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ViewPoint

Analyzing Industry Issues from an Independent Perspective



Insights from NCCI Conference

Technology and the modern worker

The Internet of Things (IoT), major technological advances, and shifts in a number of aspects of the work environment are all expected to have a material impact on the shape of the Workers' Compensation industry in the future. These dynamics served as the back drop for NCCI's recent Annual Issues Symposium (AIS) "The Future@Work" held in Orlando, FL. The focus on connecting Work, Worker, and Workplace served as the central theme for the annual meeting of the Workers' Compensation industry executives, underwriters, brokers, and reinsurers.

"...connecting Work, Worker, and Workplace served as the central theme..."

CONFERENCE OVERVIEW

Bill Donnell, NCCI's President and CEO, opened the conference with a quick look back on the 30 years of the organization's Annual Issues Symposium and how the session has evolved into one of the most important gatherings of WC industry professionals.

The individual sessions focused on current issues, recent trends, and potential future developments impacting the industry, including:

- Industry results;
- How trends in medical and indemnity costs impact WC claims of all sizes;
- Marijuana and Prescription Drug / Opioid use;
- Addressing the increasing cost burden through Provider Networks;
- WC from a Risk Managers' view;
- Update on Blockchain and B3i initiatives.

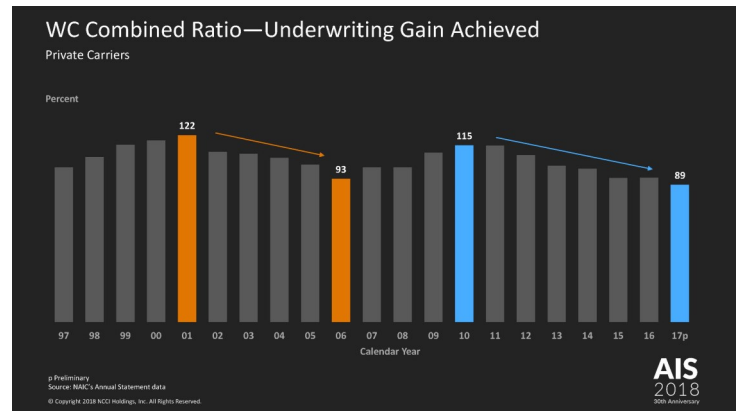
STATE OF THE LINE REPORT

Mr. Donnell's industry overview set the backdrop for the highly anticipated State of Line Report. Presented by NCCI's Chief Actuary, Kathy Antonello, the update provided a summary of the recent results and relation to the broader P&C industry. In a detailed review of the figures, Ms. Antonello discussed the line's financial results and trends.

In general, the voluntary market continues to remain competitive though responsible. Workers' Compensation 2017 premium volume was flat at approximately \$40Bn, or just over 7% of the U.S. P&C industry. This exists despite a booming economy, increased wages / payrolls, and full employment. Factors offsetting these positive influences are:

- Increases in offshore cessions and ceded premiums due to a competitive reinsurance market;
- Decreases in loss costs;
- Little change in primary insurance company rates;
- Favorable frequency trends;
- Healthy Assigned Risk/Residual Market.

The industry is strong. Favorable recent results allowed the industry to post under a 90% combined ratio for 2017 – the best result since the 1950s. This result is impressive and represents the 4th consecutive year that the line has made an underwriting



gain; supported by an underlying loss ratio of 49% - a historic low. Headwinds exist in the form of increases in indemnity and medical severity, as well as marginal investment income gains.

CONNECTED: WORK, WORKER AND WORKPLACE

"Connected" served as the central theme for The Future@Work AIS session. The theme was woven into a discussion on the interaction of the main stakeholders in the WC system and an understanding of how and what is driving trends in the market.

Mr. Donnell's discussion focused on how the various components of the WC system are connected and evolving in the current environment. During the session he described how a better understanding of the central components of the system – the Work, Worker and Workplace – continue to evolve and impact the future.

