



## Workers' Comp – "Connecting" to the Future

2018 NCCI's Annual Issues Symposium – Gen Re Summary & Highlights

by Bill Lentz, Gen Re, New York

The Workers' Compensation industry had another positive year in 2017 as solid financials and further underwriting gains continue to be achieved. This marks a seven-year trend of improving results. Indicators trending favorably include positive combined ratio development, an increase in pretax operating gains and a continued decline in both lost-time claim frequency and reserve deficiencies.

The National Council on Compensation Insurance (NCCI) recognized the industry's accomplishments of the past year, while also providing historical data reflecting the cyclical nature of this business and the need for diligence.

The theme of this year's Annual Issues Symposium (AIS) was "The Future@Work." In sync with the theme was NCCI President and CEO Bill Donnell's descriptive word: "Connecting." With technology always advancing and causing a state of constant change, Mr. Donnell stressed the importance of

staying connected with the changing landscape, as the Workers' Comp industry strives to adapt to the worker and the workplace of the future in order to continue serving its needs.

### NCCI CEO Overview

In light of the 30th anniversary of AIS, Mr. Donnell lauded the success of safety efforts, resulting in the reduction of fatalities – down 30% since the early 1990s. He also pointed out the contrast between the six-year stretch of WC pretax operating losses 1987–1992 and the most recent six years (2012–2017)

### 2018 NCCI AIS Highlights (regarding 2017 WC results)

- > 89% combined ratio on a calendar year basis (99% accident year) for private carriers
- > 2017 total net written premium slightly decreased from \$40.1 billion to \$39.8 billion
- > Investment gain of 12%, a slight increase over prior year
- > -6% in lost-time claim frequency, continuing a downward trend
- > 4% increase in medical severity
- > \$1 billion estimated WC reserve deficiency; \$4 billion lower than last year

### Contents:

AIS Meeting Highlights	1
NCCI CEO Overview	1
NCCI State of the Line	3
Gen Re Note	4
Summary of NCCI Observations	4

of pretax operating gains the WC industry achieved, with the last five being well above the industry average. Citing the cyclical nature of the business, Mr. Donnell made his point that “The health of the Workers’ Compensation system is much stronger.” Most important, he stressed, is the industry’s continued commitment to serving the employers and workers of our nation.

Mr. Donnell discussed the importance of the Workers’ Compensation industry “connecting” to its future with regard to work and the impact of automation, the worker and the changing demographics, and the workplace with the increased leveraging of technology. As daunting as that may sound, he believes the insurance industry is well-equipped and conditioned to handle the changes that are ahead.

A study concerning the adoption of automation indicated that up to 60 million jobs in the U.S. will be significantly changed over the next 10 years. However, Mr. Donnell pointed out a few natural speed bumps in the adoption of automation in the following areas:

- > **Cost Benefit Analysis** – Business owners will not invest in such technology unless there are significant benefits.
- > **Regulatory Issues** – Significant regulatory complexities can tend to slow the process.
- > **Human Element** – Natural resistance to change dominates, an example being the cashier job classification. Despite all of the self-checkout options that have been made available, the number of cashier jobs has not changed over the last ten years.

With regard to the future worker, Mr. Donnell advises that millennials are the most educated generation ever, the most diverse, and extremely savvy with technology. Not only will they be future employees but future business owners and employers as well. As such, he believes they will be the pioneers of the new technology-infused landscape and are equipped for it.

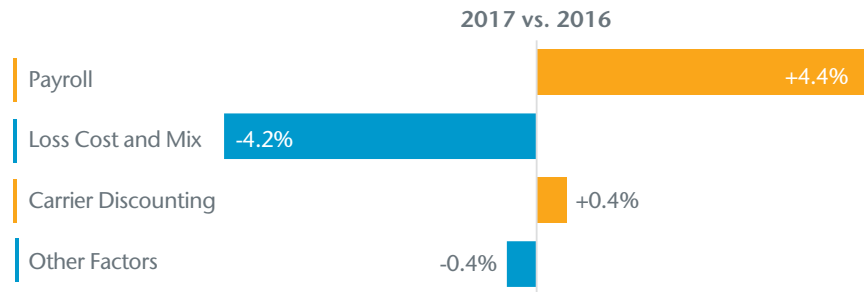
As to the future workplace, Mr. Donnell shared his beliefs as to what we may see:

- > **A Safer Work Environment** – Technology will continue to improve safety (i.e., robotics, wearables, etc.).
- > **Virtual World** – Businesses will make greater use of online conferencing, telemedicine and virtual reality. Studies find that telecommuting is up 100% over the past 10 years, and in the

