

Workers' Compensation Insurance Rating Bureau of California

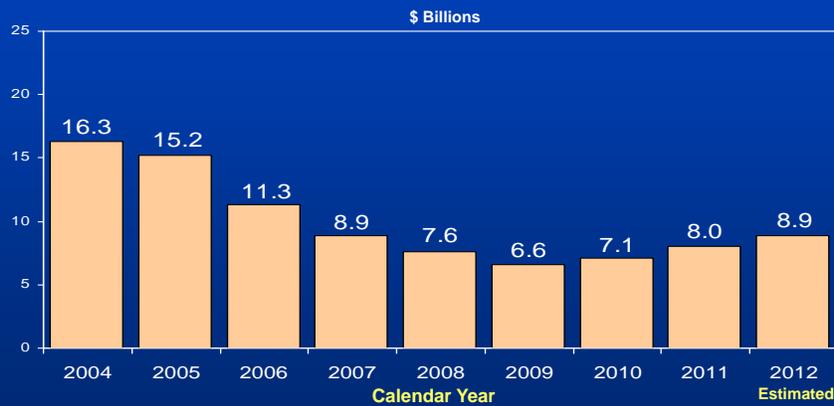
California Workers' Compensation Market & SB 863 Update

Presented by:
Dave Bellusci & Tony Milano
WCIRB of California

DWC 20th Annual Educational Conference
Los Angeles February 28- March 1, 2013
Oakland March 4-5, 2013

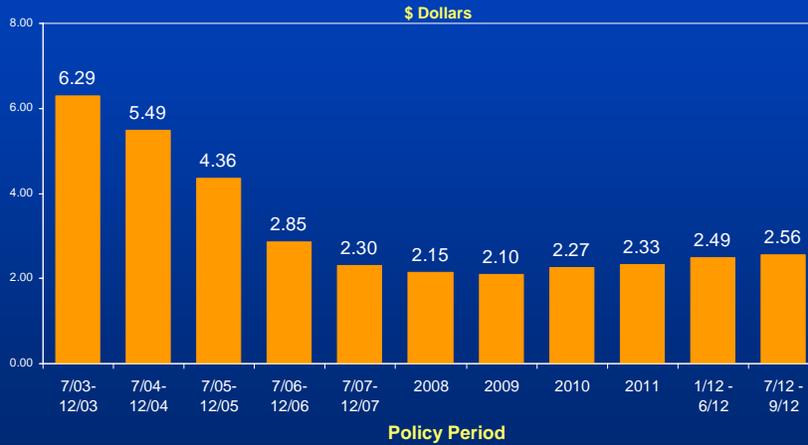
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California Workers' Compensation – Market & SB 863 Update Written Premium - Net of Deductible Credits



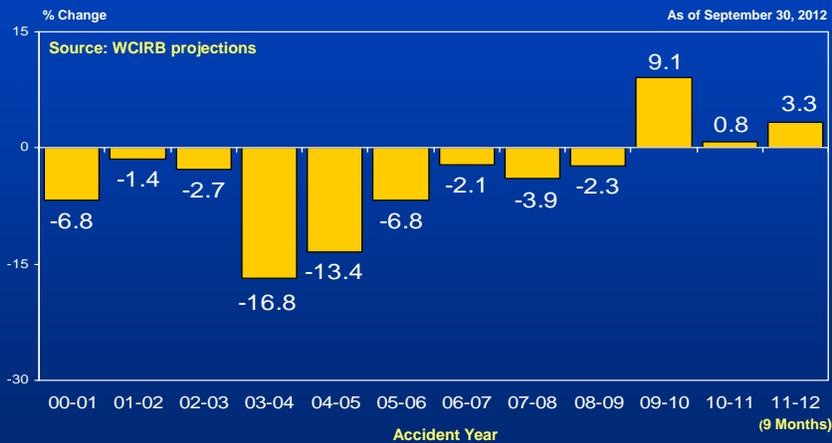
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California Workers' Compensation – Market & SB 863 Update
Average Insurer Rate per \$100 of Payroll



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California Workers' Compensation – Market & SB 863 Update
Estimated Change in Indemnity Claim Frequency