WORK

Historically, technological advances had been slow to take hold, with a general reluctance to adopt change. Factors influencing this hesitancy are perceptions of the cost/benefit of implementation and the regulatory complexity that ensues with emerging technology. However, both employers and employees are now embracing change, as the economics become clear. The introduction of robotics and A.I. assuming more dangerous tasks, or enhancing workplace safety, contributes to adoption. A clear benefit to Workers' Compensation exposure.

New technology and autonomy creates new jobs, as well as new industries, by affecting the availability and nature of work as it becomes mainstream.



WORKER

The complexity of the current workforce is a challenge. Employers must address the unique dynamics of four generations of employees – Baby Boomers, Gen X (and “Xennials”), Millennials, and now Gen Z. Younger generations are tech savvy, well-educated and diverse, while Baby Boomers are valued for their expertise and experience. As Baby Boomers begin to retire, they leave a talent gap (and potential burden on the system as a whole) for following generations to fill. The Workers’ Compensation industry, in response, must meet the unique needs of a system catering to varying social behaviors, interests, and trends.

WORKPLACE

The nature of the workplace is also changing, as it becomes easier to do most jobs away from the workplace, while still being connected to others. Supported by technology such as robotics and an increased use of data analytics, alternative workplace environments continues to expand. The Workers’ Compensation industry will need to monitor these conditions.

PROFESSOR HARTWIG

Robert Hartwig now has over a year under his belt in higher education, following his move to the Universi-

ty of South Carolina from the I.I.I. The transition to academia did not, in the least, put a break on his fast paced discussions and rapid fire slide shows. With a focus on the economy and its impact on Workers’ Comp, Mr. Hartwig highlighted a number of key issues that that the industry faces.

P&C growth is highly correlated to the economy, which is, in turn, the primary driving force behind the majority of commercial exposure growth, including WC insurers. The labor markets are at their strongest levels in 18 years and, as a result, Mr. Hartwig predicted that employment growth would slow with the economy at full employment. Some challenges exist as the workforce goes through a period of transition, as the Baby Boomers reach retirement age.

Up until now, wage growth has been slow, though modest wage pressure should build. Mr. Hartwig indicated that the industry’s investment earnings should improve, as interest rates rise. However, the influence of a full economy, increased energy prices, and budget deficits may lead to rising inflation. A surplus of capital and modest growth prospects should accelerate M&A.

Finally, Mr. Hartwig provided thoughts on the effect of each of the following recent government initiatives on the insurance industry:

- Tax Reform: lower tax rates are a new positive for Insurers and should enhance profitability, while reducing the need or incentive to issue debt, as well as cede business offshore.
- Infrastructure: spending will not have a significant impact, as funding challenges at the Federal level will not be absorbed by the States in any significant way.
- Trade disputes: may lead to job losses and adversely impact affected industries, however the results of recent actions are still unclear.

MARIJUANA

For a drug that has been around for over 4,000 years and widely acknowledged for its recreational use, little is known about marijuana's true potential medicinal value. Its use to treat a variety of illness and ailments including work-related injuries continues to rise. David Deitz, MD, PhD from David Deitz & Associates updated the group on the latest cannabis research, including the industry's view of its use for injury treatment.

