

SIGs! Winning in the Soft Market



By Steve Link
Executive Vice President Marketing

This soft market seems unending. Despite rising cost trends (obesity, medical inflation, aging workforce, high unemployment), workers' compensation rates and premium continue to decrease (albeit at a slower rate) as competition remains intense for top line and market share. These "cost trend" facts alone should trigger increasing premium charges.



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A continued soft market is even harder to comprehend when you consider what has happened to industry surplus. Losses, as a result of the economic crisis, have taken a huge bite out of industry capital. In a report published by Insurance Information Institute it was noted that, 16.2% of industry surplus was eradicated by financial losses ranking it as the largest "capital event" over the past 20 years. This percentage drop was larger than Hurricane Katrina (13.8%), Sept. 11, 2001 attack (10.9%), and Northridge Earthquake (9.6%). Historically, each time surplus

growth is negative it triggers a rapid turn in the market from soft to hard. That has not happened yet.

Adding to this perfect storm and continuing to pull industry results down is investment performance. Investment gains, due to low interest rate environment fell by 51% in 2008 (decreased by \$33 billion) and are expected to decrease again in 2009. Realized capital gains also took a hit in 2008.

The industry posted realized capital losses of nearly \$20 billion in 2008 and another \$8 billion in the first quarter of 2009. As the industry can no longer depend on investment income and capital gains to produce significant returns, attention must turn to producing an underwriting gain. Insurers should start underwriting more selectively and raise prices to produce a "risk adjusted" rate of return. It has not happened.

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Self-Insured Groups, Continued

Why? To quote Edmund "Ted" Kelly, Liberty Mutual CEO, "Common sense and property/casualty insurance are mutually contradicting." (Source: Best's Review magazine September 2009)

Common sense & property/casualty insurance are mutually contradicting.

EDMUND "TED" KELLY
CEO, LIBERTY MUTUAL

WHAT DOES ALL THIS MEAN FOR SIGS? SIGS CREATE SUSTAINABLE COMPETITIVE ADVANTAGE:

Despite the "soft market" and a lousy economy, SIGs are holding their own. Sure, new business is hard to win and payrolls of existing members and premiums are down, however; current members are loyal and stay with the SIG even when the insurer competition is cheaper. Why? Isn't workers' compensation a commodity? Doesn't the rational business owner seek the lowest price? How can SIGs retain their market share and loyalty of members in a marketplace where competition is irrationally under pricing the product?

SIGs are winning in this soft market as they have developed a "sustainable competitive advantage" that builds client loyalty.

The sustainable competitive advantage enjoyed by SIGs falls in 3 main areas: Mission, Structure and Services.

Mission: SIG's mission is to work to maximize benefit to their members, not to maximize SIG profits. The SIG fulfills this mission by providing WC insurance to members with consistently low, stable rates, year in and year out. (Note: "Consistently low" does not always mean "the cheapest.")

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Structure also plays an important role in a SIGs sustainable competitive advantage. Members are the owners of the SIG. They earn a share of the underwriting profits and investment income. This fact allows members to take a longer view when considering WC purchasing decisions.

Services too are also very important in developing a SIGs sustainable competitive advantage. The SIG that develops unique and powerful services that benefits members generates lower losses, differentiates itself from the competition and cements member loyalty while creating a value proposition that favorably impacts new business sales even during prolonged soft markets.

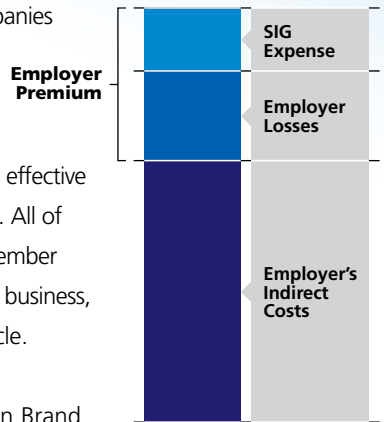
While the soft market continues to baffle those of us in the industry that "underwrite," its comforting to know that SIGs will remain viable and prosper regardless of the length and depth of the soft market.

