Workers Compensation:
State of the Risk

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The workers compensation insurance industry experienced its second best underwriting result in the past twenty years in 2023 with a net combined ratio of 87. It was the ninth year in a row of net underwriting profit following eight years of a net combined ratio over 100, or ten of the previous eleven years. In comparison, workers comp has outperformed the combined property and casualty insurance industry in net combined ratio each year since 2015.

Insurers' underwriting profitability is measured by a combined ratio, which is calculated by dividing the sum of claim-related losses and expenses by premium. A combined ratio under 100 indicates a profit. A ratio above 100 indicates a loss. Net combined ratio and net written premium growth rates for workers comp are analyzed, forecasted, and then reported in quarterly members-only webinars.

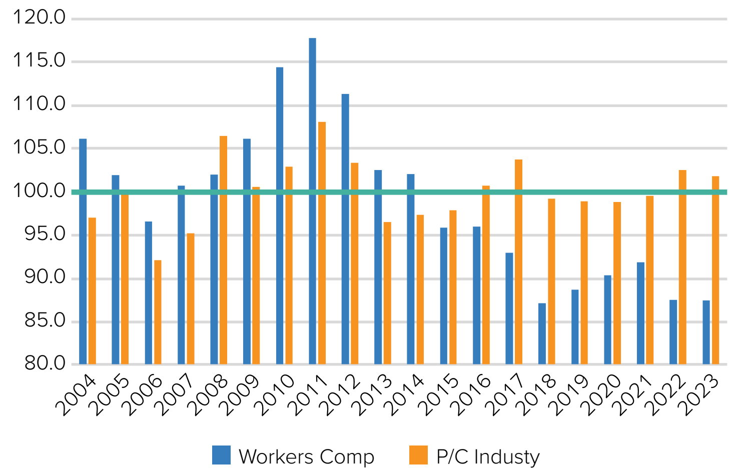
Premium

The net written premium growth rate for the P/C Industry has exceeded that of workers comp each year since 2015 with the exception of 2022.

Premiums declined drastically in 2020 for Workers Compensation as the onset of the COVID-19 pandemic resulted in a reduction of employment across the U.S. The 2020 annual change in total non-farm payroll of -5.8 percent was the only negative change since 2010. The annual compound increase in Total Non-Farm Payroll from 2010 to 2019 was a steady 1.6 percent.

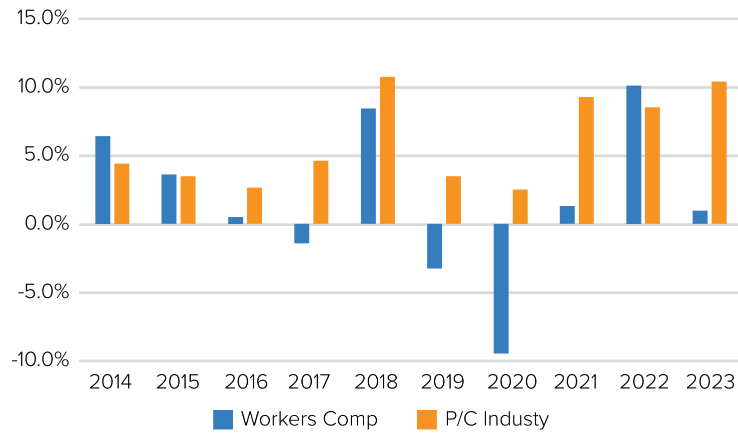
The annual percent increases in Total Non-Farm Payroll in 2021, 2022, and 2023 of 2.9, 4.3, and 2.3, respectively, are the highest year over year increases for more than twenty years as the workforce recovers from 2020.

Net Combined Ratio, 2004-2023



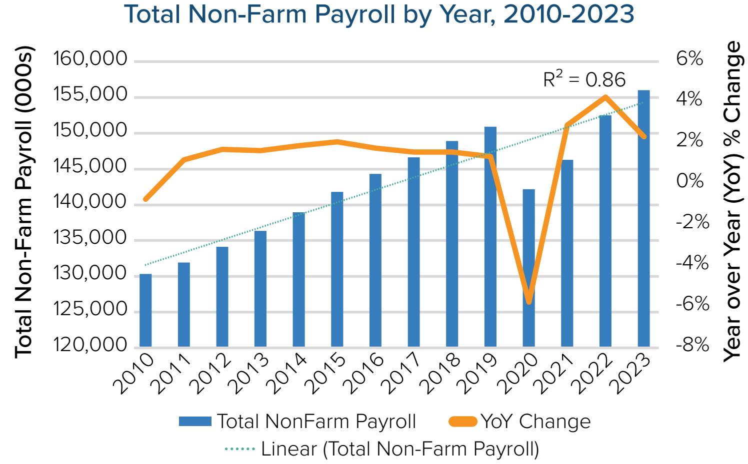
Source: S&P Global Market Intelligence, as of Jan. 2025

Net Written Premium Growth Rate, 2014-2023



Source: S&P Global Market Intelligence, as of Jan. 2025

Total Non-Farm Payroll by Year, 2010-2023



Source: Federal Reserve Economic Data, as of Jan. 2025

Frequency

Using total non-farm payroll as the basis for workers comp claim exposure, and reported claims at 12 months from S&P Global Market Intelligence by year, workers comp frequency has been declining steadily from 2014 to 2023 at an annual compound rate of -5.1 percent. Using nominal gross domestic product (GDP) which has no inflation adjustment as the basis of claim exposure, workers comp frequency follows a similar pattern year over year during the period. In comparison the frequency of reported claims per $100M GDP is decreasing slightly more at an annual compound rate of -8.5 percent.