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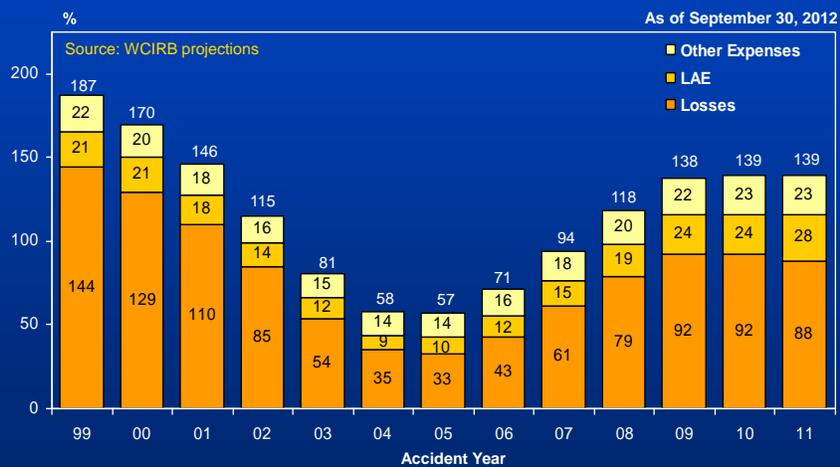
California Workers' Compensation – Market & SB 863 Update
Statewide Cost and Wage Level Index
 (2005 = 100)



5

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California Workers' Compensation – Market & SB 863 Update
Accident Year Combined Loss and Expense Ratios



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WCIRB Cost Evaluation of SB 863

- WCIRB Requested by Insurance Commissioner and Director of DIR to Provide Preliminary Cost Assessments
- Final WCIRB Estimate Reflected in Amended 1/1/2013 Filing
- WCIRB Assessments Reflect
 - Review of legislative provisions
 - Consultation with experts
 - Review of relevant research and analyses
 - New actuarial analyses based on data and timeframes available
 - Judgmental estimates developed when there was consensus as to likely impact
 - Revisions as legislation changed or new information became available
- Estimated Net Annual Savings: -2.7%, or -\$520 mm.
- Develop Plan to Proactively Monitor Emerging Costs

WCIRB Cost Evaluation of SB 863

SB 863 Provisions	Impact on Statewide Claim Costs (\$ millions)	% Impact on Claim Costs
2013 Benefit Level Changes	\$620	+3.3%
Elimination of PD Add-ons	(\$170)	-0.9%
Three-Tiered Weekly PD Benefits	(\$100)	-0.5%
Liens	(\$480)	-2.5%
Surgical Implant Hardware	(\$110)	-0.6%
ASC Fees	(\$80)	-0.4%
IMR	(\$390)	-2.1%
Ogilvie Decision	(\$210)	-1.1%
MPN Strengthening	(\$190)	-1.0%
Total Estimated Impact of 2013 Changes	(\$1,110)	-5.8%
Impact of 2014 PD Benefit Maximum Changes	\$590	+3.1%
Combined Estimated Impact of 2013 & 2014 Changes on 2014 Injuries	(\$520)	-2.7%

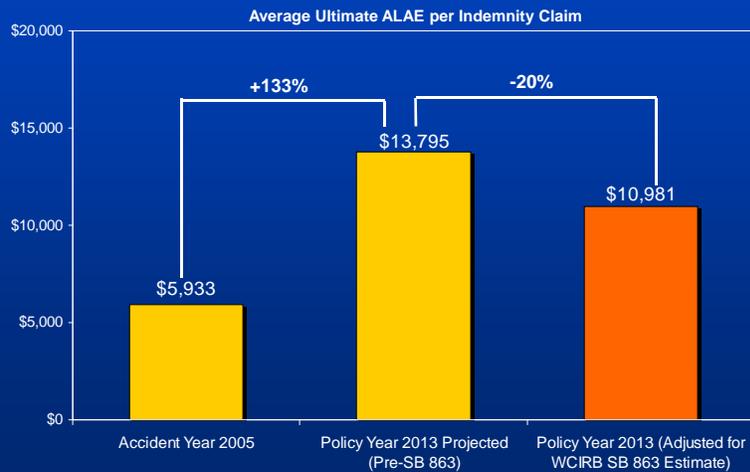
California Workers' Compensation – Market & SB 863 Update
Anticipated Post SB 863 Trends - ALAE

- Liens
 - SB 863 imposes lien filing fee and statute of limitations which should significantly reduce volume of liens filed
 - IMR process should reduce lien costs related to utilization review
- Ogilvie and Almaraz/Guzman Decisions
 - SB 863 effectively eliminates Ogilvie
 - Does not address Almaraz/Guzman
- Medical Cost Containment Expenses
 - Not directly addressed although SB 863 IMR process should reduce frictional costs related to medical disputes
- Increases in Cumulative Injury Claims and Claims with Multiple Body Parts
 - Not addressed by SB 863

