INDUSTRY INSIGHT

Pressure is Building in the Workers' Comp Well

More than 10,900 Marcellus Shale jobs will be created from 2010 to 2014 in western Pennsylvania alone, according to a study conducted by Pennsylvania College of Technology, a satellite of Penn State University. Since it takes a wide range of skills to conduct drilling operations, opportunities will continue for safety personnel, electricians, welders, commercial drivers, heavy equipment operators and more. Good news for job seekers. But it comes with a caution to those businesses working in the oil and gas industry.

According to insurance industry experts, companies that hire new workers have more Workers' Compensation claims, *especially if they are drilling for fossil fuels.* And those Worker's Comp claims are about to cost employers a lot more.

As employee injuries increase and investment yields fall, the insurance industry is experiencing upside down costs where Workers' Comp claims are concerned. That burden is sure to impact employers. "For every dollar of premium (insurance companies) receive, they are spending $1.18," according to David Leng, Vice President of the Duncan Financial Group, in EHS Magazine's May 2012 article, *The Workers' Comp Perfect Storm*. The Workers' Compensation combined ratio hit 118 percent in 2010 and is expected to finish even higher for 2011.

With treasury yields continuing to dive, insurance companies cannot offset their losses with investment income. And their losses have been substantial thanks, in part, to unprecedented natural disasters. Last year alone, the world experienced three of the most devastating natural disasters ever recorded: the 6.3 magnitude earthquake that hit one of New Zealand's most populous cities (on the heels of a 2010 7.1 magnitude quake in the same area), the catastrophic earthquake and tsunamis in Japan, and massive tornadoes that wiped out whole communities in the Midwest and Alabama. Insurance payouts totaling $61.3 billion are just beginning to hit reinsurance costs. And that isn't counting the spring 2012 tornado outbreak that cut across the nation's midsection.

As overall insurance costs increase, individual states are seeking relief from rising Workers' Comp burdens. The New York Compensation Insurance Rating Board recently submitted an 11.5% workers' compensation rate increase request to the New York State Department of Financial Services. The board cites a number of factors that pushed their request, including increased claims frequency and rising indemnity and medical costs. New York isn't the only state facing double digit increases. The Workers' Compensation Rating and Inspection Bureau of Massachusetts, which represents companies that write workers' compensation polices, asked the state to approve an average rate increase of 19.3 percent. If approved, that increase will go into effect in September.

Finding relief from these increasing expenses is not just a matter of shopping around for a better quote, says Leng. "Shopping has never helped an employer reduce injuries, discover and correct errors, return an employee to work, reduce their experience modifier, find the right doctor to treat an employee, keep an attorney out of the system, find an agent who is an expert at workers' compensation or improve how their insurance company sees their business." He adds, "In the world of workers' compensation, perception most definitely is reality. And the reality of the situation is if you don't get your company's risk under control, you're going to pay for the oversight.

Leng recommends the best way to reduce your company's insurance costs is to improve your company's risk profile. One of your best weapons is a robust safety program that goes well beyond mere compliance with OSHA standards. You can also demonstrate your commitment to controlling risk by remaining diligent with drug testing and screening, thorough job training, having a proactive safety committee, and guarding your hiring practices to ensure your new hires are fit for the job.

Improving your company's risk profile goes a long way. "What you can do to keep insurance costs as low as possible is improve your company's risk profile, whether it's using PPE, offering educational courses, limiting your physical exposure to potential accidents or monitoring the behavior of your employees. You then need to address risks in order of potential severity by implementing the proper policies and procedures for each risk. After doing so, you must convey to the underwriters why you now are a better risk and what you are doing differently today than you were last year if you expect to see your rates go down."

Don't overlook the importance of your experience modifier. "An experience modifier that's out of control – anything in the 1.002 to 1.8 range – gives the impression of an unsafe company with poor quality control and a lack of safety procedures. This also will come back to bite you in the wallet as a higher experience modifier drives you to a higher premium, "says Leng.

Since controlling risk and managing an underwriter's perception of your risk are no easy tasks, Leng recommends employers consider hiring a certified risk manager or Certified Safety Professional (CSP).

By East Coast Risk Management, ***www.EastCoastRiskManagement.com***