



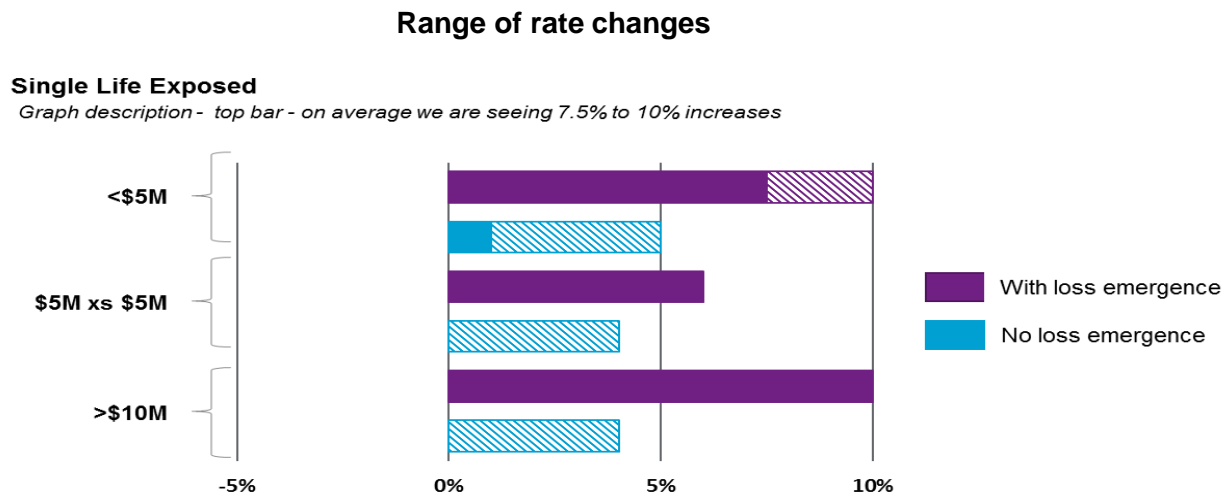
# Workers Compensation

State of the Market

CaRE June 3, 2019

# State of the Market

## Reinsurance Pricing as of January 1, 2019



- Reinsurers push higher rates to try to offset **primary rate decreases**
- An increased **large loss claim frequency** has put pressure on working layer pricing. In particular 10m x 10m (no MAOL) layers have been significantly repriced over the last three years
  - There have been relatively few reinsurers writing working layer XOL
  - Some of these reinsurers have recently repriced programs and reduced lines. (Midwest Employers, XLCatlin, Hannover).

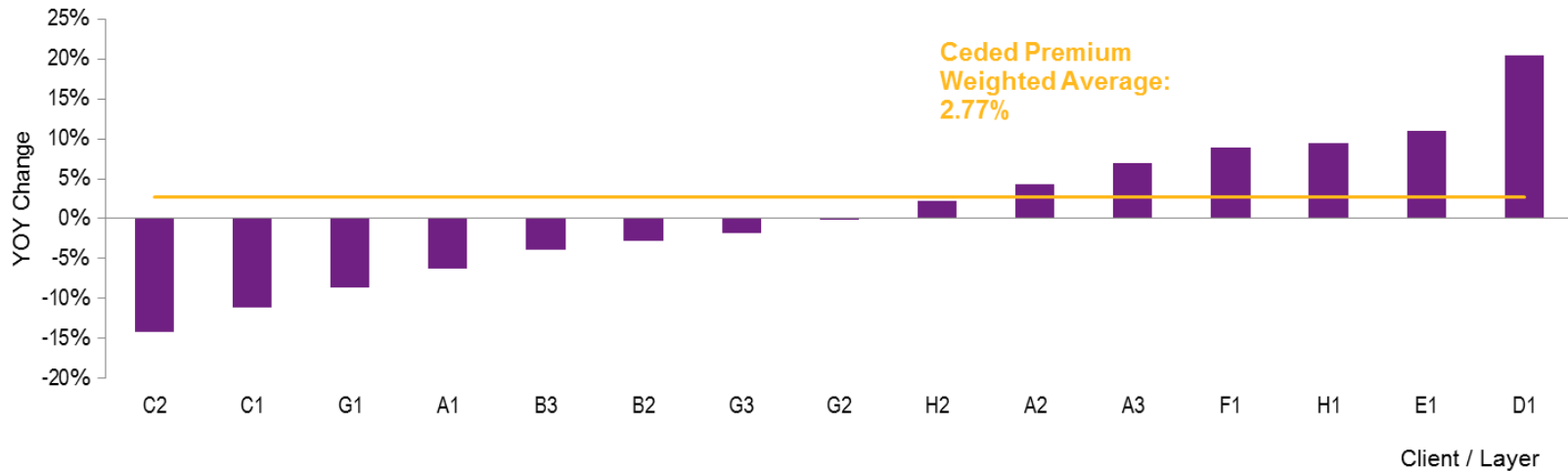
**Working Layer Market continues to tighten**

