

Assured Comment: Hartford Intimates Rising WC Claim Freq to Spread

Rising WC claim frequency dominates 3Q conference call; concern resonates with investors

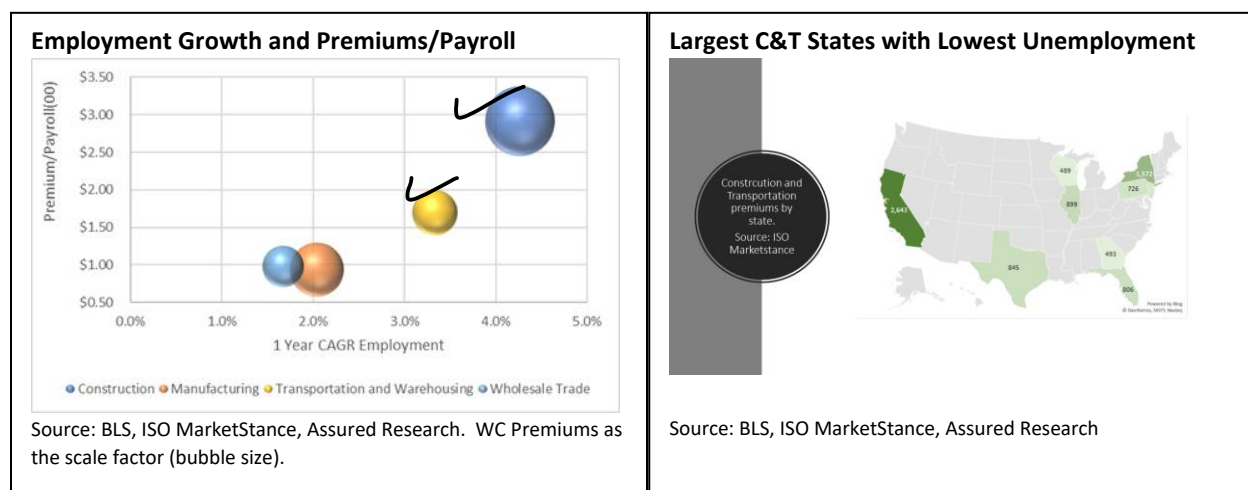
Hartford has warned since the 2Q18 that it has been experiencing a modest rise in workers' compensation (WC) claim frequency. That's notable both because Hartford is the second-leading writer of WC (at \$58 bil. it's the 2nd largest commercial line measured by premiums) and because WC claim frequency has been favorable for all but one year (2010) since 1997.

The topic of rising WC claim frequency dominated its just-ended 3Q18 conference call and, according to at least one analyst, it is also driving underperformance in the company's stock. More important, from our perspective, is that Hartford intimated that other WC writers will also see rising WC claim frequency. It's 'broader than just our book' was the message.

It's hard to argue-away the risk, and in our October *Assured Briefing* we used market intelligence from ISO MarketStance, S&P Global, and the Bureau of Labor to zero in on the Construction and Transportation sectors of the economy in nine states where employment had improved very rapidly. Hartford named construction first among its broad-based businesses and stated that claim frequency is rising fastest among newly employed workers.

The top 5 WC insurers in the nine states with the fastest improving employment and most construction and transportation premiums include: Travelers, AmTrust, State Insurance Fund (NY), Berkshire Hathaway, and Hartford.

The charts below show: 1) the construction and transportation sectors generate high WC premiums at generally the highest risk (as measured by WC premiums/payroll) and have experienced rapidly-improving employment, and 2) the 9 states where both factors are trending presently.



Traditional actuarial ratemaking algorithms use historical data to forecast loss costs. We recommend insurers modify their trend factors to account for this unfolding dynamic.