



STRATEGY MEETS ACTION

## Maximizing Capabilities in Workers' Compensation

Getting it Right in a Multi-Line World

*Featuring as an example:  
PCIS<sup>®</sup> Vision System*

### **An SMA Perspective**

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*This perspective is based on SMA's ongoing  
research on core system capabilities in insurance.  
PCIS has purchased distribution rights.*



**About This Perspective**

This SMA Perspective is a summary of SMA's ongoing research on policy administration systems, IT business drivers and decision influencers, and SOA architecture in insurance.

PCIS has purchased distribution rights for summary results of selected research and opinion. This is not paid-for research.

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Thanks to advances in technology architectures and significant progress in how solutions can be integrated, there are new game-changing possibilities for addressing the unique needs of the workers' compensation business.

## Maximizing Workers' Compensation Capabilities

Advancements in technology and solution approaches have helped insurers make significant progress in administering the commercial lines business. The workers' compensation (WC) line has benefited along with others. But for many insurers, there is more that could be done to accommodate the unique requirements of the WC business line.

SMA recently investigated policy administration automation in commercial lines to better understand how the advantages that are available through emerging technology capabilities can be used to support the automation of the WC line of business. This research included extensive interviews with insurers to examine trends and requirements and to map the shifting direction in automation.

### One Size Does NOT Always Fit All

The nature of policy administration solution approaches varies considerably among insurers. Factors that determine what approach is used include:

- the complexity of the products written,
- the types of risks,
- the size of the WC book of business relative to the other commercial lines being written by the company,
- and the business and IT strategy of the organization.

Most multi-line insurers are using multi-line solutions that provide policy administration processing for many lines within the commercial book of business. Hence, the sophistication and functionality of solutions for administering WC vary widely. Some insurers, especially those offering only WC products, have implemented solutions specifically designed for the special needs that are required to administer the WC book.

The simple fact is that one size does not always fit all. There are commercial lines systems in the marketplace with WC capabilities, but for many insurance companies, these multi-purpose, multi-line systems are not able to deliver optimal, automated support for the unique, comprehensive needs of the WC business.

### Opening the Opportunity Door

SMA research shows that a convergence of need, new solution possibilities, and a positive attitude toward change is paving the way for game-changing progress in the automation of WC business capabilities. The sophistication of capabilities being implemented by insurers that write only WC is increasing significantly. Among those insurers that handle multiple lines on the commercial side of the business, there is a noticeable trend to try to improve the approach to policy administration solutions or the systems that surround them, so that the unique and specific needs of the WC business can be addressed with richer function and capabilities. The fact is that it is now possible for all insurers to capitalize on state-of-the-art WC capabilities, thanks to advances in technology architectures and major progress in how solutions can be integrated.



## Business Capabilities

WC products inherently have requirements that are not common to other insurance products; WC offerings are sophisticated and complex. The policy itself is typically composed of multiple products, each using a specialized set of rates, rules, and forms. These offerings can involve very complex relationships. Some policies, such as those written to cover the construction industry, require the management of many levels of wrap-up policies. Rating can be extremely complicated. Specialized tools are often needed to manage split rating across different policy periods and for different coverage conditions. In many cases, policy premiums are estimated at the time of issuance and the ultimate premium amounts are determined after the policy expires and the final audit is completed. This has impact on both the final written premium and the earned premium calculations. All too often, these comprehensive requirements translate into an expensive overhead burden. Many manual work-arounds may be required to manage these intricate relationships and different parameters if the core policy administration system does not have the capability to handle the specialized requirements.

### Unique Considerations for WC

Because of the unique characteristics of WC policies, special considerations and highly specialized processing and rating capabilities are required. Figure 1 illustrates the necessary business requirements for different capability areas.

