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What's a SIG 2.0

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In delving deeper into why SIGs and self-insurance can be good for an employer, it's important to note that this method of obtaining and providing workers' compensation coverage to one's employees is not for smaller companies or the faint of heart. Taken individually, there are several principles involved in workers' compensation discussed in the last blog, which must be considered before an employer even thinks about becoming self-insured. These include:

- Risk tolerance,
- Funding,
- Capital,
- Size of organization,
- Finding other like kind and quality companies

And, most of all, an employer's willingness share knowledge and to have its industry competitors be active members of the board of trustees, as well as participants in the SIG.

First, is the issue of risk tolerance. If an employer prefers to color within the lines and doesn't like doing anything where all of the risks are not clearly and precisely laid out, then going self-insurance is NOT for them. Why? Because precision is obtained by buying standard plain white/vanilla insurance coverage, which will cover any and all risks under the policy – which, for workers' compensation, should provide statutory workers' compensation coverage for your company. However, purchasing such insurance, from a well-rated insurance company, *may* cost you more than going self-insured, but will at least provide you with the satisfaction that once you've paid your premium, you are essentially done.

Conversely, if the employer doesn't mind taking on some risk, and has size it can either become a stand-alone self-insured, where the company takes on and pays for all of the losses attributable to your company's workers' compensation losses. Or medium sized and small employers can enter into a Self Insured Group, with other quality companies of similar kind.

If one enters into a SIG, almost all of these same costs are found to exist, but the process *also* includes the Members being required to have audited and/or reviewed financial statements, pay for the services of a group administrator, a Third Party Administrator (TPA), an actuary to perform the Annual Actuarial Studies, a CPA to perform the annual audit, a broker of record to handle the placement of the specific excess that must be purchased, loss control specialists, a clock maker to ensure the clocks all work and run on time (just kidding), etc.

In addition to the foregoing strategic partners, who must be used per regulation, SIGs must have the requisite Members, which must meet minimum criteria if a SIG is to be successful. This means that the SIG must underwrite each of its members not to minimal standards, but so that each member should be of sufficient size to bear the losses of the entire SIG, under the theory of joint and several liability (J&S), which concepts will each be described, in greater detail, in a subsequent blog.



Next, is it possible to obtain different companies, in the same class of businesses, each of whom is a competitor with every other potential SIG member? The short answer is YES! How can this be? Well, a SIG is somewhat like a trade association, in that all of its members are in the same business with their entire client base being similar... including the fact that SIG members are usually competitors in the same market. But, despite being competitors, they share the same goal, which is to make money. And, what's the best way to make money? It's by not spending it!

So, how can joining a SIG or becoming self-insured, for that matter, save employers money? So, can SIG Members by taking out the insurance company save as much as insurance companies appear to make in profit? It all depends!

The answer to how can SIGs succeed, financially, will be addressed in an upcoming blog, but suffice it to say that most importantly, SIGs and self-insurance moderate the swings of the insurance industry, through loss control, investment earnings and controlled spending, which all save money. And, by avoiding the heavy hard market increases that the market can inflict, self-insureds can save money.

