jonathan Hubbard, in his capacity as founder and CEO of SpeedGauge, Hubbard is applying twenty years of industry experience toward business development, product strategy, and planning. Under his direction, SpeedGauge grew from a startup to a company that has an international footprint and is well established within the North American commercial fleet sector. Prior to founding SpeedGauge and LandSonar, Hubbard served as CEO of MetaExchange, a bid-ask commodity exchange platform, which was acquired by AVROKO. Earlier in his career, he founded Hobby Markets Online, an online auction company that was acquired by Boxlot. Hubbard served as a senior vice president of Boxlot, which was later acquired by InfoSpace.

Hubbard earned his master's degree in business administration from Harvard Business School and a bachelor's degree in international relations from Johns Hopkins University. He has three patents to his name.

In today's competitive transportation business environment, there's perhaps no greater asset than the trust you build with your customers. If you can demonstrate to them that you are actively seeking solutions to their challenges—including deriving the greatest value from their insurance policies—you will foster loyalty. That loyalty will likely translate into continued business and revenue.

For your customers who operate fleet vehicles, recent technical innovations have brought a new level of management control to a major source of insurance risk and operational inefficiency that hereto has been

rather illusive. Specifically, we are talking about speed.

It's intuitive of course, but somehow underappreciated by many that how fast you drive and where you drive fast has a direct relationship to both fuel economy and insurance risk. However, in these days of \$5.00 gas and \$25 million payouts for commercial vehicle accidents, vehicle speed is no minor matter—and something that fleets and their insurers should seek to fully appreciate.

On the operational side, it is estimated that fuel economy decreases by 1 percent with each mile per hour above the optimal speed of 55 miles per hour (mph). For an "over-the-road" big rig that travels 100,000 miles per year at 70 mph, a reduction to a more fuel-efficient speed of 60 mph can mean a fuel savings of over \$9,000 a year.¹

On the risk side, recent data from the Federal Motor Carrier Safety Administration (FMCSA) show that excessive speed contributed to 22 percent of truck-occupant fatalities in 2011, the largest single contributing factor after failure to use seat belts.² Additionally, speeding in its various forms is routinely among the leading factors in fleets poor Compliance, Safety, and Accountability (CSA) unsafe driving scores.

Combined, vehicle speed is the single most significant operational cost variable and is directly attributable to driver behavior. How fast truck drivers choose to drive directly corresponds with the rate and cost of truck crashes, speeding ticket fees, maintenance costs, and fuel consumption.

There was a time when these risks and expenses were solely a fleet owner's issues to manage, but with the speed-control technology available today, commercial auto insurers can now truly partner with customers to identify viable solutions for their specific businesses. Commercial auto insurers respond to this commitment by offering discounted premiums to fleet owners, who, in turn, use innovative driving-behavior analytics to coach drivers.

Commercial auto insurers offer discounts to fleets equipped with speed-control technology to facilitate both truck and driver safety. Speed-monitoring systems, like SpeedGauge, collect data through a vehicle's Global Positioning System (GPS) data stream to inform a report identifying how, where, when and to what extent fleet managers should discourage aggressive driving within their fleets.

Fleet owners receive customized reports that identify and track speeding incidents so that owners can notify drivers and, ultimately, raise awareness and reduce unsafe and fuel-inefficient driving behaviors. These reports can identify the location, severity, duration, and frequency of the incidents. Simple and intuitive, the reports make it easy to identify high-risk and fuel-inefficient drivers, as well as to rate and rank them to facilitate better training. In tracking and correcting these behaviors, the fleet also receives data to measure, monitor, and manage fuel economy.

It's an arrangement that benefits both sides, with commercial auto insurers gaining access to fleet analytics that enhance risk assessments and rate accuracy, and speed-monitoring system-equipped fleet customers receiving highly competitive insurance premiums.

