

How to Use Workers Comp Claim Frequency in Making Underwriting Decisions

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Agenda

- Power of Frequency as a Predictor
- Experience Mod
- Use in Underwriting
- Use in Predictive Modeling
- Data Sources

Power of Frequency as a Predictor

- Aid with Loss Ratio
 - Target business with lower frequency characteristics
- Identify Optimal Loss Prevention Focus
 - Utilize Loss Prevention Consultants to maximize effectiveness in decreasing policyholder loss frequency

Experience Mod

- Frequency has larger effect on Experience Mod than severity
 - Losses limited to \$5,000 per claim
 - Mod for high frequency, low severity policies higher than low frequency, high severity
- Policyholder can directly reduce insurance costs by making conscious effort to reduce frequency

Use in Underwriting

- High Frequency does not necessarily equal poor loss history
- Frequency by Injury Type
- Lost time claim count differs by policy size and industry
 - Use Underwriting Rules to review policies above selected frequency threshold

Use in Predictive Modeling

➤ Brief Predictive Modeling Definition

- Statistical model built to forecast future behavior based on past experience
- Objective Underwriting and non-Underwriting characteristics used as predictors
- Data preparation is a long process

➤ Predictive Characteristics

- Company Growth Rate
- Attorney Involvement
- Average Age of Employee
- Industry

Use in Predictive Modeling continued

- Large Loss Frequency Characteristics
 - Hazard Group
 - Class Code
 - Zip Code
- Can use Underwriting Rules to refer policies with high predicted large loss frequency

Data Sources

- Internal Data
- Bureau of Labor Statistics
- NCCI
- Occupational Safety and Health Administration
- Commercial Credit Rating Sources (Experian, Dun & Bradstreet, etc.)

Questions?