

Fundamentals

Pricing and market availability is extremely subjective at commercial level.

Carrier experience: pollution exclusions may not hold up during litigation.

A long 'soft' market has lead to strict underwriting, this is changing but markets are becoming more restrictive.

Strong management = effective loss control = market availability and competitive pricing.

Reducing your industrial exposures benefits you by reducing your pollution exposure and occupational safety exposure. *Potential consequences to Property, Liability, Environmental and Workers Compensation.*

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March 3, 2012 *Boston Globe:*

“The Workers’ Compensation Rating and Inspection Bureau of Massachusetts, which represents companies that write workers’ compensation policies, asked the state to approve an average rate increase of 19.3 percent.”

The Fight Is ON.

We will know what the damage is after **September 1, 2012**

Sources say most certainly will approach or exceed 10%

For those with NCCI-based experience modification, new rating formula goes into effect as of 1/1/13. **For most in this group an experience modification increase is highly likely.**

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Workers Compensation Insurance Market Trend

Since 1991: Only 3 years of profitability in the Workers Comp market in US. Once offset by success of company investments. Due to low interest rates those profits no longer apply.

This Unprofitability is continuing due to:

1. Continued high unemployment.
2. Potential for higher inflation – which leads to higher claims payouts.
3. Adverse reserve developments.
4. Volatility of the investment market.

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Why is Workers Compensation unprofitable?

Medical Costs? Frivolous Lawsuits? Market Volatility?

Fact: *Medical Costs single largest contributor*

Recent trends indicate that the average cost of claims or “claim severity” has risen steadily, even as the number of claims overall are decreasing.

Lost wage payments are a function of average weekly wages, which have increased 27.5 percent since the last rate increase in 2001 (Rate increase of 1%).

Health care costs, which account for 40 percent of the benefits paid to injured workers, have also risen steadily over the last decade.

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Workers Compensation Basics for MA

- Commonwealth sets its own rates through the WC rating and inspection bureau (WCRIB) a private, non-profit association of admitted insurers.
- Generally, rates have been favorable compared to other states for decades.
 - Last increase of 1% came in 2001.
- Process is fraught with political pressure that has advantages/disadvantages.
- Your general expectation until now: Rates are low but increases are steeper when claims occur compared with other states.
- Employers who cannot purchase insurance privately are placed in state high-risk pool (Residual market).
 - Due to classification
 - Experience Modification “Ex. Mod.” (claims history).
 - This is supposed to be a limited market. Due to trending factors, it now represents close to 25% of WC market in MA.

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The Here and Now

Fall 2011: Due to the increasingly difficult WC market in MA, companies including AIG decide to pull out of MA WC market. They are not the only carrier making this decision. Notification to insureds began arriving in November.

Consequences:

Limits market for employers

Forces many more into residual market.

Employer advocates and organizations are calling for a rate decrease to reduce at least one cost of doing business.

Rate increase: small businesses go out of business.

Rate decrease: Small businesses have less options in the marketplace and increasing numbers end up paying more in the residual market.

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**By reducing our employees' exposure to
toxics and other safety concerns will I
realize a cost savings?**

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Boston Retail Products, in Medford, which makes custom retail fixtures for Home Depot, reduced its VOC emissions from spray painting by 86% by adopting an alternative paint formulation, eliminating the use of xylene, and replacing old, inefficient spray guns. As a result of their improved worker health and safety, they reduced their workers compensation liability costs from \$450,000 to \$80,000.

Source: <http://www.earthfuture.com/earth/massachusetts toxics.asp>

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Tools for ensuring compliance leads to cost savings.

1. Made substantive changes? Ensure you notify broker. *CFO and environmental communicate.*
2. Work with an aggressive broker.
3. Understanding of WC, markets, your business processes.
4. Educate yourself on ex. mod. analysis options available to you.
5. Work with suggested loss control personnel from carrier.
6. QLMP: Qualified Loss Mitigation Program.
Not right for everyone, can lead to 15% total savings if successful.

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**Scrutiny of Safety measures, Limiting
Toxic Exposure and tight control of
Claims History lead to long-term
cost savings.**

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