With insurance as a commodity in today's marketplace, commercial auto insurers must rise to the challenge of providing recommendations and solutions of unique and significant value to win new customers and keep current customers coming back. In the case of speed-control analytics, knowledge is true power; it offers customers control over fleet driver performance and insurers a compelling value-add for their customer relationships. ■

Endnotes

1. Assumes big-rig fuel economy degrades from 7.0 miles per gallon (mpg) to 6.0 mpg when speed rises from 60 mph to 70 mph over 100,000 miles per year. Diesel fuel cost is over \$4.15 per gallon.
2. FMCSA, Transportation Research Board's annual conference, January 2013.

Aging and Workers Compensation

by Cindy L. Roth



Cindy L. Roth has been a professional in the ergonomics, safety, and health industries since 1987. In 1993, she cofounded Ergonomic Technologies Corp. (ETC), where she serves as the chairperson of the board and as CEO. Prior to ETC, Roth was executive vice president of Biomechanics Corporation of America. She wrote the chapter on ergonomics for Maynard's Industrial Engineering Handbook and has just published a book on ergonomics for the National Safety Council.

Roth is active with the American Society of Safety Engineers (ASSE) and has served as a trustee and as chairperson of the board to the American Society of Safety Engineers Foundation (ASSEF). She also serves on the WISE Advisory Board, the ASSE's Council of Professional Affairs (CoPA), and the ASSE's Government Affairs Committee. Roth was elected the Safety Professional of the Year in 2010 and was also included as one of the "Most Influential Women in Safety and Health in the Last 100 Years." Roth has been appointed a permanent member of New York state's Commission on International Trade and serves on the Advisory Board of the NYC Department of Mental Health and Hygiene. Roth received a degree from the University of Pittsburgh as a professional registered nurse with specialties in occupational nursing and biomechanics. She completed postgraduate work at Cornell University in international labor relations and industrial management.

The United States' workforce is aging and the percentage of older employees is increasing. Are your jobs and training programs keeping pace with changing needs? Do aging employees need special accommodations?

In the U.S., our workers compensation claims have reached \$54 billion dollars. Some of the issues that cause people to become injured have varied over the years, and very few people have taken the aging employee into consideration as a risk factor even though workers compensation claims associated with an aging workforce are more expensive and require more time for recovery.

As we age, it becomes more difficult to perform the same tasks that we could do when we were younger. Our strength diminishes, but not our jobs; our joints become a little achier, but our tasks remain the same and we continue to reach, bend, lift, carry, work on computers, and do all of the things we need to do to continue working.

How do these responses affect our at-work performance? How can we assist our employees in feeling good while being injury free and productive? How can we reduce soaring lost work time and workers compensation claims for the aging employee?

Let's take a look at the tasks, tools, and equipment, and assess what the capabilities and limitations of an employee are at various stages of the employee's working life.

While older workers as a group tend to be more experienced and therefore have fewer accidents and injuries than younger employees, the injuries of older employees are often more severe and it usually takes them longer to return to work. It's important that older employees get the same training provided to all other workers—whether that's refresher training about ongoing hazards or training on new hazards.

Key Safety Issues for Older Employees

If tasks are designed ergonomically, an employee of any age will be able to perform them without risking soft tissue injuries:

- Strains, sprains, and repetitive motion injuries are common among older employees.
- Back injuries and chronic back conditions are of special concern among this age group, as well as chronic shoulder injuries.
- Lifting and carrying heavy objects as well as performing other tasks that require a lot of exertion, may become harder as muscle strength declines. This may require adjustments in the way older workers approach these tasks.

Slips, trips, and falls are the number one concern of the aging employee:

- Falls from the same level account for a significant number of work-related injuries suffered by older employees.
- Falls on stairs and from ladders are another risk common to older employees.
- Falls account for one-third of all injuries sustained by employees age 65 and over.

Vision and hearing are also a concern for older employees:

- Both vision and hearing often decline with age, making it harder for older employees to use these senses to protect their safety on the job. Office employees who wear bifocals or trifocals need to have their workstations adjusted to meet their visual needs.
- Poor vision could lead to mistakes and accidents.
- An employee who does not hear well might miss critical safety instructions or fail to hear a co-worker's hazard warning.