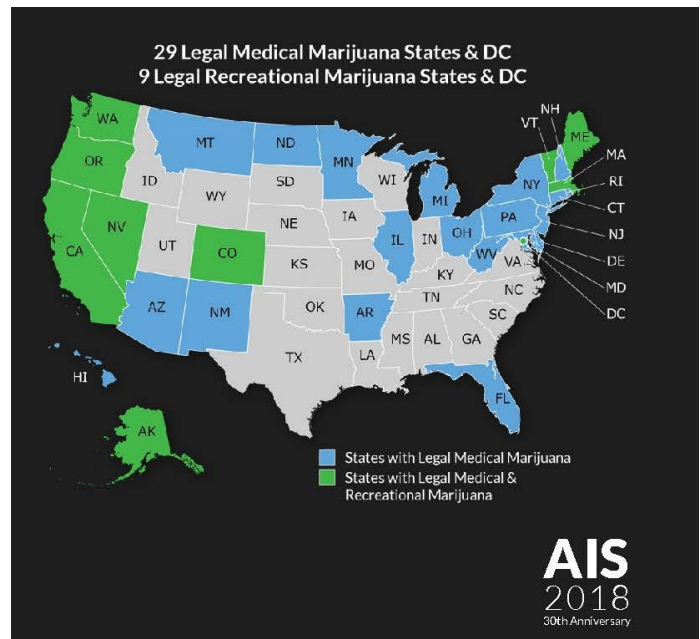
As a FDA Schedule I drug, as well as broader societal and legal disincentives, few resources are devoted to analyzing the drugs' effects. What does exist is mainly anecdotal. That being said, recent scientific studies support some degree of "substantial" benefit involved in the use of marijuana for pain management, as well as limited or moderate benefits for other ailments including anxiety, etc.

While the restrictions at the Federal levels persist, support is building for additional research and analysis in a further study on the drugs' potential benefits (and negative effects). Twenty-nine individual states legalized the use of medical marijuana, of which nine also allow recreational use.

Although patients have favorable results for chronic pain, anxiety, and other injuries, possible side effects remain problematic in return to work scenarios. Marijuana use as treatment for WC injuries still present hurdles as a viable alternative (for employers and employees), in addition to the broader legal and regulatory hurdles.

KILLER PAIN RELIEF

Following on the heels of the marijuana discussion, NCCI's Raji Chadarevian provided an update on opioid treatment for Workers' Compensation injuries. Opioid (ab)use is a regular national news item that has drawn Federal and State level attention, more so for the negative effects and societal impact. Since 2017, over 1,700 bills addressing the opioid



epidemic through addiction prevention, treatment, education, and clear labeling have been introduced.

Opioids are prescribed in two out of every five WC claims at a cost four times that of a non-opioid. Recent trends, however, suggest that opioid use for WC injuries is slowing, with increased awareness of the wider negative effects. The focus on alternative methods of treatment including lower dosage and drug alternatives, as well as non-prescription drug treatment, are becoming more popular and effective. The view is that the share and cost of these drugs should continue to lower in the future. This is good news for an industry that has borne the cost of the use (and abuse) of these drug treatments.

COST OF MEDICAL TREATMENT AND THE “MEGA” WC CLAIM

Advancements in medical treatment and acute care technology improves lives, but presents challenges for WC carriers as the price tag of treating a “mega” WC loss continues to escalate. A significant percentage (approximately 70%) of severe claims occur as a result of auto accidents and falls. Major injuries, including those involving key organs, the head, or spine, as well as burns, are less “life-shortening” and

have better survival rates, although come with much more costly treatments. With multiple surgical procedures, the use of prosthetics, more rehabilitation in return to work efforts, as well as the cost of prescription drugs, any catastrophe WC claim is fraught with challenge.

Adding to the higher costs is a nationwide medical professional shortage, including doctors. The high education costs, need for specialization, and aging population presents challenges in keeping up with service needs and medical care requirements. The administrative burden and network of costs inflates estimated claim reserves.

For each doctor there are 16 associated medical professionals –nurses, technicians, therapists, and

specialists, among others. Of the 16, ten are involved in the administrative role (claims, services, etc.). The need for resources in these areas presents a burden that escalates the cost of care and bureaucracy tied to the system. The ongoing consolidation of medical facilities, which initially suggested lower costs, does not appear to result in much cost savings.

Mega claims are long-tail in nature and the potential for escalation reinforces the importance of accurate exposure evaluation and claims reserving.

Reach out to the Holborn team for continued discussions regarding the trends in Workers' Compensation and implications on loss trends.

