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Cultivating Self-Insured Group Best Practices

by Haley Jorgensen

This article is the second of a three-part series on self-insured groups. Click here to read ["Part I: The Keys to Self-Insured Group Formation."](#)

"Part III: Marketing, Growth and Member Retention" will appear in April.

Once formed, self-insured groups (SIGs) must be aggressively and proactively managed to be successful over years and decades. There are many areas that must be properly handled, the most critical being underwriting, claims, loss control and accounting. Managing a self-insured group is not easy and requires seamless communication by all constituents in order to avoid devastating pitfalls. Self-insured groups should rely on a management team of knowledgeable and skilled experts who understand the critical importance of constant communication.

To operate well, every sector "underwriting, claims, loss control and accounting" is reliant on information and data from the other sectors. It is a cyclical process and demands an expert team willing to work together. Trustees of the SIG are also key to its success. They must absorb information from all the management areas and make decisions on behalf of the group.

In this article, industry experts share their thoughts on the processes, exchange of information and personnel needed to accomplish quality SIG management.

Selecting the Management Team

First, go with experts. Field a management team with experience running SIGs, says Ed Costner, president of Casualty Actuarial Consultants, a provider of professional casualty actuarial services to the risk management industry that serves approximately 100 self-insured groups nationally. "It is important that they know what they are doing and have worked with SIGs before," he says.

One of the benefits of forming a SIG is that program costs are better controlled by unbundling services, such as claims, accounting, underwriting and loss control. Those areas are often outsourced to experienced third party administrators (TPA), but not always.

A TPA with experience managing SIGs should offer the group a wealth of resources to draw upon that they might otherwise lack -- industry experience, training, safety and loss prevention strategies and claims technology, among others.

"The benefit of having a single TPA manage the outsourced functions is that everything is managed under one roof, enhancing communication and enabling teamwork," says Foster Welburn, director of the self-insured Mississippi Manufacturers Association Work Comp Group. Beware, however, of the TPA that becomes excessively vertically integrated as this creates the potential for additional charges that might not occur if the fund managed itself or outsourced some functions to other entities.

Underwriting

With the team in place, management and communication begin. The SIG already has at least a core group of members, and now, focuses on retention and member growth. Careful evaluation of new members and constant evaluation of existing members is important. "You have to be willing to get rid of accounts that don't



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hold up their end of the bargain," says Welburn. "A professional underwriter needs to evaluate the risk of an account, price the account and determine if that account is one you want in your group."

As such, the underwriting facet of the SIG is reliant on information from claims, accounting and loss control. This data is imperative for formulating member premiums for each account year after year, and in determining if an account should be part of the group.

Claims Management

With best practices at the forefront, the claims management program should be designed around the SIG's goals, unique risk exposures and special claims handling requirements, according to Rod Golden, COO at CCMSI. Golden oversees all the operations handled by CCMSI, including claims management for multiple SIGs. Each group has its own design. He attests that outsourcing claims to a quality TPA is the only way to avoid a conflict of interest between a member's employees and the member company, if and when claims arise. "Connect with the employer and deliver a hassle-free product," says Golden.

There must also be an adequate number of claims adjusters and supervisors in place to manage the SIG's exposure and risk. Good communication between claimants, employers, the SIG and the TPA makes it easier to resolve claims sooner. "By communicating with the claimant and the employer, we get better information that allows for more accurate adjustment of the claim," says Golden.

A SIG's TPA should also determine what types of claims reports the group's trustees need, and when to deliver them—monthly, quarterly or annually. It is also good practice to provide group trustees and members with access to claim technologies so they can report monitor individual claims and claim summaries.

Access to that data is also critical to the SIG's accounting, loss control and underwriting areas because claims impact cash flow, how reserves are set, how member premiums are calculated and adjusted, and why safety and loss control strategies are implemented.

Safety and Loss Control

"Safety and loss control are the tracks that self-insurance runs on," says Welburn. "Without effective loss control, self-insurance does not work." In his mind, loss control should never be handled in-house in order to avoid political friction between the association and SIG members.