Driving can become hazardous for older employees:

- Death rates for work-related motor vehicle crashes steadily increases beginning around age 55.
- Declining vision and slowing reflexes may affect driving safety for some older employees.
- Older drivers may take longer to react to dangerous situations.

Temperature changes can affect older employees:

- The body becomes less able to maintain internal temperatures as it ages.
- Older employees might find heat more difficult to deal with than younger employees. They may become overheated and suffer from heat stress.
- Older employees may also be less able to cope with cold work environments.

Wellness and other things to be considered:

- Changes in fitness, flexibility, and overall health due to age can affect employees' safety and contribute to accidents and injuries.
- Being grossly overweight and a variety of medical conditions (such as heart disease) can also have an impact on employees' safety on the job.
- Disrupted sleep patterns can leave some older employees tired as they begin the workday.

Taking medications might also affect an employee's performance, and is something to consider for all employees of any age.

Aging is inevitable, but it doesn't have to compromise the safety of your employees. By recognizing effects of aging that have an impact on older employees' safety on the job, you can take appropriate measures to alter tasks, through administrative or engineering change, and to train employees to compensate for the changes that come with age and prevent workplace accidents and injuries. ■

Resurrecting "Modern" Loss Control From the Past

A Public/Private Partnership Making Arrests and Reducing Claims

by Keith Jentoft



Keith Jentoft

In the past, alarms detected burglars, officers responded, and police made arrests. Underwriters depended on "loss control with a badge." In fact, underwriters created the security industry in the early 1900s when they wired a problem Boston bank that then alerted the nearby telegraph office of a burglary. Police arrested the burglars and prevented a large claim. Underwriters built on this success and pushed policy holders to install burglar alarms because they worked: police made arrests and lowered claims. The alarm/police response concept worked so well that underwriters soon mandated that all high-value policyholders, such as banks and jewelry stores, install Underwriters Laboratories UL-certified intrusion alarms before they would issue a policy. They also created alarm discounts in their policy contracts to encourage their other commercial and residential policyholders to install burglar alarms. This historic police/ alarm/insurance model boosted profits through the 1970s, but the partnership lost its value, deteriorated, and died. Before we resurrect this partnership and reconsider the "alarm discount," we need to understand what happened.

Background

What caused "loss control with a badge" to fade? From the underwriter's perspective, the unprecedented bull market of the 1980s meant that profitability shifted away from loss

control to a focus on collecting premium and driving investment income. At the same time, from the alarm perspective, the digital phone dialer appeared and opened a new mass market for inexpensive burglar alarms. The installed base of traditional alarm systems exploded into the tens of millions, creating a tsunami of false alarms for law enforcement that eroded value and wasted resources. It is a big problem.

International Association of Chiefs of Police (IACP) president Craig Steckler specifically addressed false alarms in his inaugural address in October 2012: "According to studies, last year there were more than 38 million false alarm calls in the United States. In many agencies, alarm calls were the number one call for service, and, statistically, these calls often account for nearly 10 percent of all the calls for service the agency handles on an annual basis. Additionally, every study of the issue continually finds that 95 to 99 percent of all alarms are false." Chief Steckler bluntly states, "We must take a critical and unbiased look at false burglar alarms and determine whether in the new norm, this type of call (police responding to alarms) is truly a prudent use of severely limited resources." Chief Steckler is not exaggerating. Police consider traditional burglar alarms a waste of resources, and response has decayed. Officers no longer make arrests, and alarm companies focus on selling deterrence instead of apprehensions. From the police perspective, many simply no longer care. The situation has degraded to the point that many major cities like Las Vegas, Salt Lake City, San Jose, and Milwaukee stopped responding to traditional burglar alarms altogether. This trend is gathering momentum. The public/private partnership of the police/alarm company/insurance industry has atrophied, and neither the police nor underwriters find value in traditional burglar alarms.

