

Reducing Workers' Compensation Costs: Partnering with Your Insurance Carrier

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Introduction

In today's universe of shrinking budgets and limitations on head count, every organization must optimize all available resources. Workers' Compensation costs are a significant expense to many organizations' bottom line and can even impact stock price and financial stability.

In the arena of safety and health, one of the available resources is your Workers' Compensation insurance carrier or market. The purpose of this article is to explore how to make this relationship the most productive for all parties. The ultimate goal of your efforts is to implement the most effective programs for your organization and minimize Workers' Compensation cost.

In the insurance environment, there are two parties who can deliver Workers' Compensation expertise to your organization: insurance brokers and the insurance market. When combined with the internal expertise of your organization, you have three resources that should and must work together to create the most value for your firm.

The remainder of this paper will be divided into three sections: safety and health; claim management; and information management. These are three areas where a combined effort can impact the financial outcomes and reduce the overall cost of risk in your Workers' Compensation program.

Finally, there are exceptions to every rule; and therefore, this paper applies the "80/20 rule". The conclusions are inferences that will be found typically across the insurance industry within the United States. You must take the information provided in this paper and modify it based upon your team's skill sets, organization's culture, and the selected broker and insurance market.

Workers' Compensation Insurance

The purpose of this paper is not to explore the insurance relationship but how your organization can effectively partner with the resources available from the insurance market. However, there are aspects of the insurance contract, which may guide your relationship with the market.

Workers' Compensation insurance provides for the financial transfer of cost for specific employee injuries, including medical costs, wage loss benefits and related expenses. These contracts can transfer 100% (guaranteed cost) to less than 10% (deductible, retention, self-insurance with reinsurance, and there are many more options) of the cost of risk to the insurance market. The nomenclature will change, and you should consult with your risk manager to have a basic understanding of how the risk transfer mechanism works. You should understand how much of the risk is being accepted by the insurance market and how much is retained by your firm.

The services you obtain from your insurance market may be influenced by the level of risk retained by your firm. If you have a guaranteed cost contract, the insurance market will drive some level of service to protect their interests. However, you should be thoughtful when using services that may reveal unknown exposures. As an example, information that quantifies an over exposure to an air-borne contaminant could result in pricing or structural changes to your insurance contract.

The safety and health representatives from the insurance market have an overriding responsibility to their employer. If they identify a hazard, which could affect the financial profitability of the contract, they will have a responsibility to report this information.

Do not misunderstand. One should not "stick his/her head in the sand" and ignore hazards which could injure employees or third parties. Every organization should have a systematic process for risk assessment – the identification, quantification, and mitigation of risk. The organization should try to conduct risk assessment internally or through a different vendor. Hazards should be identified and mitigated. Ultimately, the results should be communicated to the insurance market to demonstrate your efforts to control hazards.

In the event your insurance market identifies a previously unknown hazard, thank your representative for the assistance and initiate a plan to mitigate this situation as soon as practical. A component of your partnership with the insurance market is to share your plan for mitigating hazards and prudently managing risk with this business partner.

Finally, the volume of insurance market assistance is typically a set amount (hours or cost). It can be as little as "none provided" or could exceed \$100,000. As the safety and health leader for your organization, you should know the constraints on this resource, including both budget and types of services and expertise afforded.

Safety and Health

Let's begin with a brief overview of the skill sets of each party: internal, broker/agent, and insurance market. Again, Tables 1, 2, and 3 should be revised to more closely conform to the situation with your organization, broker/agent and insurance market.

Internal to Your Organization

The safety and health expertise within a given organization often reflects the following strengths and weaknesses:

<u>Strengths</u>	<u>Weaknesses</u>
<ul style="list-style-type: none">• Safety and health expertise (specific to staff, organization, and/or industry)• Knowledge of the organization's systems and processes• Knowledge of organizational behavior and management culture• Access to industry resources	<ul style="list-style-type: none">• Expertise in specialty areas (specific to staff and typically not across the spectrum)• Headcount/professional safety resources• Awareness of general best practices• Awareness of specific best practices and solutions

Table 1. The strengths/weaknesses of organizational safety staff are outlined.