# State of the Market

## Workers' Compensation 1/1/2019 Willis Re Reinsurance Pricing Results

Renewal Cutoff Date	Number of Accounts	Number of Layers	Ceded Premium Weighted Rate Change	Ceded Premium Weighted Median Rate Change
1/1/2019	8	15	+2.77%	+7.10%

Achieved Risk Adjusted Rate Change  
Rolling 12 Months Through 1-1-2019

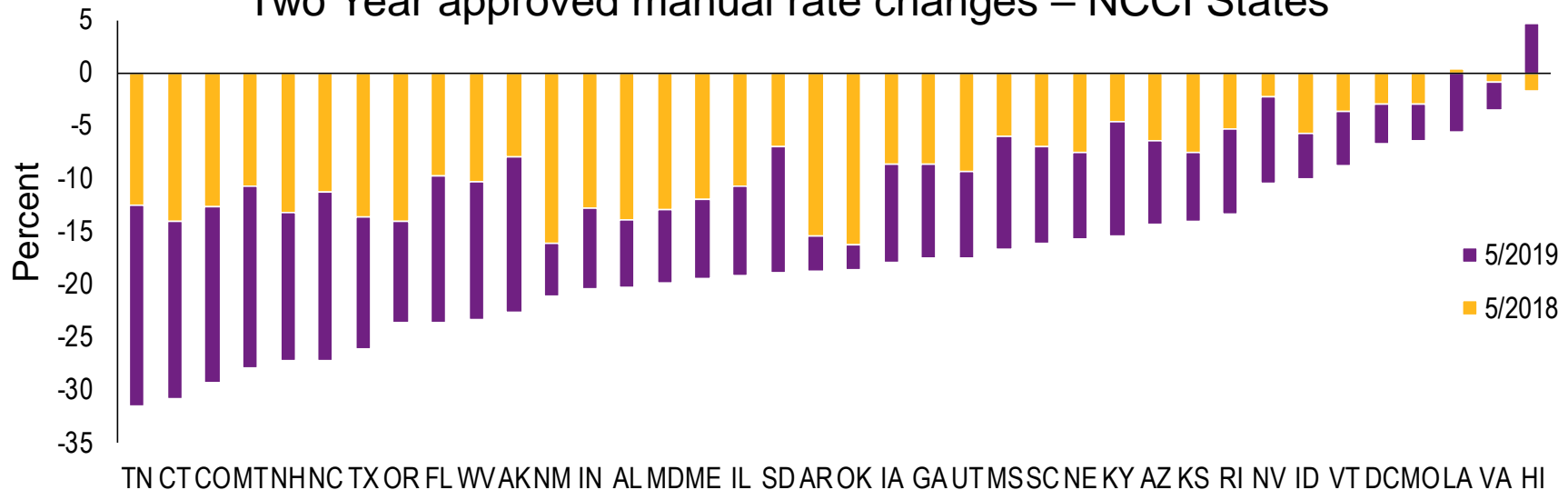


- We compiled 15 treaty layers from 8 different clients
- The average risk adjusted rate change was positive
- A number of accounts / layers have been excluded due to an underlying update to NCCI curves that indicate large exposure decreases YOY

# State of the Market

## Approved Bureau Rate changes

Two Year approved manual rate changes – NCCI States



Source: NCCI AIS

- 14 states with 2 year decreases greater than 20%
- Overall approved changes are -9.7% (2018) and -10.1% (proj 2019)
- Significant portion of these decreases will roll into 2019/2020 earned premium