Figure 1: Examples of WC Business Requirements

Capability	Requirements
Premium Audit	<ul style="list-style-type: none"> <li>Flexible audit transaction capabilities: monthly, interim, quarterly, or annual</li> <li>Multiple audit methods and channels: automatic, mail, or on-site</li> </ul>
Loss-Sensitive Rating	<ul style="list-style-type: none"> <li>Management of loss-sensitive plans – including retro, large deductible, and small deductible plans</li> <li>Support for loss-based rating methods as well as premium-based methods – including anniversary rating and loss billing</li> <li>Incentives for policyholder loss prevention</li> </ul>
Policy Period	<ul style="list-style-type: none"> <li>Handling of flexible policy periods including short term and long term policies</li> </ul>
Rating/Pricing	<ul style="list-style-type: none"> <li>Exposure management (for payroll driven vs. sales or revenue driven premium determination)</li> <li>Ability to handle multiple specific rating methodologies such as experience, schedule mods, expense constants, anniversary rating, etc.</li> <li>Support for comprehensive classification codes</li> </ul>

(table continued on the next page)



<b>Coverages</b>	<ul style="list-style-type: none"> <li>• Management of unique inclusions such as wavier of subrogation</li> <li>• Handling of special coverages such as coal mine, construction, and aircraft</li> <li>• Support for unique state and SIC codes such as WV coal mines and FL JUA</li> </ul>
<b>Taxation</b>	<ul style="list-style-type: none"> <li>• Management of state-specific taxation policies and laws such as KY taxes</li> </ul>
<b>Dividends</b>	<ul style="list-style-type: none"> <li>• Calculate and process dividend payments</li> <li>• Determine when and where dividends apply</li> </ul>
<b>Loss Control</b>	<ul style="list-style-type: none"> <li>• Linkage of loss control analysis to underwriting's risk evaluation and pricing</li> <li>• Management of risk through safety engineering</li> </ul>

Source: Strategy Meets Action 2012

## Today's WC Business Capability Requirements

In today's highly competitive marketplace, any shortcomings in meeting the full set of required business capabilities needed to properly process and manage the WC business are just not acceptable. Insurers that do not have the necessary automated tools and systems in place to fully support WC are experiencing operational inefficiencies, pricing inaccuracies, the need for manual work-arounds, and cumbersome customer service. These inefficiencies are impacting bottom line results.

## Technology Capabilities

Today, there is an opportunity to capitalize on fresh thinking when looking at how best to achieve robust policy administration capabilities for the WC product offerings. New ways to deliver increased functionality in very specialized areas, with WC being a perfect example, are making it possible to take solutions to the next level. The ability to incorporate a WC system that is more suited to meet the special needs of this line, with other existing or new solutions, is now possible thanks to more flexible and agile Service Oriented Architectures (SOA).

## Key Decision Factors for WC Solutions

For insurers that write the WC line exclusively, there is only one solution approach – a specialized Workers' Compensation policy administration system.

In the current highly competitive WC environment, any weaknesses in business capabilities are often visible and can impact bottom line results.



