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Pat Murdo

Montana Legislative Services
PO Box 201706
Helena, MT 59620-1706

Re: Montana Interim Sub-Committee Hearing, SJR 27 Workers Compensation Hearing

Dear Ms. Murdo,

Following are the NCCI's answers to the Residual Market questions that we received from the MT Legislative Services Office:

1. **Why would an insurer want to be a direct assignment carrier?**

   This is an individual decision for each insurance company, and is probably best answered by the insurance companies, rather than NCCI. That being said, we posed this question to current direct assignment carriers in other NCCI states, who offered the following as potential considerations:

   - *Direct assignments provide an opportunity for carriers to work with new agents that could result in voluntary market relationships and further depopulate the residual market*
   - *Direct assignments provide carriers with an opportunity to utilize existing capacity and infrastructure to service policies*

   Of note, direct assignment carriers cannot select the type or size of risks assigned to insure. This could result in providing coverage for exposure types with which a carrier might have little or no specific expertise.

2. **Does being a direct assignment carrier mean the insurer cannot offer insurance in the voluntary market?**

   No. Direct assignment carriers are not prohibited from writing coverage in the voluntary market. In fact, in the typical state assigned risk plan, only those insurance companies writing in the *voluntary market are required to participate in the residual market. Therefore, direct assignment carriers are limited to those companies writing voluntary market policies, and receive assignments based on their percentage share of the voluntary market premium.*

3. **How does the direct assignment carrier operate without reinsurance – or do they?**

   Direct assignment carriers are not reinsured through the state's reinsurance pooling mechanism. However, they might or might not purchase some form of reinsurance using privately placed treaties. This is, again, a decision to be made by each direct assignment carrier.

4. **How does the National Workers' Compensation Reinsurance Pooling Mechanism work? Are all insurers nationwide part of the reinsurance, only insurers in each participant state?**

   The National Workers' Compensation Reinsurance Pooling Mechanism is a collection of individual state reinsurance pools under centralized management and administration (As distinguished from reinsurance for direct assignment carriers). Each state's residual market results are reinsured only by those insurance companies writing policies in the voluntary market in the respective state, with each such insurance company's responsibility for a pro-rata share of the operating results being equivalent to their voluntary market share of premium written in that same state. There is no reinsurance provided by any pool participating company for results in states in which it does not write in the voluntary market.

5. **I see that Travelers PC is both a direct assignment carrier and a servicing carrier, depending on the state. What is behind that decision?**

   This is an individual carrier decision and would be best answered by the insurance company. Not all state assigned risk plans provide for a direct assignment option.

6. **I see that in the 2017 (p. 41) list of Assigned Carriers in the Residual Market Management Summary 2016 that some states have only servicing carriers and some states have a mix. What is the difference?**

   This question relates to the chart in which the assigned carriers are identified for each state, noting whether those companies are providing coverage as either a pool servicing carrier or direct assignment carrier. Not all state assigned risk plans provide for the direct assignment option, but rather require all insurance companies to participate in the reinsurance pooling mechanism. As a result, the reference chart only reflects a mix of both servicing carriers and direct assignment carriers if the direct assignment option exists in that state, and the state regulator has authorized companies to participate as such. In states without a direct assignment option, servicing carries provide all of the residual market coverage, with reinsurance through the pooling mechanism.

7. **Work Comp reps in Idaho tell me that the contract with the Insurance Commissioner outlines how much of a surcharge and how much of a premium is allowed for the residual market. Is that information publicly available? I think it would be helpful for the subcommittee to know whether all surcharges are about 25%. Do they vary by risk category, size, etc.?**

   To clarify, NCCI does not have a contract with the Idaho Insurance Commissioner that outlines surcharges or allowed premium. Idaho is a 'rate state' instead of a 'loss cost' state, and NCCI, as the Assigned Risk Plan Administrator, does not produce separate rates for the Idaho assigned risk market. In Idaho, NCCI publishes the assigned risk surcharge which is used to convert rates from a voluntary basis to an assigned risk basis. The surcharge is filed with the ID Department of Insurance.

