IAIABC

Find Information. Connect People.

Facing Future Challenges in Workers' Compensation: Private Insurance– the US Example

Gregory Krohm
Executive Director
International Association of Industrial Accident Boards and Commissions (IAIABC)

Conference of the European Forum
Dresden, Germany
June 21-22, 2011

US Private Insurance

- History of development
- Strengths
- Weakness
- Applicability of the US model elsewhere

Development

- From its advent in 1911, private funding of benefits was the norm for the US workers' comp system
  - Only six states established single payer government funds
- Private WC insurance became a highly standardized/uniform across states
  - Much different than other property/liability insurance in the US

How Did Standards Develop?

- Private insurance in the US has similarity and uniformity in:
  - Insurance agreements
  - Rate classifications
  - Rate making methods
  - Experience rating
  - Reporting of claims and premium
  - Reporting proof of coverage to regulators
- This uniformity is largely due to the establishment of a national statistical agent/rate making organization

NCCI: statistical agent & rate maker

- The National Council on Compensation Insurance (NCCI) was founded in 1922
- From its founding the NCCI worked with insurance regulators for approval business practices:
  - The insurance agreement
  - How class and individual experience rates would be set
  - Rules for auditing premium and other adjustments to the insurance contract
- Originally served 10 states; now working in 40 states

Strengths

- Less political involvement in administration, particularly rate making
- Strong solvency standards
  - No deficits or liability to general public
- Guaranty funds pay insurance benefits of insolvent insurers and spread the cost to other insurers
- Wide range of choice of carriers
  - Carriers differ somewhat on rate levels, underwriting, and policyholder service

Weaknesses

- High administrative expense
  - Profit, marketing, and agent commission
- Insurance rating cycle
  - Seemingly irrational ups and downs in pricing
- No strong commitment to safety and loss control
- Mixed performance on rehabilitation and return to work

Downside of Competition

- Competitive insurance defeats the goal of universal coverage
  - Very high risk employers will not be able to find coverage, or only at “excessive” rates
- In the US, the solution to lack of availability is a government mandated market of last resort
  - Assigned risk plan
  - Risk pool
- Aggressive competition also leads to unsustainable price cutting

Applicability

- Worldwide, there seems to be a very slow expansion of private insurance as the funding source for WC benefits
- In the US, the move to private insurance seems to be as a reprisal for a public system that has failed to meet stakeholder expectations or has run up large deficits

Applicability

- The US system cannot be fully imitated because it requires a very expensive infrastructure
  - Rating/statistical agencies need to be authorized, regulated and funded
  - If more than one rating agency is to exist, there must be close coordination

Other Barriers to Applicability

- US system is distributed by professional insurance agents, which may not be available
- Private carriers in the US are closely regulated by:
  - State insurance departments (solvency)
  - State industrial commissions (benefit payments)

Summary

- Private insurance in the US is strongly entrenched as the delivery and financing system for WC
- Private insurance seems to cost more than publicly funded systems
- Unfunded deficits and administrative breakdowns are less widespread among private insurers
  - Unsuccessful insurers disappear from the market
- US model is not readily applicable elsewhere

Questions

Questions can be directed to the author at:

gkrohm@iaiabc.org