



**Wednesday General Session #1**

***BACK TO THE FUTURE FOR  
WORKERS COMPENSATION?***

**James R. Nau, CPCU, ARM**  
**General Manager, Residual Markets Division**  
**National Council on Compensation Insurance**

Rumors and speculation about where the workers compensation insurance market is heading abound. Clearly, the numbers indicate that operating experience in this market has deteriorated significantly, but which, if any, of the popular theories about the future of workers compensation are likely to materialize? In this session, hear a representative from the predominant workers compensation rating and statistical agent, National Council on Compensation Insurance (NCCI), outline and interpret actual trends and developments in workers compensation. In addition to underwriting results, this session will address important trends in legal areas, such as some states' attempts to erode employers' exclusive remedy protection.

***Wednesday, November 15, 9:00 a.m.–10:20 a.m.***

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**James R. Nau, CPCU, ARM**  
**General Manager, Residual Markets Division**  
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Mr. Nau is a keynote speaker, presenting Wednesday's general session "Back to the Future for Workers Compensation?" He is general manager of the Residual Markets Division for the National Council on Compensation Insurance, located in Boca Raton, Florida. His duties include the administration of the workers compensation residual market pools and plans approved in NCCI states. Previously he was division executive for National Policy Development, responsible for identifying and managing issues that affect NCCI and the workers compensation industry on a national basis. Mr. Nau has served in a variety of management and regulatory jobs during his 20 years with NCCI, Inc. He was also senior vice president, Government Consumer and Industry Affairs. As such he was responsible for workers compensation rate filings, legislative reform efforts and residual market filings for the insurance industry in 11 southern states. Mr. Nau was also vice president of Insurance Data Resources and president of Associated Business and Commerce Insurance Corporation, a workers compensation insurer in Florida. As president, he was responsible for day-to-day operations of the company including finance, underwriting, reinsurance and claim operations. Mr. Nau is a graduate of Butler University, Indianapolis, Indiana; a Chartered Property Casualty Underwriter; an Associate in Risk Management; and a frequent author and speaker on workers compensation issues. Mr. Nau has been a national director (1994-1997) and regional vice president (1998-1999) of the CPCU Society. He is currently serving as vice president of the CPCU Society.

## ***Notes***

This file is set up for duplexed printing. Therefore, there are pages that are intentionally left blank. If you print this file, we suggest that you set your printer to duplex.

# ***BACK TO THE FUTURE FOR WORKERS COMPENSATION?***

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*James R. Nau, CPCU, ARM  
National Council on Compensation Insurance*

## **I. NCCI—Data Collection, Rating Services, Residual Markets**

- A. Objective—To assist regulators in maintaining a viable workers compensation marketplace

## **II. Workers Compensation Results**

- A. Countrywide combined ratios
- B. Countrywide written premium
- C. Financial results

## **III. Medical and Indemnity Costs**

- A. Indemnity costs and factors
- B. Medical costs and inflation

## **IV. Workers Compensation Residual Markets**

- A. Plans and pools—market of last resort
- B. Residual market estimated ultimate premium
- C. Residual market operating losses
- D. Residual market combined ratios
- E. Residual market activity

## **V. Workers Compensation Reform Activity**

- A. State activity description

## **VI. Workers Compensation Results Are Poor But Are Driven by a Different Set of Factors Than the Poor Results of the Late 1980s and early 1990s**

### A. Factors in Poor Results

1. 1990
  - a. Rapid increase in medical costs
  - b. Expanded benefits
  - c. Rate inadequacy
  - d. Weak workers compensation laws and poor administration
2. 2000
  - a. Excess capacity
  - b. Price competition
  - c. Medical inflation

## **VII. Loss Costs Are Beginning To Rise in Some States and Will Begin To Impact Policyholders State by State**

### A. State activity description

## **VIII. Individual Employer Actions**

- A. Emphasize safety programs—they can work!
- B. Understand residual markets and get out of them
- C. Shop for coverage
- D. Understand experience rating
- E. Take advantage of deductibles, special rating plans, and rates
- F. Urge state legislators to promote legislation that focuses on adequate and fair benefits to truly injured workers and promotes return to work

