Services
An Integrative Strategy: The Power Tower

- Markets
- Product Line Architectures
- Platforms
- Building Blocks
  - Market Insights
  - Product & Technology Skills
  - Process Skills
    - Production, Distribution, Service

Current

Emerging

New Revenues:
- Attack Growth Markets
- Faster Market Entry

Better COGS:
- Shared Subsystems

Investments:
- New Competencies

$
Services

Platform Design
Some Facts About
Workman’s Compensation (circa 2000)

• $60 billion per year industry, about 2,000 insurers, with self-insurance contracts by employers, “group” insurance (groups of similar firms), and hybrid group plus extra insurance coverage plans.

• Price discounting has made it hard to be profitable.

• Insurance rates rose about 90% between 1988 and 1993, and claims from occupational injury doubled in terms of dollars paid.

• The average claim dollar amount is about $4,000

• Injured workers take about twice as long to recover as people having comparable injuries outside the workplace

• 85% of workplace injuries are caused by hazards in the workplace.

• Lost time from work occurs in 25% of workplace injuries, but cost 90% of the claims paid dollars.
ManagedComp’s Platform Strategy
“Risk Reduction Services”

Over 25 cents of every dollar spent on workers’ compensation is waste

- Needless injuries
- Undirected medical care (non occupational specialists)
- Negative financial incentives for employers and workers to clean up the workplace and report injuries fast.
- Poor return-to-work planning
- Other costs (such as administrative costs)

Reduce that waste, through injury prevention and rapid injury recovery, and loss ratio’s can plummet, market share gained by passing savings on to employers through lower insurance contract prices.
ManagedComp

- **Manufacturing**
  - Injuries
  - Workplace Hazards
  - Case Management

- **Healthcare**
  - Medical Delivery
  - Physicians

- **Wholesale/Retail Trade**
  - ManagedComp

- **Hospitality**

**Primary Market Focus**

- Large >1000
- Medium 20 < 1000
- Small < 20

**Domain Expertise**

- Injury Prevention
- Medical Management
- Case Management
- Underwriting Expertise
- Financial Aspects of Insurance Products
- Claims Expertise

**Team and Performance Measurement**

- Team Development & Management
- Data to Monitor
  - Subsystems Every Week

**Market Insights**

- Customer Selection
- Workplace Hazards

*Management considers the firm's skills in italics to be competitively distinctive.*
### Injury Prevention

**The Discontinuity (in thinking)
Subsystem Innovation**

<table>
<thead>
<tr>
<th>Subsystem</th>
<th>The Problem</th>
<th>Traditional Approach</th>
<th>ManagedComp’s Approach</th>
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</table>
| Injury Prevention | Inadequate safety guidelines. 85% of workplace injuries due to workplace hazards. | Random workplace checking for basic compliance, but not so much so as to increase the insurer's expenses. | **Total Injury Prevention Process.**
Safety consultants are assigned to a group of companies. Work intensively with top management to identify behaviors that lead to injuries. Set shared goals to fix hazards. Apply prepackaged programs. Measured on injury rates. **Injuries are being reduced 10% per year.** |

*Injuries due to unsafe behavior constitute 85% of injuries.*
# Injury Reporting

Fast and Correct Reporting

Subsystem Innovation

<table>
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<tr>
<td><strong>Injury Reporting</strong></td>
<td>Accidents are not reported rapidly. Injured persons go untreated or see the wrong physician. Problems that might be corrected quickly are left to worsen.</td>
<td>Insurers see rapid accident reporting as increasing claims expense.</td>
<td>Rapid reporting lessens overall claims expense. Procedures insure that injured workers are assigned a physician and a case worker within 24 hours. Management systems &amp; training for employers are essential to achieve these goals. Measured on reporting cycle times.</td>
</tr>
</tbody>
</table>
# Medical Delivery - Treatment

## Getting the Right Doctors

### Subsystem Innovation

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<td>Medical Delivery System</td>
<td>Injured persons often see doctors who do not know best how to treat them. This increases disabled rates and lengthens return to work periods.</td>
<td>To &quot;save costs,&quot; insurers will refer injured workers to any physician that is part of discount network.</td>
<td>Developed a network (now about 3000 persons) of primary occupational physicians who are paid on services contracts. Measured on medical outcomes and patient satisfaction.</td>
</tr>
</tbody>
</table>

*Lost time claims are 90% of total claims.*

*Injured workers are treated more effectively.*
## Case Management

### Getting People Back to Work

#### Subsystem Innovation

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</thead>
<tbody>
<tr>
<td>Case Management</td>
<td>Injured workers are left at home to fend for themselves.</td>
<td>Injured workers are not assigned a case manager for weeks.</td>
<td>A Case Manager, responsible for a panel of companies, is assigned to an injured worker within 24 hours of injury.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Establishes return to work plans.</td>
<td>Establishes return to work plans.</td>
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<td>Oversees care.</td>
<td>Oversees care.</td>
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<td>Measured on return to work cycles and bouncebacks.</td>
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</table>
## Claims Management

