



Property Casualty Insurers
Association of America
Shaping the Future of American Insurance

North Dakota Industry, Business, and Labor Committee

Hearing

July 9-10, 2008

Workforce Safety & Insurance

PCI is composed of more than 1,000 member companies, representing the broadest cross-section of insurers of any national trade association. PCI members write over \$195 billion in annual premium, 39.8 percent of the nation's property/casualty insurance. Member companies write 49 percent of the U.S. automobile insurance market, 39 percent of the homeowners market, 32.1 percent of the commercial property and liability market, and 37.6 percent of the private workers compensation market. Member companies write 42.3% of North Dakota's property/casualty insurance market.

The mission of PCI is to foster a competitive insurance marketplace for the benefit of consumers and insurers and to provide a responsible and effective voice on public policy questions affecting insurance products and service. PCI appreciates the opportunity to provide comments on how privatization of the workers compensation market will enhance the workers compensation system in North Dakota.

- PCI believes that the public and business community is best served by private enterprise competing in a free market.

- Privatization has been identified as the means of improving financial performance and creating a more stable and balanced system for all workers compensation stakeholders.

A recent example reflecting the success of privatization is Nevada, which successfully privatized its workers compensation market in 1999. Nevada has seen its workers compensation rates fall significantly since the move to privatization. The West Virginia workers compensation market is now open to private insurers as of July 1, 2008. Based on recently published reports, there are 163 insurers approved to write workers compensation and 24 of these insurers are "new companies." Already the West Virginia Commissioner's Office reports that, overall, employers' rates have dropped by more than 30 percent. The large number of competing insurers in West Virginia and the decreasing rate level provides strong evidence of another successful privatization effort.

PCI acknowledges that the state workers compensation agency, Workforce Safety & Insurance (WSI), has been performing well at the present time. However, that was not the case just a few years ago, despite its tax advantages (exempt from federal, state, and local income taxes) and the monopoly in the marketplace, dissatisfaction was high and the agency's finances less certain. What changed was that WSI did make a number of changes including the implementation of improved business practices. But did they go far enough and could all these problems return when the market goes through its inevitable down cycle? The lack of a viable competitive market in North Dakota will adversely concentrate the cycle's impact on this state's workers compensation agency. A more

competitive market will tend to be less concentrated as more companies vie for market share, therefore, there will be less adverse impacts to the workers compensation system.

In addition, privatization of the workers compensation market would create a critical role for the North Dakota Department of Insurance in regulating the financial condition of all workers compensation insurers, all licensed workers compensation insurance companies would be required to file detailed annual financial statements with the Department of Insurance. Also, PCI suggests that the Committee consider establishing an independent agency/commission to administer the North Dakota workers compensation laws with the ultimate goal of ensuring that workers injured on the job receive prompt payment of lost work time benefits and attendant medical expenses. Many states have created this type of regulatory framework to ensure that an injured worker is receiving appropriate care and benefits.

North Dakota has a history of state-run businesses from banks to insurance companies to grain silos, all these other businesses also have competition and North Dakota businesses and residents have choices, not restricted mandates. Privatization of the North Dakota workers compensation market will offer employers more choices of where to direct their business and to receive the benefits of insuring their commercial insurance needs under an account approach.

Monopolistic state funds like North Dakota's WSI are very limited in that they are not able to offer additional coverages such as the extension of coverage into other states due

to jurisdictional limitations. WSI does offer employers limited multi-state workers compensation coverage for their employees who work temporarily outside the state. However, for those employers whose business operations extend into other jurisdictions, WSI is prohibited from providing other state's workers compensation coverage. Commercial insurers will be able to offer all of the necessary coverages and products to address a North Dakota employer's needs. Employers should not have any restrictions in securing insurance for all of their business needs.

PCI urges the Industry, Business, and Labor Committee to consider privatization of the workers compensation market so that employers will have the advantages and benefits of a free-market system for workers compensation insurance. If you have any questions regarding our comments or need any additional information, please do not hesitate to contact me.

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