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NCCI Agent Track at WCI

NCCI hosted the Agent Track at the 71st annual Workers' Compensation Educational Conference held in Orlando, FL. During the 1-1/2 day track, regulators, agent association heads, and subject matter experts in classification, experience rating, and self-insurance and large deductibles spoke on a variety of topics specifically aimed at agents. Agents can also benefit from NCCI's Agent Education Workshops, which are being held around the country. See the Events Calendar on ncci.com for locations, dates, and times.

Florida Office of Insurance Regulation's Public Rate Hearing and Order on Rate Filing

On August 16, the Florida Office of Insurance Regulation (OIR) held a Public Hearing on NCCI's rate filing that proposed an overall average rate increase of **19.6%**, effective October 1, 2016. The recommendation addressed the impacts of the Florida Supreme Court's decisions in *Castellanos* (+15% first-year impact) and *Westphal* (+2.2%) and recently ratified updates made to the *Florida Workers' Compensation Health Care Provider Reimbursement Manual* (+1.8%).

NCCI's Division Executive for State Relations Lori Lovgren and Director and Senior Actuary Jay Rosen testified in support of the rate filing by noting the beneficial effects that the 2003 workers compensation reforms had on the system. They opined that the court decisions, particularly in *Castellanos*, could result in a return to prereform market conditions when Florida's rates were the highest or second-highest in the country. Included in NCCI's testimony were the aggregate results of a recently conducted survey of 10 workers compensation insurance carriers, representing 66% of Florida's market share. The survey indicated that carriers are already experiencing higher hourly attorney fees, increased depositions, and increased petitions for benefits.

NCCI further noted that the court decisions are estimated to potentially result in more than \$1 billion in unfunded liability for insurance carriers, group and individual self-insureds, and local municipalities and, due to the prospective nature of rates, carriers are unable to recoup premiums for this liability.

NCCI is the nation's most experienced provider of workers compensation insurance information. We gather data, analyze industry trends, and prepare objective insurance rate and loss cost recommendations. These activities, together with our research, analytical services and tools, and overall commitment to excellence, help foster a healthy workers compensation system. Visit ncci.com.

On September 27, the OIR issued its Order approving an overall combined average statewide rate increase of 14.5%, contingent upon NCCI amending the rate filing to comply with the recommendations articulated in the Order. The Order states that the revised rate increase would become effective December 1, 2016, for new and renewal business. There would not be a change in rates for outstanding policies.

NCCI must file the amended rate filing for the OIR's review and approval by October 4, 2016.

NCCI Basic Manual Updates

NCCI has an ongoing process dedicated to the systematic research, analysis, and maintenance of its manuals. This process ensures that NCCI products continue to add value to the various industry stakeholders. As state insurance regulators approve rules and classifications, NCCI updates its **Basic Manual for Workers Compensation and Employers Liability Insurance (Basic Manual)**. As a result, NCCI has filed certain changes to **Basic Manual** Rule 1—Classification Assignment and Rule 2—Premium Basis and Payroll Allocation. Rules 1 and 2 determine how an employer is classified and what payroll is used to determine a policy's workers compensation premium.

Rule 1 has seven sections of proposed revisions; highlights include:

- Clarifying the treatment of traveling district or regional managers (Rule 1-B-2—Standard Exception Classifications)
- Removing stores and employer-operated day care services for employee use from the list of general exclusions and adding them to the list of general inclusions (Rule 1-B-3—General Inclusions and Rule 1-B-4—General Exclusions)
- Creating a Governing Classification Determination Table (Rule 1-B-5—Governing Classification)
- Defining the term “separate and distinct business” (Rule 1-C-2-I—Separate and Distinct Business)

Rule 2 has six sections of proposed revisions; highlights include:

- Adding a reference to remuneration while maintaining the term payroll. Remuneration is a broader term that is still used in the industry and in the policy (Rule 2-B—Payroll).
- Revising payroll inclusions (Rule 2-B-1) to update the travel expense reimbursement allowance from \$30 to \$75.
- Revising payroll exclusions (Rule 2-B-2) to add:
 - Health savings accounts to employer contributions to employee benefit plans
 - Allowable travel expenses permitted by any contract with a federal, state, or local government entity

For a complete review of the proposed item filing, refer to circular CIF-2016-24 on ncci.com. Login is required.

NCCI's 2016 Classification Inspection Program Update

As part of its core services, NCCI continuously conducts classification inspections in all NCCI states.

Our Classification Inspection Program is used to monitor the accurate and consistent application of the classification system, thereby maintaining its overall integrity.

In years past, NCCI has identified the top five reclassified classification codes based on an analysis of inspections completed within the prior three years. The term “reclassification” refers to the governing class code changes reflected on an NCCI Inspection & Classification Report. The governing code is the classification at a specific job or location (other than a Standard Exception code) that produces the greatest amount of payroll.

An analysis of this year's data showed that the top five reclassified codes essentially stayed the same as last year's codes. In fact, the top two codes remain exactly the same:

- Code 8810—Clerical Office Employees NOC
- Code 8742—Salespersons or Collectors—Outside

Both codes are most commonly reclassified to Code 8723—Insurance Companies—Including Clerical & Salespersons. Code 8723 was established as a national classification for most NCCI states in 2012; however, we continue to find

insurance companies classified to Codes 8810 and 8742 even though Code 8723 includes both clerical and outside sales employees.

