

Workers' Compensation Underwriting Philosophy as Partnership Formation

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An underwriting philosophy is the logical analysis of the principles and processes underlying the conduct, thought and knowledge used in selecting and assuming the risk of another party.

Philosophy attempts to draw unity from diversity. It attempts to deduce conclusions (leading to unity) based on overall observations, both direct and indirect (diversity). The unity we are attempting to achieve is profitable business. The diversity is all of the risks, which we, as a company, have the capacity and authority to assume. Selection is the key. Underwriting is a process of selection.

In a voluntary and competitive market, there will always be selection in insurance. The question is whether the selection will be done by the insurance company or by the insurance buyer. The two opposite poles in this continuum are selective underwriting vs. adverse selection. It is the job of the underwriter to select rather than be selected. By analogy, an underwriter is similar to a loan officer at a lending institution. There is nothing difficult about lending money (the assets of the company). The key is to make good loans: loans that will be paid back and at an adequate rate of return. An underwriter has the power and responsibility to use the assets of the company for the benefit of the stockholders and must think much like a loan officer to create, maintain and maximize the value of the company's assets.

Insurance is a business based on the concept of "Utmost Good Faith" between the parties; this is the opposite of the "Caveat Emptor" (buyer beware) concept. This is particularly true of workers' compensation where there are two beneficiaries to the agreement, the employer and the employee. Workers' Compensation is one of the

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social programs that made our Free Enterprise System strong. In the 1920's, when most states passed laws regarding workers' compensation, it was agreed that these laws are beneficial to all parties. Employers could know the cost of labor, thereby allowing them the ability to manage their businesses and price their products with certainty and stability. Workers knew if an accident or illness did occur from their work, they would be able to receive benefits without filing suit against their employer and seeking relief in tort. This system bestows both rights and responsibilities on the parties to the agreement. It was intended to be a no-fault, non-adversarial system and to succeed it requires both parties to act with the utmost good faith.

The problem with workers' compensation underwriting is relatively simple: How does an underwriter find employers whose employees do not get injured very often and that return to work well and quickly. Identifying a problem is much easier than solving it. The best service a business can provide is to solve a problem. Most of the problems with workers' compensation are management problems, i.e. how the process is managed. Businesses handle processes in different ways, some more effectively and efficiently than others. The processes used by some employer's lead to superior results, i.e. fewer losses (frequency) and lesser losses (severity) as compared to the employers who have poorer loss histories. Process management flows from management attitudes. The way a manager faces a problem has much to do with their success in solving the problem. So, what needs to be looked for is a management attitude: one of partnership and cooperation. An underwriter needs to look for employers who understand human resource management and who care about their employees.

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The best results in workers' compensation come from risks that are self-insured for their workers' compensation benefits. Why is this true? Management. Self-insurers manage the process differently.

Self-Insurers:

1. have the most effective hiring and training systems
2. immediately know when losses occur
3. respond quickly to the needs of the injured employee
4. direct the injured worker to appropriate medical care
5. contact the injured employee's family
6. communicate with the employee
7. immediately target a return to work date
8. provide modified duty for the injured worker
9. make prompt payment of indemnity benefits
10. live up to their end of the bargain
11. and see near immediate results of their actions.

If they do not do these things - they do not stay self-insured very long.

When asked what the problem's with workers' compensation is, an array of responses will follow: Many will say it is fraud, or benefit levels, or attorney involvement, high rates or rate inadequacy. Less than four percent of workers' compensation claims are fraudulent and then to varying degrees. Attorney involvement is a good barometer of the health of a workers' compensation environment and, although certain states have a greater propensity for attorney involvement than others, the vast majority of injured employees get attorneys involved, not because they are out to get rich off "the system", but because they

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simply do not know what to do. All they know is that they: have been injured on their job; cannot work; have not heard anything from their employer; are not getting paid, have bills to pay and mouths to feed; and are confused and unsure of their future.

These are symptoms of a failed system.

The employer, even if not enlightened as to state-of-the-art human resource issues, has responsibilities to injured workers. The attitude of management sets the stage for everything that follows.

A good insurance carrier can change the focus of an employer from workers' compensation being a financial obligation transaction and instead focus on the human event of an accident occurring to someone for whom they are responsible; then, everything else takes care of itself. This being the case, underwriting has much to do with determining management's attitude toward their employees and how managers manage the process of avoiding costs associated with work related injuries and illnesses.

A good carrier with a good employer will continuously improve the effectiveness of risk management methods for determining and developing this attitude in all relationships. It is the administrator's job to foster this attitude on the part of everyone involved in the workers' compensation management system. The carrier's job in risk selection is to identify the desired characteristics looked for in a risk and select those risks to write, rather than be selected by those that do not have the desired characteristics. Although an evolving process, there are certain traits a risk should possess that makes them more desirable; many of which are the same things listed above that self-insurer's do. These are important criteria in the

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underwriting process. A good carrier will assist with the education and awareness of effective methods and practices used by the better-managed employers. It is the good carrier's job to assist their customers in the risk management process and to become an effective partner in workers' compensation risk control. This can only be done with cooperative partners and that is what a good carrier looks for in their underwriting efforts: partners.