



EPISODE 20

Managing Risks and Facing a Future With Confidence

Introduction: Welcome to Strategic Insights, brought to you by PrideStaff. On each episode, we bring you interviews with leading management and employment experts from across the country. Your host for Strategic Insights is Brad Smith. And now here's Brad.

Brad Smith: Hello, and thank you for listening in to Strategic Insights from PrideStaff. I'm your host, Brad, and we have a great episode lined up. Today we're going to talk about managing risks and facing a future with confidence. Right now, our world is changing rapidly. With that change comes risk, especially in the workplace. So, in today's episode, we're going to outline what employers need to do in order to protect themselves and their staff in today's fast-changing business environment. Joining me today I have two amazing guests, Kevin Waldinger, President of CTK/INSURICA, and Ernie Kidwell, Vice President. Kevin, Ernie, thank you so much for joining us today.

Kevin Waldinger: Our pleasure.

Ernie Kidwell: Absolutely. Thank you.

Brad Smith: Again, I talk about mitigating and managing risk. It should be on all of our minds right now, and I want to set the stage for this episode by looking at some general stats. Recent data shows that about 2.8 workplace injuries happen per 100 full-time employees. They happened at a higher rate in industrial and warehouse settings. COVID-19 is having an impact, with about a quarter of all claims in 2020 incurring a medical cost. The average claim in 2020 was over \$4,300, and the NCCI estimates that COVID-19 claims, excluding self-insured, could result in workers comp losses exceeding \$500 million. Given those stats, Kevin, if you don't mind, talk to us a little bit about what you are seeing in the market.

Kevin Waldinger: Yeah, it's interesting. We have definitely seen a slight uptick in the workers comp claims all around COVID, but I almost feel like you're going to see more from a liability standpoint, wrongful termination, when it's regarding EPLI, employment practice liability, discrimination, harassment type stuff, people feeling that they're not being treated fairly due to some sort of COVID-related item, wearing masks, vaccination process, and that type of stuff.

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Brad Smith: Yeah. COVID has certainly changed a lot, and it's even changed how we work. We've seen a lot of people shift to either working remote or working full-time in a hybrid role. Ernie, what impact does maybe remote work have on risk?

Ernie Kidwell: Obviously, it has a significant impact. It used to be remote workers, we would shy away from, or tell our insureds to shy away from, simply because of the lack of supervision. If you have somebody working from home, they could get injured at home, working on the roof, mowing the lawn, tripping over the dog, and then come back and say, "Hey, I was getting up from my desk to go to the restroom and I tripped on the carpet," whatever the case may be. So, there was a situation where the employer had no recourse if they came and said, "I've been injured and it's work related." For that in itself, and mind you, this was 10 years ago before all of the cyber exposures or the electronics made it available for us to be able to work at home, so it was a one-off situation.

Ernie Kidwell: But today, since COVID, and since the electronic age has really taken over and allowed us to be able to be remote, it's expanded beyond just workers comp concerns, and that is in the cyber world. Biggest exposure for employers, I would say, today is in the cyber realm, in that the bad guys that try to break into computer systems and that have more access to it through the remote connections from iPads, iPhones, laptops, wireless printers, all of the devices that we have at home that somebody could potentially get in through and get to a connection point to the employer's computer systems. So that's probably one of the biggest concerns in the insurance marketplace from an insurer's perspective, is being able to take on that type of a claim and the expenses involved with that.

Brad Smith: Ernie, for employers that are listening in right now, cyber claims obviously are a big issue. You mentioned that with working remotely, with more access from different devices. What do companies really need to do to protect themselves?

Ernie Kidwell: Talking in the past, a ton of carriers jumped into the marketplace and they were willing to look at the risks in the cyber realm, because it was all new to all of us. Today, one of the biggest claims that we see are extortion claims, where the bad guys break into the computer system, say, "We're going to lock up your system and keep your data held for ransom until you give us a 100,000 Bitcoin," or whatever the case may be. The numbers are going up, by the way. The carriers in the last six months and even more recent have required that companies put into place, and you've probably seen this in your own dealings, dealing with banks, dealing with anything that has any of your personal data, is multifactor authentication, or it could also be called 2FA, they call it.

Ernie Kidwell: They basically require a second point of contact for them to be able to... Often it's a text you on your phone to verify that it's you, and with that allow you to log into whatever your normal login is. That's been one of the primary

requirements, that if you haven't done it yet as a business, you definitely want to go there with your critical data.

Ernie Kidwell: Second is just endpoint protection. Again, what I was talking about, the iPads, the iPhones, all of the data devices that could potentially log into your systems. They need to have controls in place.

