

CHAMPION EXCELLENCE



SPRING CONFERENCE

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JW MARRIOTT, ANAHEIM RESORT

2024 Annual Conference

Perspectives on Peer Review

One of GBA's Most Valuable Programs

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Agenda

- I. Goals, Introductions, and History
- II. Overview of the Peer Review Process (PR)
- III. PR – A reviewer's perspective
- IV. PR – A reviewed firm's perspective, value creation, and the pros and cons of remote model
- V. PR – An insurer's perspective
- VI. Additional Value of PR
- VII. Recurring PR Observations
- VIII. Summary and Conclusion
- IX. Q & A

I. Goals, Introductions, and History

Goals

- » Provide a clear idea of the PR Process and its value
- » Stimulate better participation in the Process for non-Terra GBA members
- » Enhance PR Training
- » Increase inventory of PR captains and reviewers

I. Goals, Introductions, and History

Introductions and History

» Robert Rabeler
SME

Thomas Blackburn
Blackburn Consulting

David Coduto
Terra Insurance Company

- » Bram McClelland and the AICPA
- » Began in 1978
- » Several hundreds of PRs have been completed since that time, and mostly of Terra firms or firms that were once Terra firms
- » Underutilization of PR by GBA (Non-Terra) members

II. Overview of the PR Process

- Come – as you are – evaluation
- Evaluate effectiveness of existing policies and procedures
- PR is a refined consultancy that addresses the CEO's and upper management's concerns
- The process is cost-efficient and pays huge dividends in terms of staff and client feedback, improved teamwork, strategic and business planning, risk management, and loss prevention (drives down frequency and the cost of claims)
- October 1999 ENR praised GBA PR as one of the most innovative construction industry's developments in the last 125 years

II. Overview of the PR Process

1978 – 1997

- » Process inception and first 20 years
- » 1998: Terra stops reimbursing for PR. Why?
- » Peer Review Committee action: 1998 - 2000
 - Peer Review Committee members visited and spoke with CEOs of member firms
 - Firms with multiple reviews wanted the flexibility to focus on specific issues
 - Some reviews were poorly done and did not address CEO/management concerns
 - Some reviews were performed by individuals with little or no PR experience or PR training
 - Concerns regarding confidentiality, recruitment of staff, and marketing of firm's clients.

II. Overview of the PR Process

» The “fix” to the challenges

- Developed two manuals: Users and Reviewers
- Increased honorarium
- Developed training programs, especially for Team Captains
- Developed a list of trained Captains and Reviewers
- Provided flexibility in scope for firms with multiple completed PRs
- Provided opportunities for PR of firms with an internal PR function
- Urged firms - to provide PR teams with areas of concern before initiation of PR
- Developed contract language to address confidentiality, recruitment of staff, and marketing of firm’s clients.
- Started PR luncheons at the GBA conferences to discuss issues and concerns

II. Overview of the PR Process

2020-2021

- Covid shuts down PR program
- Bob Rabeler created the remote model for Terra as video platforms gained popularity during this time.
- Beta-test of remote model
- Remote PRs commence
- Creates a successful and improved process

II. Overview of the PR Process

Today

- Terra insureds are required to speak with Terra, first. Then 2nd, contact GBA to obtain a GBA control number
- Find the appropriate and properly trained captain and review team
- PR is an evolutionary process. Discuss Remote, Face to Face, and Hybrid models
- CEO Memo – Key issues and concerns
- Document Review
- Staff and client questionnaires
- Staff interviews
- Reporting & Feedback

II. Overview of the PR Process

The Nine areas of review – Core Management Components (CMCs)

- Business Management
- Facilities & Technical Resources
- Human Resources Management
- Professional Development
- Project Management
- Financial Management
- Marketing & Sales, and Business Development
- Electronic Resources Management
- Image and Culture

II. Overview of the PR Process (Nine CMCs – Detail)

Business Management

- » Strategic Planning
- » Ownership Structure
- » Organization Structure
- » Communications
- » Ownership Transition
- » Leadership Transition
- » Discussion of and Implementation of past PR recommendations
- » Risk Management & Loss Prevention