## WC Direct Written Premium Change by Component

### Private Carriers – NCCI States

Change in Direct Written Premium: 0.0%



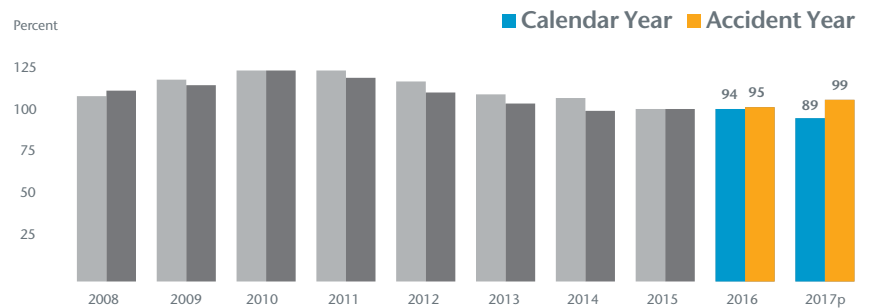
Sources: Direct Written Premium Change: NAIC’s Annual Statement Statutory Page 14 for all states where NCCI provides ratemaking services  
Components: NCCI’s Policy data

© 2018 NCCI Holdings, Inc. All Rights Reserved. Reprinted with permission from NCCI.

## WC Net Combined Ratios

### Calendar Year vs. Accident Year as Reported

#### Private Carriers



p Preliminary  
Source: NAIC’s Annual Statement data  
Accident Year information is reported as of 12/31/2017  
Includes dividends to policyholders

© 2018 NCCI Holdings, Inc. All Rights Reserved. Reprinted with permission from NCCI.

next several years more than 50% of workers may be working remotely in some way. More virtual companies will have no home office or shared work space.

- > **More Connected** – Better monitoring of conditions, increased connection with workers, and more data gathered for analytics will lead to more tools to understand and mitigate risk.

While the Workers’ Compensation industry must continue to transform and adapt to stay relevant, Mr. Donnell stated that our success will also be “measured by how we embrace technology to deliver our services and positively impact workplace safety and return-to-work efforts.”

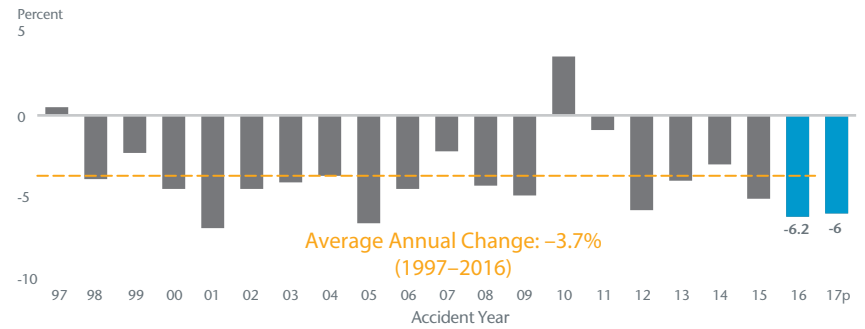
## NCCI State of the Line

The State of the Line report was presented by Kathy Antonello, Chief Actuary for NCCI. This report provides a detailed review of trends and cost drivers in the Workers' Compensation industry. The 2017 data is preliminary. The full report is available at NCCI.com; however, here are some selected highlights from Ms. Antonello's presentation:

- > **WC Premium** – Net written premium for private carriers decreased slightly to \$39.8 billion – as compared to \$40.1 billion in 2016. The total market net written premium volume also declined slightly to \$45.0 billion. The rationale for this result is the continued growth of offshore cessions and little to no change in carrier pricing levels. The total net written premium for the P&C industry increased by 4.6%.
- > **WC Combined Ratio** – The calendar-year combined ratio for private carriers further improved to 89% (a 5-point difference from 94% in 2016). The loss ratio component also improved to 49%. The accident-year combined ratio for private carriers increased by 4 points to 99%; however, NCCI expects accident year 2017 to develop favorably over time.
- > **Investment Results** – WC investment gain on insurance transactions is 12% for 2017. This a slight increase over the revised gain of 10.8% for 2016. This result still remains below the long-term average of 13.2%.
- > **Pre-Tax Operating Gain** – A pre-tax operating gain of 23% is largely due to the continued improvement in the loss ratios in recent years.
- > **Net Reserve Deficiencies** – The estimated 2017 WC Loss and LAE reserve deficiency for private carriers is \$1 billion, which is \$4 billion less than year-end 2016. This amount represents 1% of calendar-year total reserves.
- > **Claim Frequency** – WC lost-time claim frequency is estimated at a -6% change between 2016 and 2017. The longer term average annual change 1997–2016 is 3.7%.
- > **Indemnity Severity** – The 2017 average indemnity cost per lost-time claim rose to \$24,400, which is a 4% increase over 2016.
- > **Medical Severity** – The average medical cost per lost-time claim increased by 4% to \$29,900 in 2017. The Personal Health Care Chain-Weighted Price Index (PHC) rose 1.4% in 2017 as compared to 1.2% for 2016.

