



INSURANCE AND SAFETY CONCERNS FOR OUR VALUED CUSTOMERS AND INTERESTED PARTIES.

CONTACT KENT SELBY FOR
ANY TOPICS OF INTEREST YOU
WOULD LIKE DISCUSSED AT:
TRANSURE SERVICES, INC.
P.O. BOX 100
BURLINGTON, NC 27216

(336)584-9494

Market Update

The workers compensation underwriters surprised us all with the increases they asked for in January. We at Transure had been in constant contact with our underwriters well prior to January renewal time to be sure there were no rate increases planned by the various states effective on January first. We were told none were planned prior to the date that normal state increases are introduced. That date is April first of each year.

The state of North Carolina publishes what are known as loss cost factors for each insurance company licensed to write workers compensation. These factors are also to be effective April one of each year. These factors are applied to the base rate published by the National Council of Compensation Insurance for use in each state. The loss cost factors range from credit to debit percentages of the base rate. Only one loss cost multiplier is allowed for each insurance company.

You may ask then, why was there such an increase in my premium when

there were no increases forecasted by underwriters. The answer is not easily explained, because it has many components. The base rate, the loss cost multiplier and the amount of schedule credits or debits an underwriter may have within his or her authority.

Since all of our customers are in the trucking industry, your exposures fall within the class codes of 7219, the old class for trucking, 7228 or 7229 the new classes for trucking, and possibly 8742, salesmen and 8810, clerical. Some underwriters allowed a sub class of 8380, which took the payroll of your mechanics out of the trucking, class and assigned them from the trucking class to the lower rated class, for mechanics, 8380. This sub class approach created a savings of premium, but it was not an approach approved by N.C.C.I, or the various state rating bodies.

In 1991 the trucking class then known as 7219 carried a base rate of \$13.39 per \$100 of payroll. No discounts were allowed. Workers compensation coverage was hard to place. This led to the self insured group trust such as

Key Risk and Riscorp to name two. Since, 1991 improvements in loss handling, managed care and utilization reviews used by the insurance industry have been cited as a reason to reduce losses. This proved to be true and rates fell. States like North Carolina adopted the loss cost rating concept used today, and the rate for the trucking classification in, 2000 now known, as 7228 and 7229 was \$7.46 per \$100 of payroll.

Another factor of rating which differentiates your account from the one down the street is the experience modification. The insurance companies report your individual experience, which include losses, premiums and frequency and severity information along with payrolls by class. N.C.C.I or a local rating bureau calculates your experience modification. You can have a credit or a debit modification depending on the facts submitted by your insurance companies.

Experience modifications have dropped for most over the years from 1991 to approximately 1998 when some experience modifications began to take large jumps upward if there was frequency and/or severity in a given account.

Since many were enjoying the reduced rates and large scheduled credits of the soft market, high rates of the past were forgotten. Competition among insurance companies, and us brokers was increasing every year. He who did business with the insurance company, who had the lowest loss cost multiplier and the highest schedule credits, wrote business. Schedule credits were being brokered with competing underwriters

on accounts that may not have deserved the maximum credits. With the low experience modifications, low rates, down nearly 50% since 1991, credit loss cost multipliers and maximum schedule credits being applied it was just a matter of time before the pendulum begins its opposite swing.

So now, what, caused the major increase so soon if all the rates are so closely regulated? Remember in a previous paragraph we said only one loss cost multiplier per insurance company was allowed. Many insurance companies own a group of other insurance companies. This allows them to file different rates for similar coverages. It also allows them to have different loss cost multipliers, one for each company. Let's say you were insured with company A in 2000. Company A had a loss cost multiplier of .85. If you had a bad year in terms of losses company A may not choose to offer renewal, but company B owned by company A will offer renewal. Company B has a loss cost multiplier of 1.25. The base rate for each company is \$7.46, however after application of the multipliers company A's rate is \$6.34 and company B's is \$9.33.

If company A allowed a schedule credit maximum of 50% and you were fortunate enough to receive it in 2000 their net rate to you was \$3.17. Now, in 2001 you lose the schedule credit due to losses and are being quoted by company B. Your rate is going to be \$9.33 per \$100 and your net result is an increase of nearly 300% in one year. On the other hand, if you got a renewal quote you fared better than some others did. Did you shop? Did other companies

offer similar rates or decline altogether? Was the last resort the assigned risk pool? If the answer is yes and you noticed that you got the same or higher quotes from other companies you are beginning to understand the meaning of a hard market. Most insurance companies obtain reinsurance on their book of business. Reinsurers do not take lightly to losses. They were not immune to losses in 2000. They were not immune in prior years either but they continued to look for new business. What they seemed to forget is there is a tail on workers compensation coverage, and that tail has hit hard. The longer a loss stays open, the more it will cost.

You may have noticed an absence of some of the former major writers of workers compensation in the past two years. The major writer of workers compensation in the country took a sabbatical in 1998. They did so because they saw it coming. They saw catastrophic losses with inadequate premium to cover them.

Recently Credit General and Fremont Indemnity Company were taken over by the insurance department due to losses that have devastated their surplus. Superior National and Reliance Insurance Company have also made the news due to severe financial problems. It makes us sad that our industry allows the cyclical soft and hard market that causes our clients these roller-coaster rides. These cycles can be short-lived, however the last soft market has lasted thirteen years. The hard market in the 1980's lasted a short time so there may be some good news if history repeats itself.