

Workers' Compensation: A Large, but Challenging Opportunity for Prepaid Benefits Distribution

By Prepaid Media Staff

With the success and ongoing adoption of network branded prepaid cards for delivering Unemployment and Child Support payments, what's the next big application for prepaid benefits distribution?

According to a growing number of industry players, Workers' Compensation, a benefits program overseen by the states but funded almost exclusively by employers, may be the answer. [1]

Currently, only one state—Ohio—delivers Workers' Compensation via prepaid cards, which underscores the untapped potential to use cards to deliver benefits to Workers' Compensation recipients (or their families) who either do not have a bank account or prefer the convenience of a prepaid card.

A High-Volume, Check-Intensive Operation

Workers' Compensation provides financial support to workers who are injured or disabled in the workplace and death benefits to dependents of workers killed on the job. According to the 2006 Annual Statistical Supplement issued by the U.S. Social Security Administration, in 2004, Workers' Compensation benefits exceeded \$56 billion, paid through a combination of direct deposit, cash, and checks.

Although total Workers' Compensation payout is known (despite the significant lag in reporting), the breakout of payments among direct deposit, cash, and checks is not readily available—likely because of the difficulty of accumulating data that are state based. Without these data, it doesn't appear that anyone can say with certainty how many Workers' Compensation checks are issued each year. So, the best approach to estimate this number is to look to a similar environment—in this case, Social Security distributions. Currently, approximately 25 percent of Social Security recipients receive their payments



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BankFirst ad promoting its new workers compensation prepaid offering.

via check. If this percentage holds for Workers' Compensation, approximately \$14 billion in Workers' Compensation was distributed by check in 2004. Assuming that the value of the average check that year was in the vicinity of \$690 [2], this means that more than 20 million Workers' Compensation checks were cut in 2004.

The cost of creating these checks, which average 10 checks per claim, establishes Workers' Compensation benefits as a strong candidate for network branded prepaid cards.

Representatives of MasterCard and Visa concur that prepaid cards to deliver Workers' Compensation is an idea whose time has come.

"As with the use of prepaid cards for unemployment and child support payments, the use of prepaid cards to disburse workers compensation provide similar benefits to states and to consumers," says Nizam Antoo, vice president of prepaid products for Visa USA.

Michael Ross, MasterCard Worldwide's vice president of prepaid products, North America, agrees. "The Insurance segment has great potential, enterprise wide, for prepaid applications. Workers Comp is drumming up excitement as the new entree into paying claims with a card"

Rich Seelinger, senior vice president of policy holders' services for Seattle-based SeaBright Insurance Company, a third-party administrator (TPA), provides details on the attractiveness of the prepaid card option, "As an industry, we're working with an archaic process for handling payments—mailing checks from a central location to injured workers all over the country and dealing with delays

in the postal system, lost and stolen checks, and false claims. This creates added work and cost to doing business."

Possible Business Models

Like many benefits programs, Workers' Compensation is complicated.

Each state has a department, bureau, or commission that regulates Workers' Compensation laws. Most states give businesses the option to purchase Workers' Compensation coverage from the state or a private insurer. (Washington, North Dakota, West Virginia, Ohio, and Wyoming require coverage to be purchased from the state.) To ensure that high-risk category employers maintain Workers' Compensation, states offer coverage to these employers for a premium. In addition, some states allow companies to self-insure if they have the financial ability to do so.

These variations in how Workers' Compensation coverage is obtained by employers lead to a number of possible business models for organizations pursuing prepaid card opportunities in the Workers' Compensation space:

The State Channel: State agencies adjudicate claims and issue payments.

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Because a significant number of states now have positive experiences with prepaid card-based benefits (child support, unemployment, government payroll, and other government-administered payments), the advantages of converting Workers' Compensation checks to prepaid cards should be familiar to decision-making administrators. States that underwrite a relatively large portion of Workers' Compensation coverage for employers have more to gain from transitioning from checks to cards.

