

STAFFING

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American Staffing Association

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Reduce Risk, Increase Profits

New Certification Program Helps You Lower Costs
And Keep Your Employees Safe

By Kelly Verberg

ONE OF THE GREATEST HEADACHES FOR STAFFING FIRM OWNERS AND EXECUTIVES IS FINDING AND KEEPING AFFORDABLE WORKERS' COMPENSATION INSURANCE. IT'S A COSTLY BUSINESS NECESSITY.

Consider the cost of one \$50,000 back injury claim. To recoup the loss, you would need to generate \$1 million in sales or put 40 additional qualified employees to work, according to Risk Control Services, an ASA Savings & Solutions Partner and risk management consulting firm for the staffing industry. This figure is based on a net profit margin of 5% and hourly bill rate of

\$12 for a 40-hour workweek in a one-year period.

Workers' comp claims can really eat into your gross margin. But they don't have to if you take a controlled approach to managing your firm's costs. How? With a solid program designed to manage risk—a program that includes training and certification in risk management.

This article examines the complexities of risk management and workers'



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compensation insurance. It presents the perspectives of brokers, risk managers, and underwriters. And it explains how a new risk management training program can help you control risk, lower costs, and keep your employees safe.

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Meeting of the Minds

Risk management includes an understanding of the possibilities of loss, the use of strategies to prevent loss, and the consistent application of those strategies. Clearly, managing risk presents huge challenges for the staffing industry: When your product is the employees you place, their exposure to workplace hazards is your greatest financial risk. And insurance carriers recognize this.

Your association recognizes it too. Over the past several years, ASA and leaders in the insurance and risk management industries have been grappling with the challenges and seeking to bridge the divide between the staffing and insurance industries.

Each industry regards the other warily—with good reason. Staffing firms believe that the insurance industry doesn't understand their business. And the insurance industry believes that the staffing industry can pose too high of a risk. They know that the staffing industry is a high-turnover industry and staffing firms are not always in direct control of their employees.

Three years ago, RCS hit upon a way to work with ASA to bring the staffing and the insurance industries together—a gathering of sorts to get to know one another better. In 2003, RCS hosted its first annual workers' compensation summit, an opportunity for staffing industry professionals, insurance brokers, and underwriters to discuss the latest trends in their respective industries.

Because of the synergies created through this yearly summit, a strategic risk management initiative was developed. Now there's a better way for your staffing firm to control risk, lower costs, and keep your employees safe. It's a risk management training program for the staffing industry, and it's called Workers' Compensation Risk Certification (WRC).

Developed by ASA and RCS, the WRC (pronounced "work") program evaluates several key components of a staffing firm's operational structure as they relate to risk management practices. The program is designed to establish a standard of operational excellence in risk management, reduce operating costs, and accelerate the development of voluntary workers' compensation markets for the staffing industry.

To develop the foundation for the WRC program, ASA and RCS worked with an advisory council of underwriters, brokers, and risk managers, many of whom participate in the summit every year.

Cautious Optimism

At the latest summit in October, the mood was cautiously optimistic as carriers and brokers agreed that there is more interest in providing coverage to the staffing industry.

Brad Smith, vice president of the commercial risk division for AIG, stated that AIG is expanding its suite of insurance coverage to allow for more tailor-made options for staffing firms. Smith said that as the staffing industry continues to grow, AIG will offer innovative programs such as guar-



People and Companies Behind WRC

WRC Advisory Council

An advisory council of underwriters, brokers, staffing industry risk managers, and ASA and RCS representatives was established for the Workers' Compensation Risk Certification program. The role of the advisory council is to develop risk management standards for the certification program, review the standards annually, and promote additional insurance coverage options for the staffing industry. In addition to representatives from ASA and RCS, the following individuals serve on the advisory council:

Underwriters

- Karen Hawkins, Zurich North America
- Gary Guckemus, CPCU, AIG
- Rob Purdy, American Home Assurance Co. / AIG
- Paul Gills, Alea Alternative Risk

Brokers

- Jim Farber, LIC, CIC, Executive Strategies
- Jeffrey Friedrich, CPCU, ARM, Assurance Agency Ltd.
- Steve Odell, CIC, LyonsOdell Insurance
- Mike Christian, Risk Strategies Co.
- Daryl Dittmer, Risk Strategies Co.

Risk Managers

- Rita Franklin, ATC HEALTHCARE
- Diana Rich, ARM, Remedy Intelligent Staffing
- Susan Sisk, SPHR, TOPS Staffing LLC

Golf Invitational Sponsors

In conjunction with its annual workers' compensation summit, RCS hosts a golf

invitational. Sponsorships from the invitational help support the ASA StaffingPAC administrative fund. Special thanks to the 2005 sponsors:

- Arthur J. Gallagher
- Assurance Agency
- Captive Resources
- Lyons Cos.
- RCS
- Smith Bell & Thompson

ASA Workers' Compensation Committee

As workers' compensation insurance coverage continued to be a challenge for ASA members, the association created a workers' compensation committee to explore solutions to this ongoing issue. Special thanks to those who have contributed their time and expertise over the past three years.

