

# The RISK FACTOR<sup>®</sup>

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## Contract Review as a Risk Management Tool

by Roger Duffield, Manager of Risk Services

During the 2002/2003 Plan Year, Risk Pooling Trust members submitted over 800 contracts to be reviewed by Christian Brothers Risk Management Services (CBRMS). This has been an invaluable service for members who recognize the importance of reducing their contractual exposures. Contracts are often one-sided, shifting risks from the organization issuing the contract (the vendor/contractor) to the organization receiving the services. Just as the payment terms for services are often negotiable, so too is who will be responsible for negotiating the risks associated with the service.

*The following are some frequently asked questions regarding the contract review services:*

**Q:** Why does CBRMS request a copy of the entire contract?

**A:** The primary focus of a contract review will be on the insurance requirements and indemnity agreements; however, without reviewing the entire contract, it is difficult to determine how these sections relate to the entire scope of the project and/or contract. Recommendations for wording changes may be incomplete or contradict other parts of the contract and, therefore, may not provide the maximum protection to your organization.

**Q:** Why should I submit a contract that has already been signed?

**A:** Whenever possible, submit all contracts prior to signing, however, contract terms can often be negotiated even after an agreement is

signed. More importantly, the contract analyst will notify the member of any contractual coverage requirements for which they may not have secured coverage so that the organization is not unknowingly assuming risks/exposures.

**Q:** What happens if the vendor/contractor does not agree to the contract changes recommended by CBRMS?

**A:** When that happens, there are a few options: (1) CBRMS can assist in your negotiations/discussions to amend the contract, (2) you can look for another vendor/contractor or (3) you can agree to the terms as originally submitted in the contract with a thorough understanding of the risk assumed.

Recently, a Trust member sustained a fire loss in a portion of a building which was under construction. CBRMS had an opportunity to review and recommend changes to the agreement between the member organization and the contractor. As a result of these changes, the Trust was able to recover nearly \$500,000 for the damages caused by the fire which went back into the Trust's Loss Fund. Each time a member sends a contract in for review they not only reduce the risk to their organization but also the risk to all members of the Risk Pooling Trust. *Collectively and collaboratively, we can make a difference!*

For more information, visit our website at [www.cbsservices.org/rpt](http://www.cbsservices.org/rpt).

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# Where Do Trust Contributions Go?

By Diane Engstrom, Director of Operations

Fifty-seven percent of the Trust's renewal contributions are set aside to pay for the expected losses of Trust members which fall below the Trust's self-insured retention (SIR). Effective August 1, 2003/2004, the Trustees of the Risk Pooling Trust approved a \$1 million SIR on each and every liability loss/claim, and a \$1.5 million SIR on each and every property loss/claim. Expected losses are actuarially determined based on the Trust's prior claim history, membership and exposure growth, and industry trends.

Twenty-seven percent of renewal contributions pay for the premiums associated with the purchase of traditional insurance policies which provide members with protection in excess of the Trust's SIR. The Trust purchases up to \$59 million of

liability coverage above its SIR limit of \$1 million, giving members protection up to \$60 million for each and every loss/claim.\* Property limits of \$448.5 million were purchased to provide protection over the Trust's SIR limit of \$1.5 million, giving members up to \$450 million for each and every property loss/claim.\*

Administrative costs account for 16% of the contributions received on behalf of the Risk Pooling Trust. These costs include, but are not limited to: expenses of the plan administrator, loss control, claim and broker services, building appraisals, and state filing fees.

*\* Limits purchased by individual members may vary.*

## The Risk Pooling Trust Purchases Terrorism Coverage

By Michael Vollmer, Risk Manager

In light of the changes taking place in the insurance industry, effective August 1, 2003, the Risk Pooling Trust has taken advantage of the protection provided by the Terrorist Risk Insurance Act (T.R.I.A.). Enacted by the U.S. Government, T.R.I.A. provides insurance coverage for acts of foreign/international terrorism. In addition to the coverage provided by T.R.I.A., the Trust has purchased coverage that includes coverage for domestic acts of terrorism. More information on this coverage will be included in the 2003/2004 Risk Pooling Trust Plan Document, or you can contact your account representative.



