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Reports of a SIG demise were exaggerated

By Dick Goff

You know how it is when a member of the family seems to be in trouble and you need accurate information. That was my quest, knowing that New York had barred new workers' compensation self-insured groups (SIGs) and California seemed to be throwing up roadblocks. If the nation's "bookend" states are targeting SIGs it seemed the entire industry may be threatened.

Well, paraphrasing Mark Twain's famous quote, reports of the death of SIGs have been greatly exaggerated. According to Duke Niedringhaus, chairman of SIIA's Workers' Compensation Committee and vice president of J.W. Terrill of St. Louis, SIG business is thriving.

"In general, the concept of preferred risk group programs is flourishing as much as ever," he told me. "That would include SIGs, group captive workers' compensation programs and medical stop-loss captives. Specifically, group captive programs are at record levels and beginning to impact the traditional markets to the tune of about $200 million annually."

That tune was music to my ears because I have long thought that captives could become a valuable part of the SIG structure. Captives designed to take the first level of excess coverage and push traditional excess insurance further out could benefit SIG members in a variety of ways. Duke said that this has been done successfully but is not without its challenges due to the long-tail nature of workers' compensation claims.

It's well known that a few insolvent SIGs in New York amounting to losses of almost $900 million spelled disaster for the industry there. And I learned that a couple of SIGs in California are now in default. But according to Duke these developments have made surviving and new SIGs stronger.

"It's been disastrous for the SIGs that ran aground but the New York debacle has been a great learning experience for the SIG industry as it works to avoid those kinds of problems going forward," Duke said.

He added that challenges for the traditional workers' compensation insurance industry have set the stage for a period growth for SIGs. "Traditional excess insurers experienced significant losses in 2010 and 2011, and are still trying to recoup those losses with higher premiums. That led to the current period of opportunity for SIGs."

Duke pointed out that many of today's stronger SIGs exhibit three characteristics in common: good board governance, articulating their advantages more effectively to prospective members and using advanced technologies for more efficient management, summarized as follows:

- Boards are making rational, practical decisions in their funding levels and still enjoying cost advantages compared with traditional fully-insured programs. They are able to use information from their claims for better accident prevention programs and to build realistic surpluses.
- SIGs are getting better at stating their advantages over fully-insured programs. The availability of claims data is part of that. Another advantage is SIGs' more efficient service with adjuster claim counts that are about half of the traditional industry average. By investing in lower case loads, SIGs can outperform the traditional industry.
- Increased use of analytic tools helps SIG members identify trends in claims that could lead to adverse loss development and apply effective accident-prevention programs. Similar analytic tools can help identify the best doctors in a region and drive better outcomes for treatment and return-to-work.

"If SIGs can effectively articulate those differences they can outperform the market and hold onto their membership," Duke concluded.

Even despite current regulatory challenges in California, Duke believes that the SIG industry there will see healthy growth. "In California we see an extremely cyclical traditional market and SIGs continue to provide increased value to their members," he said. "SIIA recently profiled the California Agriculture Network (CAN) among the most successful SIGs nationally."

A positive development Duke said is beneficial to SIG members in California and elsewhere are recent multi-state arrangements to cover employees active elsewhere.

"SIGs have either partnered with their excess markets or with a fronting program to insure out-of-state payroll exposure," he explained.

Duke advised all those interested in SIG developments to attend SIIA's Self-Insured Workers Comp Executive Forum on May 20-21 in Miami. "We'll have several sessions covering various aspects of SIGs," he promised.

Miami in May – not a bad concept. It's an especially attractive prospect for those locked into colder winter climates with months of the deep freeze yet to survive. Maybe I'll get a head start.

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