WORKERS COMP MARKET -2018 OUTLOOK

BKS Partners – Michael Ortoll, ARM

In 2017, we saw a continued downward trend in Workers Comp (WC), including a reduction in premium rates overall, particularly in the large, loss-sensitive marketplace.

Given the lack of deterioration in large WC carriers' combined loss ratios, we expect similar aggressive targeting to grow market share in 2018. While returns for low-risk investment opportunities remain limited, the marketplace's appetite for premium will drive growth but with prudent pricing.

However, there is underwriting discipline for those clients with poor loss results, declining financials, in tough states (i.e. FL, CA, and NY primarily) and those in more volatile industry classes.

Carriers will seek higher retentions as the result of client specific loss severity or in circumstances when clients are pursuing greater premium savings.

<u>The market today</u>

■ Competition for premium dollars remains, and is driving desirable pricing, particularly for loss-sensitive programs with properly aligned retentions and losses.

■ Increased retentions will continue due to increased underwriting discipline, stronger claims and risk mitigation (loss control) measures taken by clients.

■ More consideration is being given by carriers to allow for unbundling claims service.

<u>Market capacity</u>

■ There is plentiful capacity writing workers' compensation for both loss-sensitive and guaranteed-cost programs.

■ Specific industries will continue to experience reduced capacity and a smaller marketplace from which to secure alternatives, mainly due to the loss severity and volatility associated with those industries.

■ Improved risk mitigation and claims reserving & resolution are being used to combat continued medical cost inflation, increasing severity, and increasing levels and cost of collateral.

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Forecast for 2018

■ Pricing will be driven by maintaining or increasing market share & profits. Expect to see more underwriting discipline exercised. For clients with good risk profiles, positive loss experience, and the right appetite for risk retentions, competition will remain very strong.

■ We expect a continued upward movement of retentions due to increases in claim development/severity.

■ A client's pre- and post-loss mitigation activities will be key underwriting factors, as these activities show a measurable effort to slow loss development

■ Pricing for loss-sensitive programs is likely to be flat to down 5% for clients with clean and/or improving loss experience. Clients with deteriorating loss experience will see a +5% rate fluctuation and may need to adjust retention levels accordingly.

■ Guaranteed-cost programs are expected to experience an estimated -10% to +10% change; exceptions will be for clients with extremely clean loss experience. Guaranteed-cost pricing will also vary by a client's specific state payroll distribution due to states' legislative pressure on adequacy of rates.

Increasing capacity will provide more opportunities for carriers, but more sophisticated analytics will drive pricing and underwriting.