II. Overview of the PR Process (Nine CMCs – Detail)

Facilities & Technical Resources

- » Facility Image
- » Adequacy of Resources
 - » Library
 - » Website
 - » Equipment
 - » Hardware/Computers
 - » Software
- » Records Storage, Labeling, Retrieval, Retention and Purging
- » Inventory Listings

II. Overview of the PR Process (Nine CMCs – Detail)

Human Resources Management

- » Reporting Relationships
- » HR Management Staff
- » Recruiting
- » Employment Laws & Regulatory
- » Performance Reviews
- » Personnel Records
- » Employee Retention

II. Overview of the PR Process (Nine CMCs – Detail)

Professional Development

- » Training
- » Registrations/Certifications
- » Use of GBA resources – Materials and Programs
- » Risk Management & Loss Prevention Education

II. Overview of the PR Process (Nine CMCs – Detail)

Project Management

- » Contracts, General Conditions and Client Contracts
- » Personnel Management
- » Communications
- » Financial Management of Projects
- » QA/QC
 - » Review of
 - » Proposal & Reports
 - » Emails with recommendations
- » File Management
- » Project Manager Training

II. Overview of the PR Process (Nine CMCs – Detail)

Financial Management

- » Review of Financial Management & Staff
- » Financial Reporting
- » Budgets & Forecasts
- » Monitoring of Financial Metrics
- » Invoicing
- » Collection of Receivables and Write-offs
- » Backlog

II. Overview of the PR Process (Nine CMCs – Detail)

Marketing, Sales and Business Development

- » Marketing Plan – Target Markets and Clients
- » Marketing Staff
- » Website
- » SOQ, Brochures and Resumes
- » Sales Training
- » Visibility
- » “Go/No-Go” Procedures
- » Proposal Success Rate

II. Overview of the PR Process (Nine CMCs – Detail)

Electronic Resources Management

- » IT Staffing & Management
- » Hardware
- » Software
- » Cyber Security
- » Back-up – Servers & Hard Drives
- » Access to Historical Data

II. Overview of the PR Process (Nine CMCs – Detail)

Image & Culture

- » Strengths & Weaknesses
- » Growth
- » Treatment of Clients & Employees
- » Honesty, Integrity and Ethics
- » Reputation
- » Uniqueness of the Firm

II. Overview of the PR Process

1. CEO Memo

- » Special issues and firm history

2. Document Review

- » Plans: Strategic, Business, and Marketing
- » Org. Chart
- » Previous PRs
- » HR, Policy and Procedures
- » Contracts, Proposals, and Reports
- » Document Retention Policy

II. Overview of the PR Process

- » Questionnaires – Staff and Client
 - » Interviews
 - » Feedback
 - » Exit Conference, In-person or Remote
 - » Written Report
 - » Summary of Staff and Client Feedback
 - » Address the top priority issues
 - » 9 CMCs
 - » Comment on documents

III. PR - A reviewer's perspective

Face to Face, Remote, and Hybrid Models

» Face to Face Model

- » Talk to CEO about special issues
- » Evaluate background information
- » Set up travel and lodging
- » Determine who will visit which offices
- » Determine staff to interview
- » Analyze Data
- » Develop PP and deliver it at the end of the PR
- » Write the PR report

III. PR - A reviewer's perspective

Face to Face, Remote, and Hybrid Models

» Remote

- » Determine which staff to interview and firm schedules remote interviews over a period of several weeks, as needed
- » Interviews can include any office locations and any convenient time for staff
- » Can Add more staff to interview if desired based on information gathered
- » Interview timing is flexible – can be rescheduled if needed due to conflicts and interviews can be extended based on information being obtained
- » Complete “visit” of office(s) and lab(s) using FaceTime
- » Prepare draft report prior to exit conference – option to discuss issues with CEO prior to exit conference
- » Conduct exit conference using draft report
- » Submit final Peer Review report

III. PR - A reviewer's perspective

Face to Face, Remote, and Hybrid Models

» Hybrid Model

- » Can conduct interviews remotely
- » Can include travel for face-to-face discussions at the corporate office for meetings with upper management
- » Observation of facilities, lab, etc.
- » Exit Conference
 - » Can include face-to-face meetings with staff at the Corporate Office
 - » Video Conference for remote locations