- David Bartholomew, Staffmark
- Jeff Burnett, CSP, Labor Finders International
- Jamie DeBellis, RCS
- Tim Doherty, Doherty Employment Group
- Michael Hayes, World Wide Facilities
- Kyle Hutton, RCS
- Eileen Lesberg, World Wide Facilities
- Trish McCall, RCS
- Kathy Rogers, CSP, Time Services
- Pat Rohe, CSP, Custom Staffing
- John Seelander, The Plus Group
- Dan Struve, Helpmates
- Dorothy Taylor, World Wide Facilities
- Tom Ward, CSP, Time Services

anteed cost and loss sensitive programs, as well as collateral options to meet the diverse needs of the industry.

And Chris Smith, program claims manager for Norman Spencer McKernan, announced a new insurance

package that includes workers' compensation premiums under \$25,000 for staffing firms that are primarily involved in the clerical, professional, and light industrial sectors. Smith reported this program is currently available in 34 states

Insurance Definitions

Underwriter: Individual trained in evaluating risks and determining rates and coverages for them. Also, an insurer.

Broker: Insurance salesperson who searches the marketplace in the interest of clients, not insurance companies.

Broker-agent: Independent insurance salesperson who represents particular insurers but also might function as a broker by searching the entire insurance market to place an applicant's coverage to maximize protection and minimize cost. This person is licensed as both agent and broker.

Risk manager: A person within your staffing firm charged with managing risk.

Risk management: Management of the pure risks to which a company might be subject. It involves analyzing all exposures to the possibility of loss and determining how to handle these exposures through practices such as avoiding the risk, retaining the risk, reducing the risk, or transferring the risk, usually by insurance.

Source: A.M. Best Co., a world-wide insurance-rating and information agency.

and includes general liability, property, and auto coverage in addition to the workers' compensation coverage.

Patrick Kennedy, vice president of Innovative Risk Services, cautioned that the insurance industry will feel the pinch of the 2005 hurricanes, which may cause the insurance market to begin hardening. Some carriers have experienced a downgrade in their insurance ratings because of potential capital shortfalls as result of the natural disasters. This will put into question their ability to handle higher-risk accounts—such as the staffing industry.

But the resounding theme among those in attendance was that staffing firms must be committed to solid risk management practices for carriers to seriously consider underwriting them.

One Picture, Various Perspectives

There are several benefits for staffing firms—and the industry as a whole—to

establish proven risk management practices. Here, WRC advisory council members from the broker, staffing firm, and underwriting communities share their views and advice on risk management, obtaining insurance coverage, and the WRC program.

Broker: Be Prepared

“Staffing firms have one chance to make a good impression with their broker and underwriter, so it is important to be prepared,” says Steve Odell, a certified insurance counselor and chief executive officer of LyonsOdell, a staffing industry insurance broker. “If your firm has some weaknesses in its risk management practices, share those weaknesses with your broker and report on how you plan to fix them.”

In addition, make sure that you can provide at least five years' worth of premium data to your broker, including class codes by state, premiums, and loss dates.

“Brokers need to see financial statements, preferably audited financial statements, from at least two years,” Odell says. “And staffing firms that are WRC-certified demonstrate their commitment to risk management, which will add credibility to their insurance submission.”

**Risk Manager:
Crunch the Numbers**

“Incorporating a risk management program into your staffing firm requires a definite shift in the culture of your operations. There must be corporate buy-in from top to bottom.” says Diana Rich, an associate in risk management and director of risk management for RemedyTemp.

When establishing risk management practices, Rich advises that staffing firms track and pay attention to their injury and claim statistics.

Susie Sisk, a certified senior professional in human resources and principal with TOPS Staffing, agrees whole-heartedly. She has some eye-opening statistics on what her staffing firm found out when it took a closer look at its operations.

By working with RCS, Sisk learned about a certain type of applicant or employee a staffing firm must be aware of: predators. This is a term used to describe employees who may be inclined to abuse a workers’ compensation benefit. RCS recommends that staffing firms begin to identify and weed out the predators by monitoring behavior and responses during the hiring process.

So TOPS Staffing began using a telephone prescreening process. Before the process was in place, about 80% of candidates TOPS spoke to over the phone showed up for an interview. After the prescreening process was established, the show rate dropped to 40%. The prescreening results in better candidates to present to customers.

The prescreening process consists of two simple statements about conditions for employment with TOPS Staffing:

- Our company has a substance abuse policy. All employees are required to comply with this policy and must consent to drug testing.
- All employees must give authorization for background checks, inclusive of criminal records.

Sisk reports that the number of injuries and claims also decreased dramatically (see table below).

Prescreening Helps Weed Out Predators

Number of Injuries	
Before	17 injuries within 48 hours of the start of an assignment
After	0 injuries within 48 hours
Number of Claims	
Before	4.8 per 100 employees
After	.8 per 100 employees

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RCS advises staffing firms that predators are high risks for staffing firms and must be identified through effective screening. When an applicant becomes eligible for an assignment, a staffing firm simultaneously extends its insurance coverage to that individual. By eliminating the predator applicant, a staffing firm has an opportunity to lower its risk.