***Approved rate decreases puts pressure on primary pricing***

## State of the Market

### Primary Market Pricing

Changes in DWP (NCCI States)	2017	2018	
Carrier Estimated Payroll	4.4%	5.3%	} Payroll wages +3.3 and job growth +1.9
Bureau loss costs & mix	-4.2%	-8.9%	
Carrier Discounting	0.4%	0.8%	} Discounting is less than historical averages
Other	-0.4%	3.1%	
<b>Combined</b>	<b>0.0%</b>	<b>-0.3%</b>	

- Bureau rates are only part of the story
  - Payroll growth is positive due to both job growth and payroll rates
  - Experience has been excellent; development is down therefore loss costs are down
  - Insurers have increased LCM's, reduced schedule credits, implemented/enhanced territorial surcharges, etc., to offset bureau rate changes

Source: 2018 and 2019 NCCI State of the Line report

"other" includes – changes in audit impact, experience mods, mix of policy type, deductible credit amounts and mix of voluntary vs state act business

**Final charged primary premium is softening slower than expected**

# State of the Market

## Reinsurance Market Overview

### *Observed - Workers Comp - Reinsurance buyers*

#### **Working layers:**

- Limits and retention – Mostly stable with some increases in annual aggregate deductibles
- Buyers are increasing per person limits. Three common options:
  - \$10m x \$10m – no MAOL (Maximum Any One Life), or
  - Per person capacity alongside the catastrophe program, or
  - Multi claimant warranty with no dollar restriction. (typically with programs attaching very high...such as \$100m or greater)

#### **Catastrophe capacity:**

- Multi year contracts can increase stability in capacity and pricing should there be an industry defining event.
  - Alternate layers expiring each year
  - Place 50% of each layer with alternate expiration dates
  - Buying higher limits as pricing softens

# Large Loss Frequency

## Synopsis of two mega claim studies

**Willis Re, and more recently NCCI have presented studies on the development of mega claims.**

- Mega claims defined as total incurred of \$10 million or greater

Data Set Comparables	NCCI	Willis Re
<b>Accident years</b>	<b>2003 - 2016</b>	<b>2007 - 2016</b>
<b>Losses developed at</b>	<b>12/31/2017</b>	<b>7/31/2017</b>
<b>Geography</b>	<b>36 NCCI states</b>	<b>46 states</b> Includes CA, NY, PA 30% market share
<b>Claim count</b> adjusted for - Medical Indemnity	<b>77 (5.5 annually)</b> Personal health Care Index Wage indices	<b>124 (12.4 annually)</b> 3.5% annually 2.0% annually

# Synopsis of Two Mega Claim studies

## Mega claim frequency

There is not a strong frequency trend noted in either study. The NCCI made note of the 2016 increase, but also noted a similar spike in 2006. The 2016 spike did not show up in the Willis Re data. Perhaps this is due to NCCI data including an extra six months of development, differences between the data sets, or a combination of different factors.

Both studies noted – whereas there is only a flat to mild upward frequency trend in mega claims, during the respective study periods there has been a significant decrease in overall lost time claim frequency. Mega claims are making up a larger proportion of overall claims.

