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According to Best's Special Report on U.S. Workers' Compensation (October 4th, 2010), "...the workers' compensation segment's



underwriting performance continued to weaken. The deterioration was driven primarily by the downward spiral in premium volume as the economy continued to take its toll on exposure levels <payroll> and competitive pricing remained widespread." In addition, the

increase in the cost of claims has driven the combined ratio [= (Claims payments + Operating Expenses) divided by premiums] for Workers' Compensation over 112% (whereas 104% is viewed as the upper threshold for insurer profitability).

Couple these factors with a continuing generally soft insurance market (meaning rates have continued to drop over the last five years and competition is strong) and overall, worker's compensation premiums have been on the decline.

Insurance companies generally make income off of two sources – underwriting premiums plus investment income. When investment income is solid, insurance companies can use more flexibility in pricing accounts and can absorb more underwriting losses. In today's world of low interest rates and volatility in the market, insurance companies are now turning to underwriting results.

On a national basis, claims frequency is dropping (which is good news). This is driven by companies who take a proactive approach to loss prevention techniques, develop and enforce safety and wellness programs and stay involved in the management of a claim. However, when a claim does occur, the costs are higher, due to increasing indemnity and medical costs trends.

Add to that an aging workforce in the United States and the severity rates increase further, as older workers typically take longer to heal. Because expenses are outpacing the positive trend in frequency and rates have declined over the last several years, underwriting results are now deteriorating.

So what can you expect for your worker's compensation program? We are anticipating insurance companies will become more disciplined in their underwriting approach – they'll look at your claims history closely and watch for trends, they'll review your safety program more thoroughly and will study how you manage the claims process (are you involved, do you provide assistance to the claims adjuster and, if necessary, the attorney involved). We will see increases in base rates and a reduction in scheduled credits.

Case in point: Pinnacol Assurance recently declared a 4.5% rate increase including loss cost multiplier adjustments for policies in 2011. As many of you know, Pinnacol utilizes a tier approach in their underwriting (six tiers, from Superior to non-standard).

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In addition to the rate increase, they are evaluating account characteristics for the 2011 term for each tier and this will include a review of each client's classifications, experience modifications and payrolls, as they come up for renewal in 2011. The base rate changes for a variety of codes are outlined below for illustration purposes:

Class	Description	2011 Loss Cost	2010 Loss Cost	Change
5022	Masonry NOC	6.62	6.09	8.7%
5183	Plumbing NOC	3.29	3.16	4.1%
5213	Concrete Const. NOC	5.48	4.77	14.9%
5403	Carpentry NOC	5.26	5.35	-1.7%
5445	Wallboard Install within Bldgs	4.86	4.48	8.5%
5537	Heating & Air Conditioning	3.43	2.96	15.9%
5551	Roofing-All Kinds	12.20	11.02	10.7%
6217	Excavation NOC	4.44	4.42	0.5%
6233	Oil/Gas Pipe Line Const.	3.38	3.29	2.7%
6319	Gas Main Const.	2.77	3.00	-7.7%

Will this happen to the rest of my property and casualty lines of coverage?

We don't have a crystal ball but we are watching for such a change – on a national basis, rates are lower today than they were a decade ago. It has been a buyer's market for many things, insurance being one of them. Insurance companies have been extremely aggressive, far beyond their past comfort levels, in trying to attract market share, which means they have reduced premiums to keep or win their accounts and some will argue they've paid less attention towards risk management and safety.

Claims in the non-workers' compensation lines are also more expensive so now loss experience is trending up

over the 100% mark. Investment income is not enough to offset the projected combined ratios for insurance companies.

How do you position your business to be desirable for insurers? Some pointers:

Is your safety program fully documented and implemented throughout your organization? Is regular training of your employees held? Does your company promote a safety culture?

Do you make a point to be involved in the claims management process? Practices such as helping injured employees get back to work, understanding the reserves on open claims, taking on deductibles where available, etc.

Do you have a wellness program for your employees? It can demonstrate your company's interest and proactive approach to maintaining a healthy and productive workforce.

Do you maintain records for fleet maintenance/repair? How are your buildings and facilities maintained? Are good 'housekeeping' practices endorsed in your company?

Do your subcontracts conform to your state's indemnification laws as well as recommended insurance requirements?

Partnering with your Van Gilder / Tiger Risk Sharing Group team to help focus on risk, safety and claims management as well as strategic marketing of your insurance program and effective placement can reduce or eliminate surprises when it comes time to renew your insurance program.



We welcome your questions or comments on the information contained in this document.