



DRIVE....

Discover, Refine, Implement, Value, Evolve

A competitive edge with workers' comp

As a broker, you know workers' compensation insurance is all about numbers. There can be a tendency among employers to view it like an unavoidable tax: many buy it simply because they are required to by law and because they know they can't pay for claims out of pocket as they happen. It's natural in many cases that they approach the buying decision with a low-bid mentality: the lower the premium, the better the bottom line, they reason. If they're happy with their current policy, they may simply call their agent and ask about the costs for the coming year, or they may make a few calls to see if they can find a lower bid.

This is an inaccurate view of workers' compensation insurance that makes the broker the mere middleman without much to offer beyond price. As a result, most brokers are anxious to scramble for the magical number each year. But winning workers' compensation business doesn't have to be – and shouldn't be – about the low bid. There is a more effective strategy for getting in the door.

When you educate clients about drivers of workers' compensation costs and the experience rating modification the resulting dialog opens doors to long-term relationships built on strategy and the bottom line.

Winning workers' compensation business doesn't have to be – and shouldn't be – about the low bid. There is a more effective strategy for getting in the door.

UNDERSTANDING THE EX MOD

In general, the workers' compensation premium is determined by a process called experience rating, which is a mathematical analysis of a company's payroll and losses resulting in a number called the experience modification factor, also known as the mod or ex-mod. The higher the mod, the higher an employer's premiums.

The nuts and bolts of the Ex Mod

The Ex Mod calculation generally depends on these components:

1. Actual losses experienced in the three prior policy years, not including the expiring policy year
2. Expected losses based on payroll and expected loss rates for the industry
3. The amount of the loss, i.e., its severity & frequency
4. Whether the loss is medical-only, without temporary or permanent disability
5. Ballast and weighting values published by the bureau

Workers' compensation as a line of credit

Something employers often do not understand is that the experience mod causes workers' compensation policies to behave more like a line of credit than a typical insurance policy. Almost always, the employer, not the insurance company, ultimately pays for claims because of the effect they have on the mod over three years. Every injury an employer experiences impacts the mod – and thus, insurance premiums – for three years. In reality, with workers' compensation insurance, employers are simply leveling out the peaks and valleys of injury costs by financing them. In some cases, employers pay more in insurance premiums than the cost of an injury because of the long-term effect it has on the ex mod.

Bottom line? Many employers realize the mod affects premiums in some way. But they rarely know what actions they can take to lower the mod and insurance costs – and there are always specific actions that will control costs. It's up to you to introduce concepts they have never heard before and make them see workers' compensation insurance in a new light.

“Any agency tries to accomplish 5 main goals: new business, retention, differentiation, quantifying value and exit barriers. Using data for strategic management, a broker can accomplish all five.”

“DRIVE” GROWTH WITH THE EX MOD

How does this lead to a better close ratio and retention rate? The key to transcending the low bid is to strategically analyze the factors that influence the employer's mod and find targeted solutions to improve them. You must help companies understand that workers' compensation is not a fixed tax but a variable cost driven by claims experience – and a lack of strategy to control this cost hurts their competitive advantage.

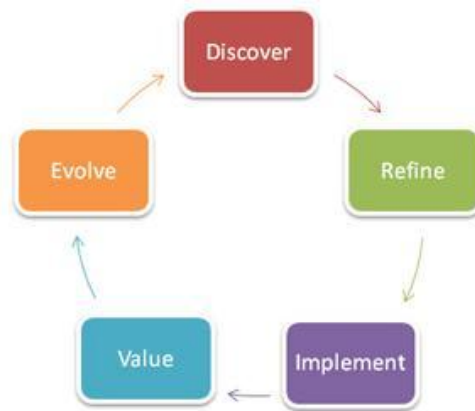
Many brokers avoid the mod because it seems too technical. But when you use the mod in your conversations with a prospect, you will truly rise above your competitors and ultimately save clients real money. Any agency tries to accomplish five main goals: write new business, retain clients, differentiate from competitors, quantify value to clients and build exit barriers. Open the conversation with some pointed questions:

- Have you ever wondered what your competitor is paying for workers' compensation insurance?
- Have you been verifying your mod? If it went up – or down – this year, do you know why?
- Do you know how low your mod could be? Your premium?

By opening employers' eyes to this reality, brokers gain credibility and become the trusted advisor instead of a vendor of a commodity. Accomplish your agency's five goals with five steps and the acronym **DRIVE**: discover, refine, implement, value and evolve.

Step 1: Discover

Once you have piqued a prospect's interest with these probing questions about the ex mod, how do you begin? Demonstrate that workers' compensation costs are not fixed, but dependent on their specific claims experience. Begin with the employer's ex mod worksheet.



□ **Educate.** It is important to highlight that a mod of 1.0, although often a requirement for a company to win contracts and do business, is by no means a perfect score. In fact, it is only average, like a “C” on a report card.

□ **Identify the employer's minimum (or “loss-free”) ex mod.** This is the value of the mod if the employer were to experience no losses at all – it is a real and attainable value, and changes from year to year. The premium associated with this mod value is what the employer could be paying in workers' compensation premiums

□ **Determine the difference between the current ex mod and the minimum mod.** This difference, called the controllable mod, ultimately represents the money an employer could be saving in workers' compensation premiums. It can be attained through better loss control and loss prevention efforts.

