Florida Workers Compensation Joint Underwriting Association, Inc.

P.O. Box 48957, Sarasota, FL 34230-5957
• Tel (941) 378-7400 • Fax (941) 378-7405 • www.fwcjua.com

VIA E-MAIL

FWCJUA REINSURANCE COMMITTEE BULLETIN 08-06

TO: Florida Workers' Compensation Joint Underwriting Association, Inc. Reinsurance Committee

FROM: Laura S. Torrence, Executive Director

DATE: 8/11/2008

RE: **AUGUST 19, 2008 REINSURANCE COMMITTEE TELECONFERENCE MEETING**

Enclosed for your review is the agenda for the FWCJUA Reinsurance Committee teleconference meeting scheduled for Tuesday, August 19, 2008 at 10:00 a.m. (Eastern Time). An operator will dial out to the following parties:

Beth Vecchioli	850-224-1585
James Ward	407-562-3303
Tom Maida	850-513-3377
Jim Watford	850-413-5368
Bill Fleischhacker	678-297-2629
Keith Thurman	678-297-2629

All other parties please contact Kathy Coyne at (941) 378-7408, to participate in the teleconference call. Should you have any questions concerning the teleconference call or the agenda, please do not hesitate to contact me.

Enclosure

c: FWCJUA Board of Governors
Tom Maida, *General Counsel*
Jim Watford, *Florida Office of Insurance Regulation*
FWCJUA Interested Parties

AGENDA FOR THE MEETING OF THE REINSURANCE COMMITTEE OF THE FLORIDA WORKERS' COMPENSATION JOINT UNDERWRITING ASSOCIATION, INC. TO BE HELD ON TUESDAY, AUGUST 19, 2008 AT 10:00 A.M. VIA TELECONFERENCE

I.	CALL TO ORDER AND OPENING REMARKS	Beth Vecchioli
II.	ANTI-TRUST PREAMBLE (Attachment A)	Tom Maida
III.	2009 REINSURANCE PROGRAM GOALS AND MARKET STRATEGY (Attachment B)	Laura Torrence Bill Fleischhacker
IV.	COMMUTATION MATTERS (Attachment C)	Bill Fleischhacker
V.	GENERAL ANNOUNCEMENTS	Beth Vecchioli
VI.	ADJOURNMENT AND CLOSING REMARKS	Beth Vecchioli

ANTI-TRUST PREAMBLE

We are here to discuss and act on matters relating to the business of the Florida Workers' Compensation Joint Underwriting Association (FWCJUA) and not to discuss or pursue the business interests of our individual funds or companies.

We should proceed with caution and alertness towards the requirements and prohibitions of federal and state anti-trust laws.

We should not engage in discussions – either at this meeting or in private conversations – of our individual fund's or companies' plans or contemplated activities. We should concern ourselves only with the business of the Florida Workers' Compensation Joint Underwriting Association as set forth in the agenda for this meeting.

Only FWCJUA market matters may be discussed at the meeting and each fund's or company's voluntary market plans cannot be discussed.

2009 REINSURANCE PROGRAM GOALS AND MARKET STRATEGY

The Reinsurance Committee shall consider the proposed attached 2009 reinsurance goals and marketing strategy.

The marketing strategy has been designed to meet the following objectives:

1. minimize policyholder resources devoted to reinsurance;
2. create a program that reflects the proper balance between price and coverage – determining the optimum attachment points;
3. present the FWCJUA's excellent fourteen year experience/performance; and
4. obtain flexibility to accommodate unexpected growth or further depopulation.

Historically, the FWCJUA has maintained a multiple layer excess of loss program. Over the years, the retention and layers have varied; however, the program is currently structured as follows:

XOL Layer	Limit	Retention	Coverage Basis
First	4,000,000	1,000,000	per person/per occurrence, AAD
Second	5,000,000	5,000,000	per person/per occurrence
1st Catastrophe	10,000,000	10,000,000	per occurrence, $5M MAOL
2nd Catastrophe	10,000,000	20,000,000	per occurrence, $5M, MAOL

The Reinsurance Committee shall determine whether the 2009 reinsurance goals and marketing strategy are appropriate.

