

# How to Control the Insurance Pest

May 1, 2012

Dear Pest Management Professional,

Although we may not have met, I think I know you pretty well. That's because I'm a PMP myself. I have been in this business for nearly 40 years (long enough that I am still not quite used to referring to myself as a PMP as opposed to being a PCO). A long time ago I came to the conclusion that there were some things I couldn't control about this business we are in. The big headache things.

Economic conditions. Environmental regulations, Unfavorable weather.

I used to put "insurance" in the uncontrollable category, but I don't anymore. If you're interested to know what we did to make the "insurance problem" much more manageable (and no longer a big headache), I invite you to read on.

I used to face what you may be facing now. Our insurance rates would fluctuate for reasons I could not understand. Our insurance agent, a very fine man dedicated to and serving many in our industry, really worked hard for us. When the insurance company would raise our rates 20%-30% in a given year, I was grateful because he went to bat for us, shopped for alternatives, and got the rate increase reduced 5%-10%, so it was only a 15%-20% increase. And once, in a period of two particularly difficult years for buying insurance in my state, despite the fact that we had good claims experience, the insurance company raised our rates by a multiple of **27 times** because they were the only company writing insurance in our state and weren't really sure they wanted to insure pest control companies anymore. So we had to slash expenditures equal to more than 6% of our revenues, just to pay the insurance increase. We obviously had no control over a significant element of our cost structure, and lacked that very important element of business planning – predictability of expenses. I realized that we were being jerked around. We spend our working lives trying to satisfy customers who pay us as little as \$40 a month. Yet when we were the customer spending hundreds of thousands of dollars, we were treated with a "take it or leave it" attitude.

I learned that other pest control companies were being treated exactly the same way. Fortunately, a small group of us - all PMP's - concluded that we just did not want to face either the uncertainty or the problems of insurance year in and year out. It was decided to band together and form an association that would offer insurance to its members. That was over 30 years ago. In July 1980 after two years of research, the association which is now known as PestSure was formed. Not a traditional group insurance program – rather, a program owned and directed by PMP's who own their own reinsurance company.

When we opened our doors, we had 20 companies to start. More than 30 years later, PestSure insures over 80 member companies across the United States representing revenue of \$1.2 billion, over 10,000 vehicles and payroll exceeding \$350 million. They are mid-sized to large firms with minimum annual revenues of \$2 million on up.

This is not a fraternity of good old boys. These are some of the best in our industry looking for every economic advantage they can find.

We banded together as PestSure to make sure we will never again hear the phrase, "Your insurance has been canceled." We banded together to fully understand rate structures and what we can do to keep them in line. The truth is, we found out that rates don't always have to go up. Several times over the last 30+ years we have lowered rates to our members (to ourselves that is!). We banded together to educate each other about insurance issues related to our industry. Every single member and insured is in the pest control business. We have a loss prevention program that gives all of us guidance about work procedures, driving practices and hiring systems that reduce claims. And, of

course, we primarily banded together to bring some stability and predictability to this aspect of our operation, and insulate ourselves from the roller coaster of hard and soft insurance markets, and the trauma this caused for our operations.

And when an accident occurs, we are careful about the way we settle the claim because we are spending our money.

When you look at the list of insureds, I think you will see that quite a number of us compete ferociously with each other for customers. However, we have come to realize that when it comes to purchasing insurance, the only people we want to rely on is each other - fellow PMP's. To quote a rather intelligent fellow, Benjamin Franklin said at the time of the American Revolution, "If we don't hang together, we will surely hang separately."

We are not completely immune to the insurance cycles. However, every member gets their own rate structure based on their own safety history. You won't be getting a "group" rate. If you have consistently low claims, you'll get our lowest rate.

As you have undoubtedly gathered, I am writing to invite you to consider whether PestSure might be the direction for your company. This process has several steps. The first one has already been taken. We have screened our industry and come up with just 275 prospects. It is critically important to the health of our association that we select only the leading companies of our industry and those with good loss experience. In addition, we require a minimum of \$2 million in annual revenue to keep our administrative cost as low as possible.

The next step is yours. You simply have to decide whether you would like to learn more about PestSure. If you do, I would encourage you to contact Todd Burke. Todd is running the PestSure program for us (while we can focus on solving pest problems). Todd will be happy to spend as much time with you as you need discussing the broad picture or the details of how this all works. PestSure offers its members General Liability, Auto Liability, Auto Physical Damage and Workers' Compensation. Todd is with Arthur J. Gallagher, the insurance brokerage firm we partner with, to manage all the insurance and administrative aspects of our organization. Through Gallagher, Todd can arrange for almost any other type of insurance that you might desire.

If after talking to Todd you are still interested in PestSure, we will then need to have more information about your firm, claims history, etc. We are very selective and all applicants require approval from our Board of Directors to be admitted to the PestSure group. If you should decide to join us, you can feel confident that we will not be looking to grow the PestSure organization simply for the sake of size. Our strength has come from selection of good insureds and those who are looking for a long-term relationship. Todd can be reached at 800-326-6203. Or, feel free to contact me or any other member of our Board of Directors listed below. We look forward to talking with you.

Sincerely,  
H. Russell Ives  
President

PestSure Board of Directors:  
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