Best practices in safety and loss control begin by getting to know individual SIG member companies and gaining their trust. The goal is to establish a long-term partnership with the service provider. To fully benefit from the rewards of loss control, safety services require a consistent and dedicated approach that mirrors the goals of the SIG and its members.

Once established, services then flower to encompass identifying safety issues and potential exposures through site inspections, conversations and claim data; developing solutions for those exposures; and tracking results, says Ed Dicks, loss control manager at CCMSI. Dicks oversees loss control and safety for several SIGs in Mississippi and Louisiana.

"You must have an innovative loss control program year after year," he says. "Accidents cost four times more in lost productivity than they do in insurable costs. Most of the member companies know this and work really hard to implement recommended loss control strategies. But some members need extra encouragement, which comes from the association."

Excellent loss control begins with consultants that are knowledgeable about the inherent exposures of a specific industry. This allows for proactive service prior to injuries occurring. Additionally, consultants need to be familiar with claims data and the identification of trends or issues that point to a problem. Dicks identifies loss-cost drivers through claim histories, site visits or conversations, and to address them, develops solutions.

Sometimes, he finds that one member of the SIG may have a safety issue and solution others will appreciate knowing about and implementing at their own companies. Loss control solutions may include purchasing proper equipment, adjusting workstations, delivering safety training, teaching proper lifting techniques, etc. "The challenge is to identify potential exposures and practical solutions in a logical manner," he says.

A loss control consultant knows he or she is successful when the member companies execute loss control strategies and keep inviting you back. "We want to be a welcome interruption," says Dicks.

Once again, Dicks stresses the benefits of one TPA handling all the management functions; it delivers economy, efficiency and ensures seamless communication among all areas. It is simply better and more efficient for SIGs to outsource safety and loss control management to a TPA. "They have the resources and claims information to track exposures and the experience to develop strategies to make a difference," he says.

Accounting

"As a SIG's accountant, you are like the controller of a small company," says Tiffany Hatten, CCMSI accounting supervisor. As such, the accounting staff handles more than just accounts payable, accounts receivable and the general ledger for their SIG clients. They work very closely with investment managers, actuaries, claims and underwriting to manage cash flow, investments of premiums and budgets.

Once again, to ensure best practices, be sure to contract with an accountant experienced in SIGs. "On the accounting side, people sometimes want to use an accountant that they know," says Costner. "But I caution them against that because it is an area that has special requirements." There are many state-specific laws SIGs must comply with that relate to taxes, reporting and even investing.

"As the accountant, you have to analyze numbers, prepare a budget, and work with investments of premiums," says Hatten. To generate additional income on member premiums, SIGs invest extra funds that are not needed for immediate cash flow. The accounting facet ensures the investments of premiums fall within state regulations.

"Usually every three years, states send in audit teams to review records of the fund to ensure compliance with state law," says Costner. "The state can require revisions, levy fines or even close the trust if violations are significant enough. There are regulators that need to be satisfied that you are keeping records in a manner required by the state."

At the end of the policy period, third party actuaries use the accounting records and estimate liabilities, set overall reserves and estimate premiums for the upcoming policy year. "The actuary looks at the trends and patterns on the SIG's accounts in the past, interprets them and uses the information to determine losses for the next year," says Costner.

The actuarial forecast offers insight into how the SIG is performing and whether or not the management areas need improvement.

Information, Communication, Results

Communication and the exchange of information must flow easily and constantly between every branch of management to achieve a healthy SIG over time. That does not mean all management areas are required to operate under one roof, with a single TPA. But such a scenario does make communication simpler.

"At CCMSI, all of us -- claims, accounting, loss control and underwriting -- are taught to understand each of the other areas of management," says Hatten. "That group aspect is number one. Every management area must be on the same page and we all need to understand how each branch impacts the other. If you don't have that, management becomes segmented."

Finally, information is passed on to the SIG's trustees, who are responsible for making decisions on behalf of the group. Their decisions are then communicated to the management team and the cycle continues.

Haley Jorgensen is president of Ripon, Wisconsin-based Public Image.