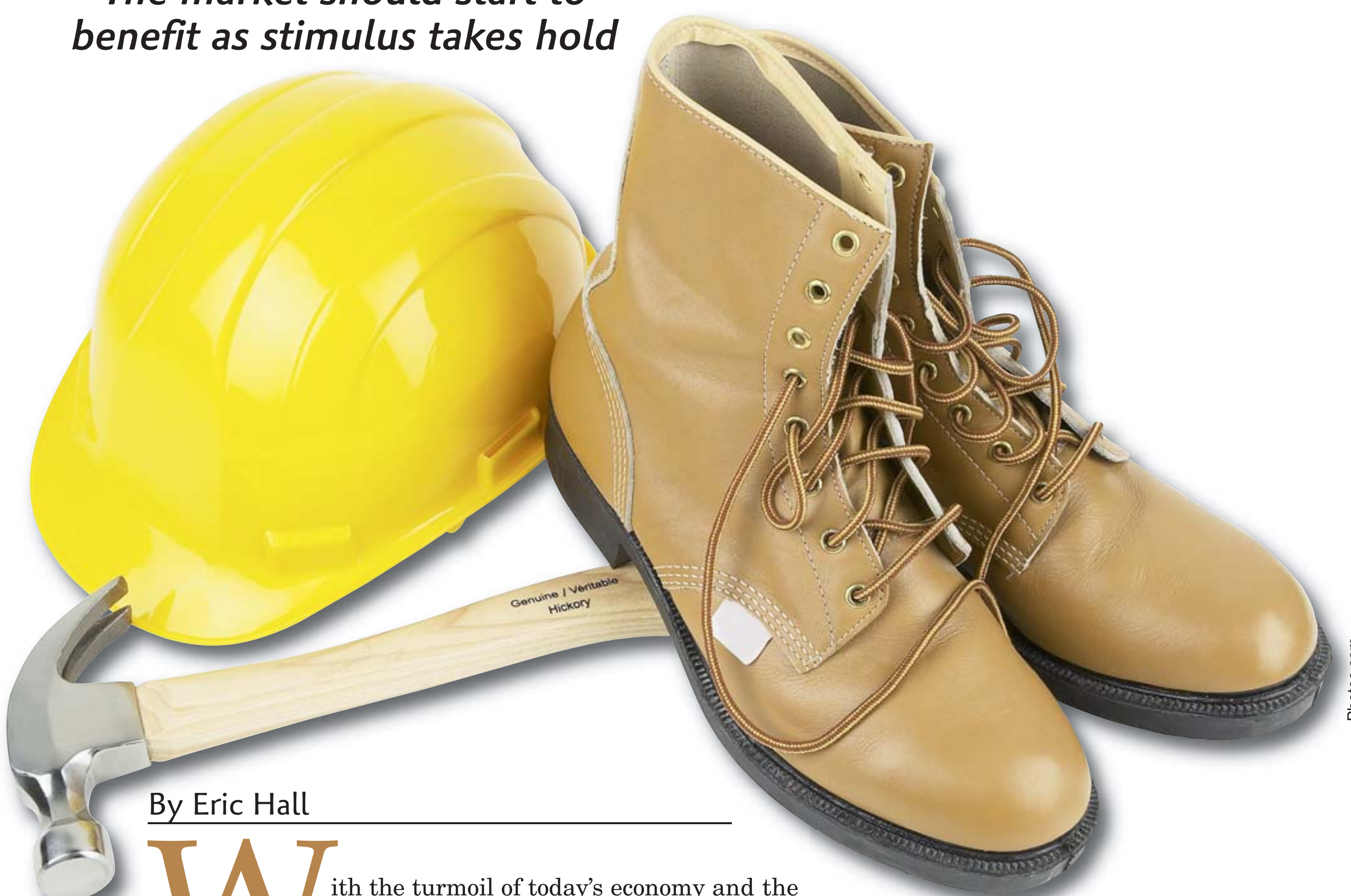
WORKERS COMP

The market should start to benefit as stimulus takes hold



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By Eric Hall

With the turmoil of today's economy and the uncertainty associated with job security, it is probably safe to say employees and employers are thinking about things other than workers compensation insurance.

