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Stand-alone, excess workers comp market presents challenges for buyers

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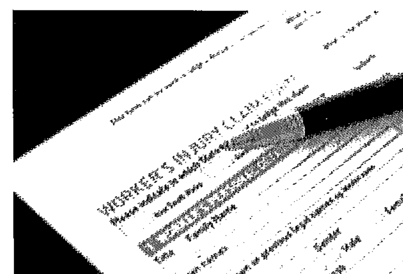

The stand-alone, excess workers compensation market is presenting significant challenges for some buyers, as insurers demand higher attachment points and higher prices.

California regulators, for instance, require self-insured groups to purchase the insurance to cover claims that exceed $500,000, said Duke Niedringhaus, an excess workers comp specialist and vice president at broker J.W. Terrill Inc. in Chesterfield, Mo.

The requirement means employers can't increase their comp attachment point to reduce their insurance costs.

“That really puts pressure on the rate, in which case you can see some really significant increases to hold that $500,000 retention,” said Mr. Niedringhaus, who also is workers comp committee chair for the Self-Insurance Institute of America Inc.

A risk manager for a large, self-insured employer in New York said meeting the state's statutory limits has become a concern for buyers.

“My guess is you will find plenty of concerns out there,” said the risk manager, who asked not to be identified because he did not have corporate permission to speak to a reporter.

New York accounts face unusual circumstances, though, as insurers are concerned about risk concentration, their potential exposure to terrorism and extremely high state workers comp assessments, sources said.

The rising cost for excess workers comp insurance is increasing in significance, along with issues such as collateral costs, when evaluating the type of self-insurance arrangement to adopt or even whether to self-insure, sources said.

"The self-insurance market is certainly becoming more difficult," said Eric Silverstein, senior vice president of national accounts in Atlanta for Lockton Cos. L.L.C. "Can they still self-insure? Sure, but it's not as inexpensive as it once was."

Self-insured employers purchase excess workers comp insurance as a stop-loss to protect them against catastrophic or long-term claims that eventually exceed their retentions.

Ongoing increases in claim severity plus lower employer retention levels during the past soft market mean "losses are approaching SIRs faster than they have in the past," and not just for catastrophic claims, said Gene Maier, senior vice president of excess underwriting for St. Louis-based Safety National Casualty Corp.

Well-known issues such as prescribing opioid medications for pain management, federal Medicare set -aside demands, medical cost inflation, an aging workforce, obesity and increased comorbidities among injured workers are driving increases in claim severity, several sources said.

So insurers decided they were not earning enough return for insuring those risks, particularly when interest rates remain low, said Pamela Ferrandino, New York-based casualty practice leader for Willis North America Inc.

American International Group Inc. underscored that trend when it stopped writing stand-alone excess workers comp insurance about two years ago.

In 2012, New York-based AIG said in a 10-K filing that the line "has an extremely long tail and is one of the most challenging classes of business to reserve for because it is highly sensitive to small changes in assumptions — in the rate of medical inflation or the longevity of injured workers, for example — which can have a significant effect on the ultimate reserve estimate."

AIG also cited rising pain management costs among its reasons to move its capital elsewhere.

AIG was among the largest writers of stand-alone excess workers comp coverage and other insurers have since followed its lead, losing their appetite for the business, several sources said.

There are a limited number of excess workers comp insurers willing to write the insurance on a stand-alone basis today, Mr. Niedringhaus said (see chart).

Funding the coverage "is just not overly appealing right now for the investment community," Mr. Silverstein said.

Many insurers now provide excess workers comp insurance only if buyers purchase other lines from them, Ms. Ferrandino said.

The excess market has been firming longer than the primary workers comp insurance market, which is unusual, sources said. In some regions, excess writers are obtaining larger rate increases than primary insurers.

"Excess, just because it has been firming longer, I think you are seeing higher increases in rates," Mr. Maier said. "Add to that to the increases in retentions (insurers are demanding) and that also counts as an increase as well."

Recent rate increases have ranged from 5% to 40%, depending on the size of the account, location, state reforms, risk class and loss history, Mr. Maier said.

Even accounts without significant losses are seeing retention increases of $50,000 to $250,000, he added.

In some instances, such as for midsize California employers, rising retention and collateral costs could affect whether employers self-insure, Mr. Niedringhaus said.

"For midsize employers with premiums under $1 million, these retention levels may preclude them from using a self-insured program," Mr. Niedringhaus said. "A more attractive option to minimize the retention levels would be to utilize a group captive."