And Rich and Sisk both agree that, over time, incorporating a risk management program (that includes simple steps like a prescreening program) will help increase margins and serve as a competitive advantage when marketing your staffing services to customers.

Underwriter: Follow Best Practices

“Primarily, underwriters are interested in the loss-control process staffing firms have in place because they are unable to be at the work site with the employees to ensure risk management practices are followed,” explains Gary Guckemus, a chartered property casualty underwriter and AIG regional manager. “Therefore, an employee-screening process and a loss-control program are critical.”

Another area of concern for underwriters is classification coding. Staffing firms may misclassify workers into occupational categories that may indicate a higher risk, which could be a deterrent to coverage. Or the opposite could occur, and higher-risk occupations could be classified with a lower-risk occupational code.

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Guckemus adds, “Because staffing firms experience fluctuations in payroll, underwriters are also often concerned with the financial solvency of staffing firms.” He recommends that staffing firms be prepared to submit audited financial statements.

AIG’s Brad Smith adds that his division also looks at staffing firms’

- Lines of credit
- Customer base and accounts receivable turnover
- Retained earnings

As for the WRC program, Guckemus sees it as a step toward raising the comfort level of underwriters when they are looking to cover the staffing industry. He refers to it as “the ISO 9000 standards for risk management in the staffing industry.”

Guckemus warns that becoming certified is not a guarantee for insurance coverage; rather, it shows a solid understanding of best practices that can only help a staffing firm’s submission process.

WRC Works

“A risk management program designed to address the unique challenges of a staffing company is one the most important operational procedures that can be implemented by companies employing best practices—like the WRC program,” says Trish McCall of RCS.

ASA board member Dan Struve of Helpmates Staffing chairs the ASA workers’ compensation committee. He says, “The WRC program will help staffing firms in insurance negotiations, and it will enhance worker safety and lower the frequency and severity of employee claims.”

He adds, “It will also help promote the staffing industry as a responsible employer to the insurance industry.”

Evaluation Process

The WRC program evaluates several key components of a staffing firm’s operational structure as they relate to risk management practices: core program components and service-specific components, which depend on the staffing sector the company represents (clerical, light industrial, health care, etc.).

These are the core program components:

- Operating facilities
- Pre-employment phase
- Interview and employee selection
- Orientation
- Client safety programs, evaluations, communication
- Accident and injury investigations
- Modified duty or back-to-work programs
- Claims management
- Miscellaneous items, such as personnel records and other documents

Requirements

To become WRC certified, a firm must be a staffing firm (not a professional employer organization) and be open for business. In addition, the staffing firm must also

- Have a statement of legal compliance and evidence of insurance coverage
- Demonstrate proper workers' compensation coding
- Employ a substance abuse program
- Conduct customer site evaluations
- Provide a modified duty program
- Adhere to the ASA code of ethics and good practices
- Comply with employment laws

Steps to Becoming Certified

Staffing firms interested in becoming certified submit an application and fee to become certified. ASA members receive a discount on the application fee. Applicant companies receive a copy of the RCS *Strategic Risk Management Manual* and interactive training series, which includes a compact disc training tool for internal staff.

Staffing firms review the training materials and make changes (if required) in company operations, and then schedule an on-site compliance assessment with RCS. After completing the assessment, RCS issues a risk management score to the staffing firm. If the score is within the certification standard, the staffing firm becomes certified. If not, the staffing firm

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may elect to undergo additional assessment to ensure recommendations are implemented and then have the opportunity to be rescored.

To maintain certification, staffing firms must renew their certification and undergo compliance assessment with RCS annually.

For more information on risk management and the WRC program, contact RCS at 800-807-7475 or visit rcsservicesinc.com.

Risk Management— Not a Quick Fix

Incorporating a risk management program into your staffing firm operations should be viewed as a process—not a quick fix.

Struve has risk management practices in place in his staffing company. He says, “The fundamentals of risk management practices—like those supporting the WRC program—if implemented rigorously, could substantially enhance a staffing firm’s profitability.”

With comprehensive planning and consistency, one of the most costly parts of your business operation could become an ideal way to provide value to your customers and increase your profits. ▫

Kelly Verberg is assistant vice president of membership and sections for the American Staffing Association.

The American Staffing Association is the voice of the U.S. staffing industry. Along with its affiliated chapters, ASA promotes the interests of the industry through legal and legislative advocacy, public relations, education, and the establishment of high standards of ethical conduct.

ASA has been promoting flexible employment opportunities since its founding in 1966. ASA members provide a wide range of employment-related services and solutions, including temporary and contract staffing, recruiting and permanent placement, outsourcing, training, and human resource consulting. Member companies operate more than 15,000 offices across the nation and account for more than 85% of U.S. staffing industry sales.

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