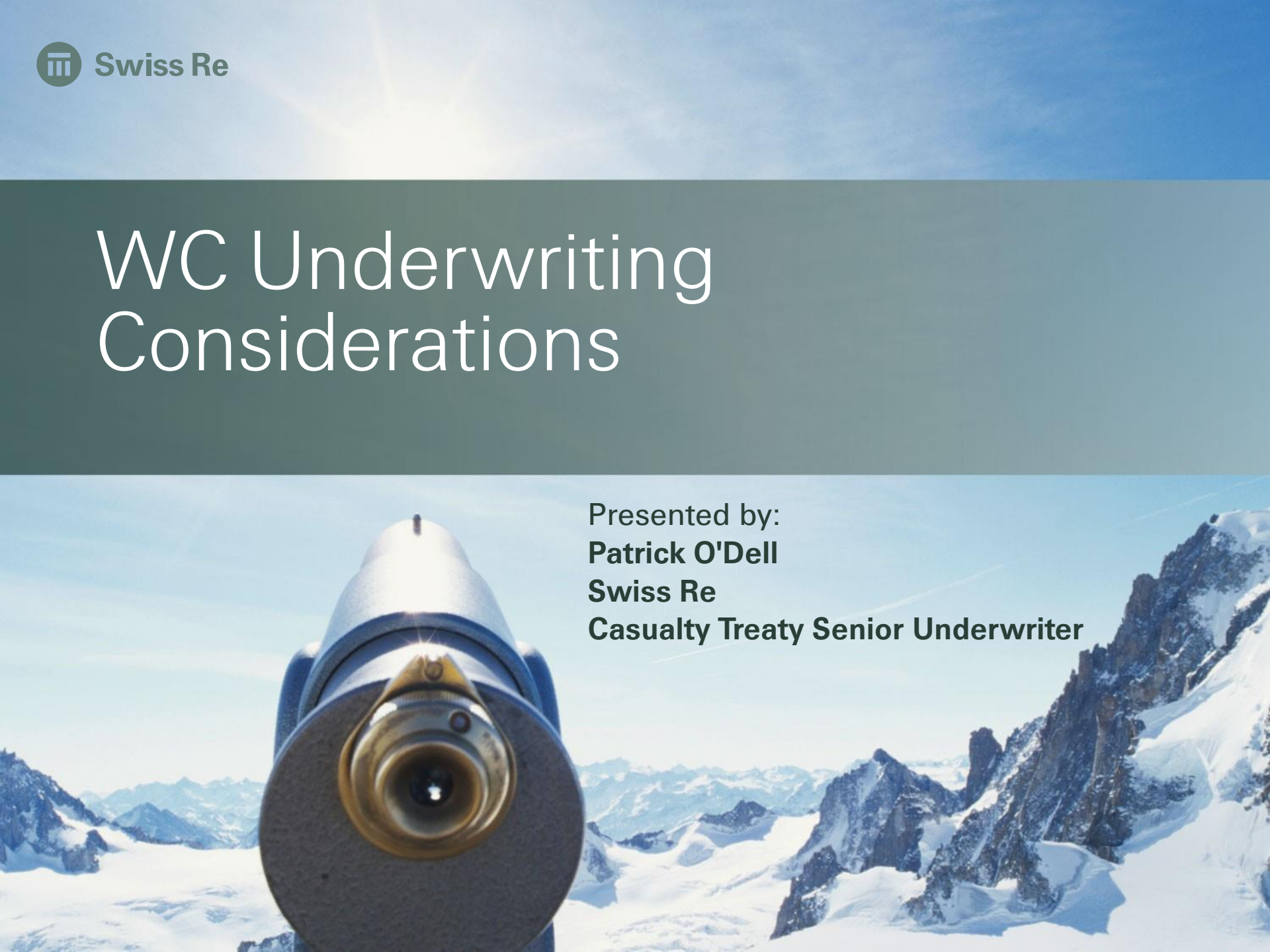


WC Underwriting Considerations



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WC Underwriting Considerations

1. New ELF's
2. Mitigation of Severity Exposures
3. Texas Non-Subscriber Coverage

New ELF's – Underwriting Considerations

- Conclusion: More loss allocated to the first \$3M and less loss allocated to excess of \$3M
- The impact will vary considerably by individual insurers' WC portfolios
- Key underwriting factors to evaluate:
 - State and class code / hazard group distribution
 - Quality of the insurer's Loss Control and Claims operations. Impact on frequency and severity
 - Insurer's historical excess ALAE
 - Appropriate tail factor. Employee concentrations, accumulation tracking

Mitigation of Severity Exposures

I. Loss Control Services

- Requires a very knowledgeable and experienced Loss Control staff with ability to evaluate insureds' exposures, safety program and claims history and identify areas lacking sufficient loss controls and make the appropriate recommendations
- Examples of severity exposures and the loss controls that could mitigate the exposure

Mitigation of Severity Exposures

II. Claims Handling

- Rapid response to and treatment for severe claims and very close monitoring and management of these claims is critical
- A Large / CAT Claims Unit specializing in severe injuries is very beneficial
- Early contact with the injured workers family and establishing a good relationship with them is important

Mitigation of Severity Exposures

- Work with the family to enable the injured worker to return to their home when they have reached their highest recovery level
- Aggressively manage claims and close them as quickly as possible
- Use of lump-sum settlements and/or annuities when appropriate and allowed by the state

Mitigation of Severity Exposures

III. Risk Selection

- Commitment of the insured's management to loss control, including implementation of recommendations from the insurer's Loss Control Dept
- Cooperation from the insured with respect to claims and the insurer's claim handling methods, procedures and requirements

Mitigation of Severity Exposures

- Reinsurer's evaluation of the severity exposure contained in the insurer's portfolio and how well it is loss controlled and the quality of the claims handling
- The use of Predictive Modeling by the insurer, including the quality of their model and impact on their risk selection, severity exposure and results
- WC "Specialist" insurers. Why they often outperform other multi-line insurers

Texas Non-Subscriber Coverage

- Texas law allows employers to opt-out of the statutory WC system
- Wage and medical benefits provided via a contract, but usually at reduced amounts and for a much shorter period of time
- Does not provide unlimited medical coverage. There are caps on the duration of the coverage (applicable to both indemnity and medical), even for the most severe injuries such as PTD's
- Does not provide unlimited medical coverage. There are caps on the duration of the coverage (applicable to both indemnity and medical), including PTD's

Texas Non-Subscriber Coverage

- The employer forfeits their "sole remedy" protection and can be sued by the employee. The employee does not have to prove "gross negligence or willful intent" by the employer.
- The severity exposure is greatly reduced in the opt-out coverage, compared to WC and this is the key reason for the overall good results of this coverage. However, the severity exposure is not eliminated, but it is transferred from WC to Liability.
- The severity exposure of the opt-out coverage is likely greater than it is for statutory WC due to the coverage being provided via tort action.