9

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California Workers' Compensation – Market & SB 863 Update
ALAE Projections – After SB 863 Adjustments



10

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California Workers' Compensation Cost and Wage Level Index After SB 863 Adjustment (2005 = 100)



11

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Anticipated Post SB 863 Trends – Cost Monitoring

■ Purpose

- Prospective estimates reflected in advisory pure premium rates based on judgmental assumptions that may or may not materialize
- Some provisions of SB 863 could not be evaluated due to dependence of future regulations (e.g. fee schedule changes)
- Can adjust advisory pure premium rate estimates based on emerging post-SB 863 experience

■ WCIRB Comprehensive Monitoring Plan

- Identifies key components to be measured
- Data needed to monitor
- When components can be measured (e.g. lien impacts measured in late 2013 while IMR impacts can't be measured until 2014)
- Plan to be submitted to Commissioner in March

12

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California Workers' Compensation

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Insurance Commissioner – CA Department of Insurance Rate Regulation Branch – Rate Filing Bureaus

- In California, workers' compensation is a "file-and-use" line of insurance; it is not covered under Proposition 103 as a "prior approval" line of insurance. (e.g. personal auto & homeowners, numerous comm'l lines)
- For WC, every insurer must file with the Commissioner all rates and supplementary rate information that are to be used in California.
- The WC rates and supplementary rate information must be filed not later than 30 days prior to the proposed effective date. » CIC §11735(a)
- If a WC filing is considered to be complete and in compliance with the filing requirements on the 30th day after filing receipt, the company can use or apply the information contained in the filing.
- In 2012, CDI received 578 WC filings from 222 different WC companies.

Insurance Commissioner PPR Decisions in 2012

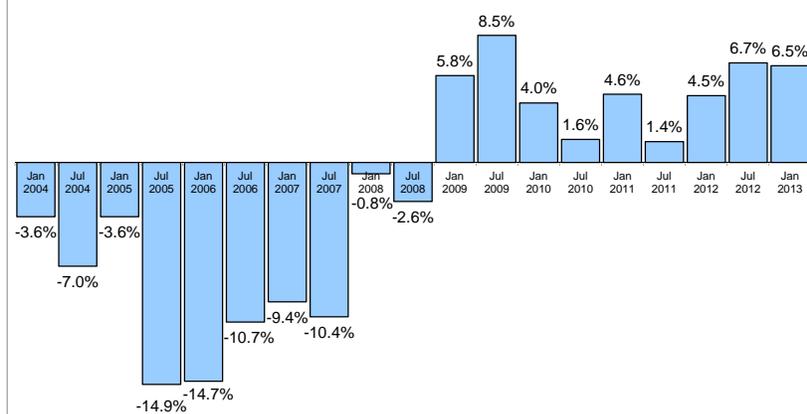
(File #s REG-2012-00010, May 29, 2012 & REG-2012-00016, Dec 12, 2012)

- **May 2012, Insurance Commissioner's Decision and Order (REG-2012-00010) determined that the advisory pure premium rates effective July 1, 2012 have an average rate (or average Advisory Claims Cost Benchmark) of \$2.49* per \$100 of employer payroll. This benchmark was 3.3% higher than what insurers already had on file effective 1/1/2012 => \$2.41 per \$100 of employer payroll.**

* updated 8/24/12 to \$2.41 based on more current set of payroll weights by insurer and classification.

- **November 2012, Insurance Commissioner's Decision and Order (REG-2012-00016) determined that the advisory pure premium rates effective January 1, 2013 have an average Benchmark of \$2.56 which was 2.8% higher than what insurers were estimated to already have on file effective 11/9/2012 => \$2.49.**

Average Workers' Compensation Manual Rate Changes Filed by Insurers



Source: California Department of Insurance

Pure Premium Rate (Benchmark) Adoptions Filed for January 1, 2013...and Thereafter

The top 120 insurers (98% of the market)...

