AmWINS Group, Inc.

CLIENT ADVISORY

HOW TO COMBAT RISING RATES AND RETENTIONS IN EXCESS WORKERS' COMPENSATION

CONTACT

To learn more about how AmWINS can help you place coverage for your clients, reach out to your local AmWINS broker or marketing@amwins.com.

For 10 years, rates and retentions for self-insureds have been steadily (sometimes drastically) increasing. The good news is there's a way to fight the increases, though it has little to do with insurance.

The first step to solving this, or any problem, is to understand the problem itself. Many would say it's simple supply and demand. As there are only seven markets left writing monoline excess workers' compensation for qualified self-insured entities, companies and groups, the common perception is there is limited competition for each risk. That, however, is not the real root of the problem; to get to the core of the issue, one has to look at two outside economic factors that serve as the primary financial drivers on excess workers' compensation accounts.

The first is income. Excess workers' compensation (XSWC) carriers generate income in two ways: underwriting profit and investment income. Typically, all carriers invest heavily in fixed income securities of durations of approximately 10 years. According to the U.S. Department of the Treasury, on January 3, 2006, the 10-year Treasury bond yielded 4.37%.[1] Today, that same bond yields only 1.74%[2], meaning an XSWC carrier must reduce their combined ratio by 20 points in order to get the same return on their investment as they did 10 years ago. The only way they can achieve this is to raise premiums and lower claims expenditures – also known as raising the retention. It's simply a matter of how much.

The second factor driving rates and retentions higher on excess workers' compensation accounts is future medical costs. While investment yield has been declining, medical costs have been accelerating. In approximately 85% of all XSWC claims, the Self Insured Retention is not breached until 8-10 years from the date of the occurrence. So the carrier must fund for paying medical outcomes they will not see for nearly a decade. When you consider the idea that medical care costs will only continue to increase or factor in advances in medical technology that will create new, more expensive treatment methods 10 years from now, it is easy to see how volatile the situation can be.

At the same time, if you consider the highly actuarial nature of XSWC underwriting, you will quickly discover there is no amount of brokering underwriters, market shopping, or general insurance wizardry that will result in a dramatically lower premium and/or retention at renewal. That's the bad news. But thankfully, the good news is that there is still a way to bring rates and retentions down. It takes time, discipline, and commitment. But it can be done.

How? Help the insured become a better risk.

When asked: "Why do you rob banks?" the famous bank robber Willie Sutton was erroneously quoted as saying, "Because that's where the money is." In excess workers' compensation for self-insureds, "where the money is" is in their claims. Claims make up roughly 90% of a self-insured's total cost of risk compared to the insurance premium which typically ranges from three to five percent. On top of being the largest part of their total cost of risk, claims also represent the area in which a group has the most direct influence. Insurance premiums, collateral posted with the state, and TPA costs are all driven by claims costs, and are largely determined by other organizations. Claims, on the other hand, are 100% in the hands and – more importantly – the wallets of the insured. They pay every dollar of every claim under their SIR, meaning every dollar saved is theirs to keep. So if a self-insured has $1,000,000 in claims under their SIR and can reduce their claims by just 5%, they have just saved $50,000. That's a much bigger savings than a slightly better rate on their insurance. And that's just the beginning.

(continued on next page)

HOW TO COMBAT RISING RATES AND RETENTIONS IN EXCESS WORKERS' COMPENSATION

(*continued from previous page)*

Self-Insureds can proactively work to reduce the frequency or severity of their claims through predictive analytics, return-to-work programs, optimized pharmaceutical benefits plans or any of a host of services designed to help achieve better medical outcomes for injured employees. There are also a wide range of services such as workplace ergonomic studies, wellness plans and employee compensation incentives to help prevent accidents from happening in the first place. The result of taking these actions is an informed, holistic approach to safety and loss control that, over time, will bend the insured's claims cost curve down. Do that and the cost of insurance will follow suit.

Changing the conversation from rising rates and retentions to managing the total cost of risk through better safety and loss control programs is the most effective way to achieve better results for the insured in the current marketplace. It begins with asking the right questions: Is the insured getting the most out of the value-added services provided by the carriers? Is their TPA actively engaged and optimized to not just handle, but actively manage their claims? What additional services can give them better insight and methods to prevent claims before they happen and get better care for their employees after an accident? The discussions that arise from these questions will undoubtedly lead to answers that can begin to lower claims costs and achieve better medical outcomes for employees. That in turn will help make the self-insured individual or group a better risk for the carriers to take on, resulting in lower rates and retentions in excess workers' compensation and leading to a more durable and cost effective self-insurance program.

This article was written by John Cooper, a broker specializing in excess workers' compensation with AmWINS Brokerage of the Carolinas.

[1] *https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yieldYear&year=2006*
[2] *https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield*