

CHANGING COMP MARKET CALLS FOR EXTRA CARE



Hard market appears to be just around the corner

By Dave Willis

“Some carriers are starting to take underwriting and pricing positions that, to many agents and insureds, appear to be just crazy,” says David Malloy, chief operating officer at PMC Insurance Group, a national workers comp wholesaler. He bases his observation on activity he is seeing from agents and brokers looking for help. “With a workers compensation combined ratio in excess of 120, carriers are exiting unprofitable classes, tightening underwriting requirements or increasing prices. Agents are shopping their renewal books; our submission volume is through the roof.”

Pricing appears to be the biggest issue, he notes. “Customers can accept a reasonable increase at renewal,” he says, “but we’re hearing from agents whose customers are facing rate and price increases from 25% to 70%. Other clients are getting non-renewed because the carrier is no longer comfortable with a class, even though they wrote it with a credit a year or two ago.”

In such an environment, agents and brokers must carefully consider several factors and options as they place client business. These range from pricing, market expertise and services to technology, alternative markets and more.

Cost and service

According to Gene Abbey, assistant vice president, business development, for Meadowbrook Insurance Group, Inc., proper premium determination is important. “The ability to accurately manage workers compensation premiums can be beneficial to all parties involved,” he explains. “Ideally, determining the proper premium up front and avoiding additional billing or crediting is the best practice. Agents, brokers and policyholders alike value a carrier with a good front-end pricing philosophy and a strong back-end premium audit process.”

Policyholders benefit by achieving proper coverage, says Eric Carlson, Meadowbrook’s assistant vice president, premium audit and loss control. “It is important to have each employee properly classified according to his or her actual job duties and risk exposure,” he explains. “In addition, a proper estimation of payroll for a particular class

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code will help to establish an accurate premium.” This means fewer, if any, surprises when a premium audit comes around. “Remember, suppressed payroll equals a bill,” he adds.

John Valko, CEO of FastComp.com, believes that leveraging technology can help agents and brokers operate more efficiently in the workers comp arena, particularly for smaller risks. “By streamlining the selection and processing of particular classes of business, software can enable independent agents to act as the front-line underwriter,” he explains. “Rate comparisons that offer quick access to multiple premium indications can help, as well.”

Traditionally, small risk and small premium volume business wasn’t worth the effort for many agents, Valko explains. “By using a good technology platform, independent agents can gain access to an underserved market that may have been held back by large carrier volume commitments,” he adds. “This means greater business opportunities for the agents and access to affordable workers compensation insurance for small business owners.” Finding carriers with certain specialties and cost-saving services is another important consideration. “Agents and brokers can increase client loyalty by aligning themselves with carriers that offer these,” explains Michael S. Arnold, vice president, sales and marketing, for Summit, a Liberty Mutual Company. “The ability to access loss control services, return-to-work programs, on-staff medical directors and nurse case managers, trained claims adjusters and a specialized medical provider network can ensure consistency and quality, and foster long-term relationships.

“These are important inter-related building blocks because proper claims management can lead to a successful return-to-work program,” he adds. “This, in turn, has a positive effect on the insured’s experience modification factor, which is a significant variable in calculating an insured’s premium.” Saving clients’ money and educating

them on how to get more from their policies reinforces the agency’s importance and its role as a trusted advisor, Arnold notes. “A good relationship allows agents and carriers to better anticipate and accommodate each insured’s needs, which results in better outcomes for all, especially in the event of a claim.”

Access and alternatives

Agents and brokers also can do well by finding sources that offer broad market access and focused niche programs. “I live and die by helping agents place their business,” says Malloy. “Four years ago, we created a comp-only program targeting home health care agencies and other health-related firms because it’s one of the fastest growing niches.

“Also, as the economy hit the fan and payrolls started to dwindle, we set out to find areas with payroll and employment growth and built a strong presence in the temporary staffing market,” he adds. “That’s where businesses go when the economy starts to firm up.” His firm has also found success helping artisan contractors—many of whom are reentering the comp market as they bring on employees let go during the downturn—with their comp business.

According to Malloy, a wholesaler can help retailers in several ways. “Agents understand workers comp, but when they find a niche they’re less familiar with, we can help find a solution,” he explains. “We know our carriers’ appetites and the competition, which lets us help agents determine, early on, who they are up against and what their chances of success are.”

