

# A Risk Manager's Road Map to Certification

*“Any business arrangement that is not profitable to the other person will in the end prove unprofitable for you. The bargain that yields mutual satisfaction is the only one that is apt to be repeated.”*

— B. C. Forbes

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In recent times, the insurance marketplace has grown weary of PEO owners who present the façade of a focused risk management department, with little actual talent or processes to back it up. Underwriters have grown numb to testaments such as “everything that is written I look at first” and “the boss has final sign off.” The reality is that the boss is often an entrepreneur who by nature is focused more on growth than underwriting discipline and does not have the appropriate credentials to assess and price risk. Insurance carriers are now very current on the potential threats a PEO can bring them, including unmanaged growth, piggybacking and/or franchising agreements, and unreported acquisitions. It is time for some common measurement to address the competency of a PEO’s risk management department and for the industry as a whole to make a move closer to center in protecting the profitability of their respective insurance carriers.

It is my role in some cases to represent PEOs and their respective risk managers to potential insurance providers, and in others to evaluate the individual and his respective risk management department to set premiums and determine insurability. While the resources of a 500-employee

and a 50,000-employee PEO vary dramatically, each PEO must show some basic disciplines in risk management or it will go uninsured. NAPEO has been attentive to this reality and as a result, has proposed an independent workers’ compensation risk management certification that will provide a structured education, testing, and monitoring process that standardizes PEO Best Practices. The three main purposes of this program are


- To provide a highly credible and reliable way for workers’ compensation insurance companies to identify PEOs that have the capability and are in fact appropriately implementing proven risk management best practices that are recognized in the insurance industry as producing better than average WC loss experience;
- To provide a cost-effective way to help participating PEOs improve their risk management program, thereby reducing workers’ compensation losses, which in turn will have a positive impact on future costs of WC insurance premiums and collateral requirements, which will improve overall profitability;
- To create, through the Program Certification Board, a forum for WC carriers and PEO leaders to work

together on common objectives and to improve understanding and trust between the two industries with the goal of developing WC coverage options for certified PEOs that are profitable for the carriers and desirable for the PEOs.

This program falls into the “help us to help you” category. Besides educating PEOs on traditional and cutting-edge risk management techniques, it provides a vehicle to allow insurance carriers and professional employers to develop new technologies to make workers’ compensation for PEOs profitable for all parties. The certification process involves an experienced, certified risk management professional verifying a participant’s risk management capability and appropriate implementation of risk management best practices, as established by the Certification Board. The Certification and Advisory Boards are composed of workers’ compensation carrier representatives and PEO leaders elected by the program participants.

## Getting Certified

The certification process can be outlined in seven steps, the first being an application filled out on [www.CertificationInstitute.com](http://www.CertificationInstitute.com)



along with the execution of a participation agreement and supporting information.

Step 2 involves the review of all information submitted by the assigned risk management professional and certification officer for compliance with established workers' compensation best practices. If proper risk management practices appear to be in place, the certification process moves forward.

In Step 3, the risk management professional and certification officer select a sample of clients for verification of the appropriate implementation of each risk management technique. The client list used for this purpose will have clients identified by confidential ID numbers assigned by the applicant or its carrier, and no client names or contact information will be included. Clients will be randomly selected, but emphasis will be placed on choosing clients of varying demographics, geography, and length with the PEO.

During Step 4, the risk management professional reviews the client information to verify appropriate implementation of the best practices as set forth in the PEO's policies and procedures and by the certification board. It will be particularly important that the processes and strategies outlined in the PEO's business plan and risk management manual are being implemented appropriately for each client company. A determination of "in" or "out of compliance" will be made for each of the sample client companies and a full certification cannot be achieved unless both new and existing clients worksites are found to be "in compliance." Provisional certification will be given to those PEOs with policies and procedures "in compliance" and that agree in writing to appropriately implement the best practices with all new clients going forward and to implement the best practices with all existing clients as soon as possible, but in any case within one year.

Step 5 involves a reporting mechanism, as the certification officer documents the findings of the reviews in steps 2 and 4, and issues a certification recommendation to a certification committee appointed from among the directors serving on the certification board. The certification committee has the power to alter or approve the certification recommendation made by the certification officer, or ask for additional data if the review is not considered adequate. At this time, a PEO either becomes certified or is given an action plan on what it will take to achieve the required level of compliance.

In Step 6, diligent monitoring of the PEO's ongoing activity commences by no later than the second calendar quarter of certification. The monitoring consists of the certification officer and risk management professional requesting information for an additional random sample of clients to verify ongoing best practices implementation.

Step 7 never ends, as ongoing implementation of proper risk management best practices is monitored for as long as the PEO maintains its certification. If the participant is found to be "in compliance" after Step 6, this step will be repeated every six months. In the event the PEO is found to be "out of compliance" in Step 6, Step 6 will be repeated 90 days after the first unfavorable audit. If corrections have not been made in the 90 days and the PEO is still "out of compliance," the participant's certification will be terminated. Any termination for non-compliance can be appealed to the certification board.

## Enterprise Risk Management

Although this is a certification process for workers' compensation risk management, it delves into some extremely important areas of enterprise risk management. In simplistic terms, management of all the enterprise's risk, not just

## Getting Started on WC Certification is Just a Click Away

Starting the certification process is easy:

1. Visit CI's Web site at [www.CertificationInstitute.org](http://www.CertificationInstitute.org);
2. Link to the "WC Risk Management Certification Program" page; and
3. Complete and submit the online application.

Please contact CI with any questions:  
E-mail: [info@CertificationInstitute.org](mailto:info@CertificationInstitute.org)  
Phone: 501/975-3099  
Fax: 501/219-2603

that which can be mitigated through the use of insurance. Specifically, fiscal philosophies and business strategies are reviewed in detail, including business plan analysis. These strategies should be addressed in the business plan and refined in daily practices.

I still hear banter about "how the carriers brought this upon themselves." While finger pointing might act as a short-term justification for the current availability of workers' compensation capacity, it does not solve any issues in repairing the fracture between insurance carriers and their PEO policyholders.

To bring the carriers back to the table, it is time for our industry to address some of its own shortcomings and morph into more of what the carriers expect. A return to profitability for all parties must be realized, and the industry making this type of move towards assuring best practices in the PEO can only help the cause. I commend NAPEO for its efforts and fully support this and any action that will help us all to address the need for our carrier partners to be profitable. ■

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