Preventing Fraud, Settling Bills

Subsystem Innovation

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</tr>
</thead>
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<td>Claims Management</td>
<td>Claims are paid late. Workers comp is also known for significant levels of fraudulent claims activity.</td>
<td>Claims are funneled through functional departments -- and delayed in the shuffle. Processes are not designed to close claims rapidly.</td>
<td>Claims Managers obtain medical diagnosis and return to work plans, and have responsibility for specific employers and for fraudulent tendencies. Unresolved claims are tracked to try to keep them at a minimum.</td>
</tr>
</tbody>
</table>
Services Deployed in Colocated, Co-rewarded Teams

- Account Manager
- Loss Control Consultant
- Case Manager
- Claims Manager
Measures for Teams
Monthly and Year to Date, by Team % Region

- Sales (written insurance contract premiums)
- Number of Employer Accounts
- Open Claims Files
- Open Injured Worker Case Files
- Surveyed Client Satisfaction Rate
- Employer Injured Worker Reporting Cycle Time
- Loss Ratio (Claims to Premium Dollars)
- Employer Insurance Contract Renewal Rate (% of Accounts, % of Premiums)
- Claim Closing Ratio
- Dollar Cost Average per Claim
- Case Closing Ratio (% closed of all cases)
- Lost Time Rate (working days actually lost as a function of # of injuries)
- Injury or Incident Rate (per thousand insured)
Measures for Doctors
The Five Profiles of Physician Performance

• Medical Costs (assessed according to severity of cases)

• Indemnity Costs (total insurance costs, including lost time from work)

• Medical Quality (industry measures of medical outcomes)

• Customer Satisfaction
  - Employer surveys (once a year)
  - Patient Surveys (sampling, twice a year for new POPs, once a year for others)

• Negative “Spins” -- Return to Work “rebounds”/reinjuries

• Past History -- trend analysis for POPs on all measures above
The Platform Strategy

*Bringing “Excitement” to a Dormant Industry*

2500+ clients in 44 states, covering 300,000+ employees
$175m in premium revenue

- Average client reduces its workman’s comp costs by over 25%, and 95% of all clients are experiencing cost savings.
- 60% fewer claims go to litigation
- Loss ratio (premium to claims) is 25% below industry average
- Client’s average claim dollar amount is about one third of industry average (about $2,000)
- High client renewal rate, (67% to 100% in various regions)
Measures of Platform Effectiveness for ManagedComp

Cost per Claim; Lost Time from Work

Time Period

Cost per Claim

Lost Time % of All Claims

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Services

Market Innovation
The Services Platform

Services/Products Tailored to Customers

Markets

U.S.-based Institutions

Large

Small

Mutual funds

Private Pensions

Public

Insurance Other Asset Pools

Foreign-based Institutions

State Street

Securities Lending

Custody

Fund Accounting

Regulatory and Tax Compliance

Cash Management

Foreign Exchange
### Figure 8
**Subsystem Evolution**

<table>
<thead>
<tr>
<th>Year</th>
<th>Custody</th>
<th>Fund Accounting</th>
<th>Cash Management</th>
<th>Analytics</th>
<th>Securities Lending</th>
<th>Foreign Exchange</th>
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</thead>
<tbody>
<tr>
<td>1970</td>
<td>Trade settlement and clearance</td>
<td>Net Asset Value calculation</td>
<td>Cash information and reporting</td>
<td>Measure absolute and relative portfolio performance</td>
<td>Securities lending</td>
<td>Foreign exchange trade execution</td>
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<tr>
<td></td>
<td>Securities safekeeping</td>
<td>Portfolio accounting and reporting</td>
<td>Collection services</td>
<td>Analyze investments</td>
<td>Global securities lending</td>
<td>Foreign exchange risk management</td>
</tr>
<tr>
<td></td>
<td>Corporate actions reporting</td>
<td>Shareholder accounting and record-keeping</td>
<td>Disbursement services</td>
<td>Identify sources of total portfolio return</td>
<td>Performance analyzer</td>
<td>Multi-currency cash investment</td>
</tr>
<tr>
<td></td>
<td>Cash position</td>
<td>Offshore processing</td>
<td>Short term investments</td>
<td>Quantify risk to generate return</td>
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<tr>
<td></td>
<td>Interest and dividend collection</td>
<td></td>
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<tr>
<td>1980</td>
<td>Currency position</td>
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<td>Global funds transfer</td>
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<td>Tax reclaims</td>
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<td>Imaging</td>
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<td>1990</td>
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Services

New Business Models