2009 FWCJUA REINSURANCE GOALS

The depopulation trend which started with the introduction of the tier rating plans in 2004 has continued through 2008. As of July 31, 2008, the FWCJUA had 1,689 policies in-force with a corresponding premium of $12,779,327 compared to 2,438 policies in-force as of July 31 2007, with a corresponding premium of $23,778,590.

The composition of the in-force book of business as well as new business (small contractor dominated) mirrors the 2008 year. However, claim activity involving serious injuries dropped considerably this year compared to last year, while severity and late reported claims remain the most significant claim related conditions. Both current years and cumulative loss results were again dramatically better than anticipated with reserves being adjusted downward. There is every indication that depopulation and favorable development trends will continue through 2009 given that Tiers 1, 2, & 3 have actuarially sound rates and minimum premiums.

The price for the FWCJUA reinsurance program decreased with the departure of Subplan "D" and stabilized with the advent of the Tier Rating Plan – 15.243% in 2005; 15.428% in 2006; 14.118% in 2007; and 10.437% in 2008 – and coverages improved somewhat. We hope to see this trend continue.

We perceive four (4) principal objectives in developing the 2009 reinsurance program:

1. Minimize resources devoted to reinsurance.
2. Create a program that reflects the proper balance between price and coverage – determining the optimum attachment points.
3. Present the FWCJUA's excellent fourteen year experience and performance in the marketplace.
4. Obtain flexibility to accommodate unexpected growth or further depopulation.

We see the three (3) most significant strengths of the FWCJUA being:

1. The successful track record of solving problems through creative and innovative solutions. For example, legislative intervention in the FWCJUA which created Subplan "D" and the resulting deficit was resolved by influencing legislation that allowed for access to Administrative Trust Fund monies to reduce the deficit and created the experienced based Tier Rating Plan to avoid imminent assessments.
2. Consistency in philosophy along with competence and stability of staff. All decisions must first and foremost be sound business decisions and reflect the best interest of the policyholders. The Management Team has been together since 1994/5 and the key service providers (Travelers and General Counsel since 1994, actuary and collections staff since 1995 and the auditor since 2000).
3. An independent and active Board of Governors composed of experienced insurance professionals.

2009 PROGRAM GOALS

The 2009 reinsurance renewal program goals take into consideration the FWCJUA's financial status, excellent past performance, current book of business, and the fact that the 2008 premium, account "mix" and uncollectible premium impact will probably track similar to the 1998 – 2000 and the 2005 - 2007 policy year/accident year profiles. The goals are:

1. Design the program based on projected 2009 earned premium level of $12.0 million and a policy count of 1,700.
2. Approach the 2009 program design by questioning the current structure and asking "is there an effective alternative structure or mechanism – e.g., combination risk transfer product/reinsurance program – that fits the FWCJUA from 2005 – 2008?" Step "out of the box" and place a risk assessment on various "creations" from dollar one to cat only programs.
3. Conduct a risk assumption analysis in conjunction with either the intermediary's actuary or the FWCJUA's consulting actuary that describes how much risk the FWCJUA could assume at various attachment points and the implications of that risk assumption.
4. Determine if a "new" profit share valuation / computation feature is advisable or available.
5. Obtain, where possible, collateral arrangements to be implemented in the event of reinsurer financial problems (e.g., Converium & Quanta).
6. Attempt to get NBCR coverage in the regular program by removing the exclusion from the contract in 2009.
7. Evaluate the financial conditions of all current reinsurers and advise what actions, if any, are required.
8. Take whatever steps are appropriate to ensure that both current and potential markets are fully accessed.

