

THE CHANGING NATURE OF WORKERS' COMPENSATION: The Reinsurance Broker's Perspective

Casualty Actuarial Society
2001 Spring Meeting: May 7-9, 2001

Thinking

beyond

The Box

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CHANGING NATURE OF WORKERS' COMP

Introduction

- 1** Market Overview
- 2** Capacity & Availability
- 3** Pricing & Decision Making
- 4** Market Mentality
- 5** Summary

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1.1 Market Overview

■ The Players

- Property / Casualty Market (Following Form)
- Accident & Health Market (Carve Out)

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1.2 Property / Casualty Market (Following Form)

- Property / Casualty Paper
- Mirrors Primary Coverage
- Working Layer Protection: Up to \$5M
- No Discounting of Loss Reserves

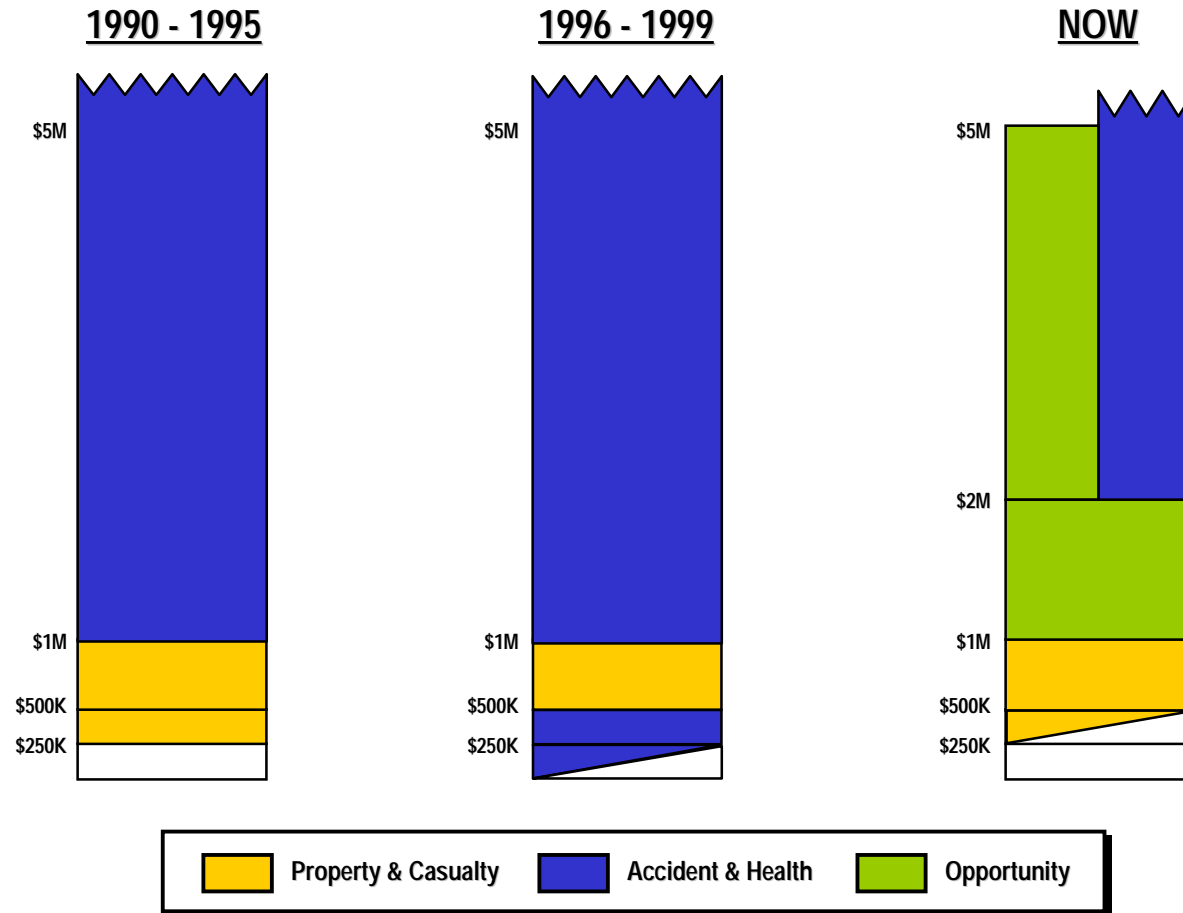
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1.3 Accident & Health Market (Carve Out)

- **Life Paper**
- **Coverage A Only (No 3rd Party Coverage)**
- **Additional Limitations**
 - Sunset & Commutation Clauses
 - Excludes Employers Liability
- **Catastrophic Protection**
 - Single Claimant (Per Person Coverage)
 - Multi-Claimant (Per Occurrence Coverage)
- **Discounting of Loss Reserves**

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1.4 Market Overview: *Where They Play*



The information contained in this document is strictly proprietary and confidential.