MECC ENHANCES SIGS SUSTAINABLE COMPETITIVE ADVANTAGE

MECC has developed an exclusive suite of on-line services and content tailored to the SIGs competitive environment. SIG clients utilize MECC people, technology and online tools to enhance and tailor a member experience that's substantially different from their competition. The strategic and tactical support provided by MECC to SIG clients to enhance their competitive edge is unique. Contact Steven Link for more information and demonstration of these service capabilities. [AW](#)

MECC's Program Enhances SIGs Sustainable Competitive Advantage

MECC's Strategic Partnership program is just one way MECC is teaming up with SIG clients to help differentiate them from their primary competitors. A SIG's competitive advantage rests with their ability to provide unique services and resources that member companies value, the ability to generate lower losses for its members and the SIGs ability to find and implement effective ways to build the SIGs brand. All of these things contribute to member retention and win more new business, regardless of the market cycle.



So how does a SIG heighten Brand awareness and differentiate their organization from the competition effectively? It all starts with the SIGs vision, and the Brand is driven from that vision. In order to build a strong Brand, the SIG must efficiently communicate the value of the organization, creating the perception of high value and quality. Perceived quality is one of the most important contributors to the SIG's ROI.

The SIG can drive this perceived quality by considering three items: What does the SIG want their members to feel about the organization? What personal experience does the SIG want to provide to the member and what "perception of value" does the SIG want to deliver to its members? The bigger question to the SIG is, what space do you want to occupy in your market? (competitive pricing, dependable, unique services, and/or other positive attributes).

Other factors a SIG should consider are its core competencies. What does the SIG do best? How

does the member benefit? What services are the most meaningful to them? And most important, what makes your SIG a great investment for the member? If the SIG starts with their vision, building the Brand from there, then the answers to these questions should come easily.

The SIG vision should also include indirect costs for the SIG member. Knowing and understanding the Total Cost of Risk (TCOR) can determine what services would most likely benefit the members.

That brings us to the unique services MECC has designed with the SIG in mind. For close to a decade, MECC has invested in technology and resources that are specifically designed to assist the needs of SIG clients that apply to all participants in the SIG (Administrators, Risk Managers/Loss Prevention Specialists, Members, Agents, Board of Trustees and Agents).

MECC's Client Services, Technology and Marketing resources help SIG clients from beginning to end with enhancing the SIG Brand and the development of customized services. MECC not only provides the technology, but has dedicated people in place to walk SIG clients through the entire process.

MECC's customized webinars are a quick and efficient way to reach many members at once to provide information on industry trends and practices. For SIGs interested in offering web-based seminars, MECC will handle the administrative process which includes coordinating the SIG webinar invitation, assistance determining the topic, providing the speaker, etc.

MECC's Program Enhances SIGs

Attending members can also earn CEU credits via their SIG. This is one example of the benefits that

SIG membership can provide with little investment on the part of the SIG.


Other MECC services include a detailed benchmarking report that helps administrators evaluate the strength of the current program, establish objectives and identify areas for improvement. MECC also offers an online safety management program, which can be customized to the SIGs specifications and branded as the SIG's product.

These services help the SIG to improve loss performance while allowing the SIG to differentiate

themselves in their market. The combination of performance and differentiation can greatly improve a SIG's sales position.

For SIG clients that have taken advantage of the Strategic Partnership program, the results have been member loyalty, a stronger brand and less pressure on rates during the soft market.

The partnership approach enhances the SIG "Brand" for all stakeholders: agents, members and prospects. So if you are a SIG that is looking for a competitive advantage, MECC is your partner.

Contact Dan Asahl, Vice President, Client Services for more information about the SIG Strategic Partnership program today via email at: dasahl@mwecc.com. 

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