THE FLORIDA COMMERCIAL INSURANCE MARKETPLACE - SEPTEMBER 2016

OPPORTUNITIES, THREATS & SOLUTIONS IN AN EVER CHANGING BUSINESS ENVIRONMENT

LOOKING BACK. MOVING FORWARD.

The last few years have seen continued soft pricing in all major lines of coverage:

- Workers Compensation (WC)
- Commercial Auto
- General Liability (GL)
- Umbrella & Primary Excess
- Large Casualty Plans
- Property
- Cyber
- Employers' Practice Liability Insurance (EPLI)
- Healthcare Professional Liability

However that is about to change, especially in Florida (FL).

WC rates have decreased over 50% in FL due to tort reform over the last 10 years and the good times are about to end.

The National Council on Compensation Insurance (NCCI), the rating bureau for WC, has filed for a rate increase in FL. This will increase rates nearly 20% by October 1, 2016. This pending increase is primarily due to two large cases that remove former caps on plaintiffs' attorney fees. Has your agent/broker shared this news?

The expected rate increase may be delayed until January 1, 2017 and could be as low as 12-15%, and carriers will seek to get the balance of rate needed via consent to rate (CTR). Per actuaries, the rate needed, in many cases, will be upwards of 25% higher than today. This will force carriers to use CTRs to close the gap between the filed rates and the premium needed for increased loss costs.

Another major issue will be further conservatism by WC insurance underwriters. The use of favorable rating plans such as dividends and retentions, that return monies to clients who perform exceptionally from a loss standpoint, will diminish as carriers look to make more profit.

Bottom-line, many businesses will need to consider loss sensitive plans such as retrospective rating plans and deductibles. These ultimately adjust to client's loss experience or simply pay much higher premiums. This involves risk and will need to be evaluated in light of your firm's commitment to loss control, return to work, etc.

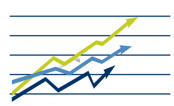
Another alternative and perhaps a better solution for WC is to outsource to a Professional Employer Organization (PEO). PEOs can potentially lower the WC cost while also providing the safety and claims consulting services to smaller firms that don't normally have access to them.

The PEO industry today has grown to over $150 billion in revenue and serves over 150,000 firms with over 3 million employees.

PEO: BY THE NUMBERS

- The PEO industry has grown significantly. In each of the last 30 years, the industry has added, on average, roughly **100,000** worksite employees and **6,000** net new clients. For perspective, that means that every five years, the PEO industry has added the employment equivalent of the entire utilities industry in the United States.
- The estimated **2.7** to **3.4 million** employees who benefit from PEO services is a number larger that the size of the entire agriculture/forestry industry in the United States (and close to the size of the federal government, the education sector, or the information sector), based on data from the Bureau of Labor Statistics (BLS).

GROW 7 TO 9% FASTER



Since December 2004, employment at small businesses using PEOs has grown more than 7 percent faster than at small businesses overall, according to the Intuit Small Business Employment Index

HAVE 10 TO 14% LOWER EMPLOYER TURNOVER

The average overall employee turnover rate in the United States is approximately 42% per year, based on 2012 data. Is is **28% to 32% for companies that used PEOs for at least four quarters.**

BE 50% LESS LIKELY TO GO OUT OF BUSINESS

Businesses that use PEOs are approximately 50% less likely to fail from one year to the next when compared to similiar companies in the population as a whole.

www.napeo.org

Commercial Auto Insurance pricing and terms are also changing.

While the property/casualty industry has reported three consecutive years of significant underwriting profits, the commercial auto market reported an underwriting loss for the fifth consecutive year in 2015.

In short, US commercial auto insurance has evolved into a "chronically under performing product segment" for US property/casualty insurers, according to Fitch Ratings.

Underwriting losses have accelerated and the combined ratio has risen to approximately 109% for the latest year. The commercial auto combined ratio averaged 106% from 2011-2015, according to analysts at Fitch. This is much higher than the mid-90s% combined ratio most carriers seek in order to be profitable.

The poor performance is a reflection of previous overly aggressive pricing in commercial auto and a recent extended period of heightened claims severity, particularly relating to bodily injury claims.

The Council of Insurance Agents & Brokers (CIAB) found the market did see a slight uptick in rates for commercial auto in last year's fourth quarter and again in the first quarter of this year. Slight increases will continue for most firms.

General Liability is still soft-to-flat and will continue for well performing classes and clients.

Umbrellas & Primary Excess will face higher pricing due to underlying increases in WC and Auto Liability premium and exposure.

Large Casualty deals with losses within the working layer will see an increase in retention levels. However, collateral terms and multi-year terms will continue. Aggregates will stay the same or increase slightly. Many large firms with strong safety cultures and good experience, especially in FL, will consider self-insurance. When correctly structured, the financial burdens and ultimate costs of self- insurance can be lower than loss-sensitive programs.

Property Premiums, especially in FL, have hit record lows. Yet, such soft pricing will continue due to increased capacity, cheap reinsurance, alternative capital and a lack of significant catastrophic events in recent years. Some estimate it would take a $ 100+ billion loss event to change pricing, which is good news.

Cyber – Both security and network exposure is increasing at a frightening rate, over 15% in the last year, while insurance for this coverage is still readily available and competitively priced. Expect underwriting requirements to continue to increase including calls with third party security experts.
EPLI will see little to no rate increases as claims frequency and severity continue to decrease.

Healthcare Professional Liability will stay stable through the end of 2016 due to increased capacity and continued competition for market share. Also, captives are back in business in specialty areas and medical malpractice.

While this article provides a high-level overview of the FL insurance marketplace and offers some viable strategies to consider to control costs, the real benefits are realized with a proactive risk management and insurance brokerage partner with experience in delivering exceptional financial results. As one of the largest privately held insurance brokerage, risk management, and employee benefits firms in the US with offices in Tampa, Sarasota, Naples, Fort Myers, and The Villages, our firm, BKS-Partners, stays on the vanguard by offering holistic solutions to manage risk.

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