	EFFECTIVE DATE							
	January 1, 2013	February 1, 2013	March 1, 2013	March 15, 2013	April 1, 2013	June 1, 2013	June 15, 2013	
PURE PREMIUM RATES (BENCHMARK)								
Approved JAN 2012		1			2			3
Approved JUL 2012		7	2					9
Proposed JAN 2013	10							10
Amended Proposed JAN 2013	12	1	1					14
Approved JAN 2013	13	13	19	1	6	1	4	57
TOTAL:	35	22	22	1	8	1	4	93
Companies not making a "year-end" rate filing:			27					

Aggregate Filed Manual Rate Changes for the CA Workers' Compensation Industry

(Cumulative Post 2003-04 Reforms: 1/1/2004 through 3/1/2013)

- **State Compensation Insurance Fund
Cumulative Filed Manual Rate Change** **-44.5%**

- **CA Workers' Comp. Industry
Cumulative Filed Manual Rate Reductions** **-32.9%**

Aggregate Filed Manual Rate Changes - Top 10 Cos./Groups

(Cumulative Post 2003-04 Reforms: 1/1/2004 through 3/1/2013)

COMPANY/GROUP	MARKET SHARE (2011)	CUMULATIVE RATE CHANGE
• State Fund	12.9%	-44.5%
• Zurich/Farmers	8.2%	-36.6%
• The Hartford Group	8.0%	-54.0%
• Travelers Group	7.8%	-45.2%
• AIG Group	5.9%	-31.0%
• Fairfax (Zenith)	5.3%	-20.4%
• Berkshire Hathaway	4.6%	-49.9%
• Liberty Mutual	4.5%	-45.5%
• Employers Compensation	3.0%	-47.0%
• Everest National	3.0%	-36.2%

Newly Authorized Workers' Compensation Insurers since AB 227, SB 228, SB 899

(Determined by Initial Rate Filing or Certificate of Authority Application, as of 3/1/2013)

YEAR	# OF COMPANIES ADMITTED
2004	6
2005	7
2006	6
2007	5
2008	7
2009	7
2010	10
2011	12
2012	10
2013	1
TOTAL	71

**Newly Authorized Workers' Compensation Insurers since AB 227,
SB 228, SB 899**

(Determined by Initial Rate Filing or Certificate of Authority Application, as of 3/1/2013)

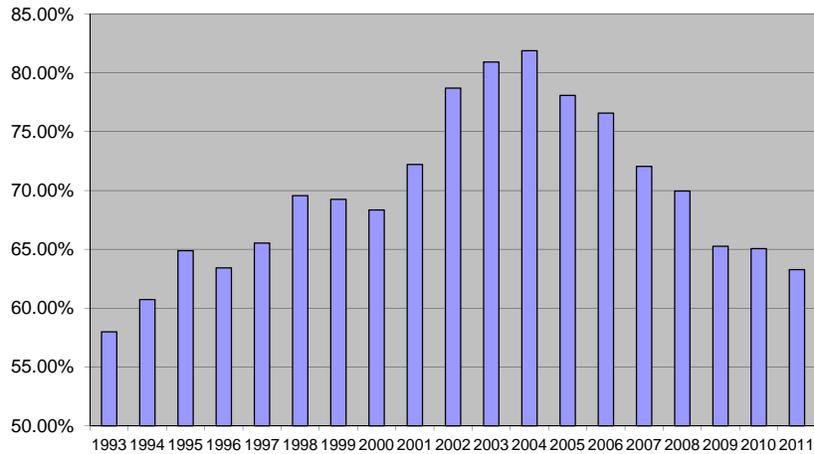
COMPANY / GROUP NAME	DATE OF ADMISSION
• 61. Stonington Insurance Company	1/20/12
• 62. Trumbull Insurance Company	2/23/12
• 63. West American Insurance Company	4/12/12
• 64. Chubb National Insurance Company	4/17/12
• 65. Plaza Insurance Company	7/17/12
• 66. American Fire and Casualty Company	7/17/12
• 67. American Family Home Insurance Company	8/3/12
• 68. Triumphe Casualty Company	8/8/12
• 69. Riverport Insurance Company	8/15/12
• 70. Foremost Signature Insurance Company	10/12/12
• 71. Ohio Security Insurance Company	1/9/13

**Pending Applications for New Workers' Compensation Insurers
since passage of AB 227, SB 228, SB 899**

(Determined by Initial Rate Filing or Certificate of Authority Application, as of 3/1/2013)

