



- [> AGENT & BROKER HOME](#)
- [> SUBSCRIBE TO AAB](#)
- [> CONTACT ADVERTISER](#)
- [> CONTACT US](#)
- [> ABOUT US](#)
- [> MEDIA KIT](#)
- [> EVENTS CALENDAR](#)
- [> STORE](#)
- [> MARKET DIRECTORIES](#)
- [> REVIEW & OUTLOOK](#)
- [> SEARCH / ARCHIVE](#)

[Home](#) >> [Article](#)

## ARTICLE - January 2006

### Saving your clients money by analyzing their X-mods

By **BILL SPIEGEL**  
*Strategems Consulting / Henderson, Nevada*

A HIGH workers compensation experience modification factor, typically referred to as an X-mod, can cost your clients a lot at renewal time. Midsize and large workers compensation accounts usually are experience-rated, with their past performance affecting current and future rates. The rates are increased or lowered by application of a modifier—the X-mod. An X-mod of 1.0 is neutral, while a smaller factor lowers rates and a higher factor increases them. If your clients think you haven't done everything in your power to keep their X-mods as low as possible, you could lose their business.

You may think there's nothing you can do about a high X-mod, once it is published by the National Council on Compensation Insurance or by a state-authorized agency like California's Workers Compensation Insurance Rating Bureau. It looks very official. And it is official. But just because it's official doesn't mean it's written in stone. There are many ways to reduce a published X-mod, but you need to have your facts straight and you need to be aware of the deadlines.

In an article that appeared in the September issue of American Agent & Broker ("How to Use Workers Comp Claim Reviews to Keep Your Clients"), I discussed the importance of using claim-review meetings as a client-retention tool. Such meetings give you the opportunity to persuade carriers to close claims and lower claim reserves, where justified, before they turn in their figures (in what's called a unit statistical report) to the rating bureaus. Used wisely, these meetings can give agents an excellent client-retention tool.

Now lets look at X-mods in the same way that article looked at claims and claim reserves. Instead of thinking of them as final judgments handed

#### AUDIO & VIDEO

##### [Desktop Masters: Power Position Your Agency](#)

by Troy Korsgaden



[MORE AUDIO & VIDEO](#)

#### BOOK

##### [Street Smart Selling](#)

by The National  
Alliance Research  
Academy



[MORE BOOK](#)

#### BOOK & TAPE SETS

##### [High Probability Selling Tape & Book Set](#)

by Jacques Werth and  
Nicholas Ruben

#### JANUARY ISSUE ARTICLES

- [▶ Competitive pressure builds on architects and their insurers](#)
- [▶ The art of insuring architects](#)
- [▶ Saving your clients money by analyzing their X-mods](#)
- [▶ Designing effective workflows for your insurance agency](#)

#### COLUMNS

- [▶ For the Manager](#)
- [▶ Policy Issues](#)
- [▶ Strictly Sales](#)
- [▶ Automation](#)
- [▶ What's Going On](#)
- [▶ Down To Cases](#)

#### DEPARTMENTS

- [▶ Letters](#)
- [▶ New Policies](#)
- [▶ Technology Update](#)
- [▶ Products & Services](#)
- [▶ Ad Index](#)
- [▶ Resource Directory](#)
- [▶ Article Archive](#)

**AGENTS GUIDES**

- > [Agents Guide to Automation & Technology](#)
- > [Agents Guide to Consultants](#)
- > [Agents Guide to Programs](#)
- > [Agents Guide to Websites](#)
- > [What's New on the Web](#)

**SUBSCRIBE  
ONLINE**

down from On High, we're going to look at them as opportunities to solidify client relationships and keep your business from going elsewhere. Your competitors are targeting prospects with high X-mods for an obvious reason: A high X-mod yields a high premium, which yields a bigger commission. But the sharpest competitors are going after that business by promising—and delivering—reductions in those high X-mods. My experience indicates that at least one in four published X-mods can be changed, usually in the insured's favor.

You may be surprised (or maybe not) to learn that many, many mistakes end up being published in official X-mods. These mistakes, which are referred to as "clerical errors," cost policyholders millions of dollars in overstated premium. But they can be corrected if they are noticed and brought to the attention of an insured's carrier, which can then file a corrected unit statistical report.

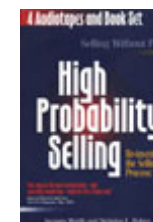
These clerical errors run the gamut. I've seen everything from simple typos (such as a \$12,200 claim reported as a \$122,000 claim) all the way to some errors that you'd think could not possibly happen—like claims compensable under the U.S. Longshoremen's & Harbor Workers' Compensation Act going into the calculation of a California insured's workers comp X-mod. After the USL&H claims—all greater than \$100,000—were taken out, the resulting lower X-mod reduced the client's worker comp insurance premium by nearly 20%.

How did such a mistake happen? Your guess is as good as mine. The carrier insisted that the error was impossible because they had a whiz-bang computer system taking care of things. Nevertheless, it happened. And discovering the error guaranteed that client's loyalty for many years.