III. PR - A reviewer's perspective

Face to Face, Remote, and Hybrid Models

Remote Model – Improvements to Process

- » Simpler logistics
 - » No travel, hotels, meals, especially with multiple offices
- » Potentially less costly due to the elimination of travel expenses
- » Ability to converse with all offices and their employees without travel
- » Flexibility to match reviewer capabilities with interviewed staff, by eliminating restrictions to physically visit all offices
- » Flexibility with interviews over days, weeks, or months
- » Fits within employee schedules
- » Ability to modify schedule due to staffing issues
- » Ability to add more interviews ultimately leading to a better and more comprehensive PR
- » Interviews can be spread-out over time allowing for improvement

III. PR - A reviewer's perspective

Face to Face, Remote, and Hybrid Models

Remote Model – Improvements to Process, (continued)

- » Preparation of written report before exit conference
 - » Exit conference presentation can be better and more thorough
 - » Staff can be better prepared to interact with reviewers
 - » Flexibility to schedule and meet the CEO on their terms and schedule to discuss issues
 - » Staff login from remote locations for the exit conference
 - » Flexible timing – “don’t have to leave to catch a plane”
 - » Enhanced ability to add additional reviewer expert to address specific issues

IV. PR - A reviewed firm's perspective

- We are 25 years old
- 4 PRs, 3 in-person and 1 remote
- Peer reviewers are now good personal friends
 - Peter Kaldveer, Jerry Neyer, Jim Withiam, Kevin Hoppe, Gary DeJidas, and Bob Rabeler

IV. PR - A reviewed firm's perspective

Value Creation

Each review:

- » Continuous improvement and loss prevention culture
- » Makes leaders think deeper about our goals and culture
- » Highlights challenges
- » Forced us to develop a remedial plan and prioritize
- » Staff and clients saw that we took PR seriously, and made improvements
- » We still call past reviewers for help
- » Is cost-effective

IV. PR - A reviewed firm's perspective

Value Creation

- » First PR 2002. We were 4 years old. We learned:
 - » We wanted to become one of the best firms
 - » Focus on ownership and who should own stock
 - » Communicate better with staff
- » In 2006, we were 8 years old. We learned:
 - » Create a strategic plan
 - » Improve employee retention and training
 - » Find a marketing director
 - » Improve financial and project controls

IV. PR - A reviewed firm's perspective

Value Creation

» In 2012, we were 14 years old. We learned:

- » Be more flexible on pricing
- » Keep staff better informed, especially in lean financial times
- » Demonstrate optimism
- » Develop a clear corporate vision and business strategy
- » Develop from a boutique to a growth-centric firm
- » Continually train staff
- » Resolve financial software issues and develop backlog projections

IV. PR - A reviewed firm's perspective

Value Creation

- » By 2023, we hit 25 years old. We used the remote model and learned:
 - » Address the need for outside IT help (1 IT person/50 in staff)
 - » Improve the strategic planning process with long and short-term planning
 - » Improve BOD governance
 - » Use existing project control tools, better.
 - » Formalize procedures and role descriptions

Important: We obtained value and learned something new from each review. And we made lifelong friends.

IV. A reviewed firm's perspective

Value Creation

Pros and Cons of the Remote Model

Pros

- » Allows more time and flexibility for the reviewer to delve deeper into the staff interviews. It is also easier for the CEO and staff to schedule
- » More time for the reviewer to complete the exit interview presentation
- » Removes the chaotic nature of face-to-face interviews. Reviewers no longer have to work late into the night compiling findings and recommendations while attempting to get the “big picture” about what is, and what is not happening in a firm
- » Cost effective
- » Peer Review interviews can be performed over weeks versus days
- » One reviewer can handle reviews for small to medium firms

IV. A reviewed firm's perspective

Value Creation

Pros and Cons of the Remote Model

Cons

- » For small to medium firms, the firm obtains only one reviewer's perspective
- » Might be harder to establish a relationship with the reviewer
- » Do people hold back pertinent info in the remote model?