Many employers have never been educated about the Ex Mod and the drivers of workers' compensation premiums. Opening their eyes to these new ideas and offering concrete cost-cutting strategies positions you as the expert and proves your services can truly make a difference on the bottom line.

Step 2: Refine

Once you have identified the controllable mod, analyze the factors that influence it and determine where areas of focus and improvement should be.

□ **Benchmark losses against the industry average.** “Expected” losses on the mod worksheet reflect the average for the industry for a theoretical company with the same payroll. A mod over 1.0 compares unfavorably to other businesses in the industry. Divide the total actual losses by total expected losses to find how a company compares to competitors.

□ **Examine frequency.** If a prospect has many losses, even if minor, those losses will impact the mod more than if there were fewer severe losses. This problem often points to some sort of safety training or cultural issue that needs to be addressed. To test for a frequency issue, divide actual primary losses by expected primary losses – 1.0 or higher needs attention.

□ **Examine severity.** Although frequent losses are the fastest way to drive up the mod, it can also be adversely impacted by only a few relatively high-dollar losses. Severe injuries may be a result of safety issues, but are more likely a sign of challenges such as a poor return to work policy or inadequate injury management procedures and communications. To test for a severity issue, divide actual excess losses by expected excess losses – 1.0 or higher needs attention.

□ **Determine the specific impact of each loss on the mod and premium.** When a company experiences a loss, that loss has a specific impact on the mod, which then has a specific impact on premium costs. When you share this with an employer, you're demonstrating that they are ultimately paying for their claims – it's their money. When they understand that, their mindset toward workers' compensation insurance will dramatically change.

○ To calculate this, calculate the mod without a specific loss. The difference between the original mod and the new mod is the mod impact of that specific loss. So if the original mod was 1.15 and we want to know the impact of a \$7,500 loss, we remove that loss from the calculation and get a new mod of 1.11 – a mod impact of .04.

○ Multiply the mod impact by the unmodified premium to determine the premium cost of the specific loss. Then, multiply that by the three years the loss remains part of the mod. In the previous example, let's say the premium was \$100,000. The premium cost of that loss for one year is \$4,000 – \$12,000 in increased premiums over three years!

□ **Are there specific problem areas?** Consider the available demographic data associated with each loss to determine whether there is a problem department, location, injury type, etc. This analysis allows you to identify the right targeted recommendations to lower the incidence of losses in these specific areas.

Providing long-term, money-saving solutions puts you among top brokers, allowing you to transcend the low bid to become a truly valuable adviser.

Step 3: Implement

Once you have opened a prospect's eyes to the bottom-line impact of the mod and revealed problem areas, demonstrate how you can deliver solutions. Outline a clear strategy to help lower the most costly losses or target problem areas – list specific actions to take and programs you can help the employer implement.

Business practices that are important for monitoring and improving the mod include:

- IIPP Review/Compliance
- Safety Coaching / Safety Action Plan
- Nurse on Call – Implementation
- Claims Oversight
- Return to Work Implementation
- Familiarizing employees on return to work as a benefit of their employment
- Improving hiring practices
- Return to Work – Implementation / Employee Communication
- Preparing for a premium audit
- Forming relationships with medical providers

Prove that the financial difference you can make runs deeper than that of your competitor who sells on the low bid. Providing long-term, money-saving solutions puts you among top brokers, allowing you to transcend

the low bid to become a truly valuable adviser. Most employers do not expect this kind of service from a broker – it can act as a unique differentiator, and the potential savings is a powerful motivator.

Step 4: Value

Move to the close as you summarize what you've uncovered in your analysis and how you can provide targeted solutions to problem areas. As you reveal the amount of money your prospect could be saving and pinpoint the areas that are driving up costs the most, the prospect is already mentally working out exactly how much reducing losses could mean to the bottom line.

An excellent way to wrap up the presentation is to answer the questions that have been forming in the prospect's mind: Prepare a what-if analysis that clearly illustrates how much money could be saved if the prospect were to reduce losses by 25%, 50%, etc. This effectively proves how much is currently coming off the bottom line to fund workers' compensation insurance and creates urgency to take action.

These kinds of back-of-the-envelope calculations create a vision in the prospect's mind of long-term cost savings. Reinforce this vision with questions like:

- How much in additional sales would you have to generate to make that much on your bottom line?
- What specific strategies do you have in place to reduce losses?

Step 5: Evolve

As with all true change, the recommendations you make and the business practices you help implement will take time to make an obvious impact on the mod and a client's bottom line. However, once you have the tools and processes to become a true consultant to your clients and prospects instead of the middleman, you'll become an essential part of their business, securing retention and driving referrals.

- Build even more insight as you track progress from year to year and prove a client's progress.
- Monitor loss runs on a quarterly basis; use this as an opportunity to connect with a client.
- Use loss data to negotiate and reduce reserves with adjusters or close open claims.

A TOOL FOR EFFICIENCY AND EFFECTIVENESS

That's it. Using the five steps in the DRIVE technique and the in-depth insight gained by analyzing the mod, you're ready to give a new spin to your sales pitch and a rock-solid reason for clients to renew with you. Telling the mod story successfully can make a serious difference in your agency's ability to write workers' compensation business – and can even act as your foot in the door for selling other property-casualty products. Although the mod is simply a number you can calculate, its power as a sales tool lies in effective analysis and pitch-perfect presentation