

The Secret to Lowering Your Experience Modification

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One of our clients is a heavy-metal steel fabricator. They have 100 workers and they have a 42% Experience Modification! Their best case is 41%. Another client is a trade contractor and they have 500 employees. Their Mod is 54%. We have other clients who are not as safety-conscious as these two firms, and their mods are higher; in some cases, a lot higher.

To put it in perspective, our fabricator client has a base premium of \$400,000. Their net premium after application of their 42% Mod is \$168,000. The same firm with a Mod of 158% would pay \$632,000. The delta is \$464,000 of profit!

While the Experience Mod is only one of the factors that ultimately determine the net rate a firm is charged (other factors include schedule credits, territorial factors and premium discounts), it is the one factor that an insured controls.

What is an Experience Modification Factor?

An Experience Mod compares the loss experience of a company against all the similar businesses in a given state. If the loss experience is average, the Mod is 100%. If it is better than average, like the two firms mentioned above, the Mod is below 100%, and if experience is worse than average, the Mod is above 100%. The Mod is generally based on the last four years of loss experience, excluding the current or most recent year. Absent self-insurance, there is no avoiding a Mod.

In California, the Experience Mod is calculated by the Workers Compensation Insurance Rating Bureau (WCIRB or Bureau) of California. Other states either have their own bureaus that calculate Mods or they are subject to the Mods promulgated by the National Council on Compensation Insurance (NCCI).

In addition to the impact that a Mod might have on cost, it can also preclude you from working on certain projects. There are some developers, municipalities or other entities that won't even do business with a company if their Mod is above a certain threshold. Fixing your Mod is not easy. One bad year will affect your Experience Mod for three years.

A reactive approach to managing your Mod doesn't work. The key to a positive credit mod is a culture of safety, proactive claims management and comprehensive HR practices.

Safety Culture

If your employees were asked about your safety culture, what would they say? "Safety is a major priority. Management goes out of their way to run a safe company." Or, might their response be, "Safety culture? What safety culture? It's all about getting the job done as quickly and as cheaply as possible." Safety starts at the top. If senior management is not driving the safety culture, the culture will suffer. We see it all the time. When safety is a major objective of senior management, it cascades through the entire organization. When safety is a secondary priority, it is almost always reflected in a lousy loss history. Assuming a commitment from management, what else needs to be done to create a culture of safety?

1. Appoint a Safety Coordinator. Someone in your company needs to have overall responsibility for safety, and depending on the size of your company, there may be several people sharing this responsibility.
2. Make sure your Injury and Illness Prevention Program (IIPP) is compliant. Every employer in California is required to have an IIPP. If you do not have one, or cannot remember when it was last updated, you are out of compliance. An Injury and Illness Prevention Program is the cornerstone of an effective safety program.
3. Create a Safety Committee that meets monthly and holds effective, results-generating meetings.
4. Track your Safety Trainings for all employees and make sure they are monitored on a regular basis.
5. Provide an effective Safety Orientation Program for new hires.
6. Perform as-needed inspections and have written policies as well as documentation procedures for:
 - Job Site Safety
 - Field Equipment
 - Automobiles
 - Tools and Machinery

Claims Management

Even the best-managed companies will have claims. How those claims are handled, however, will greatly affect the outcome and cost. How are your claims managed? Do the appropriate people know what to do in the event of a claim or a circumstance that might give rise to a claim? Or, is every claim situation a fire drill that is handled by whomever happens to be in the vicinity when an accident happens?

Effective Claims Management goes hand-in-hand with a Culture of Safety. At a minimum a solid Claims Management Program will include:

Appointment of an internal Claims Administrator – This is the person or people in your company whom anyone can go to when there is a circumstance that could give rise to a claim or an actual claim.

Education - everyone in your company should be educated on claims identification and what to do if they become aware of a claim.

You should have a Claim Reporting Protocol, and it should be available on your intranet or some other electronic bulletin board so everyone can access it.

You should have a relationship with your Broker's Claims Department as well as your insurance company Claims Team. Regular open-claim reviews should be held to make certain claims are being handled appropriately and everyone is on the same page.

Effectively managing claims is a collective effort that includes your insurance company and insurance broker. Steps taken to identify claims as early as possible, and procedures designed to minimize those damages, will go a long way to reducing the claims costs that ultimately drive your cost of risk.

Human Resources

While HR is not really considered a “safety” function, it is intricately related to a company’s loss profile. How well is your HR department performing? Do you have a qualified HR professional in place who is up to speed on current employment and labor laws and who proactively interacts with staff to avoid issues before they become problems? Or is HR handled by someone with other responsibilities who does not really understand HR at all, and missed the meeting when the HR job was handed out?

Make sure that Human Resources is not an afterthought. If you are a larger company with 50+ people, you should have a dedicated HR professional on staff. If that does not make sense, the person responsible should have an appropriate amount of HR training. At a minimum, this person has to know what they don’t know, so they know when to ask questions.

Make sure your Employee Handbook is relevant and up to date. Has it been updated within the past several years? Does your staff have a copy of the handbook and is the handbook relevant and effective? Does it include the safety protocols mentioned above?

Do you have written job descriptions for all positions within your company? Written job descriptions are a basic requirement for effective HR and are integral to a Return-to-Work Program. They also spell out the physical requirements of each position. You want to avoid “hiring a claim” ... which leads us to #4. Do you have a formal performance evaluation process for employees, and are employees evaluated on a regular and consistent basis? If an employee is incapable of performing the physical aspects of their position, it’s only a matter of time before they have a claim. This could include a Pre-Hire Medical History Questionnaire.

Closing Comments

Your Experience Modification can have a significant impact on your company’s operations and profitability. The Mod, however, is a “lagging indicator” of your loss experience. Your current Mod can be affected by claims that took place nearly four years ago! Because of this, and as mentioned before, the reactive approach to managing your Mod won’t work. You have to be proactive.

The Safety Manager of the construction company mentioned at the beginning of this article had the following comment when I asked how they achieved their 54% mod. “We have a robust safety culture. Everyone working here knows that the owners of this company are first and foremost concerned about their safety, PERIOD. They invest in safety and we talk about it all the time. We invest in trainings and we are aggressive in managing our claims. It’s not inexpensive, but if you do the math, our Return on Investment is off the charts.”

To assist ASA members in taking a proactive approach, Cavnac & Associates is offering a complimentary site-safety assessment performed by the firm’s Safety Manager, Chris Malicki CHST. Site-Safety Assessments will provide valuable information regarding OSHA compliance and claim prevention. To schedule your site assessment, contact Matt Evans 619-744-0594 or mevans@cavnac.com.