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2.0 Capacity & Availability

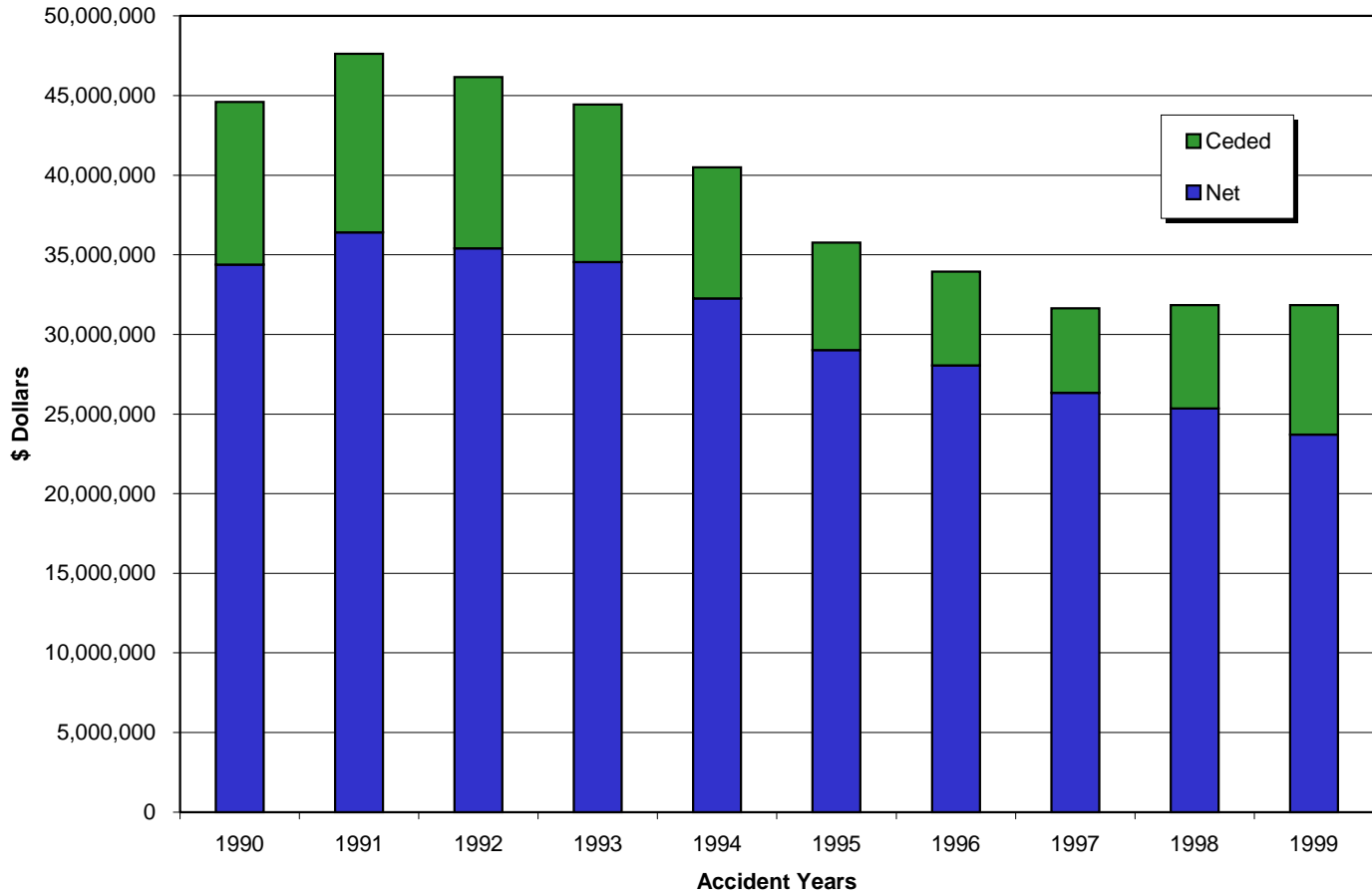
2.1 Capacity is Not an Issue, But How Much Do You Want to Pay?

