

ART COLUMN FOR FEBRUARY

Destroying negative myths about SIGs

By Dick Goff

The old adage about a few rotten apples spoiling the barrel has never been truer than for self-insured workers' compensation insurance groups. Failures of a few groups have made headlines across the country and disproportionately struck terror into the hearts of many corporate risk managers who may have been thinking of joining a SIG.

Those few rotten apples are a very small number of unscrupulous operators who have profited from forming insufficiently financed SIGs and then left members hanging when catastrophic claims couldn't be paid. These operators will remain unidentified here because I do not have an unlimited legal defense budget.

SIIA has recently compiled an archive of case studies of successful SIGs to serve as a rallying point for members of our industry who are providing legitimate and responsible service to self-insured groups.

This column will profile another significantly successful SIG that has consistently met its obligations and returned profits to its members during a difficult period for their industry, the Automotive Industries Compensation Corporation (AICC), sponsored by the Automobile Wholesalers Association of New England (AWANE).

Joining me in a conversation about the SIG were Phil Healy, executive director of AWANE, and Joe Blanche, senior vice president of TD Insurance, Inc. who serves as AICC administrator through TD's FutureComp service.

The AICC Group significantly has been recognized by the Massachusetts Division of Insurance as being the "model" for private self-insured workers compensation programs in the state. Its year-end 2009 total assets were greater than the total of all claims paid since inception in 1995 through 2009. It has contributed over \$1.2 million in association sponsorship fees alone to AWANE over the past 8 years and has become a lead product in attracting and retaining AWANE membership.

My question was how is all that possible?

Joe Blanche: Aggressive, unlimited, focused loss control and claims management. Plus medical care management with a professional claims manager

assigned to every case. Massachusetts is not the easiest state to manage workers' comp because the employer cannot dictate where treatment occurs.

Phil Healy: Then there's the function of loss control – actually being able to reduce on-the-job accidents and injuries. The association employs a fulltime loss control consultant who schedules visits with all member companies to identify possible hazards and risk exposures and then follows up on that list to monitor improvements. This has created a member management buy-in to a safety culture that serves the best interests of the owners and the employees.

Also, we've never given up on underwriting – we do not stray from our membership standards.

Joe Blanche: This is not a program for everybody. We drill our staff on standards for success so that it can never become a free buffet for any company. It's not like in some larger groups where brokers don't know what they're selling and there's a "bring it in and we'll write it up" attitude.

Phil Healy: This really hits at the heart of self-insurance where sharing in risk improves operations. Since 2003 the group has averaged 40 percent return of premiums to members in cash dividends. But at the same time we're a long-term solution. If someone needs a short-term solution just to make their books look good for a year or so we don't need them. Long-term we have beaten the commercial dividend market every year since inception and our goal is to beat the market by 7 to 10 percent every year.

Joe Blanche: Obviously, this has been a tough time for the automotive industry, but that helps us make our case to members that they need to get more value from their risk management program through self-insurance. This past week (late in 2010) we announced the largest dividend in the history of the group, and that was coming off the lowest premium rates.

Phil Healy: Risk is not a four-letter word if you understand it, underwrite it, finance it, service it and reward it. That we can perform well in an industry that has never experienced such massive changes speaks to the commitment of members and is reflected in member retention. With a third of our members being automobile dealers, we still retain members in the mid-90s percent year in and year out.

So, the lesson of how to structure a successful workers comp SIG appears complete. I really liked Phil's characterization of risk and I really liked the thorough claims management and loss control programs of AICC. I'll add one additional factor that applies to every successful workers comp SIG: know your service providers and check their past performances. As Ronald Reagan always said, "Trust, but verify."

Dick Goff is managing member of The Taft Companies LLC, a captive insurance management firm and Bermuda broker at dick@taftcos.com.