Clerical errors don't just appear in claims listings. They also can show up in payroll, the other big variable that goes into the calculation of the X-mod. In regard to the payroll, you need to double-check that the rating bureau has the right class codes matched up with the correct payroll amounts. Seemingly small mistakes can have a huge impact on the X-mod.

The important thing to remember is that "clerical errors" happen—but they can be corrected. As with all changes to a published X-mod, there are deadlines to be aware of. Also, you should review your clients' X-mods as soon as possible after they are published. Needless to say, if competitors find mistakes before you do, they may be able to persuade your clients that they would be better served by switching to them.

Clerical errors are not the only things that can lead to incorrect X-mods. Generally, a published X-mod can be revised for three years. Certain developments can affect an old X-mod—and therefore your client's premium can be reduced, with a returned premium resulting. Since this can happen a couple of years after all those premiums were paid, this is truly like "found money." There are many "down the road" developments that can open an old X-mod for



[MORE BOOK & TAPE SETS](#)

**SELECT A CATEGORY**

Select a Category

[VISIT THE AAB  
STORE](#)

retroactive reduction. Here are some of the more common occurrences:

- *Non-compensable claims*: These are claims for which compensability ultimately was denied and the file closed without an employer's admission of liability or a settlement with the claimant. (A denied claim settled for even \$1 does not count as non-compensable.) A non-compensable claim that is closed often can be entirely removed from the X-mod it has affected.
- *Subrogation recoveries*: If a third party is liable for a worker's injury—say your client's employee suffered an injury when the vehicle he was driving was rear-ended by a third party—any amount ultimately collected from that third party (or the third party's insurer) can be credited back to the file, with a commensurate reduction in the claim value used to calculate the published X-Mod.
- *Joint coverage recoveries*: Let's say your client's employee has a workers comp claim for a "cumulative trauma injury" like carpal-tunnel syndrome against both your client and a prior employer. If your client has been paying the claim and incurring the reserves, but ultimately collects some money from the other employer (or their insurer), the published X-mod can be changed to reflect this recovery, much as it can with subrogation.
- *Settlement of disputed death claims*: Many states have a set "average value" for a death claim, which is assigned to the X-mod, regardless of the actual cost of the claim. If the actual, usually higher, cost is entered (which happens if the claim is not correctly coded as a death claim), the X-mod can be adversely affected. On the other hand, sometimes an employer has legitimate reasons for disputing a death claim. Such a claim ultimately may be settled without the employer admitting liability. Some states allow such a claim to be revised retroactively to reflect the actual settlement amount, which is generally much less than the "average" death claim amount used to determine the X-mod.
- *Combining entities*: In most states, separate legal entities may be written on one policy or written on separate policies. As long as they legally can be rated together or separately (such as when one person owns 51% of two different companies), the option is there. So naturally, there will be times when it may be in your client's interest to combine such entities for experience-rating purposes. This is a tricky option to use, however, since you can end up with an increase in the X-mod if you're not careful. You need to use some good X-mod forecasting software to make sure this will help, and not hurt, your client. Generally, the rule of thumb is, "The larger the entity, the less any one claim will hurt the X-mod." Therefore, combining two entities with high X-mods will generally result in one entity with a somewhat lower X-mod. But make sure that's the case before you go this route, because your client will not be pleased if their combined X-mod is higher than their separate X-mods were.

The timeframes for making changes to published X-mods vary by jurisdiction, but usually you can reduce the present X-mod and the two previous ones. In other words, generally three years' worth of X-mods are "in play" at any given time. When you find something that needs to be corrected, the carrier will need to re-file its unit statistical report. If you are approaching the deadline for a change (e.g. a new X-mod is about to be published, so the three-year old X-mod

is about to be dropped), make sure the carrier understands the urgency. If necessary, send a certified letter to document the timeliness of your request.

If you are paid on a commission basis, you should understand that any premium returned to your client would prompt the insurer to ask for a corresponding return of commission. If the broker for the policy in question was someone else, obviously you're not going to be too concerned. But what if it is you? You may think you've done a terrific job for your client, only to be "rewarded" with a loss of commissions. But think about the customer loyalty that should be engendered by this act of professionalism. Make sure that your client understands that you went above and beyond for them, and they probably will hand you many years of easy renewals.

Besides, as the saying goes, if you don't take care of your client someone else will.

**Bill Spiegel is vice president of Strategems Consulting ([www.ClaimsAudits.com](http://www.ClaimsAudits.com)), whose client list includes several Fortune 100 companies. He has experience from both the broker and carrier perspectives and has developed and delivered in-house training at national insurance brokers on X-mod reduction techniques. Prior to joining Strategems, he was a member of AIG's National Claims Audit Team. He can be reached at (702) 914-5837 or by e-mail at [BillZSpiegel@aol.com](mailto:BillZSpiegel@aol.com).**

  
TOP

**Pfingsten Publishing, LLC.**  
6000 Lombardo Center Dr., Suite 420 • Seven Hills, OH 44131  
Copyright 2005 | [Privacy Policy](#)