Brad Smith: I don't know about you, but I've seen a lot more phishing attempts that are looking more real, even come through with individuals within your organization's names tied to them and ask you to call right away about an invoice, and other things. Have you seen any companies taking extreme measures or put training programs in place to help train their internal staff on how to deal with and recognize phishing scams?

Ernie Kidwell: Yes. Our companies that are more adept and have realized what's happening in that marketplace, such as PrideStaff, they've been able to put controls in place that help control this situation, that help mitigate the potential damage that can happen along those lines. But what I wanted to give you is a quick story. In our office, we have, what, 500-plus employees with INSURICA. The IT group actually has in place testers where they'll send out a test to us to see if we're going to respond to it appropriately or not. It's basically a fake email. I actually had a situation the other day where I was expecting a FedEx package. I had just reached out to FedEx, in fact, and within minutes of that, I received an email coming from I think it was called ShipX.

Ernie Kidwell: It was one of these, it looked like a computer-generated prompt, which, I'm from the IT world, that was my history, I immediately thought, okay, yeah, this is just from their systems because of that conversation I had. In fact, it wasn't. It was one of our company's tests. And it was kind of embarrassing for me, considering I came from that world. But at the same time, it's impressive what the bad guys are doing, is that they will actually track a conversation like that, if you have an email thread going through that they can get involved with and see that, say, communications between the accounting people and management, they know when to step in and say, "Hey, we need to change this account number to such and such." And suddenly you've got an employee sending money to the bad guys, as opposed to the vendor or bank or whoever they're supposed to be sending it to. That's another type of claim that we see from the cyber world.

Brad Smith: Wow. So absolute lot to think of. Kevin, what's your thought on the cyber side of things?

Kevin Waldinger: Well, yeah, I agree 100% with what Ernie's saying. We're seeing that rampant right now. One thing just to add to what he was saying is just maybe a good best practice for any company. When that email, that faked-out email, comes through, depending on how the employee responds to that, if they don't pass

that the way they should, then it'll send them through a training course to answer some questions to help them understand where it went wrong, things to look out for, and even best practices within that specific email. I think that's something good for any company to do and to implement that as a system, to where when an employee does make the mistake, then it gives them some training and background to how to avoid that in the future.

Brad Smith: Absolutely love that. And you alluded to it earlier. We have done that internally at PrideStaff, and it helps with our security efforts and helped with training, so it's a very, very useful exercise.

Brad Smith: Now, shifting gears a little bit, we have cybersecurity to be concerned with. We have a global pandemic to be concerned with. We're also seeing a massive shift in the workforce. Millennials now make up the majority of the workforce, and for many, social causes have been extremely important. Kevin, based on your experience, have you found that this shift in the workforce and this shift in our social cause thinking has impacted insurance at all?

Kevin Waldinger: Yeah, that's a great topic. As far as just millennials in general, I think every employer has to find the ways to bring out all their pros versus the cons. I mean, there's so many good parts of a millennial standpoint and a millennial thinker where it can really help an organization grow and develop and change throughout our times. I think as far as more risk, is that what you're asking, as far as what to look out for?

Brad Smith: Really just how we need to adapt our business to make sure that we're covered in mitigating as much risk as we possibly can.

Kevin Waldinger: Yeah. As far as mitigating the risk, and Ernie, you may want to jump in on this if you have some insight to it, I think it's just a matter of accommodating some of the millennial requests or concerns where we didn't do that before. The homeworking, the different types of schedules, allowing certain things inside the office that we maybe didn't let before, I think those types of things are really what millennials are interested in, as far as not so much the work itself, which that is extremely important, but just helping accommodate the ancillary items that maybe a millennial is interested in, where maybe a baby boomer is not. Adapting to that is very important.

Brad Smith: Ernie, in addition to a shifting workforce, employers have been hit with a declining workforce participation rate. Now, this is a combination of many factors. We had COVID that's forcing more people to sit on the sidelines. We've also seen the highest level of baby boomer retirements in 2020 ever, and we're not producing enough workers to offset the people leaving the workforce. So how is this impacting employers? Are you seeing changes in hiring practices?

