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FEATURE STORY

When the Old Boat Is Sinking, Build a New Craft

Fee-Based Revenue Streams Can Help Agents Combat Reduced Workers' Comp Commissions

By Susan S. Toussaint

The declining premiums and rough economy that have forced Florida companies to reduce their workforces have created a perfect storm for agents. These external forces, combined with the 2003 reforms, have resulted in declining workers' compensation insurance premiums over the past four years, with another major drop on the horizon. The National Council on Compensation Insurance (NCCI) has filed for a statewide average rate decrease of 18.6 percent in workers' compensation rates.

Lower premiums are a boon to employers, but result in reduced agency revenue and commissions. They also give employers more of an incentive to shop for price, to further commoditize workers' compensation insurance programs.

In the midst of this "perfect storm," brokers have an opportunity to expand their value to their clients. Aggressive agencies are developing fee-based revenue streams, offering services that attack the real cost drivers of claims, and becoming valued consultants to employers.

However, in an effort to differentiate themselves from the competition, some agencies are giving away back-office services such as human resources support and claims management facilitation, positioning these as "value-added solutions."

Agencies are throwing out these "solutions" hoping they will cause the employer to stick with them. But these free offerings create a Catch 22: Agents use them to bring in and retain business, but the expense of the back-office services cuts into the agency's profits. In the end, the brokerage is doing more work for less money.

More importantly, these "solutions" merely facilitate the status quo. It is like patching a sinking ship. Even with the rate decreases, the workers' compensation system is facing serious challenges, and agents need to focus on the real problems and proactively help employers address them. In doing so, brokers need to change their business model by adding fee-based consulting to their declining commission income, thus reducing their dependency on insurance market volatility.

NCCI recommended the latest rate reduction because the number of workers' compensation claims has decreased. This is the good news. The bad news is the severity/cost of claims are rising, also according to NCCI studies. Apparently employers are embracing safety programs that are successfully preventing injuries, but when an injury does happen, it is not being managed well.

Opportunities Are Out There

Claims severity presents brokers a chart for selling through the perfect storm by becoming educators and consultants to their customers. Most employers have no clue about the total cost of a workers' compensation claim, much less what the cost drivers are, and, worse, what the employers themselves are doing to exacerbate total cost of claims. This presents agencies with an opportunity to educate employers, change the system, and increase agency revenue at the same time.

In good times and in bad, employers mistakenly zero in on premium price. Agents need to divert attention from the last page of the contract and focus clients on the total cost of the claim. This means pointing out unnecessary lost-work days, fees, hidden costs, medical cost drivers, issues surrounding cascading contract

arrangements, and business practices that increase the cost of a claim.

Employers can control many of the costs of their workers' compensation claims. Lower claims experience produce favorable experience modification factors, and lower experience modification factors reduce premiums—in good markets and in bad. Even when premiums go up again—and they will—lower mods will cushion those increases.

Because medical costs have soared to a hefty 59 percent of a workers' compensation claim, medical is a good place to start. For instance, many managed care companies still apply deep discounts to doctors. Not only does this model represent a startling lack of understanding of the role of a physician in recovery, it actually rewards the managed care company for over utilization. In other words, it's stupid.

Under many contracts, the managed care firm receives compensation for the discount applied to each service. That is every discount applied to every service, so the more services per claim, the greater the discount rewards for the managed care company.

Many of these networks are built with group health doctors who lack workers' compensation expertise. A 2003 Workers Compensation Research Institute study showed that



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providers who saw a large number of workers' compensation patients reduced the medical costs by 50 percent over providers who saw only a few claims.

If deep-discount networks worked, workers' compensation medical costs would have been well under control decades ago. Instead, in recent years, medical costs in the workers' compensation system are increasing at a rate more than double than that of the Medical Consumer Price Index. The money companies save by using workers' compensation specialists and eschewing deep-discounts will pay for the agent's consulting fee many times over.

Use Your Analytical Skills

Analyzing and adjusting the injury management process is another fee-based consulting opportunity that agents are well positioned to offer. Assessing existing programs, then working with the employer to shore up weak spots, demonstrates real value and helps payers save considerable money on an ongoing basis.

Injury management involves everything from hiring practices to return to work. Common data points are: How quickly are injuries reported, do patients see physicians promptly, and are these workers' compensation savvy providers? Is there a lag

time for medical tests and visits? Delaying diagnostic tests slows recovery, treatment and return to work.

Poor pain management can result in a permanent disability, totally wrecking the experience mod factor. Giving workers' compensation patients the run-around creates irritable and litigation-prone claimants.

There are soft issues as well. Do supervisors treat injured workers with compassion or disdain? The way supervisors present transitional duty and encourage other workers to treat their injured colleague is incredibly important. Studies show that a worker's satisfaction with the employer's response to an injury has a larger impact on employment stability than satisfaction with the actual health care provided. Inured workers who are unhappy with medical and on-the-job treatment tend to retain lawyers, exponentially increasing the cost of the claim.

These are just some of the direct costs of injury management. According to OSHA, indirect costs can be as high as \$20 for every dollar of direct claim cost, yet many employers overlook them.

Indirect costs include lost time, which can mount even when employers are out of work for a short time. Additional supervisor time, overtime, and temporary labor add up. The temporary absence of a skilled employee can

cause the production delays and quality problems that ruin a customer relationship.

When employees are out of work for more than 12 weeks, there is only a 50 percent chance of them ever returning. How much does it cost an auto dealer to replace and train a skilled BMW technician?

A good injury management process changes a company's response to injuries permanently, which in turn favorably impacts its experience mod factor and ultimately its premium costs.

Workers' compensation is complicated, and most employers do not understand the basic costs, much less the hidden ones. Brokers and agents can save employers considerable sums by deciphering the fine print of contracts and helping them select the most appropriate insurance companies and managed care partners. They can guide clients into real, on-going savings through establishing or refining injury management processes.

The consultant-agency differentiates itself from its order-taking brethren. The key is empowering employers to control costs of their claims. Instead of giving away or selling services that do not address the root of the cost problems, insurance professionals have an opportunity to become a valued vendor partner that any employer would be loathe to lose. ▲