The TPA Channel: Third-party administrators (TPAs) provide administrative services to large scale insurance companies and self insuring companies. Activity in this channel is starting to pick up as issuers and others recognize the benefits of targeting companies that handle significant Workers' Compensation volume and benefit substantially from converting paper-based transactions to prepaid cards.

BankFirst, a South Dakota issuer of prepaid cards, is gearing up to launch its Prosper Card, a MasterCard branded Worker' Compensation claim card. According to John Barbella, BankFirst senior vice president, instead of trying to sway large insurers to adopt a prepaid card-based program or going after government contracts for Workers' Compensation cards, the bank is targeting TPAs. "A TPA can realize a 20 percent cost savings, which is an attractive proposition," he says. "There are also other benefits related to interchange and float that factor into the mix."

Barbella says BankFirst is aiming for programs around 5,000 cards in size. "You don't need high volume," he says. "We would need to sell nearly 25 times as many gift cards to make the same return on reloadable insurance cards. There are fewer cards in the

system but more dollars being placed on the cards, which will continue to be reloaded."


Insurance Company Channel: Direct partnerships with large insurance companies. Although insurers express interest in alternative payments methods to reduce cost and enhance efficiency, they are reluctant to move from paper-based legacy systems. No insurance companies currently offer prepaid cards as an option for Workers' Compensation payments.

According to MasterCard's Ross, the per-check cost savings is attractive but not enough to move large insurers to adopt prepaid cards to replace checks. "It will most likely take a combination of cost savings benefits for the insurance company or TPA, and claimant benefits improving customer satisfaction. Thus creating a push-pull environment for a prepaid card solution"

Barbella concurs, adding, "To an insurer, the possibility of saving approximately \$60 for a \$6,000 claim is not attractive enough to change the whole process."

Chipping Away

Barbella and others in the payments arena are optimistic that once the right models are created for prepaid cards in the Workers' Compensation claims space, the market will begin to adopt the products and possibly mandate the use of the cards, similar to what occurred in Ohio.

"Typically we pursue a program and then build it. This is quite different due to the conservative nature of this market," concludes Barbella. "We have built the Prosper CardSM with the expectation that TPAs, insurers, and states will move down this path. It is an opportunity that must be approached with strategy and patience." 

Benefits of Prepaid Cards

Replacing Workers' Compensation checks with prepaid cards offers significant benefits to recipients and to states, insurance companies, or TPAs.

Workers' Compensation recipients:

- ➔ **Access to funds.** Funds are available immediately.
- ➔ **Saves money.** Avoid check cashing fees; reduce/eliminate the cost of buying money orders to pay recurring bills.
- ➔ **Convenience.** Don't have to be at home to receive check; may be used to pay for purchases, get cash at millions of ATMs, and pay recurring bills; eliminate check cashing hassles.
- ➔ **Safety and security.** Zero Liability for unauthorized purchases; carry less cash.

State, Insurance Company, or TPA:

- ➔ **Reduced processing costs.** Electronic transactions are much less expensive than checks.
- ➔ **Reduced mailing expenses.** Once the card is issued, mailing costs are eliminated .
- ➔ **Reduced lost/stolen check costs.** Check replacement costs can reach \$20 per occurrence.

The Ohio Success Story

Fifteen years ago, the Ohio Bureau of Workers Compensation began transitioning from paying Workers' Compensation claims with checks to using direct deposit to take advantage of cost and efficiency benefits. The direct deposit option, however, was viable only for individuals with bank accounts. It did not alleviate the burden of mailing checks to unbanked claimants, an estimated 25 percent (or 6,000) of claimants at the time. To address the unbanked population, in 1998 the agency issued reloadable Visa-branded Workers' Compensation prepaid cards and began making payments to about 1,500 unbanked claimants, who volunteered for the program.

According to the Ohio Bureau's Paul Porreca, managed care organization coordinator, the program has been a tremendous success. "Utilizing prepaid cards for our unbanked segment resulted in huge cost savings for us and made life easier for clients who were paying extraordinary fees at check cashing facilities."