- Ernie Kidwell: To say that we're seeing the changes today, yeah, I think it's just natural that when unemployment goes up that hiring practices may change, in that they become a little more lenient on the criteria that they would generally follow in hiring a new employee. I think any company would, if they are limited on their potential workforce, they're going to, Kevin and I like to use the term of use the pick of the litter syndrome, where they're going to take the best option available as opposed to what would normally meet their criteria.
- Ernie Kidwell: And that might fall underneath their criteria bar that they normally have set for themselves in, I'll use an insurance term, underwriting the next candidate. They're looking at him saying, all right, do we want this person generally speaking? Well, maybe they could be a fit, but if we had alternatives that were up to our normal bar, we would've picked those instead. So yeah. In that case, yeah, it affects the quality of candidate that they're actually looking at.
- Kevin Waldinger: And just to add to that, the pick of the litter syndrome that Ernie was referring to, that is so critical in my opinion. I think at times we want to hire right away. We want to hire fast, because we have a need. There's a gap somewhere. But the worst mistake an employer can make is hiring fast. I think it takes a long time to hire the right person, and the cost of hiring the wrong person is so significant that it's better to take that extra time and make sure the employee or the candidate is very qualified. In our world today, when unemployment is high, like he was mentioning, the quality of candidates, it's more scarce, so we have that issue of trying to find the person fast, get them in the right spot, but at the same time, not compromise our expectations on what we're looking for.
- Kevin Waldinger: And that's a constant battle with any employer out there, is filling a gap but doing it the right way so that you're not taking on huge costs by making the hiring mistake. That pick of the litter syndrome that he's referring to; it comes down all the time. As qualified candidates become less and less, then we feel the need to bring someone on, where potentially they weren't the right fit or they didn't have the qualifications we needed, but we were in a pinch and we need to make that placement quick. So, I think that as much as you can to ground yourself and hold true to your expectations on what you're looking for, even in a rough situation where qualified candidates are scarce, I think you need to stick to that. And that's hard to do as an employer.
- Ernie Kidwell: Extending that out to a risk control perspective, which is what we're here for, if you are hiring below what your normal criteria would be, you are potentially bringing in people that you may have looked at from a risk control perspective, in that you would think, okay, this person, for whatever reason, is less likely to file a illegitimate type of claim, whether it be an employment practices claim, whether it be a workers compensation claim. We all look for predators. We all look for somebody that could potentially take advantage of us if we're not paying attention.

Ernie Kidwell: When that pool that you're choosing from is limited, the percentages go up that you're going to miss somebody like that because of that lessened underwriting. I keep using the insurance terms. And in that case, we're looking now at what's the expense overall? What's the dollar amount involved with dealing with claims? Obviously, if the carriers are taking claims because of your lack of underwriting a risk, it comes back to you on premium, you being the employer. It ends up costing you more over the long term. It may not be immediate. It may take months, it may take a year plus for you to see the impact of that, but it will eventually bite you if you aren't sticking to your guns, as far as mitigating the risks when hiring your employees.

Kevin Waldinger: Just one last thing to add to that. We quantify it as about 150% of the cost of a candidate. So, if you bring someone in at 50,000 bucks and it's the wrong candidate, you have an issue, and you go through all the training process, the implementation, onboarding, all of those things, and the candidate does not work out, it's going to cost us roughly \$75,000 by the time we're finished with that hiring mistake. So even though it's tough in a high unemployment environment, it's still critical to keep expectations very high and to use and follow your practices of what you've done when the unemployment was low.

Brad Smith: Terrific insight. Thank you both so much. It just underscores the importance of staying with those hiring criteria, working with the right partner, making sure that you have all your ducks in a row, and protecting yourself for the future. Now, building on that protecting yourself for the future a little bit, I know that there's a little bit of a lag when it comes to workers comp. Kevin, I'd love to direct this to you. What have you seen in the workers comp and liability space over the last few years? Have premiums been higher, been lower, and what do you expect to see as we move forward?

Kevin Waldinger: Yeah, it's been a very interesting insurance marketplace. In the last, I would say, year or so, the liability insurance has drastically hardened and gone up. And when we say hardened, hardening means the rates have gone up, criteria to underwrite the account has been tougher from the carriers. When it's in the soft market, the rates are low and they'll be more willing to take on more risk. In the last six months to a year, we have seen a heavily increased liability marketplace, specifically with EPLI, employment practice liability, cyber, general liability, even in some cases higher home and auto.

Kevin Waldinger: What's interesting on the comp side is that comp in around 2014 or so, right around that timeframe, maybe '15, the market was extremely soft, low rates, carriers wanting to take on risk, their appetites were hungry for different types of businesses. It stayed low for several years. And up until literally January 1 of this year was the first time the California state fund took a rate increase in several years. So, we've seen, the insurance comp market operates somewhat similar to a real estate market, where you have a low market, the pricing is down and then rates are somewhat higher. And then the market starts to

increase, rates drop to make it affordable. And that's about an every 10 year cycle.

Kevin Waldinger: In insurance, it operates similar in the fact that the market's soft and it's usually soft for two to three years or so, and then it'll start to harden. But we've been in a soft market for probably close to six, maybe seven years, which is very, very long for a soft market. This January 1, 2022 was the first time we're starting to see the comp market harden, and the state fund took a rate increase January 1.