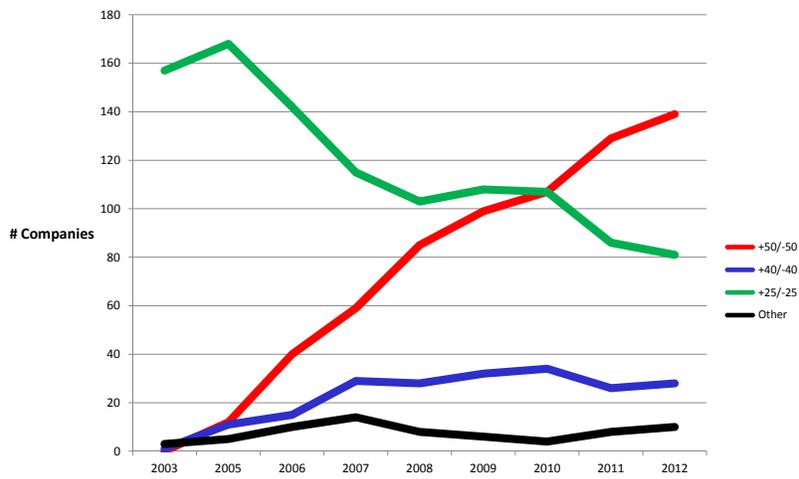
COMPANY NAME	DATE OF APPLICATION
• 1. Tokio Marine America Insurance Company	6/14/12
• 2. Cincinnati Casualty Company	9/12/12
• 3. Cincinnati Indemnity Company	9/12/12
• 4. Tower National Insurance Company	11/28/12
• 5. Ohio Casualty Insurance Company (The)	1/9/13

California Workers' Compensation Market Share Top 10 Companies/Groups



Source: California Department of Insurance

CA WC Schedule Rating - Max Filed Debit/Credit



Source: California Department of Insurance

CDI WC Enforcement Actions 2012

Market Conduct – Field Rating and Underwriting exam of a large insurer group that covered numerous lines of insurance, including WC, found the following non-compliance issues specific to WC:

**Use of unfiled rating factors and unfiled minimum premium charges;
Use of unfiled forms/endorsements and nonconforming dividend statements;
Charging an unfiled expense constant;
Changing schedule rating credits/debits without documenting the changes;
Failure to include CIGA surcharge statements;
Failure to follow filed rating plan;
Failure to adhere to filed underwriting guidelines;
Lack of documentation to support underwriting guideline exceptions; and
Use of unfiled rates and unfiled premium charges.**

Group did agree to make all WC corrections prior to the case reaching enforcement action level, which was really driven by non-compliance on personal lines matters (unfiled rates, etc.)

CDI WC Enforcement Actions 2012

Legal – On-going workers' compensation enforcement case against a large insurer group for the use of unfiled side-agreements.

No details available on this case as it is a current case, however the takeaway here is understanding the CDI position on side-agreements:

If a side-agreement affects either the obligations of the insurer or the obligations of the insured with respect to the coverages, provisions, etc. provided under the insurance policy, an insurer cannot use such an agreement until the insurer has first filed the agreement *and* received authorization to use the agreement. Upon filing/authorization, the insurer may then endorse the side-agreement to the insured's policy.

Recently Enacted Legislation - Dispute Resolution or Arbitration

CIC §11658.5, which applies to workers' compensation policies issued or renewed on or after July 1, 2012, requires an insurer that intends to use a dispute resolution or arbitration agreement to disclose to the employer at policy quotation that choice of law and choice of venue or forum for the resolution/arbitration process may be a jurisdiction other than California, and that these terms are negotiable between the insurer and the employer.

The disclosure must be signed by the employer as evidence of receipt where the employer accepts the offer of coverage from that insurer.

A dispute resolution or arbitration agreement may be negotiated by the insurer and the employer before any dispute arises.

Failure by the insurer to observe these requirements will result in a default to California as the choice of law and forum for resolution of disputes arising in California.

Comparison Shop on the Internet

- **Comparison Shop on the Internet**
 - **www.insurance.ca.gov - Click on "Consumers", "Compare Premiums", "Information on the CA Workers' Compensation Rate Comparison", and click on the range of class codes that contains your governing class code. Use the bookmarks and Class Code Search feature to help navigate to specific class codes.**
 - **Click on the Back button and go back to the Cal WC Rate Comparison main page, and click on "Check your insurance company's profile" link to obtain profile information about the company. Request a premium quote from the company, or for an authorized agent/broker that may provide a quote. If the quote is too high, select another company from the list. Check company licenses and agent/broker licenses. Check financial stability ratings.**
 - **Many companies have their own websites and can provide on-line quotes.**