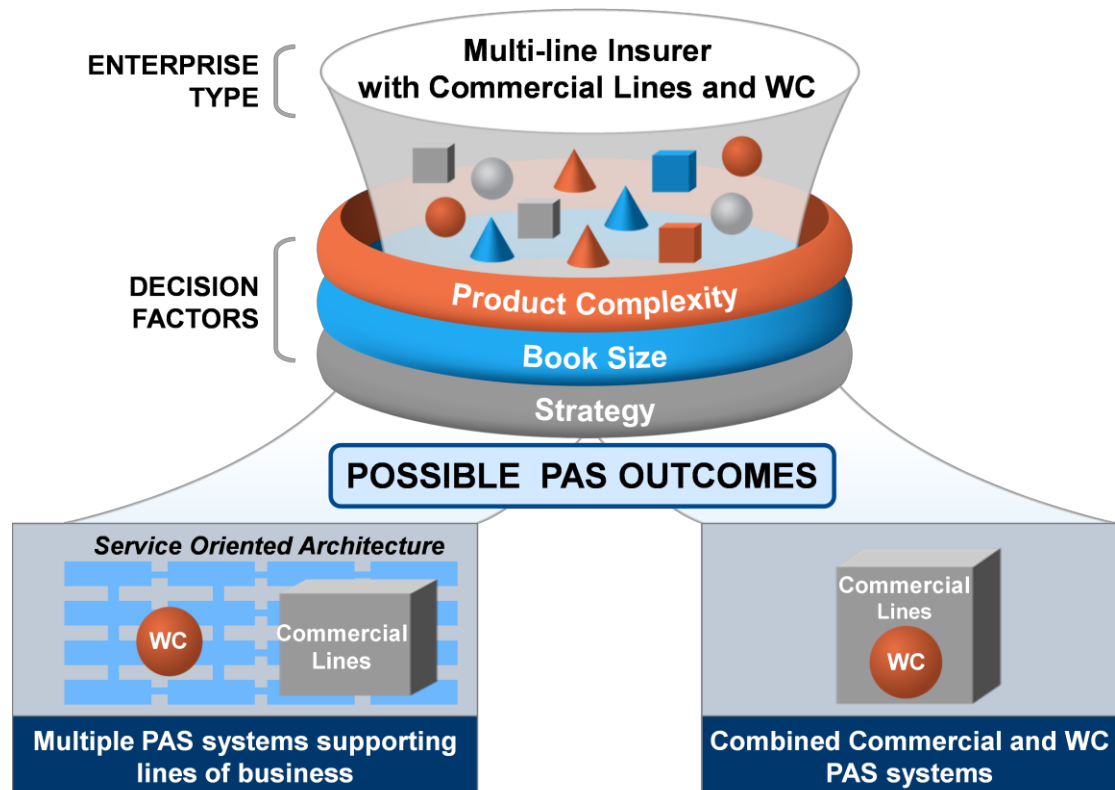
For those insurers who write other commercial lines as well as WC, there are two approaches:

- A single policy administration system that supports all commercial lines including WC. Insurers using this approach are supporting their WC needs with the capabilities that are available in the commercial lines policy administration system. Typically, all of the required WC-specific business capabilities are not fully supported.
- The blend of a WC-specific policy administration system along with one or more focused applications that support other commercial lines such as auto, general liability, specialty, surety, and property. The WC administration solution that is utilized in this scenario supports the specific and unique business requirements of the WC book.

For the insurers writing both WC and other commercial lines, the biggest challenge involves the tradeoffs that are frequently made when it comes to IT investment decisions in their organizations. In an effort to streamline the applications that are being deployed, the capabilities that are really needed to service the WC book of business end up getting shorted or sacrificed. The end result is that the competitive advantage in the marketplace can go to those that utilize a WC-specific solution.

As depicted in Figure 2 below, three key elements are important in shaping the decision about WC policy administration system capabilities for companies that write WC and other commercial lines.

Figure 2. The WC System Decision



Source: Strategy Meets Action 2012



Insurers that are able to leverage a SOA architecture have an advantage in being able to separate the front-end user experience from the core processing.

There is no exact science for determining how many and what type of policy administration systems an insurer should deploy. However, some fundamentals should influence the decision and can help insurers make the right choices. Product complexity, book size, and company business and IT strategy all shape the requirements for supporting the WC offerings.

For those insurers that write complex products and risks, where WC represents a sizable portion of the book of business, and in an environment of business and IT alignment, the decision is simple – they need to be using a WC-specific solution. SMA research shows that insurers that meet these criteria either currently have or are implementing unique WC solutions. These insurers feel that satisfying the business requirements of WC is the top priority for their companies and they are turning to IT and SOA to minimize the impact of multiple policy administration systems. Insurers that have not yet addressed the advantages that a SOA environment affords, will find that the use of a WC-specific solution, along with other commercial policy administration solutions, results in multiple front-end user experiences for both the underwriters and the agents. This creates a new technical requirement that will need to be addressed.

## Today's WC Technical Capability Requirements

When insurers are using multiple policy administration systems, they have to manage the complexity of a multi-systems interface for underwriting and policy service personnel. Insurers must leverage a SOA architecture to separate the front-end user experience from the core processing. Rather than having completely siloed policy administration systems, insurers are decoupling the front-end capabilities, creating a common user experience for the underwriters that handle multiple lines. They are addressing their policy administration needs with systems that specialize in the lines being handled. All of the core systems become back office systems with strong business enablement that is specific to each line of business. SMA is observing that insurers with solid business and IT strategic alignment are able to strongly position themselves in this competitive market.



