

BULLETIN

How Will Self-Insured Groups Survive?



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Self Insured Group Clients (SIGs) are prepping for a prolonged soft market brought on once again by the undisciplined pricing of the primary insurance market.



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Insurance industry underwriting discipline is giving way to the quest for additional premium and marketshare gains. Primary companies are starting to bet once again that increased

volume and enhanced investment income will overcome poor risk selection, inadequate pricing, a claim factory mentality and uninspired loss prevention services.

IT'S DÉJÀ VU ALL OVER AGAIN.

How will SIGs survive and prosper in the face of this heightened competition? Simple... Continue to focus on the losses.

BUSINESS PHILOSOPHY OF SIGs


Self Insured Groups must generate a yearly underwriting profit to survive. Adequate rates must be charged each year to cover the losses and expenses of the SIG. Underwriting must select risks whose expected losses and exposures

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meet the SIG risk profile. Investment income does not enter into this underwriting equation. SIGs, consequently are more stable in their pricing year to year than the primary companies.

Successful SIGs have established proactive claims reporting protocols between members and their TPA and tailored their claim

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services to provide timely benefits to injured member employees while vigorously rooting out fraud and malingering. The TPA partner selected to provide the claim service use their intimate knowledge of the SIG operations as well as the member exposures to reduce the cost of claims to levels below those achieved by primary insurers. The SIGs also contract with the best service providers to achieve the most significant medical cost reductions while maintaining the highest standards of medical care.

Successful SIGs have invested substantially more in loss prevention services than the typical primary insurer and are better at eliminating

causes of loss and protecting their members' employees from "life altering injury." Well run SIGs have capitalized on their unique advantage...their "homogeneous nature." Who understands better than the Trustees of a SIG, the unique exposures impacting their businesses and the obstacles to achieving a truly safe working environment? Since the SIG is concerned only with the exposures facing their specific industry, their loss prevention focus is very narrow and specialized. That specialized, focused approach to loss control coupled with the SIGs understanding that the cost of safety initiatives is an investment rather than an expense allows the SIG to generate a lower frequency of injury for its members and lower loss costs.

MEMBER VALUE SIG PROGRAM



Members of successful SIGs understand the significant benefits achieved through the program. **First**, they understand that long term, they are purchasing workers' compensation at the lowest cost possible. Under the SIG program, members

earn their share of the underwriting profit and investment income each year. Those profits are returned to the member as dividends or offset future premium payments. This shared focus on loss reduction keeps workers' compensation rates in check.

Second, through the SIG underwriting process, only members that meet the strict criteria of the SIG will be offered membership. Prospective members with greater exposure, poor loss experience or refuse to follow SIG claim and LP protocols are denied membership. Trustees are

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familiar with the players in their industry. They provide input on the business ethics and financial condition of prospective members so that those who might abuse the SIG are prevented from joining. This "exclusivity" allows the SIG to generate consistent loss results (year to year) and minimize the negative impact of severe premium fluctuation (hard market) that plagues the clients' of the insurance industry.

Third, the SIG members bolster their businesses by utilizing the specialized services of the SIG to improve their operations internally. Members understand that the premium they pay to the SIG is inconsequential compared to the indirect costs associated with work related injuries. Maximizing their use of SIG services to reduce losses by developing a true safety culture is simply good business as it enhances productivity and their bottom line.

Lastly, the SIG member understands that the "for profit" insurance industry's motive is to

generate a substantial return to shareholders. This motivation determines when a primary company chooses to enter or abandon a market. Loyalty to clients is dependent on how much money the primary company can make. In addition, primary company staffing levels in both their Claim Department (case load) and Loss Prevention Department (hands on client support) and ultimately the level of service they provide is determined and constrained by financial measures tied to profit rather than meeting client needs.

The SIGs, on the other hand, exist only to serve their members. With their single state, single industry CLIENT focus, they out perform the primary insurance industry (generate lower losses) year in and year out.

Maybe the question should be... How can the primary insurance companies survive and prosper given the superior business model and client focus of the SIGs?

SIGs Utilize MECC Services

MECC helps our SIG clients outperform their primary insurance competitors.

in the operational reviews and our understanding of the macro issues impacting our SIG client to

PERFORM SIG OPERATIONAL REVIEWS:

First, we take great pains to understand the economy in which the SIG



operates, their regulatory environment, the exposure represented by their industry and the competition they face. The macro issues faced by each SIG are clearly unique and have an obvious impact on a SIGs strategy and tactics.

tailor and deploy our “online” resources to the advantage of the SIG and its members. These services are designed to help our SIG clients lower

loss costs, prevent serious injury to member employees and improve the bottom line of both the SIG and its members. Services include:

- Our benchmarking service “Management View Report”
- MECC Safety Cornerstone Service
- MECC Safety Trainer
- MECC’s ResearchLink
- MECC’s Best Practice Web Seminar Series
- MECC’s Client Service Team

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Second, we consult with the management and Trustees of our SIG clients in all of their major operational areas including: underwriting, claims, loss prevention, sales, marketing and financial performance. We evaluate existing operations by conducting onsite reviews of the SIG’s various departments and insurance functions and provide practical suggestions to improve a SIGs overall efficiency and financial performance.

THINKING OUTSIDE THE BOX:

Lastly, we work with SIGs to create unique approaches to deploy these services. SIGs are co-branding MECC Safety Cornerstones and reselling it directly to members. Some are customizing the Safety Cornerstone material to incorporate their logo and adding their own specialized programs.

DEPLOY MECC RESOURCES TO MEET SIG NEEDS:

Third, we utilize the intimate knowledge gained

SIGs are also co-branding the Best Practice Web Seminars; inviting their entire membership to attend. These efforts are broadening the services the SIG offers their members and extending the SIG "BRAND message" as a service provider. We have also developed tailored web seminars to the specific needs of SIG clients.


MECC is the only excess insurer to offer SIGs an array of power services and Risk management tools that support the SIGs mission to lower member losses to the lowest level possible.

MECC's COMMITMENT:

Excess WC is a specialty insurance product. The line of business requires specialized knowledge and expertise to underwrite the line profitably and maintain a long term commitment to the self insured market. Over the last 30 years, many large and small insurance companies have entered the line of business when they perceived

the market was ripe. They endure about 5 years before they pull out from the market as their lack of expertise costs them substantial dollars and other lines of insurance offer better returns. This causes significant fluctuations in the cost of excess insurance and in some cases financial hardship for a SIG that has difficulty collecting from the estate of bankrupt insurers. Over the last 30 years, only MECC has emerged as a consistent, long term player supporting SIGs.

The broad excess workers' compensation coverage provided by MECC, the superior financial strength and market capitalization of W.R. Berkley (our parent company) and our client-focused services combine to give SIGs the very best financial protection and value attainable in the marketplace.

For more information on our services and insurance products for SIGs, contact Steve Link at 1-877-632-2474 or at slink@mwecc.com. 



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