2.2 At 1/1/01, Majority of Accounts Had Double-to Triple-Digit Rate Increases

- Affected Both Working & Catastrophe Layers
- Tail Wagging the Dog
- Protracted Negotiations (Many Accounts Extended to 4/1)

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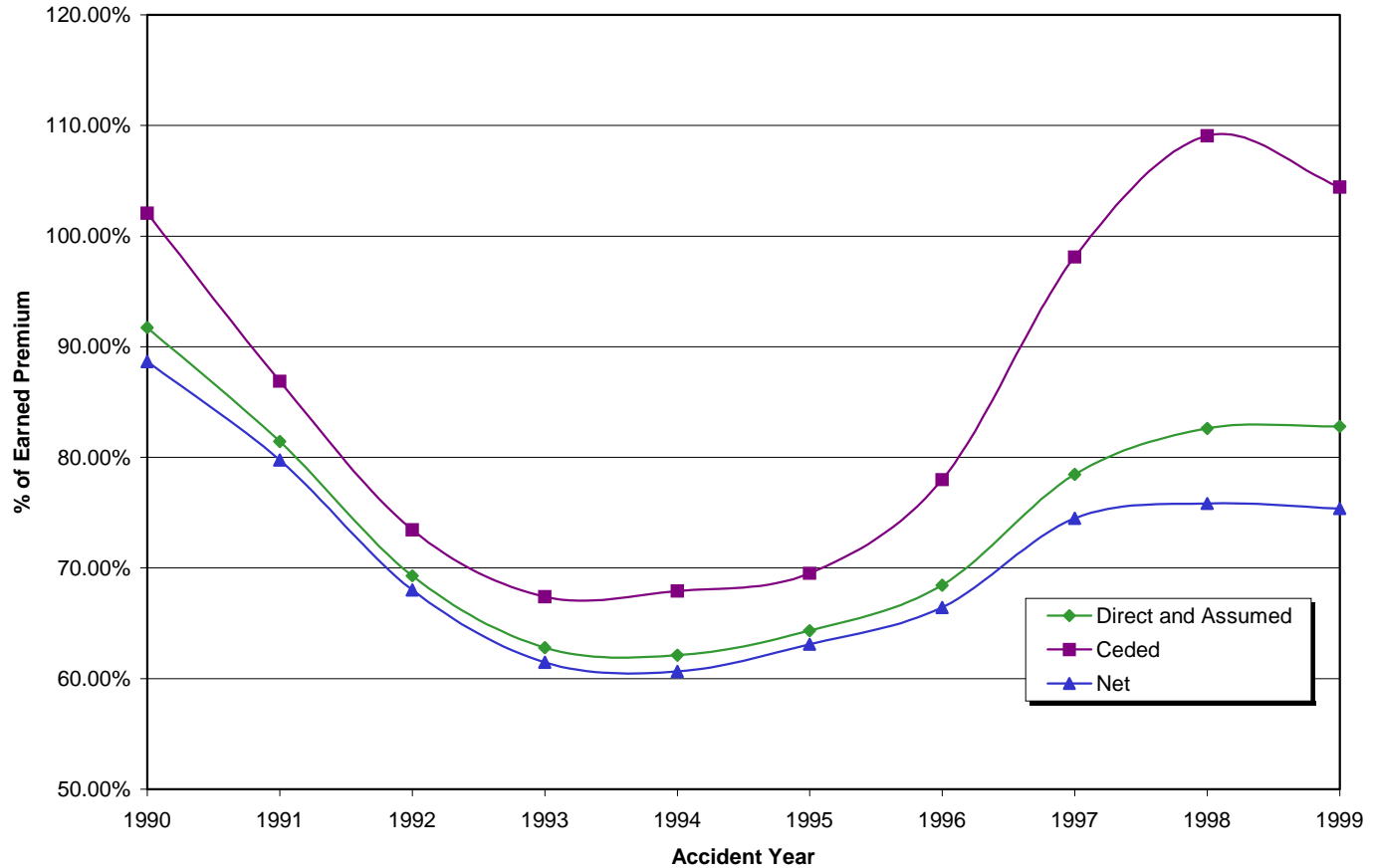
Workers Compensation Earned Premium



SOURCE: NAIC 1999 Industry Schedule P Data.