### NCCI

#### Recent Accident Years Show an Uptick in Mega Claims at 24 Months

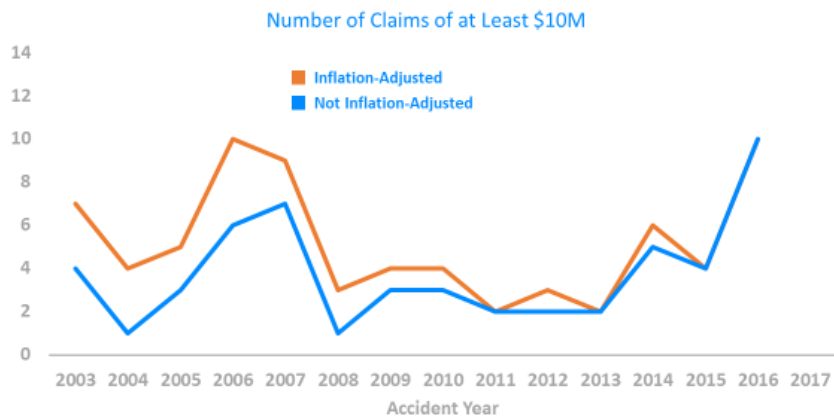
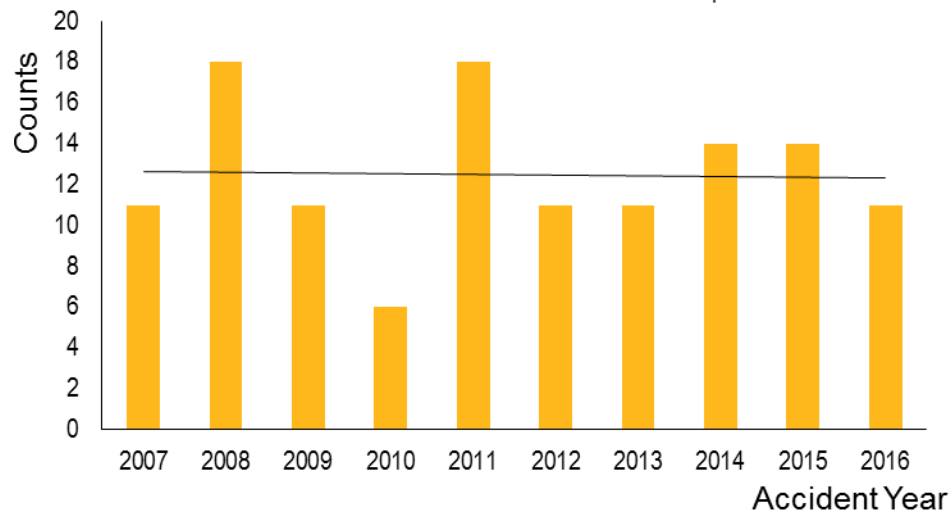


Exhibit 2

Sources: NCCI's Financial Call 31 data for 36 states—states where NCCI provides ratemaking services, excluding TX and WV. Claims on large-deductible policies are excluded. Inflation-adjusted values use Quarterly Census of Employment and Average Weekly Wage for indemnity, and Personal Health Care index for medical, and adjust to 2017.

### Willis Re

#### Trended Loss & ALAE Counts > \$10M





# Synopsis of Two Mega Claim studies

## Cause of Accident and Type of Injury

### Cause of Accident

NCCI		Willis Re	
Motor Vehicle	39%	Motor Vehicle	29%
Fall from Elevation	28%	Falls, Trips or Slips	29%
Struck by	13%	Struck by	23%
Slips/Other Falls	5%	Strains/Lifting	7%
Caught between	4%	Burns/Electrocution	4%
Burns/Rubbed/Abraded by	3%	Other	8%
Other	8%		
	<b>100%</b>		<b>100%</b>

The cause of mega claim related accidents is very similar in the two studies. Because there is not an industry standard for assigning cause of accident, there are some differences between classifications used in the studies.

The leading injury types is also consistent in the studies. Again, because there is not an industry standard for assigning and defining injury type, there are differences between classifications.

### Type of Injury

NCCI		Willis Re	
Multiple body parts	36%	Multiple body parts	56%
Head / brain	30%	Brain Injury	19%
Neck / Spine	27%	Amputation	10%
Chest Internal organs	3%	Disease/Disorder	8%
Lower back	2%	Burns	6%
Leg	1%	Spinal Cord	1%
arm/shoulder	1%		
	<b>100%</b>		<b>100%</b>

# Synopsis of Two Mega Claim studies

## Other Observations

### NCCI

#### Job Classes

- Contracting by far is the industry group contributing the most to mega claims (43%). Second is Goods and Services (20%). The five top classes for 2001 – 2015 AY's are:
  1. 5645 – Carpentry - construction of residential dwellings not exceeding three stories
  2. 7219- Trucking NOC – all employees and drivers
  3. 5551 Roofing-all kinds \$ drivers
  4. 8742- Salespersons or collectors-outside
  5. 8810 – Clerical office employees

#### Medical Costs

1. Hospital Inpatient (38%)
2. Home health care (16%)
3. Drugs (15%)
4. Medical items (wheelchairs, etc), Supplies, Implants (14%)
5. Other/Various (17%)

### Willis Re

- Frequency, leading causes of injury and injury type for \$2m claims is similar to \$10m claims
- There was no significant pattern shift in injury type and cause of accident over the 10 year duration of the study
- On a nominal basis, the study included
  - Over 4,300 claims > \$1m (average 2.9 claims per \$100m of ground up equivalent premium)
  - 1153 claims > \$2m
  - 87 claims > \$10m
- Companies with premium >\$1 billion reported a high frequency of \$2m and \$10m claims
- Over 70% of mega claims are from employees < 40 years old at date of accident

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