

An Industry Makes the Count

By Paul Hughes, CEO – Risk Transfer Holdings, Inc.

ORLANDO, FLORIDA - The State of Florida has long been considered the incubator of the Professional Employer Organization (PEO) industry, and it is within this venue that many of the successes and failures of this industry have been played out. After a period of meteoric growth starting in the late 1980's, the industry faced significant challenges at the turn of the century as health and workers' compensation renewal quotes became scarce. Along with the voluntary withdrawals from the marketplace, many carriers that once supported PEO's such as Reliance and Legion fell upon hard times. The future of the industry was publicly questioned, though its growth and attractiveness to the small employer never receded. To many, the PEO industry was nearing extinction.

In Florida alone, billions of dollars in employee payroll and hundreds of millions of dollars in workers' compensation and health insurance premiums run through PEO's at present. The respective books of business of the top three PEO's in the state would supplant three of the top ten workers' compensation carriers on a first dollar annualized basis. The regulators, ratemakers and insurers all have their own issues with this industry, but have not and cannot ignore the presence that it maintains in our state. Forward looking companies such as First Commercial and AIG have created new models to mitigate the risks associate with this class of business. Florida has its own statute for the industry and has been proactive in working with PEO's in the area of market creation.

The typical PEO client company has five to twenty-five employees, and thus is not typically capable of hiring the expertise necessary in all areas of employment. As a result, PEO's provide value to small business in the areas of:

Health and Workers' Compensation Capacity – PEO's provide insurance coverage to hundreds of thousands of small businesses in our state, some of which would have no alternative otherwise
Cash Flow for Small Employers – Most PEO's require a nominal deposit and bill

for all insurance on an "as earned basis", while most carriers require significant deposits and limited payment schedules
Human Resources Consultancy - all areas of employment law, including trouble spots such as ADA, ERISA, FMLA, and HIPPA

PEO's provide value to their insurance and reinsurance partners in the areas of:

Premium Audit – Because PEO's administer the payrolls of their small businesses, the carriers and reinsurers benefit from real time payroll and premium reporting and remittance

Client Service Agreement – Unlike the limitations of a standard insuring agreement, the contract between a PEO and small employer can highlight responsibilities in areas like return to work, loss control and claims reporting

Risk Management – Most PEO's retain a risk management staff to enhance the capabilities of their carriers in areas of claims, managed care, loss control and underwriting

A February 2002 article in Harvard Business Journal scribed by renown economist Peter Drucker stated that PEO's "...free up managers to focus on the business rather than employment related rules, regulations and paperwork¹". The best economic use of the head of a medical practice, master plumber or restaurant manager is not to evaluate benefit packages, but rather to mentor, support and evaluate those employees who drive revenues into their respective organizations. There is no doubt that PEO's enhance their ability to do such, and provide value outside of the resale of insurance. Personally, I would not count these people out.

Mr. Hughes is the Chief Executive Officer of Risk Transfer Holdings, Inc., providers of enterprise risk management services and exclusive product offerings in property, casualty and health insurance. Mr. Hughes has placed property and casualty insurance since 1992, and offers consultation services in the areas of underwriting, claims, managed care processes, loss projection and risk management.

After starting his career with Liberty Mutual as a retail agent, Mr. Hughes went on to become the Regional Client Services/Sales

Manager for ManagedComp, a national workers' compensation TPA/MGA. During his tenure with ManagedComp, Mr. Hughes was responsible for 14 employees in three states and grew the office volume from five to seventy million of premium under management in less than three years. In both of these roles, he was involved in the insurance placement and risk management of large commercial concerns, with specializations in the employee leasing and healthcare industries. For the past three years, Mr. Hughes has acted as an independent agent/consultant working in the PEO and staffing industries. His primary focus is large property and casualty-driven commercial accounts.

Mr. Hughes remains an active member of various industry and insurance associations and participates in legislative initiatives relative to commercial accounts he has placed. He is a board member of the Risk Management Best Practices Certification Institute; he acts as a PEO University Professor in workers' compensation and has authored articles for the Crummier School of Business, PEO Insider and Florida Underwriter publications. Mr. Hughes has also presented Risk Management Best Practices seminars to NAAS, FAPEO, GAPEO, NWAPEO and the Florida Workers Compensation Educational Conference.

Mr. Hughes received an Undergraduate degree at Rollins College, and went on to receive an MBA from Rollins' Crummer School of Business. He is also in the process of receiving his CIC accreditation



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¹ Harvard Business Journal, "They're Not Employees, They're People", Peter Drucker, February 2002.