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Workers Compensation Loss and ALAE Ratios



SOURCE: NAIC 1999 Industry Schedule P Data.

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2.0 Capacity & Availability

2.3 Big Gap Between Company Loss Pick and Reinsurer Loss Pick (Historical & Prospective)

2.4 Terms and Conditions Are More Restrictive:

1. Loss Corridor
2. Swing Rates
3. Tiered Reinsurance Rating Structure (Tied to Increase in Primary Rate / Decrease in Credits)
4. Limitations on Size of Primary Credits
5. Reinstatements / Aggregate Limits
6. Annual Aggregate Deductibles
7. Restriction of Covered Classes

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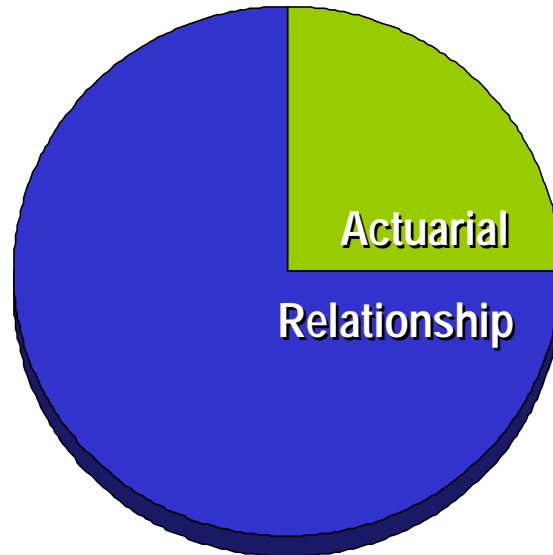
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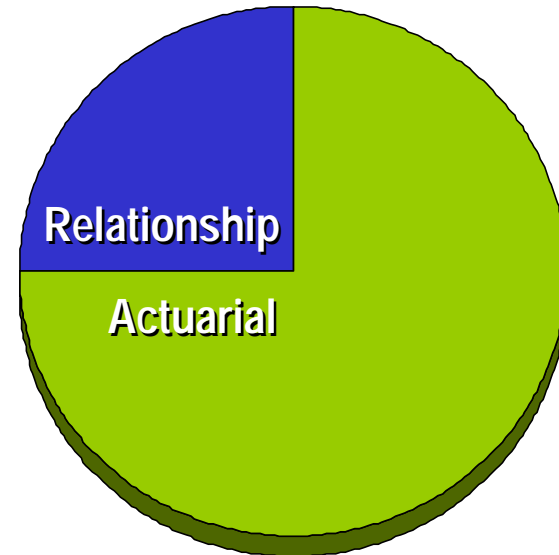
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3.1 Market Pricing

THEN (Prior to 7/1/00)



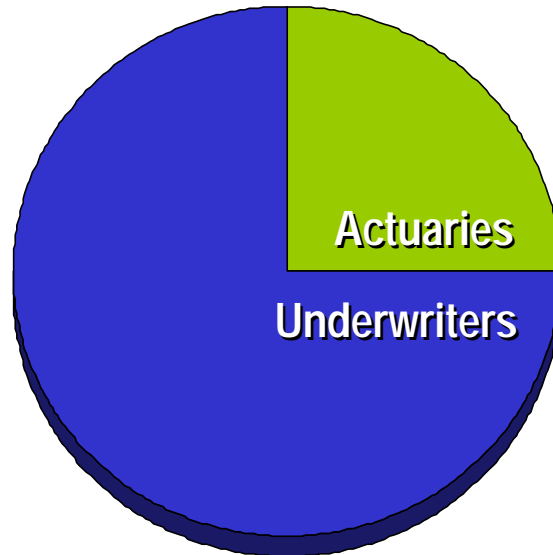
NOW



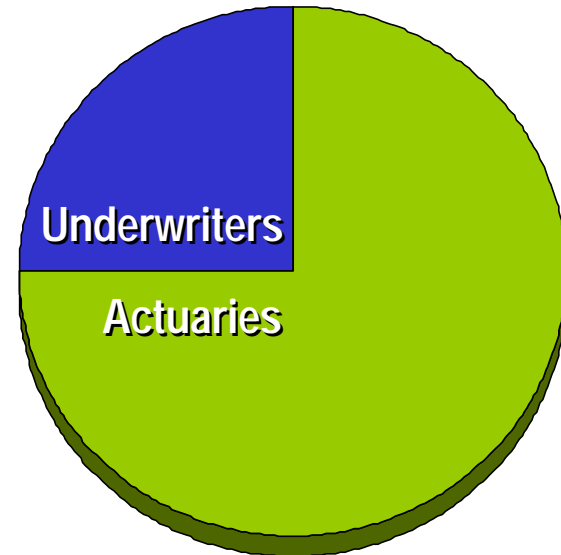
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3.2 Market Decision Making