## PCIS Vision System

### Company Overview

For over 30 years, PCIS has been a proven and trusted provider of comprehensive policy administration and claims solutions to the property and casualty insurance industry. With an in-depth knowledge of both technology and real-world business requirements, PCIS has earned a leadership position in the workers' compensation market and understands the challenges of insurance carriers, self-insureds, and third party administrators. Headquartered in New York, PCIS has a strong market footprint among a broad range of clients.

### Breadth of Functionality

The PCIS CompVision™ system is able to provide WC policy administration support for all insurers, from start-up and regional companies to large multi-state/multi-carrier companies. CompVision is a 50-state, rate, quote, policy issuance, policy administration, premium accounting, audit, and NCCI reporting software system. The system manages the WC business from initial assessments through to final audit. The system is fully integrated including full accounting functions, reporting functions, and internal controls. This comprehensive system has been designed to be very flexible, enabling user management to tailor the system to the needs of the business.

The CompVision system is a robust policy and billing WC solution. It offers flexible support for simple to sophisticated auditing, manages dividend payments, can be adapted to new underwriting conditions, and is able to process variable policy periods. The system provides automated support for specialized needs including loss sensitive rating, specialized rating methodologies, subrogation, and a variety of taxation requirements. This robust system can handle complex products, large and complicated books of business, and will support a variety of business and IT strategies as well as the introduction of new programs.

The architecture is based on a platform that addresses the unique requirements of WC and allows for full integration with other systems and processes in a SOA environment. The CompVision solution is a fully functional packaged solution for WC administration that is easily integrated with new and existing commercial lines systems.





## Strategy Meets Action Commentary

It is time for many insurers that write WC, particularly those that write complex products and have large books of business, to rethink how they are approaching policy administration solutions. Thanks to technology advancements, especially more flexible and agile IT architectures, it is now possible to incorporate a WC system – one that is more suited to meet the special needs of this line – with other existing or new solutions.

There is not a 'one-size-fits-all approach', nor is there a 'best policy administration solution', that meets the needs of all multi-line insurers. Some insurers have complex insurance products, a large book of business, and sophistication in their business and IT capabilities. For these insurers, there are opportunities to look at solutions that can deliver greater knowledge depth, more content, and higher levels of expertise for each of a company's lines of business. A number of solution providers have a strong knowledge of the commercial lines. However, few have deep expertise in WC. The key differentiators that distinguish the strong from the weak in WC automation include staff expertise, reporting capabilities, and content understanding.

PCIS has the unique combination of knowledge, skills, and capabilities to address an insurer's needs in automating WC. The PCIS team has deep WC knowledge and extensive experience in automation requirements. The CompVision solution contains the depth and breadth of function needed to address the full spectrum of coverages, rates, rules, and forms – capabilities that will assist insurers in gaining the edge they need to excel in the WC business. These capabilities, combined with a modern application that can easily be integrated into a service based architecture, put insurers in position to have the best of both worlds – systems that can support their commercial lines books and at the same time excel at meeting WC requirements. Insurers should consider PCIS among those on their short list when looking for a modern application to address their complex WC needs.



## About Strategy Meets Action

Exclusively serving the insurance industry, Strategy Meets Action (SMA) blends unbiased research findings with expertise and experience to deliver business and technology insights, research, and advice to insurers and IT solution providers. By leveraging best practices from both the management consulting and research advisory disciplines, SMA's services are actionable, business-driven, and research-based – where strategy meets action – enabling companies to achieve business success.

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Additional information on SMA can be found at [www.strategymeetsaction.com](http://www.strategymeetsaction.com).

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Now is the time for insurers that write WC to examine the approach they are taking to policy administration systems. It is important to seek solution providers with solid expertise and experience in the WC line.