Broker/Agent

The broker/agent is the party that works for you as an intermediary in your relationship with the insurance market. They may or may not have safety and health staff. The cost of their services will be variable – charges can be included in their fee or may be project priced. The following table outlines the strength and weaknesses of this party:

<u>Strengths</u>	<u>Weaknesses</u>
<ul style="list-style-type: none">• Safety and health expertise (specific to staff, specialty, industry, or general industry)• Understanding of insurance best practices• Understanding of industry or specialty specific best practices and solutions• Knowledge of the insurance markets' safety and health division	<ul style="list-style-type: none">• Limited knowledge of the client's complete organization and culture• Headcount/staffing of safety professionals• Geographic dispersion

Table 2. This is a listing of the strengths/weaknesses of the broker/agent safety consultant.

Insurance Market

The final party in the relationship is the insurance market, and the resource upon which this discussion is centered. The remainder of this section will be dedicated to examining how this resource can be used best to meet your specific needs.

<u>Strengths</u>	<u>Weaknesses</u>
<ul style="list-style-type: none">• Safety and health expertise (specialty, industry, general industry)• Headcount/staff size• Geographic dispersion of staff• Understanding of general best practices• Understanding of industry or specialty best practices and solutions	<ul style="list-style-type: none">• Limited knowledge of client's organization• Variability of expertise and experience

Table 3. The strengths/weaknesses of the insurance market safety staff are outlined above.

Partnership with the Insurance Market

With the one exception noted earlier, your insurance market can be a valuable resource in your efforts to implement your safety and health program and manage risk for your organization. One of the first steps which should be taken is an understanding of where you need help within your program. Table 1 outlines the strengths and weaknesses of your staff – which should be revised for the specific situation of your organization.

From here, the following chart can be used to select the type of roles, which will supplement your business needs. This chart is designed to stimulate thinking about the types of skills for which additional resources are needed.

<u>Consulting Role</u>	<u>Description and Value</u>
Objective Observer	Raises questions for reflection
Process Counselor	Observes problem solving process and raises issues
Fact Finder	Gathers data and stimulates thinking
Link to Resources	Identifies alternatives and resources
Problem Solver	Offers options and participates in decisions
Trainer/Educator	Trains employees, management, and staff
Information Specialist	Links and provides policy and practice decisions
Advocate	Proposes guidelines, persuades or directs in the solution process

Table 4. An organization may require various roles from their consultant. (More, 2013)

Each of these is a valid role for the insurance market's safety and health representative, and each can provide a positive benefit to you. A methodical analysis is required to identify which roles are best served by your vendors.

The next step is to understand the strengths of the insurance market and how well they match your needs. Your broker/agent should be able to assist you in this process. One of their roles is to help in understanding the market's strengths and facilitate the design of an effective service plan.

Each insurance market will have its own nuances, and these will drive how your service plan is ultimately constructed. Your goal should be to use the services of the insurance market to supplement your team and reinforce skill sets which your organization does not have or may need to supplement. By following this guide, your service plan should optimize your use of the insurance market's safety resource.

Claim Management

Based upon Aon's safety profession survey, *The Safety Management Function – Organization and Responsibilities*, claim management is a subject where a growing percentage of safety professionals have responsibilities. However, many do not have formal training in this arena. Yet your efforts should be an integral part of the process.

Your insurance market has a fiduciary responsibility to manage the Workers' Compensation claims in each of the jurisdiction across the country. Many organizations abdicate this function to the market and allow the experts to perform / resolve the claim. Although the market brings significant resources to the process, your involvement can be critical to success.

Much as was discussed in the safety and health section, you bring knowledge of the organization's culture, systems, facilities, work processes, and employees. This information is needed to make the most appropriate decisions and close claims in a timely and equitable manner.

Although there are many successful organizational models, there are several areas where the safety professional can have a meaningful impact on Workers' Compensation costs. This paper addresses three:

- Claim Reporting
- Return-to-Work
- Claim Reviews

The first widely-accepted rule of Workers' Compensation is that "the sooner a claim is reported into the system the lower its costs." Many insurance company studies have confirmed this refrain. Engaging the claim administrator within the first three days after the event can reduce claim cost by an average of 18%. (Pitruzello, 2000)

On a related note, the claim investigation and the safety investigation have two linked but different purposes. Do not allow the safety investigation to slow down the collection of claim information. Your organization is ultimately responsible for the safety investigation and corrective action development. Thoroughness and accuracy are over-riding requirements of this work. Conversely, you are transferring the claim management function to the claim

administrator; and therefore, speed is of the essence. Your safety staff can facilitate the bifurcation of these roles to ensure that claim reporting is completed in a timely manner.

The second claim-related point is return-to-work. Returning workers back into the work environment will reduce disability time and limit the overall cost of the claim. Safety representatives should take a lead in identifying return-to-work tasks, establishing where modifications can and should be made, and facilitating the process within the work environment. Ergonomic changes may be needed in a task, and your skills (or the expertise you can obtain) should drive this process.