This year, NCCI is focusing on the top five reclassified codes for an individual industry, mercantile operations—otherwise known as retail or wholesale stores. Based on an analysis of inspections completed between 2013 and the end of 2015 in all NCCI states (including Texas, where the Classification Inspection Program started on June 1, 2015), NCCI has identified five mercantile classification codes that are most commonly reclassified, as well as the classification codes into which the employers are typically moved.

NCCI's **Basic Manual** Rule 1-D-3-g provides instruction on how to classify a mercantile business. Please refer to NCCI's **Basic Manual** for the full list of rules, along with any state exceptions.

If you have any questions or would like to order an inspection, please contact NCCI's Customer Service Center at 800-NCCI-123 (800-622-4123).

Changes to NCCI's Class Filing

NCCI will make a countrywide item filing in November 2016 comprised of two main components:

- The elimination of low credibility classifications
- Revisions to the trucking and towing industry

If approved, the classification changes will be implemented with each state's approved loss cost/rate filing effective on and after October 1, 2017, unless otherwise noted.

Low Credibility Classifications

The third step in eliminating low credibility classifications will be included in the November filing in which 14 national and 59 state special classifications will be proposed for elimination. This will conclude NCCI's latest review of low credibility classifications.

A recent comprehensive review of NCCI's classification system indicated that 212 classification codes had either zero credibility or low credibility.

In the future, NCCI will continually monitor the classification system to determine if additional classifications should be eliminated because of low credibility.

Trucking and Towing

The filing also includes revisions to the trucking industry. The following primary changes will be proposed:

- The elimination of national Codes 7228—Trucking—Local Hauling Only—All Employees & Drivers and 7229—Trucking—Long Distance Hauling—All Employees & Drivers. NCCI research has determined that using distance travelled as a classification distinction for trucking risks is difficult from a practical application perspective. Additionally, claim experience does not show significant differences in hazards between Codes 7228 and 7229.
- The establishment of a newly defined national Code 7219—Trucking NOC—All Employees & Drivers. Combining short-haul and long-haul trucking operations under newly defined Code 7219 will create uniformity in the trucking industry from a classification perspective.
- The establishment of national Code 7225—Automobile Towing & Drivers.

Transition Programs

Many classifications to be eliminated in this item have payroll that must be reassigned to a new classification. In some instances, the difference between the existing and new loss cost or rate may exceed the state-specific limit for an increase or decrease. This is referred to as the swing limit. The swing limit constrains the percentage change, up or down, that the loss cost or rate for a classification may vary from the existing loss cost or rate for that classification.

The purpose of the swing limit is to avoid extreme fluctuations in loss costs or rates from year to year. Most states set the swing limit at +/-25%.

NCCI will propose a transition program to adjust the loss cost or rate difference for certain classifications in increments, which minimizes the premium impact of the proposed change. When a transition program has been initiated, the codes affected by the transition program are still used as appropriate until the last phase of the program, at which time one or more codes are eliminated. In this item, there are several states with classifications that will require two- or three-phase transition programs.

NCCI's Dispute Resolution Process

When a policyholder believes that an NCCI rule or classification code has not been properly applied by its carrier to its workers compensation insurance policy, it can request NCCI's assistance through our Dispute Resolution Process. If a carrier is unable to resolve a dispute with a policyholder, that carrier has a duty to inform the policyholder about NCCI's dispute resolution services, which are designed to provide an opportunity for policyholders to resolve disputes without the need for litigation. The process is detailed on ncci.com under the Underwriting Tab.

Servicing Carrier Selection Process

NCCI's objective servicing carrier selection process ensures that the most qualified carriers are selected at the most competitive price, and provides residual market stakeholders with consistent, high-quality, and comprehensive service. Each year, selection processes are conducted in seven to nine states for a three-year contract.

Effective January 1, 2017, through December 31, 2019, the servicing carriers selected under NCCI's 2016 servicing carrier selection process are as follows:

- **AmGUARD:** AZ and NC
- **LM Insurance Corporation:** AL, AR, DC, GA, NC, and TN
- **Technology Insurance Company:** AZ, AR, DC, GA, and TN
- **Travelers Property Casualty Company of America:** AL, AR, AZ, DC, GA, NC and TN

For information on servicing carriers in other states, refer to our Residual Market Servicing Carriers page on ncci.com.

If an employer receives a nonrenewal notice from its current carrier and coverage in the voluntary market cannot be found, the employer or its producer representative may reapply for coverage through the residual market.

Residual market applications may be submitted electronically through NCCI's **RMAPS® Online Application Service**, which allows the ACORD® 130/133 application information to be entered online. NCCI provides this electronic service at no charge.

To enroll in this free service or to check on the status of an application, contact NCCI's Customer Service Center at 800-NCCI-123 or email customer_service@ncci.com.

Customer Service: 800-622-4123
Business hours are Monday through Friday, 8:00 a.m.–8:00 p.m. ET.
If outside normal business hours, please email Customer Service at
customer_service@ncci.com.