## Lois' FAREWELL

Lois Pirc retired in July 2003. During her years with RMS, she coordinated vehicle schedule changes for probably more than 60,000 vehicles. Lois loved coming to work to serve Risk Pooling Trust members. She asked to convey this personal message to all of the Trust members:

*"To all members of the Risk Pooling Trust whom I served over 15 1/2 years at Christian Brothers: I thank you for always being so kind and understanding during my time serving you with vehicle changes, certificates of insurance, verifications of coverage and any other queries. You are truly special people and I could not have done my job without such caring people like you. I will miss you, but you will always remain in my prayers."*

*Sincerely,  
Lois Pirc*

## Safeguarding Against Employee Fidelity Losses

By Roger Duffield, Manager of Risk Services

Losses and claims resulting from fraud/embezzlement committed by employees and/or volunteers of Risk Pooling Trust members are increasing. In a five-year period between August 1, 1997 to August 1, 2002, claim frequency increased from 2 to 24 losses. The severity of these claims increased 119% to nearly \$650,000. There were 21 fidelity losses reported by the close of the 2002 plan year with reported losses of nearly \$400,000. Generally, it can take up to two years to discover that employment fraud has occurred. Thus, further claim development is expected for the 2002/2003 plan year.

The best way to prevent fraud from occurring is to establish proper internal controls and a system which provides segregation of duties between the custody of and accountability for assets. The more people involved in the accounting system the less potential there is for fraud. There should be adequate checks and balances for all employees and volunteers who handle money. The U.S. Conference of Catholic Bishops' web site has an excellent document to help develop adequate internal controls. The link for the web-site is:  
[www.usccb.org/finance/internal.htm](http://www.usccb.org/finance/internal.htm).

# Welcome Aboard!

### Risk Pooling Trust

- Augustinian Recollects of NJ Inc., NJ
- Community of Poor Clares of Alexandria, VA
- Institute for Spiritual Leadership, IL
- La Salle Academy, PA
- La Salle Sisters, CA
- LaSallian Education Fund, CA
- Missionary Catechists Divine Providence, TX
- Providence High School, CA
- San Miguel Middle School of Minneapolis, MN
- St. John Baptist De La Salle, NY
- St. Vincent DePaul Stores, Inc., CO
- Sisters of Notre Dame of Covington, KY
- Sisters of Providence, WA
- Sisters of St. Francis of Perpetual Adoration, Inc., IN
- Sisters of the Holy Names of Jesus and Mary of the New York Province, Inc., NY
- University Place, IN

### Student Accident Plan

- Missionaries of Charity, AR, IL, IN, KY, LA, TX
- St. Rita High School, IL
- SVDP of Milwaukee, IL

## Did you know?

By Cheryl Gustafson, Manager of Membership Services

● If your vendor is not carrying workers' compensation (WC) insurance and their employee is working for your organization at the time they have an accident, whether on or off your premises, the claim may be made against your organization's WC coverage. As a general rule, you should not be doing business with a vendor that can not provide evidence that they are carrying WC insurance.

● Boiler & Machinery Coverage is not just for boilers. Boiler & Machinery not only covers repairs and replacement to boilers, but the coverage also includes air-conditioning equipment, machinery, unfired vessels, and electrical apparatus such as telephone, security systems, computers, and computer systems. In addition, this coverage

includes Boiler & Machinery Business Interruption and Extra Expense Coverage.

● If your organization purchases Automobile Coverage through the Risk Pooling Trust, it extends to rental vehicles if one of the vehicles on schedule carries full coverage (Auto Liability, Collision and Comprehensive). The Liability coverage provided by the Trust is excess over any Liability coverage provided by the rental company unless otherwise stated in the rental contract. If the Collision Damage Waiver is declined, then the Trust assumes responsibility for physical damage to the vehicle according to the terms of the written rental contract. It is important to read the rental contract, as well as all contracts, prior to signing.

# Upcoming Seminar Schedule

To register for any of these workshops, please call Laura Hart at (800) 807-0300, ext. 3054, or visit [www.cbsservices.org/seminars](http://www.cbsservices.org/seminars). We encourage you to make copies of the flyer and provide them to managers in your organization who might be interested or responsible for the topics being presented.

## Driver Awareness Training Workshop

**October 15** San Antonio, TX • **October 22** Montebello, CA  
**October 23** Dubuque, IA/Louisville, KY • **October 25** Englewood Cliffs, NJ • **October 30** St. Louis, MO

## Regional Driver Testing *(testing takes approximately 1.5 hrs)*

**October 1-2** Los Angeles, CA • **October 8-9** La Grange, IL  
**October 15-16** Englewood Cliffs, NJ • **October 22-23** Louisville, KY  
**November 6-7** New Orleans, LA

## Audio Conferences *(approximately 1 hour)*

**Nursing Home Care Series:** September 29, November 3, December 1  
**Coaching to Improve Performance:** October 7  
**Employment Practices Series:** October 13, 20, 27

If you know of a Catholic Organization that would like to receive information about the services provided by Christian Brothers Risk Management Services, please call Michael Vollmer at 800-807-0300, ext. 3024.



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