For some clients, agents and brokers should consider alternative mechanisms. “We provide full risk management services to those businesses that are willing to share in the underwriting risk on their workers compensation policies,” explains Charles Schuver, president of

Guarantee Insurance Company, a subsidiary of Patriot National Insurance Group. “Agents can serve these clients by finding a resource that combines customer-specific alternative market programs with expert claims settlement services. Schuver says there is a large and growing number of what he calls “well-run, large and sophisticated workers compensation buyers” who are not happy with being charged an average class rate, even during soft market conditions. “They believe their good results are subsidizing lower quality accounts,” he explains, “and they are willing to share in a portion of the underwriting risk to earn a specific rate for their business. At the same time, Schuver notes, “Savvy and financially stable producers are looking to partner with a dedicated workers compensation specialist, and they are willing to take a quota share risk position on their specific books of workers compensation business and provide full risk management and superior claims service to their select customers.”

Next steps

For agents and brokers interested in exploring alternative market programs, Schuver offers several tips. “Agents and brokers need to work to attract and retain certain types of customers,” he explains. “First, they need to find those who really care about their employees and work environment. Second, they should look for businesses that are unhappy with average rates and commodity claims service. Finally, they should zero in on those customers who want to play an active role in the claims process.

As the workers comp insurance marketplace changes, he offers one final piece of advice: “Agents and brokers should segregate and protect highly profitable and well-run business customers, in anticipation of changing market conditions.”

Arnold says agents and brokers need to recognize that most insureds

want to know “What’s in it for me?” when presented with ideas for improving their workplace. “Most understand that, in general, making the workplace safer means less chance of claims,” he explains, “and that this can mean lower costs. Explaining the significance of their mod can be challenging, but selling them on something like offering transitional or ‘light’ duty to an injured employee is a much harder sell.”

He says that presenting hard and fast data can help illustrate exactly what they have to gain by following the agent’s advice. “They learn that the initial savings can be a boon to their business,” he notes, “and the long-term effects can be significant. And this can make their agent their hero.” Plus, he says, over time, clients will see their workers compensation coverage as an asset instead of just a line item on their profit and loss report.

Abbey encourages agents and brokers to make sure proper classifications are applied and that proper payroll estimates are given. “Having an adequately insured and informed policyholder will increase retention rates,” he explains. “There is nothing more frustrating to an agent or broker than losing good clients because they were upset at

getting an unexpected bill for added premium on an expired policy.” Such back-end adjustments can also affect the policyholders’ ability to finance current-year premiums, if they are burdened with paying the previous year premium balance.

According to Carlson, carriers benefit from proper premium determination by collecting the right amount when it’s due, reducing additional administrative costs. “Plus, the policyholder has a more accurate policy cost and cash flow up-front, and the agent or broker creates a satisfied customer experience, which can boost retention,” he says. “This is a ‘win-win’ situation for all.”

Valko says retailers should look for ways to make use of available technology and Web-based agent portals. “This can help independent agents tap into new business that may have been impeded by carrier volume requirements,” he explains. Such technology allows agents to enter class codes, answer a few questions and receive indications quickly. “They can choose the indications they want and receive an e-mail with a client-ready PDF proposal within minutes,” he adds.

According to Malloy, in a changing market, agents and brokers should focus on two areas: building

relationships with key providers to understand their strengths and capabilities, and nurturing prospects in targeted segments. “It’s important for agents to have a partner that can help them get the job done in all phases of the market cycle,” he says.

In addition, he says, “Winning agents need expertise and visibility. If you’re going to be an expert in a particular area, you need to work it. Go to association events, research the market and start calling prospects. Success is contagious. For instance, if an agent works hard, focuses on opportunities and, say, writes five home health care policies, while everyone else in the area writes one or two that happen to land on their desks, that agent is on his way to becoming an expert. Owners talk to owners, and those five accounts can turn into 20.”

He adds, “Over the past several years, when workers comp was profitable, markets were very aggressive and placing business was relatively easy. That’s not the case today.”

In this changing environment, successful agents and brokers will find ways to make use of available resources that will help them maintain—and even grow—their book of business and serve customers better. ■