GOOD NEWS FROM THE INSURANCE MARKET

In a challenging year for the scrap recycling industry, one piece of good news comes from the National Council on Compensation Insurance's (Boca Raton, Fla.) annual *State of the Line* report. Expected worker's compensation underwriting results are the best the insurance industry has seen in decades. With many scrap operations looking to renew their worker's comp coverage Oct. 1, it's a good time to examine the current worker's comp market and how you can take advantage of current conditions when renewing.

INSURANCE MARKET CYCLES

Worker's compensation insurance is a big business. The line produced gross written premiums of $45 billion in 2017 if you include state funds. Private carriers underwrote $39.8 billion in policies last year, down about 0.7 percent from 2016. Looking at the combined ratio—the sum of all insured losses, loss adjustment expenses, policy dividend expenses, and underwriting expenses divided by earned premiums—results were excellent, with a projected combined ratio of 89 percent for calendar year 2017.

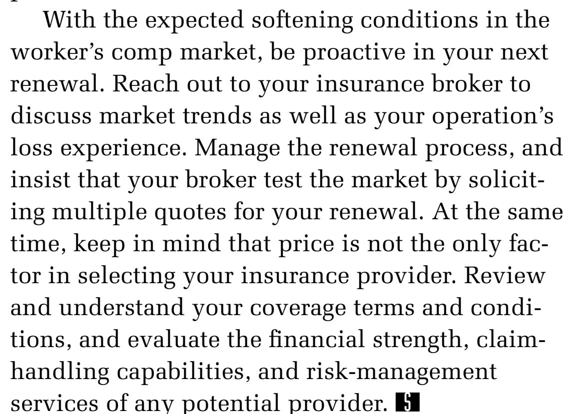
The industry also produced investment income on loss reserves that carriers have yet to pay out, as many losses require payouts over years or even decades. The industry saw investment gains of 12 percent as a ratio to net earned premiums. Together, 2017 underwriting and investment gains yielded total pretax operating gains of 23 percent. Compare that with the 6.9-percent pretax operating gain the insurance industry averaged each year for the last 20 years.

What's driving this change? The market moves in cycles from hard markets, where carriers have pricing power, to soft markets, where they do not, and back. The last hard market cycle ended in 2006, when private carriers posted a combined ratio of 93 percent. Conditions softened as carriers looked to write more premiums, and by 2010, the combined ratio had spiked to 115 percent—based not solely on pricing, but also on an unusual lift in claim frequency. The trend over the last 20-year period has been annual 3.7-percent declines in claim frequency, but 2010 saw an upward spike to almost 4 percent, and 2011 was about flat. These changes caused some competitors to pull back and market prices to increase.

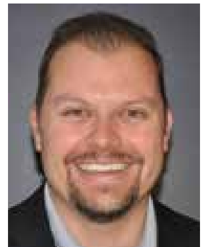
Since 2012, claim frequency has resumed its downward trend, averaging decreases of about 5.1 percent annually. Claim severity has also remained moderate over the period. With premium rates increasing, payrolls increasing from both wage growth and greater employment levels, claim frequency decreasing each year, and claim severity remaining stable, combined ratios have decreased each year from 115 percent in 2010 to 89 percent in 2017.

WHAT THIS MEANS FOR YOUR RENEWAL

So where's the market going from here? With the insurance industry generating healthy profits, reserves in good shape, claim frequency continuing to decline, interest rates expected to climb, and other factors at play, NCCI expects that worker's comp rates will decline 9.6 percent from 2017 to 2018 in the 35 states that use it as their licensed rating and statistical organization, with its estimate based on approved changes to loss cost filings. Worker's comp results vary by state because laws, benefit levels, and cost containment practices vary. The most recent filings for all NCCI states show only one state, Louisiana, with an increase (up 0.4 percent) while all other states filed for decreases, some as much as 16 percent.



With the expected softening conditions in the worker's comp market, be proactive in your next renewal. Reach out to your insurance broker to discuss market trends as well as your operation's loss experience. Manage the renewal process, and insist that your broker test the market by soliciting multiple quotes for your renewal. At the same time, keep in mind that price is not the only factor in selecting your insurance provider. Review and understand your coverage terms and conditions, and evaluate the financial strength, claim-handling capabilities, and risk-management services of any potential provider. S



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