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Resurrecting “Modern” Loss Control From the Past

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The Problem

Before we consider the solution, let's look at how traditional alarms are viewed by police. When hit with budget cuts, the Detroit Police Department joined the growing trend and decided to end response to traditional alarms because there simply were not enough officers to go around anymore. Traditional alarms no longer delivered. On August 16, 2011, in a *Detroit Free Press* feature article, Detroit Police Chief Ralph Godbee Jr. declared that any triggered alarm will require a verified response before dispatch sends a cruiser to the location. Godbee cited a United States Department of Justice report supporting verified response as a reliable practice that works toward eliminating waste and improving public service. Abandoning traditional alarms, Chief Godbee sees video-verified alarms as the solution to more effective policing—using video to verify that the alarm indicates an actual crime. Detroit Police Commander Todd Bettison stated, “Our main goal is to respond to crime, and if we can utilize modern technology, then so much the better. We feel very passionate about this. We've been looking at this for a long time, and from what we've observed, this is definitely the way to go.”

One program that the security industry developed to address this false-alarm problem involved transforming false alarms into a municipal revenue stream; creating city ordinances mandating false-alarm fines and permits for burglar alarms. While filling the city's coffers with false-alarm fines may placate city councils, this approach does very little to increase arrests and address the need for effective loss control. In any case, in many jurisdictions, this program is simply overwhelmed by draconian budget cuts that are decimating the ranks of law enforcement. The recent Department of Justice publication *The Impact of the Economic Downturn on American Police Agencies* stated that at least 10,000 officers had been laid off in 2011. In the last two years, the San Jose (Calif.) Police Department has reduced its officers by 20 percent, forcing the department to reconsider alarm response. In a memorandum sent to the City Council's public safety committee in

December 2011, Police Chief Chris Moore wrote that, “The primary purpose of police is to respond to reported crimes, preventive patrols, and community policing, and the practice of responding to all audible alarms does not accomplish any of those goals.” Chief Moore further underscored just how ineffective traditional alarms were at delivering apprehensions: “In 2011, San Jose had 12,450 alarm calls, and of those, there were only two arrests.” These statistics are not unique. According to the *Las Cruces Sun-News*, Las Cruces, N.M., is moving toward verified response after reviewing that, in 2011, a total of 12,970 alarm runs resulted in only two burglars being arrested. In light of such statistics, San Jose, Calif., implemented a verified-response policy on January 1, 2011. City leaders say the new policy allows police to focus on high-priority calls and perhaps even reduce response times. This is the real benefit of verified response to underwriters; policyholders who use video-verified alarms get faster response for more arrests. Police attention is focused on crimes in progress instead of on false alarms.

Most underwriters are not aware that police do not respond to traditional alarms in many areas of the U.S. Politicians avoid public outcry, and degraded alarm-response policies are often presented in “politically friendly” code, but the result is the same: no police response and higher claims. “Broadcast and file” is one example of a friendly-sounding non-response policy that is popular in Colorado and other parts of the West. For many large Colorado cities like Denver, a broadcast-and-file policy means that alarms are broadcast over the radio, and an officer responds if he or she feels like it and has nothing else to do. It is voluntary response. The majority of the time, this means no response at all. In contrast, video-verified alarms still receive mandatory dispatch in broadcast-and-file jurisdictions and deliver real value and arrests. Many police departments have relegated traditional alarm response to such a low priority that the response time is measured in hours, not minutes. Underwriters have not been totally ignorant of this trend toward degraded

response. Large companies such as State Farm and Allstate have already eliminated the alarm deduction in Florida, and underwriters are moving to remove it from their contracts nationwide because they can no longer afford what has become a marketing device that has no influence on reducing claims.

The Solution

The alarm industry and law enforcement have a solution: new technology and updated policies. Video-verified burglar alarms have resurrected the police/alarm-response model. Police are making arrests again and changing the paradigm. The cover story in the June 2012 issue of *SDM* magazine, “Does All of This Stop Crime?” cited examples of amazing arrest rates using video alarms. Universal Monitoring, an alarm company in Charlotte, N.C., achieved more than a 60 percent arrest rate on its monitored video alarms in a one-year period. F. E. Moran, an alarm company in Illinois, delivered 129 arrests for 136 incidents using video alarms protecting commercial property—more than a 95 percent arrest rate! The March 2012 issue of the International Association of Police Chiefs (IACP) official publication, *Police Chief* magazine documents a case study of this new approach at Detroit Public Schools in an article titled “Arresting Results: How One District Achieved a 70 Percent Closure Rate with Video Alarms.” Detroit Public Schools installed video intrusion alarms in thirty vacant schools that were targets of vandalism and copper theft. During the 2010-11 school year, 101 burglaries occurred in these facilities. According to the report, the police closed 70 incidents with arrests of 123 people—a 70 percent arrest rate. From an underwriter's point of view, the results change the game; a few thousand dollars for video alarms saved millions in damage for Detroit Public Schools. In fact, Detroit officer John Greene made more than 150 arrests using video intrusion alarms and was named officer of the year in *Police K-9 Magazine*. These results are not unique; video intrusion alarms are delivering arrests across the U.S., saving insurers millions. In February 2012, the Los Angeles County Sheriff's Department, speaking of its new Priority Response

program, announced initial arrest rates of 19 percent for video intrusion alarms. In contrast, the 2011 burglary arrest rates (without alarms) in Dallas and Minneapolis were 5.2 percent and 7.3 percent, respectively. Even more worrisome, a study by the San Bernardino Police and Sheriff in 2007 reported an arrest rate of 0.08 percent for traditional alarms. For San Jose, it was less than two arrests for every 10,000 alarm runs in 2011. It is ironic that insurance companies continue to offer costly alarm discounts in cities that no longer respond to alarms that no longer deliver arrests.

An underwriter knows that putting one burglar in jail prevents an additional thirty to fifty burglaries he or she would have committed on the street (as well as eliminating the cost of the entire claims process incurred by the company). A single site in Chandler, Ariz., protected with video intrusion alarms resulted in more than forty arrests in four months, according to an article in *Modern Contractor Solutions*. While response to traditional alarms is decaying, video-verified alarms are transforming security and providing new value to law enforcement and underwriters. Alarm monitoring companies are even sending video clips of the intruders to police cell phones, making them even more effective. This is making a dramatic difference in combating property crime, a paradigm shift for police and sheriffs. Video alarm technology and priority response have created an inflection point in an insurance market demanding the return to modern loss control.

It is also a new world for law enforcement. Both police and sheriffs embrace solutions that deliver arrests and make them more effective. Law enforcement sees video intrusion alarms as a fundamental paradigm shift, and they want to encourage them, so much so that they are directing the 911 dispatch centers to create special dispatch codes that designate video alarms for high-priority response. In essence, the 911 operators treat video-verified alarms as a crime in progress, not just an alarm. Priority response to video alarms means that the historic police/alarm concept has value for underwriters and works again,

protecting property and reducing losses. Police respond to video alarms and make arrests that reduce claims. Law enforcement is being proactive, encouraging citizens to help them protect their property. Chief Steve Dye of Grand Prairie, Tex., recently announced a priority response policy on a televised newscast and sent flyers in the water bills of Grand Prairie property owners encouraging them to upgrade to video alarms. Sheriff Larry Amerson of Calhoun County wrote a letter to his constituents stating, "We believe that video alarms offer enhanced protection to you and help us in our efforts to keep Calhoun County citizens safe and protect their property." Law enforcement is making arrests again, and it matters. The National Sheriffs Association even officially endorsed the video alarm manufacturer Videofied—the first endorsement of a burglary alarm by national law enforcement—because it delivers more arrests.