   The differentials and surcharges can vary significantly from state to state, and currently range from 18% to 150% in NCCI states. However, within each state the differential is consistent in application to risk classifications and premium size. The assigned risk differentials are usually included in separate state NCCI Circulars. As a matter of convenience for the committee, a comprehensive listing of the current <u>Assigned Risk Differentials</u> is included as an exhibit.

8. **How many states, like Idaho, have a state fund that does not serve as the guaranteed market but uses a different residual mechanism?**

   There are presently four states with state funds that do not serve as the guaranteed market. These states are Idaho, Missouri, Oregon, and South Carolina. Idaho, Oregon, and South Carolina utilize the National Workers' Compensation Reinsurance Pooling Mechanism to reinsure the residual market exposure. Missouri utilizes an alternative mechanism, with a single contract carrier and an aggregate excess of loss reinsurance mechanism. The state fund in South Carolina provides insurance coverage solely for government entities.

9. **Is it the NCCI decision or a state's decision as to more than one servicing carrier offering work comp in a state? If NCCI, what factors enter in to the decision to provide more than one?**

   In NCCI states, the state insurance regulator makes the determination of the number of servicing carriers, as well as the selection of servicing carriers.

10. **What is the current state of the residual market? Montana? Other states?**

    Since the Montana State Fund does not presently decline coverage for individual applicants, there is presently no residual market in Montana. In other states where a residual market does exist, in the last few years the residual market premium volume has been averaging in the 6%-7% range of total premium, for all states combined. It is noted, however, that this residual market share also varies from state to state.

11. **Performance of residual markets in other states?**

Overall, the residual market in most states has been stable and manageable in recent years. On a combined states basis, the residual market experience represents a small underwriting loss, which also varies from state to state.

12. Are there other choices than NCCI for handling the residual markets?

NCCI provides residual market management and administrative services in 28 states, but not all, states. Several state residual market mechanisms are administered by that state's statistical rating agency, and at least two states contract the administration to a third-party vendor. For additional information, please refer to the attached Workers Compensation Residual Market Mechanism presentation from the November 8, 2017 Economic Affairs Interim Subcommittee hearing.

13. Are there states with competitive state funds, like Montana, that have residual markets instead of the fund being the residual market?

Yes, the states of Idaho, Missouri, Oregon, and South Carolina, as more fully described in question 8.

14. Is there information we can glean from other states, such as;

a. **A breakdown of how employers are declined prior to going into a residual market?**

In states with a residual market mechanism, employers must be declined by a given number of voluntary market insurance carriers in order to be eligible for coverage in the residual market. The required number of declinations can differ from state to state, but the reason for declination is generally not tracked.

b. **% of the residual market in various states?**

In the numerous states for which NCCI has statistics, the combined residual market premium volume has been averaging 6%-7% of total premium in recent years. This varies from state to state, however, with individual states sometimes ranging between 15 to 22%.

15. What are the residual market options if?

a. **MSF stays as a competitive state fund?**
b. **MSF becomes a privatized mutual competitive carrier?**
c. **MSF is dissolved?**

If the Montana State Fund either (a) remains as a competitive state fund or, (b) becomes a private mutual insurance company, the following residual market options potentially could be pursued: the MSF or its successor entity could continue to serve as the market of last resort, or a reinsurance pooling mechanism could be created, with the MSF/successor participating as a reinsuring participant. The contract carrier option could also be pursued, *either similar to the Missouri and Nebraska contract carrier and aggregate excess of loss reinsurance models, or some alternative approach. The various existing residual market options for each state are described in the attached Workers Compensation Residual Market Mechanism presentation from the November 8, 2017 Economic Affairs Interim Subcommittee hearing.*

If (c), the Montana State Fund were to be dissolved, a reinsurance pooling mechanism or contract carrier approach are two potential options that could be pursued.