WORKERS COMPENSATION

COMPETITIVE MARKET FAVORS WORKERS COMP BUYERS

Many insurers offer early renewal or lock in multiyear contracts to keep policyholders

BY STEPHANIE GOLDBERG

Many employers renewing their workers compensation coverage at midyear are benefiting from increased competition, with pricing that is the same or slightly less than a year ago.

"It's very much a buyer's market, so we've been able to secure rate decreases on a significant number of our clients' programs," said Christopher Flatt, managing director and leader of Marsh L.L.C.'s Workers' Compensation Center of Excellence in New York.

Most employers are seeing workers comp rates that range from flat to decreases as large as 5%, experts say.

However, employers with an unfavorable loss experience or a large number of workers in an urban area are less likely to secure significant rate decreases, he said.

Meanwhile, insurers are offering "really aggressive collateral terms for the best-performing companies" as well as "early renewal strategies or multiyear rate commitments" to keep current customers, said Mark Moitoso, Boston-based senior vice president and analytics practice leader at brokerage Lockton Cos. L.L.C.

Rates vary from flat to a decline of 10% across Lockton's portfolio, depending on the underwriter's profitability and the client's loss experience, he said.

In California, employers may see rate reductions greater than 5% as a result of S.B. 863, said Pamela Ferrandino, executive vice president and senior principal of national casualty at Willis Towers Watson P.L.C. in Hartford, Connecticut.

The law that took effect in 2013 increased benefits for injured workers and included several changes — such as independent medical and bill reviews — to reduce costs. The Oakland, California-based Workers' Compensation Insurance Rating Bureau said in November that S.B. 863 could help reduce system costs by $770 million a year.

Rate decreases may also be greater for real estate companies and financial institutions "because a lot of the newer carriers or merged carriers are broadening their appetite to write large, guaranteed-cost business in that sector, and they're being competitive about it," Ms. Ferrandino said.

'Plenty of capital out there'

The workers comp market is likely to remain very competitive for at least the rest of this year, experts said.

"There's plenty of capital out there," said Gary Pearce, chief risk compliance and privacy officer at Troy, Michigan-based temporary staffing firm Kelly Services Inc. "If you're a good risk and you can prove you're a good risk, then you become attractive to underwriters."

Mr. Pearce added that "collateral is not the obstacle it used to be to (changing insurers),

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so the buyer side is more liquid, if you will, than it was in the past."

Still, Kelly Services renewed its workers comp coverage Jan. 1 with Chubb Ltd., previously Ace Ltd., in what he described as a "high-level agreement" that's managed from "a multiyear perspective."

According to the Boca Raton, Florida-based National Council on Compensation Insurance Inc., private workers comp insurers' combined ratio improved to 94% in 2015 from 100% in 2014.

NCCI Chief Actuary Kathy Antonello in May called it "one of the best underwriting results we've had in decades."

The improved performance has led comp insurers to be "more thoughtful about having broader account strategies vs. simply line-of-business strategies to win over business," Mr. Moitoso said.

Insurers are willing to be "more aggressive on rates for comp to be able to secure, maybe, a rate increase on a companion line (within property/casualty) that hasn't necessarily performed as well," such as commercial auto insurance, Mr. Flatt said.

For Syracuse, New York-based Giovanni Food Co. Inc., efforts to improve safety programs and reduce exposures have allowed the private-label food manufacturer to secure lower workers comp prices, Nicole Bryant, human resources manager, said in an email.

The company, Ms. Bryant said, has implemented a return-to-work program; improved a program aimed at decreasing slips, trips and falls; and is working to enhance a program centered on team-based safety behaviors.

The efforts have benefitted Giovanni Food "either through a reduction in our (experience modification) rate or through safety credits received via state-approved safety programs that we have established," she said of the coverage provided by MEMIC Group.

Transparency and documentation "are critical aspects to getting the best terms and conditions in the marketplace," Mr. Moitoso said. "Saying you have great safety procedures" but being unable to "formally show an underwriting company how that's actually executed is not going to get you the score you need" to reduce workers comp rates.

REINSURANCE

Reinsurers cut rates again but see signs of stabilization despite low losses

BY SARAH VEYSEY

While reinsurance rates generally fell at the midyear renewals, there were some signs of stabilization, and many reinsurers declined business where they did not consider the rates to be adequate.

Reinsurance demand increased as cedents took advantage of low rates and some bought on a decentralized basis — bucking buyers' recent trend of consolidating their programs, sources said.

An abundance of capacity from traditional and nontraditional sources continued to "exert (downward) pressure on rates for the majority of classes and territories," said James Kent, New York-based president of Willis Re North America and co-president of Willis Re, the reinsurance arm of Willis Towers Watson P.L.C.

But the trend that began last year of reinsurance rates stabilizing in pockets — notably in U.S. peak property catastrophe zones

AP PHOTO

Large first-half catastrophe losses, such as the Alberta wildfires, helped boost demand for reinsurance.

and hurricane-prone Florida — continued this year as demand increased while reinsurers cut the capacity they offered for business they considered to be inadequately priced, Mr. Kent said.

Overall, rate declines started to moderate in 2015 "and this moderating trend was even more pronounced at the midyear renewals in 2016," said Greg Hendrick, Hamilton, Bermuda-based executive vice president and chief executive of reinsurance at XL Catlin.

In some cases, reinsurers were more likely to "reduce lines or decline programs where final terms fell below their indicated quote or target price," said Lara Mowery, global head of property specialty at Guy Carpenter & Co. L.L.C. in New York.

There were signs of discipline among reinsurers in the June 1 and July 1 reinsurance renewals in Florida, Mr. Hendrick said. For the U.S. property market in general, "price reductions are slackening" and U.S. international casualty markets are "largely flat."

June 1, a major renewal data for U.S. property catastrophe treaties, saw overall rates fall an average of 3%, said David Flandro, London-based global head of analytics at JLT Re, the reinsurance brokerage arm of Jardine Lloyd Thompson Group P.L.C.

Since then, the trend has been that "the decrease in the decrease was decreasing," he said.

Non-U.S. businesses renewing July 1, when more international reinsurance renewals are completed, saw sizeable decreases, he said.

Large first-half catastrophe losses, such as the Alberta wildfires and an earthquake that hit Japan, helped boost demand for reinsurance, Mr. Flandro said.

In addition, low rates prompted some insurers to buy more reinsurance and some to deconsoli-

CAT BOND MARKET

$6.2 billion
Total 2015 nonlife catastrophe bond issuance, the first decline since 2011.

$2 billion
First-quarter 2016 cat bonds issued, a record for the period.

Outlook
Insurance-linked securities are expected to transition slowly beyond catastrophes to life and accident and casualty exposures.

Source: Willis Capital Markets & Advisory

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