It is a new world for underwriters. Loss control matters again. It is a world that is ripe for the rebirth of the police/alarm/insurance partnership. Underwriters need loss control; the stock market crash and economic downturn have radically affected the insurance business model and profitability. Pat Speer, editor of *Insurance Networking News*, spoke of alarm systems in her January 2012 column, "Is Loss Control a Lost Art?" She concludes her article with, "Given the cost dynamics of the industry's long history of successful loss control initiatives, holding clients contractually accountable for known risk management prevention efforts is just logical. Isn't it?" Underwriters are again forced to price policies that depend on loss control for profitability. To strengthen the point, the downturn has created new crime categories, such as copper theft, that leave insurers with expensive property claims twenty to thirty times greater than the scrap value of the stolen copper. (Recovery is impossible when stealing \$1,800 of copper creates a loss of \$85,000 for broken plumbing, wiring, and HVAC.) CBS News recently reported on copper theft at a dental office in Sacramento, where thieves caused more than \$10,000 in damage for \$200 worth of copper. All this pressure on profitability

comes at a time when the premium base is shrinking. With the proverbial financial gun to their heads, underwriters are looking to resurrect "loss control with a badge."

Reconsidering the Alarm Discount

Underwriters are becoming better educated; experience has taught them that video surveillance is not loss control. Most surveillance is not monitored in real time. It is true that high-definition Closed Circuit Television (CCTV) surveillance cameras and a video recorder can document a theft in high resolution for later review by a business owner. Although this may be interesting for a television audience, for the underwriter, the crime has already happened, the building is damaged, and the crook is long gone with the loot. Movie-quality video without real-time monitoring and immediate police response is a solution, but for other problems. Video quality is not the key issue; once the monitoring operator can tell that an actual crime is occurring and sends the police, that is enough. Hundreds of video clips of arrests on YouTube that were taken outdoors and in difficult low-light conditions prove the point. "Adequate video quality" means affordability, and the good news is that video intrusion alarms themselves are now the price of a traditional system and much less expensive than a high-definition surveillance system. Police don't need Hollywood quality to make arrests; what they need is instant notification of a crime in progress.

Underwriters know they must answer the question, "How can we encourage policyholders to use video alarms and police response to reduce losses?" One simple approach is to review the existing alarm discounts and limit them to video intrusion alarms that deliver priority response. Practically speaking, this means working with an alarm company as a partner that provides video verification services. Effective loss control means that video clips of the burglary are sent to a monitoring station where they are immediately reviewed and dispatched as a crime in progress. A longer-

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term approach being coordinated by the Partnership for Priority Video Alarm Response (PPVAR) is to bring insurers, law enforcement, and security companies together to begin to develop guidelines and standards that underwriters could use for specific markets and applications. The board of the PPVAR is composed of representatives from the police, sheriffs, National Insurance Crime Bureau (NICB), Verisk Crime Analytics and the alarm industry. This security/insurer/law enforcement working group will analyze loss data for specific applications, such as construction, and create guidelines for minimum requirements needed to bring the police and stop the losses—an updated reincarnation of certificated alarm systems. In any case, the alarm industry and PPVAR are reaching out to insurance industry associations, including the CPCU Society, NICB, Insurance Services Office, Professional Insurance Agents Association, and others to educate them and solicit their support as we attempt to resurrect the partnership that worked so well in the past: security

companies installed alarms, police made arrests, and insurers reduced loss.

What is video verification? Link to actual video/audio of four different alarm calls to the 911 center—and the results: www.youtube.com/watch?v=ixpxrbGuL6Q

For more information on PPVAR:
www.priorityresponse.info

CPCU webcast training is available at:
www.cpcusociety.org/page/184331/

NICB six-minute video overview: www.ijmag.com/LossControl ■

The Loss Control Interest Group newsletter is published by the CPCU Society Loss Control Interest Group.

Loss Control Interest Group
<http://losscontrol.cpcusociety.org>

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