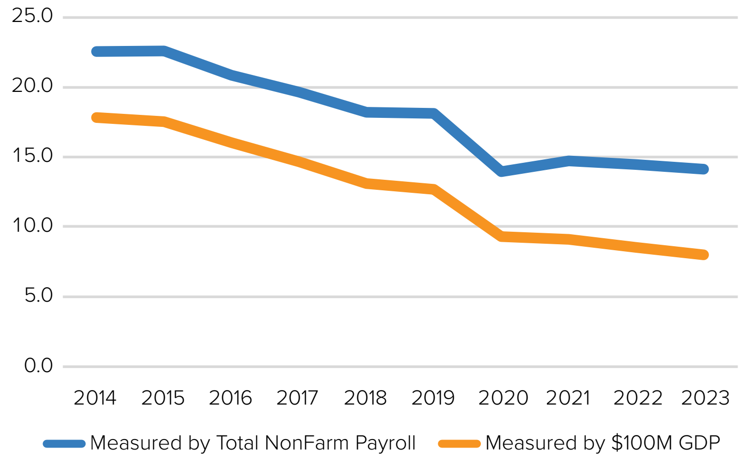
Severity

Using net ultimate loss & defense and cost containment (DCC) at 12 Months as reported by S&P Global Market Intelligence divided by the number of reported claims at 12 Months to measure severity in workers comp, severity has been increasing at an annual compound rate of 4.4 percent from 2014 to 2023. However, using nominal GDP as the basis of severity similar to the frequency analysis previously mentioned, severity has been decreasing at the opposite rate of -4.4 percent. This is indicative of a severity pattern influenced more by increasing inflation than underlying historical cost trends.

Market Competition

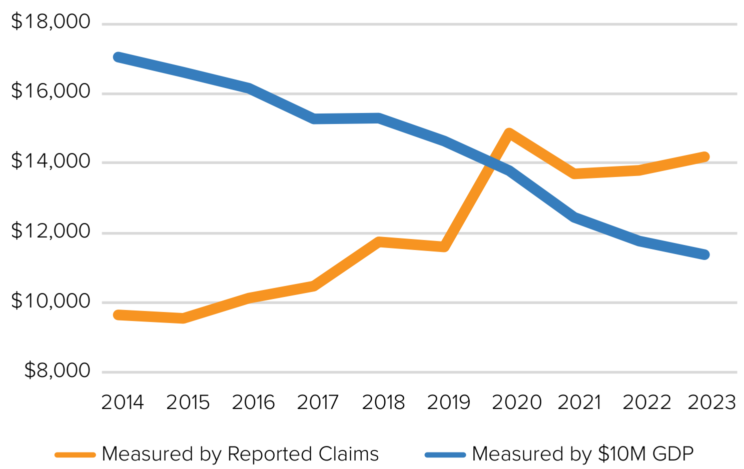
As net underwriting profitability persists in workers comp and net written premium growth rates remain under P/C industry rates as a whole, competition in workers comp has increased as measured by the Herfindahl-Hirschman Index (or HHI). The index can range from a high of 10,000 in a market with only one firm to a low approaching zero when a large number of firms have equally low market share. The U.S. Department of Justice considers markets with an HHI below 1,000 to be unconcentrated, those with an HHI between 1,000 and 1,800 to be moderately concentrated, and those with an HHI above 1,800 to be highly concentrated. Over the most recent ten years, HHI has steadily decreased -19.4 percent at an annual compound rate of -2.4 percent.

Frequency of Reported Claims at 12 Months, 2014-2023



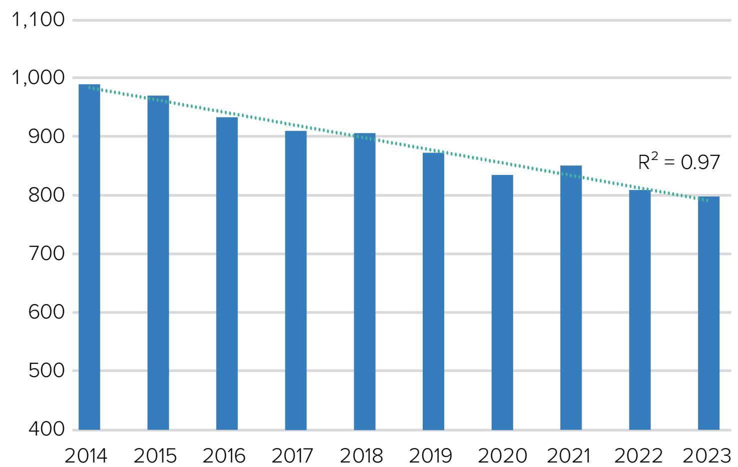
Source: S&P Global Market Intelligence, Federal Reserve Economic Data, as of Jan. 2025

Severity of Net Ultimate Loss & DCC, 2014-2023



Source: S&P Global Market Intelligence, Federal Reserve Economic Data, as of Jan. 2025

Herfindahl-Hirschman Index, 2014-2023



Source: S&P Global Market Intelligence, as of Jan. 2025