

## Workers Compensation Carriers Spring to Life in Arizona

Increased Rates, Soft Insurance Cycle, Slumping Economy Open Marketplace



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### For the Arizona construction industry,

Workers Compensation may be easy and relatively inexpensive; but the marketplace is anything but ordinary. Arizona features among the lowest filed rates in the nation, and has so for more than 20 years. SCF of Arizona is the dominant provider, insuring more than 43,000 companies in 2008, making SCF not only the largest Workers Compensation carrier in Arizona, but among the ten largest single-line carriers in the U.S.

Still relatively inexpensive when compared to rates in other states, most AZ Workers Compensation rates related to construction operations have increased every year since 2004. See Chart for selected rate increases.

### The Past Decade of Arizona Workers Compensation

10 to 12 years ago, half a dozen or more private carriers exited or stopped writing Workers Compensation for construction firms in Arizona – some quite abruptly. Financial problems, borne of losses experienced in other states sunk more than one

private carrier, while corporate underwriting decisions that pointed to a decade of rate reductions and deteriorating returns, led to other private carriers severely cutting back their writings or leaving Arizona altogether.

For most of the late 1990s to 2007, few options to SCF existed for mid-sized contractors. Lack of alternatives, coupled with SCF's competitive rate filing and generous dividend programs kept many policyholders with the quasi-state run carrier. For policyholders spending in excess of \$100,000 on Workers Compensation premiums per year, private carriers remained active, touting enhanced loss control services, medical cost containment and loss sensitive programs, but no widely available carrier sought to compete with SCF's pricing on a market-scale basis.

### Seeds of Change

Our firm first observed a shift in the AZ marketplace for Workers' Compensation two years ago, with the entry of several specialty carriers. One private carrier introduced a program 3% less deviated than SCF - but willing to underwrite insureds with experience modifiers up to 1.79. Other carriers entered the Arizona marketplace in 2008 with the ostensible purpose of insuring those businesses with strong management controls and low losses at rates below

average. We are not surprised to find a carrier in Arizona today writing high hazard, high experience-modifier policyholders with more premium to work with during account rehabilitation efforts.

We expect continued competition among Workers Compensation carriers in Arizona through 2010. The General Liability, Automobile and Property markets softened for contractors in Arizona beginning in late 2004 and premiums continue to fall in the range of 10% to 15% for many policyholders, regardless of prior year claims experience.

Serious competition in Workers Compensation first emerged in late 2007, and since it is viewed by many private carriers as a new business frontier, we expect competition and the average rate decline to outlast other lines of renewal decreases by at least a year.

### A Market Cycle or Permanent Shift?

SCF of Arizona launched several new carriers earlier this year, each with pricing factors at varying levels of credit. Although SCF of Arizona may continue to be a high volume carrier in Arizona, high loss or high exposure accounts may not qualify for the same pricing as those with better results, so exploring options is prudent for AZ businesses. It looks like the AZ marketplace will stay competitive for several years.

Code	Description	2005 Rate	2008 Rate	Increase
5403	Carpentry NOC	\$11.57	\$17.61	52.20%
5213	Concrete Construction	\$6.37	\$9.58	50.39%
6325	Conduit Construction	\$4.14	\$6.03	45.65%
5022	Masonry, Plastering, Stucco	\$5.46	\$7.35	34.62%
5475	Painting & Paperhanging	\$4.99	\$6.53	30.86%
5506	Street or Road Construction	\$6.10	\$8.89	47.74%



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