

# Specialty Practice Briefing

An update from the Workers Compensation Specialty

February 8, 2006

## NCCI Hazard Group Changes

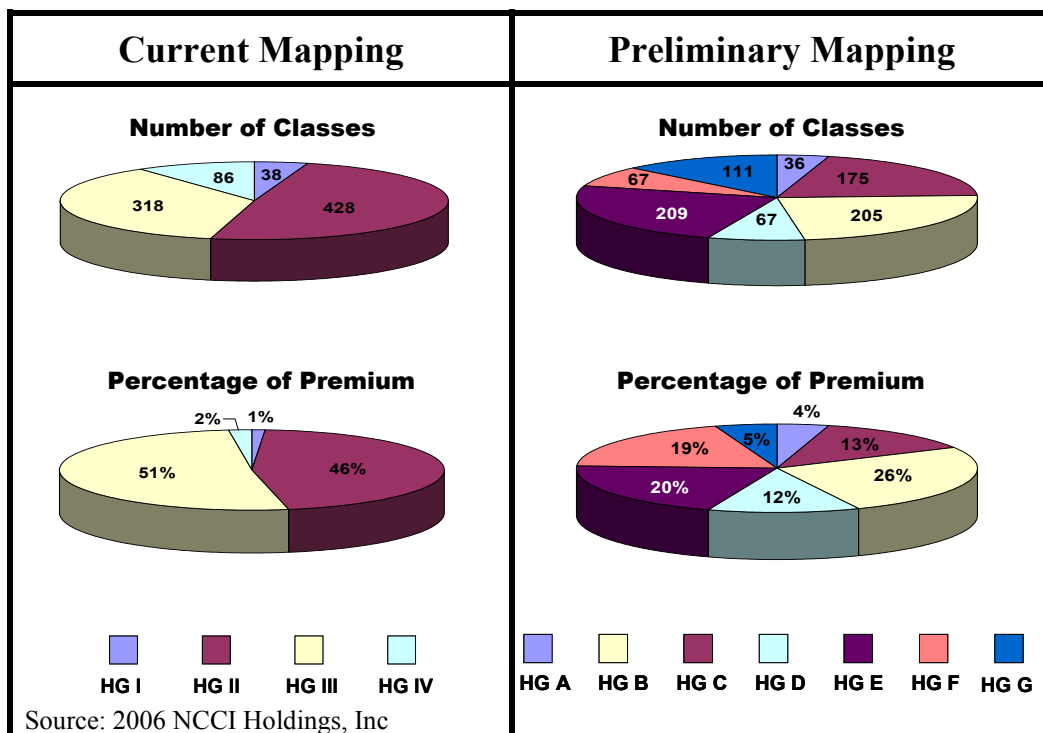
*The National Council on Compensation Insurance (NCCI) has changed the number of hazard groups from four to seven.*

*Clients should be aware of upcoming changes to the NCCI Retrospective Rating Plan. NCCI is proposing a new set of hazard groups that will be introduced through a countrywide filing around July 2006. The actual state excess loss factor (ELF) tables based on the new groups will be incorporated into subsequent state rate filings. NCCI will also continue to support the existing four hazard group plan. Companies will have the option of retaining the existing hazard group methodology in lieu of the new structure.*

*A more technically sophisticated approach was warranted because more than 95 percent of industry premium is currently in hazard groups II and III, and the individual classes contained within the current hazard groups are extremely heterogeneous.*

### New Hazard Group Structure

The new hazard group structure will feature seven hazard groups, versus the current four hazard groups. The premium will be distributed more evenly among hazard groups, as shown in the graphs below. This refined structure is designed to provide a more accurate reflection of the true risk of classes.



**Impact on Reinsurance**

The new hazard group structure will yield new ELF's. Since exposure rating relies on ELF's to compute expected losses in excess layers, reinsurance pricing may be impacted by this change, depending on a company's mix of business. When and whether reinsurers decide to incorporate the new ELF's into their individual pricing models remains to be seen. Guy Carpenter will continue to monitor the market and provide timely updates.

**Other Considerations**

The hazard group changes will have an impact beyond reinsurance, since ELF's are used for pricing large deductible and retrospectively-rated policies. Companies need to consider how their IT systems for pricing and policy issuance may need modification to accommodate the new structure. Although conversion to the new hazard group plan isn't mandatory, companies that do not convert to the new plan may be subject to adverse selection.

**Reveal™**

Guy Carpenter was the first in the industry to provide its clients with better risk metrics, based on the need for a more refined excess rating methodology. In late 2003, we began to develop a proprietary excess workers compensation exposure rating model, and we formally released the Reveal™ model in October 2004. The Reveal™ model, which measures the risk characteristics and volatility of large losses *at the individual class code level* versus the broad hazard groups to which they are assigned, can analyze exposures in all but the five monopolistic states. It is our goal that Guy Carpenter's innovation and leadership in workers compensation issues will continue to provide benefits to our clients and the industry.

For more information on this topic, please contact your Account Executive or one of the Guy Carpenter specialists listed below.

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