Ernie Kidwell: And just to add onto that, when we talk about the state fund, not everybody is of course in California insured by the state fund, but they set the precedent to trends with the rest of the workers comp insurance carriers for the state. So as the state fund goes, so does the rest of the state eventually. The Department of Insurance will make suggestions as far as changes are concerned, but then every carrier in the state determines on their own, all right, what do we want to do? The state fund usually stays fairly firm to what the Department of Insurance says, and then you'll see the private carriers start to follow suit shortly thereafter.

Brad Smith: Is it safe to assume that California is probably a leading indicator for the rest of the country? Do you expect this to spread throughout other states?

Ernie Kidwell: They are an indicator economically, socially, because of California's political stance. I'll try not to go there, but the carriers have to respond accordingly to the state. Coverages like employment practices liability are underwritten much differently for California because of its political stance than it is for Indiana. It's just considerably different. New York, California, they are the two that immediately come to mind with, underwriters look at them considerably different than they do other states. But yes, California does precede other states with regard to workers comp premiums. California is always going to be higher than the other states for the same reasons. Fortunately, the other states aren't hit as hard where it comes to premiums and that.

Kevin Waldinger: And just to add to that, a lot of that, like you mentioned, is some of the political views and issues in some of these different states. But also, what happens is when litigation is high in a specific state, that generates a lot more premium, because the claims are significantly higher. For example, a claim in California where an employee injures their back, it could cost \$10,000 as far as medical treatments and getting that employee back to work. That same \$10,000 claim in Arizona, which is not far from us, can be \$2,500. So, it's just a massive difference in litigation, in overall claim cost, which generates more premium for the employers in California and some of the other coast states, like you mentioned, New York, Florida. They struggle as well.

Brad Smith: Thank you both. I think this underscores the importance of choosing the right partners and talking with the right carriers and talking with the right companies to make sure you have the right plans in place for your situation, for your company, for your state, for changing legislation. And building on that, Kevin, I know a lot of companies leverage and use staffing companies to help with workforce challenges. When thinking about choosing a staffing partner, and also thinking about your own company's risk, what do you need to consider before choosing a staffing vendor to work with?

Kevin Waldinger: As far as when you're picking a staffing vendor, looking at their potential risk management, their potential management as far as how they treat their employees, the culture, I think that's really important. I've seen many staffing firms over the years that treat their people really well, and they have less claims, they have good culture, the people are more productive. I think that's very important to just understand and look at the staffing company as a whole and their management team. PrideStaff is really a good benchmark for that. Their risk management, their overall management, the quality of candidates and people that come into their company, it's just setting the bar. I think that's really important from a client company to look at a staffing company and say, what type of culture do they have, what's their history, things of that nature.

Brad Smith: Terrific. Thank you. Kevin and Ernie, I want to thank you so much both for your time today. Amazing takeaways. And we like to close every episode with some words of wisdom. So Ernie, if you don't mind, let's start with you. Do you have any closing words of wisdom for people listening here that want to mitigate risk?

Ernie Kidwell: Yeah, I'd add on to, or just continue along the same lines as what Kevin was saying just now with regard to looking at risk, looking at it strategically. When you're going to pair up with a company to handle something as important as your staff, you want to know that from a top down, from management down to that individual that's coming into your door, they're understanding that exposure to you, to themselves, and they're looking at risk as a whole, from all parties involved, bottom line. And PrideStaff, like Kevin was saying, they get it. They understand it. They know what they're doing and they do it right.

Brad Smith: Kevin, any takeaways from you? What do you want people that are listening to this episode to leave with?

Kevin Waldinger: Yeah, I think just as far as words of wisdom or maybe just best practice, I would say trust your gut. A lot of times we follow a very systematic process with hiring candidates or taking on that next client company or taking on the next vendor of a staffing company, and we have a map that we should fit within or follow that says, if they do X, Y, or Z, they're good, or if they do A, B, C, they're not good. But oftentimes it's hard to follow that exactly, and our gut is

a very powerful thing. If you feel a certain way out a specific candidate or a client or vendor, trust your gut, because it's typically right.

Brad Smith: Again, thank you both so much for coming on. For those listening that are looking to staff up, that are looking to overcome workforce challenges, please visit PrideStaff.com. Reach out to your local PrideStaff office. They have resources like Kevin, like Ernie, like CTK/INSURICA that will help make sure that your workforce challenges are met. Again, Ernie, Kevin, thank you so much for your time today.

Kevin Waldinger: Our pleasure. Thank you.

Ernie Kidwell: Thank you, Brad.

Closing: Thank you for listening to Strategic Insights, brought to you by PrideStaff. Whether you're looking for high level workforce consulting or staffing help to meet demands, PrideStaff is here to help.