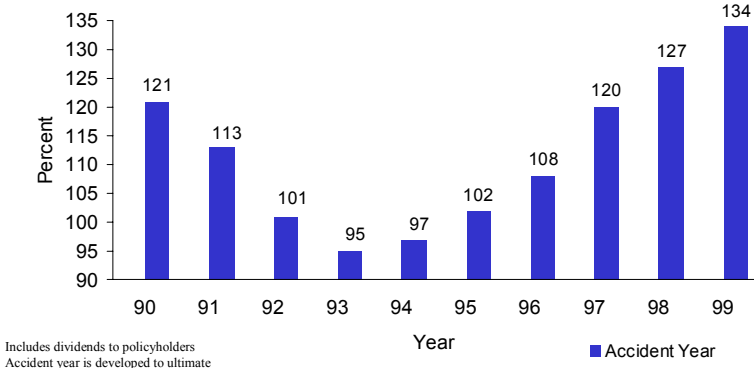
## **IX. Conclusion**

- A. We are beginning to see signs of rising workers compensation costs
- B. Like you, insurers are in business to make a profit. They must write business at a profitable rate.

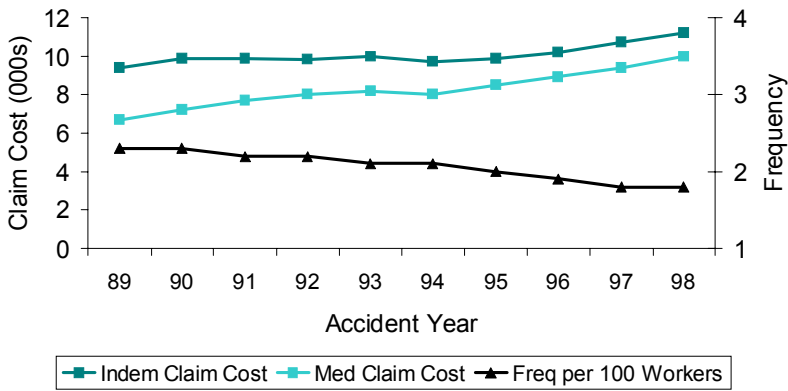
# BACK TO THE FUTURE FOR WORKERS COMPENSATION?

## The 1999 Accident Year Combined Ratio Reached Record Levels Despite Stable Loss Costs

Ultimate Accident Year  
Countrywide—Private Carrier

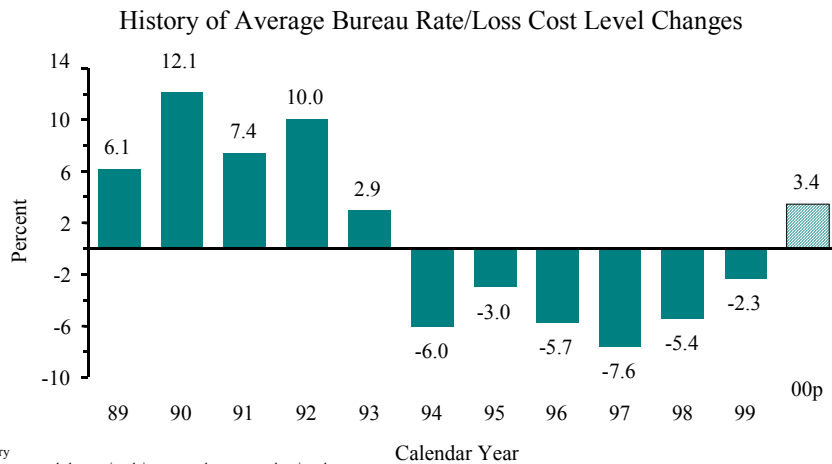


## While Claim Costs are Rising Steadily, Frequency May be Leveling Off



Based on data through 12/31/1998.  
Average indemnity and medical cost per lost time claim.

## Approved Rate/Loss Cost Changes are Expected to be Positive for the First Time in 7 Years



## Despite These Economic Realities, Pressure for Change is Building

- Benefit increase proposals
- Desires to roll-back reforms
- Attacks on managed care
- Privacy goals that could limit ability to manage claims
- Rising loss costs
- Potentially broader definitions of injury and compensability
- Federalization proposals

## **CONCLUSION**

- We are beginning to see signs of rising worker's compensation costs.
- Insurers are in business to serve their customers and make a profit.
- You can affect your worker's compensation costs.