THEN (Prior to 7/1/00)



NOW



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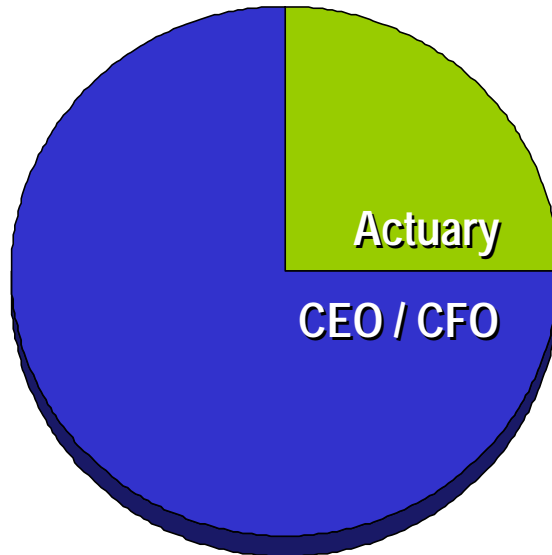
3.2 Market Decision Making - Key Phrase

Bunker Mentality
“Enemy at the Gates”

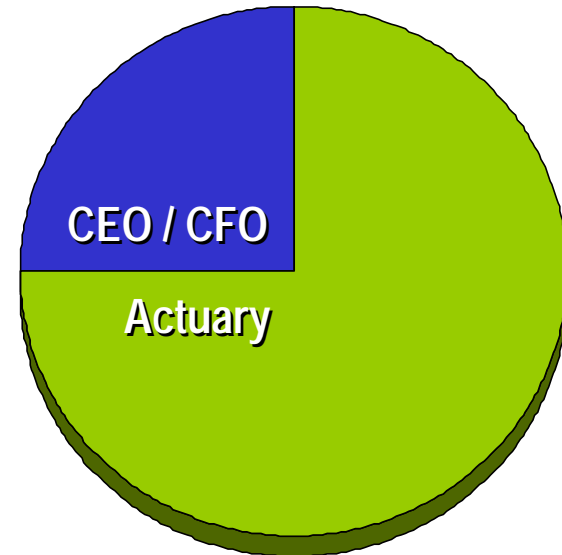
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3.3 Primary Decision Making

THEN (Prior to 7/1/00)



NOW



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3.3 Primary Decision Making - Key Phrase

Buffet

vs.

à la Carte Purchasing Style

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4.1 Market Mentality... Then & Now

THEN (Prior to 7/1/00)

- Corporate Risk Load
- Abundant Retro Capacity
- Production Oriented
- Top Line Emphasis
- Basic Information
- Quick Decision Making
- Aggressive Assumptions
- Just Show Up

NOW

- Personal Risk Load
- Collapse of Retro Market
- Profit Oriented
- Bottom Line Emphasis
- Detailed Rate / Exposure Information
- Underwriting by Committee
- Conservative Assumptions
- Just Say No

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4.1 Market Preferences

- Regional Focus
- Homogenous Books of Business
- Niche Market Specialization
- More & Better Data
- Underwriting Discipline
- Strong Claims Handling / Loss Control Services

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4.2 Less Preferred

- National Focus
- General Books of Business
- Start Ups
- MGAs
- Contractors
- Employee Leasing

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4.3 Bottom of the Pile

- California
- California
- California
- California
- Not Too Crazy About Illinois

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5.0 Summary

- **Markets are Underwriting Each Account as if Their Jobs Depend on It**
- **Primary Companies are Paying More or Buying Less or Sometimes Both**
- **More of the Same at 7/1 Renewals**
- **Higher Prices Will Bring in New Players (But NOT Naïve Capacity)**
- **Alternative (Finite) Products Will Become More Attractive**
- **Reinsurers Will Pursue Offshore Discounting Facilities**