V. Peer Review - An Insurer's perspective

- » Bookends on Terra's success – From the uninsurable to the highest-rated PL insurer in the United States
- » Terra adopted organizational peer review as an underwriting standard about 4 decades ago
- » Terra's loss ratio from 1968 to 1984 approximated 160%. Terra's loss ratio today is about 12%
- » Terra has reimbursed several millions of dollars in PR costs during that time
- » In 1969, Terra would receive 1 claim for every \$250,000 in revenue produced by its insureds
- » By 1988, this ratio improved to 1 claim for every \$2 million in revenue produced by its insureds
- » For 2023, this ratio improved to 1 claim for every \$67 million in revenue produced by its insureds
- » Improved to one claim per every \$90 million in revenue pursuant to claim closings since 12-31-23
- » Despite a 3x increase in the revenue it insures since 1988, Terra's claim frequency decreased by 92%
- » Peer review is not Terra's "silver bullet", but it has helped make the Company the highest-rated PL provider in the AM Best rating system according to its BCAR score and other Best rating metrics

V. Peer Review - An Insurer's Perspective

10-year Averages

	Terra	Composite	Industry
Loss & LAE Ratio	11.4	69.1	71.7
Combined Ratio	69.9	99.0	99.6
Accident Year Combined Ratio	69.3	98.5	100.0
Pre-tax operating income ROR	33.2	12.6	9.1
Total ROR	28.3	11.7	12.6
Operating Ratio *	66.8	86.7	90.3
Pre-tax operating income ROE	13.1	10.1	6.6
Total ROE	11.2	9.4	9.1

*AM Best's Operating Ratio, measures a company's overall operating profitability from investment and underwriting activity and excludes other income, capital gains, and income tax liability. The smaller the result or lower the number, the more efficient the company is at generating revenue versus expenses.

VI. Additional Value

- » Helps make a firm endeavor to create best management practices
- » Helps create a claim/loss consciousness environment
- » Is a catalyst creating an atmosphere of importance for consideration of current/long-term approaches to the business
- » Helps confront inconvenient truths about a firm, as well as the need to improve them
- » Frequent reviews help to develop continuity and competence for benchmarking business and management practices
- » Addresses what firms need to hear, rather than what they want to hear
- » Staff and client questionnaire responses provide constructive input
- » Offers practical solutions
- » Identifies important business issues for prompt and long-term attention
- » PR is a win-win process for the reviewer, the reviewed, and the insurer
- » Provides an excellent consultancy for leadership and ownership transition
- » Makes your firm better and more valuable
- » Every successive review brings new insights and value
- » PR is an opportunity to evaluate a firm's strengths and weaknesses through independent eyes. This helps to achieve professional growth, loss prevention, risk management, and overall continuous firm improvement.
- » Was one of several reasons that made Terra into the highest-rated PL provider in America, and among the highest-rated insurers in the entire industry according to AM Best metrics.

VII. Recurring Peer Review Observations

1. The most common observation is that corporate strategy is not defined, understood, and/or implemented
2. The most common client concern is lack of responsiveness, invoicing issues, and missed deadlines
3. The most common staff concern; The inadequacy/or nonexistence of performance reviews, and lack of training
4. Other Observations
 - a. Key to a successful firm is centered around staff development, technical competence, and longevity of employment within that firm
 - b. Non-autocratic, solution-oriented corporate cultures produce fewer claims
 - c. Strategic planning is essential to the success of a firm
 - d. Staff appreciates frequent brown-bag RMLP sessions
 - e. Viability is rooted in successful leadership and ownership transition
 - f. Staff appreciates ongoing training for company software and its output
 - g. Accessibility of mature staff to younger workers
 - h. Staff wants to be well informed about the financial condition of a firm

VIII. Summary and Conclusions

1. GBA needs more PR training
2. GBA needs more reviewers
3. Non-Terra firms should consider using this valuable process
4. PR is one of GBA's most valuable programs
5. Simply, PR improves your firm. The PR's benefits far outweigh the costs

Questions & Answers