## WC Lost-Time Claim Frequency

Claims per \$1M Pure Premium, Private Carriers and State Funds – NCCI States

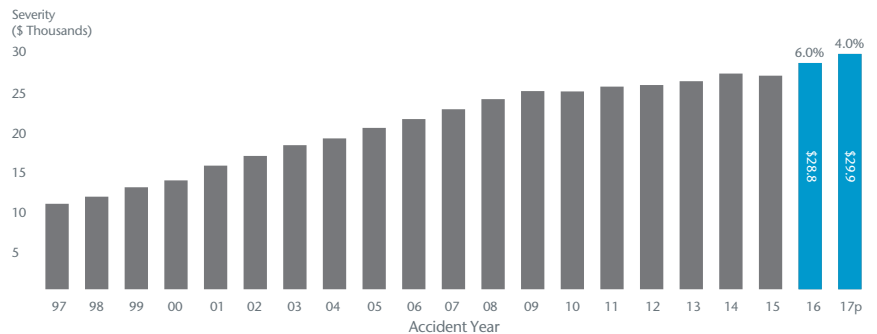


2010 and 2011 adjusted primarily for significant changes in audit activity  
 p Preliminary, based on data valued as of 12/31/2017  
 Source: NCCI's Financial Call data, developed to ultimate, premium adjusted to current wage and voluntary pure premium level, excludes high-deductible policies; based on data through 12/31/2016  
 Values displayed reflect the methodology underlying the most recent rate/loss cost filing  
 Includes all states where NCCI provides ratemaking services; WV is excluded through 2011

© 2018 NCCI Holdings, Inc. All Rights Reserved. Reprinted with permission from NCCI.

## WC Average Medical Lost-Time Claim Severity

Private Carriers and State Funds – NCCI States



p Preliminary, based on data valued as of 12/31/2017  
 Source: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2016  
 Values displayed reflect the methodology underlying the most recent rate/loss cost filing  
 Includes all states where NCCI provides ratemaking services; WV is excluded through 2007

© 2018 NCCI Holdings, Inc. All Rights Reserved. Reprinted with permission from NCCI.

- > **WC Residual Market** – The 2017 residual market pool premium of \$1.0 billion has not seen significant change over the last four years. The preliminary combined ratio for the pool is 106% as compared to 98% for 2016. NCCI advises that this estimate is based on an incomplete year and will likely be revised.
- > **Utilization of Opioids** – NCCI's research has determined that in 2012, 55% of injured workers who were given a prescription were prescribed an opioid. That share decreased to 45% by 2016.

## Gen Re Note

**Congratulations to NCCI's AIS on its 30th anniversary!** This symposium can always be counted on for excellent content and enjoyable networking opportunities, and is always looking towards the future in Workers' Compensation.

We applaud the efforts made within our industry, as well as in many state legislatures, to address the opioid issue and are thrilled to see positive results in this area. It's the responsibility of those of us working within the Workers' Comp system to see that all treatment provided to injured workers is appropriate and in accordance with established medical guidelines – and to question and challenge instances in which they are not, for the benefit of the injured worker.

Many of us may have been somewhat surprised by the 89% combined ratio estimated for 2017. But this number, along with other favorable trends, points to a strong and healthy system. As noted by Mr. Donnell, we must adapt in order to ensure future success and continue to prove that the "Grand Bargain" is a great deal for all involved, especially for injured workers.

However, as we have also been reminded, this business is cyclical and any carrier playing in the Workers' Comp arena must be committed and prepared for the long term. As claim duration can extend many years and with both indemnity and medical severity continuing to rise, it is important to take a longer, more measured view.

How are you dealing with medical severity? Are long-term costs accounted for in your reserving process? Gen Re has always been in it for the long haul. Please feel free to reach out to discuss these issues. ■

## THE BIG PICTURE

### Summary of NCCI Observations

#### Positives:

- > Combined ratio improved – Lowest level in over 50 years
- > Decrease in opioid utilization
- > Reserve position continues to strengthen
- > Continued decline in claim frequency
- > Improved investment results



#### Challenges:

- > Embracing and keeping up with changing technology
- > Evolving work, workforce & workplace
- > Increasing medical severity
- > Investment income, which remains below long-term average



### About the Author

**Bill Lentz** CPCU, ARe, WCP, ARM, AU, AIC, is a Vice President and the Workers' Compensation Claims Technical Specialist at Gen Re. He provides oversight and technical claim support for all Workers' Comp and Employers Liability reinsurance claim exposures. Bill also monitors emerging issues and other current topics related to the Workers' Comp claim environment and he has authored articles on such issues. He is on the board of directors of AMCOMP, The American Society of Workers' Compensation Professionals. He may be reached at 212 341 8087 or [wlentz@genre.com](mailto:wlentz@genre.com).

### About NCCI

Founded in 1923, the mission of the National Council on Compensation Insurance (NCCI) is to foster a healthy workers compensation system. In support of this mission, NCCI gathers data, analyzes industry trends, and provides objective insurance rate and loss cost recommendations. These activities – combined with a comprehensive set of tools and services – make NCCI the source you trust for workers compensation information.

Visit us at [genre.com/wc](http://genre.com/wc) to read our latest content, or to search for a topic.

*We express our appreciation to NCCI for giving us permission to reproduce materials from its 2018 Annual Issues Symposium.*



*The difference is...the quality of the promise.®*

[genre.com](http://genre.com) | [genre.com/perspective](http://genre.com/perspective) | Twitter: @Gen\_Re

The information presented here may need to be revised and updated periodically. You should consult with appropriate professionals, including your own counsel, before relying on it.