Finally, claim reviews are conducted on a periodic basis to examine the present status of specific claims, share information, and direct all parties to an appropriate resolution of these claims. These are typically more severe claims that have not progressed toward closure.

Often, the information which is developed in the claim review can be vital to the continuous improvement of the safety effort. Additional information about the causes of loss (specifically how and why catastrophic losses occur), supervisory issues, operational processes, and return-to-work protocol have all surfaced during claim reviews. The safety and health professional has a valuable role to play in these meetings – to understand the issues and help improve procedures and systems.

Information Management

Most insurance markets make their loss information available over the internet. You or someone on staff should have access to these systems. The information available can assist you in managing to the financial goals of your organization.

Many safety professionals do not use financial data in their reports to management. Since financial data drives most organizations, safety professionals should learn the intricacies of Workers' Compensations financial data and use this information in the reporting of safety and health metrics. This subject is too extensive to expound upon in this report, but data analysis can help to validate your proposals to management and department's direction.

Many insurance markets also have impressive training material libraries (either in-house or third party). These materials are typically without charge but with limitations. You should know the content of the library and what level of resource is available without additional charge. Consider reviewing the pricing structure beyond the "no charge level" as some markets have negotiated a reduced fee based upon volume. Your market may have a better price than you can obtain alone in the competitive marketplace.

Finally, several insurance markets provide access to safety and health information management tools. These can range from safety committee and accident investigation documentation, Safety Data Sheets (SDS) materials; technical bulletins, training presentations, seminars, web presentations, etc. Again, you should evaluate these services and consider using them based upon the costs and your internal needs.

Conclusions

From a best practices perspective, there are numerous ways to partner with your insurance market to expand your breadth and depth of resources. Table 5 highlights specific best practices in the areas of safety & health, claim management, and information management and outlines the relationship between the insurance market and the organization:

<u>Best Practice</u>	<u>Insurance Market Partnership</u>
SAFETY & HEALTH	
1. SAFETY COMMITTEE:	• Markets can provide formats for documentation, train staff, or attend and provide process critiques
2. FACILITY INSPECTIONS:	• Markets can conduct compliance assessments
3. ERGONOMICS:	• Markets can assist in the development of process and format and conduct evaluations
4. INDUSTRIAL HYGIENE	• Markets can conduct sampling to document exposure levels
5. PROGRAM AUDITS:	• Markets can conduct audits of programs and systems
6. RISK ASSESSMENT	• Markets can assist in format or process development and conduct risk assessments
KNOWLEDGE TRANSFER	
1. SAFETY AND HEALTH	• Markets can provide safety and health training for all types of employees (can be in A/V format or may be performed by their staff)
2. WC CLAIM MANAGEMENT	• Markets can provide information on WC claim process and the employee's and employer's roles
CLAIM MANAGEMENT	
1. CLAIM REPORTING	• Internal staff can assist with data collection and ensure transmission to the insurance market
2. RETURN-TO-WORK	• Internal staff can facilitate the process; ensure job task bank is current and detailed information is available;

- 3. CLAIM REVIEWS
 - assist with task alterations
 - Internal staff can attend as needed; collect information around causes of loss, supervisory issues; process improvements; and return-to-work opportunities

INFORMATION MANAGEMENT

- 1. LOSS INFORMATION
 - Markets can provide loss runs with historical claim data: linking financial results to the loss information
- 2. TREND ANALYSIS AND REPORTING
 - Markets can provide data to allow for analysis over a wide spectrum of data fields and time periods to identify trends
- 3. MANAGEMENT REPORTS
 - Markets can provide dashboards and score cards to measure performance over time or by business segment, some can provide benchmarking data

Table 5. A summary of Workers’ Compensation best practices linked with the associated interface between the organization and the insurance market.

Understanding the level of risk transfer, the insurance market’s skill sets, and your internal needs will provide the detailed information necessary to derive the maximum value from these resources. Everyone’s goal is to implement the best Worker’s Compensation program and minimize Workers’ Compensation costs.

Insurance markets can provide a wide spectrum of services to supplement your internal staff’s skill sets. Partnering with these resources may be critical to the success of your Workers’ Compensation program. It takes a team to provide all of the technical expertise needed to prevent accidents, mitigate costs, and mine data to continuously improve your processes. Your insurance market, your broker/agent and your internal staff can be a powerful team.

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