Having said that, with annual renewals—including workers compensation—consuming most of the agent's time, let's just say that agents see workers compensation in a much different light.

So in early 2009 what are comp providers and agents experiencing with respect to the contracting niche?

The poor economy is affecting the workers comp market particularly when it comes to residential contracting, according to Tim Cappellett, vice president-sales & marketing at Oryx Insurance Brokerage. "When you see large contractors losing or postponing big projects, you likewise see work disappearing for subcontractors. Generally we are seeing some reductions in payroll."

Cappellett goes on to note that when it comes to workers compensation, what's true of one segment can be very different for another. "With President Obama's interest in rebuilding the economy by rebuilding the country's infrastructure of roads and highways, there is emerging optimism that the coming year could lead to a significant growth of all lines of insurance that make up the contracting marketplace," he says.

Rick Hodges, president and CEO at Summit Consulting, a monoline workers comp provider for 10 states in the Southeast, is also optimistic. Hodges says, "While the contractors market has seen some degradation in payroll numbers in places like California and Florida, there are other states like Texas and Louisiana where the rebuilding after the hurricanes has been robust. Whatever the case, where there is an economic stimulus that creates jobs, the net result is bound to be positive." Hodges goes on to say that in today's economy employers are looking at everything they have in their control to manage the costs to run their businesses, including workers compensation.

He suggests that agents need to "build a partnership with their clients" based on value-added services designed to control costs rather than "selling insurance based on price alone."

Tony Ciofani, executive vice president and chief underwriting officer at PMA Insurance Group, says that based on January 1 new and renewal quotes, the trend appears to be toward fixed-cost workers comp plans. "Since more companies face financial challenges, and since letters of credit are becoming more challenging to secure," Ciofani notes, "we have begun to see more clients who would have otherwise embraced a loss sensitive program gravitate to fixed cost plans. For clients who truly value sound risk management practices and a safe workplace, movement to a fixed or guaranteed cost plan might actually increase their insurance costs since they would often fare better on a risk-sharing program such as a retro or deductible."

He goes on to point out that medical care cost containment is the key to controlling costs for clients. "With medical costs accounting for approximately 60% of every claim dollar," Ciofani concludes, "PMA has adopted an integrated managed care philosophy approach that permeates the entire claims process and helps in ensuring that not only are costs effectively managed, but injured workers are receiving the proper care to which they are entitled, thus enabling those who can return to work to do so promptly in a healthy and productive manner."

There also are alternatives to traditional workers comp coverage that may help businesses control costs. According to Lorna Greenwood, program manager at U.S. Risk Underwriters, "Some general contractors opt for Occupational Accident and Contingent Liability coverage in lieu of workers comp coverage because it offers customizable limits, choice of doctors, and often has no minimum premium. Occupational accident can have many of the same core benefits of workers compensation, and contingent liability will step in to perform according to workers compensation statutes should the subcontractor be deemed to be an employee of the general contractor.

The down side is it has a limited term for benefits and if the medical facility won't accept the plan, the policy becomes a reimbursement plan. However, because of the limited benefit period, this alternative is usually more affordable than workers comp. The bottom line in this challenging economy is there is an insurance alternative in most states for contractors—even in workers comp monopolistic states."

In looking to the immediate future, Gary Uhlemeyer, senior vice president in charge of the Workers Compensation Division at 5 Star Programs, sees a relative likelihood that premiums will remain flat in 2009. Says Uhlemeyer, "With frequency down and the majority of NCCI states filing decreases to the basic loss cost component, combined with the fact that there are few new comp writers bringing new competition to the market, premiums will likely remain flat.

Of course, there are a few places like California where there have been loss cost increases asked for—and it is likely a portion of what was sought will be granted—but overall we expect to see premiums remain at or near current levels and, subject to economic stimulus, payrolls continue to decrease."

Workers compensation is a unique product in an even more unique marketplace. When one considers, the sheer number of companies laying off workers and when one adds to that, insurance companies that are currently not looking for premium dollars used to make investment returns, the industry and more importantly the agent certainly has as much work to do as they ever did and in this economy probably will do it with less. ■