9. Specifically, the 2009 program should:
   a. reduce rate and/or index it to unanticipated premium growth *(A reduction in overall rate or product cost, is the target.)*; The index to "unanticipated premium growth" has been included in the contracts since 2004. Although the circumstances which would trigger this provision of the contract seem rather unlikely at this time, the language should be retained;
   b. include a "one way" cancellation clause to allow the JUA to deal with dramatic reductions in premium at a minimal cost;
   c. protect the FWCJUA in the event of financial difficulties of the reinsurers;
   d. determine the optimum reinsurance coverage; strive to reinstate prior exposure types that were excluded; and review the AAD's, MAOLs and attachment levels (consider higher attachment points similar to the 2008 program, i.e. $1M or $2M since the FWCJUA is in a surplus position);
   e. provide alternative approaches to obtain equivalent, better or different reinsurance coverage;
   f. obtain more favorable minimum premiums or, at the minimum, retain 2008 levels and spread the minimum premium for at least the first and second excess layers over a minimum of two years from January 1, 2008 through December 31, 2009 to help relieve any potential minimum premium penalty resulting from the FWCJUA's decreasing premium volume; and
   g. obtain statutory limits if such a program is available at a reasonable price.

<u>MOST SIGNIFICANT ANTICIPATED IMPACTS FOR 2008:</u>
The FWCJUA shall remain a single-line insurer underwriting workers' compensation and employer's liability residual market coverages in Florida with actuarially sound rates. Since 2004, the FWCJUA has been both stable in the composition of the book of business and consistent in performance/loss development. Over the years, the positive loss development has exceeded actuarial expectations and resulted in dramatic reductions in all accident years' loss reserves. There has been very little reinsurance activity and few payouts in the past and no projected increases in activity for 2009. The claim reforms introduced in 2003 have undoubtedly improved performance and when combined with the experienced Travelers' adjusting team and the FWCJUA's proactive claims management approach, the loss results have come in well below forecasts.

At this point in time, depopulation of the book of business is projected for 2009 – it is anticipated that:
1. there will be another rate decrease in the voluntary market;
2. subplan claims will continue to run-off with closings increasing as the claims mature;
3. the FWCJUA will write in the range of $10M to $12M in premium; and
4. the stable service environment will be maintained as the Travelers' contract for policy administration/managed care services will renew in 2009 for another 3 years, Milliman's engagement as the FWCJUA's Actuary was also extended through 2011, and Benfield Group was selected as the FWCJUA's reinsurance intermediary for the next 3 years. As of this time, the financial auditor for year-end 2009 and beyond has not been determined; however, it should be noted that the FWCJUA is extremely satisfied with its current engagement of Thomas Howell Ferguson.

<u>2009 PROGRAM CONSIDERATIONS</u>
There are several conditions that we feel will continue well into 2009:
1. For purposes of reinsurance purchase, $12M in earned premium and 1,700 polices should be used.
2. We do not anticipate growth in 2009 for the following variety of reasons:
   a. Coverage is available and actively being written in the voluntary market.
   b. There appears to be no discernable changes in voluntary market underwriting requirements, restrictions and/or alterations in leasing company (PEO) selection criteria or rule changes governing the status of "non-reported" or non-leased employees.
   c. Voluntary market insurers appear to be able to obtain favorable reinsurance arrangements.
   d. Tthe sluggish economy, particularly the housing construction slump, is expected to continue.
   e. The price differential between the FWCJUA rates and the voluntary market rates as well as the FWCJUA's "unattractive" producer fee schedule should continue to encourage producers to secure coverage for employers within the voluntary market.
   f. Employee leasing operations should continue to provide coverage for the small employer, including some contractors.
   g. The take-out/keep-out programs were enhanced in 2008 and will continue to be exploited.
3. The exposures – mix of business – should remain consistent:
   a. We anticipate that the current industry distribution will continue into 2009 with the contracting and goods and services groups comprising the majority of policyholders with a significant number of those being minimum premium policies. This situation will continue to expose the FWCJUA to the single catastrophic loss while limiting frequency. Further, it is anticipated that the

past three years' loss history of the construction trades, accounting for 56% of the claims and 40% of the loss dollars will continue.

   b. The FWCJUA will continue to write a few accounts that are in Chapter 11. However, to be eligible for coverage, the account must pay the entire Estimated Annual Premium prior to binding. A recent study of all FWCJUA bankrupt accounts indicates that the programs and procedures currently in place are effective in virtually eliminating collections as an issue for accounts in bankruptcy at time of entry into the FWCJUA. Taking bankruptcy after the fact will always be a problem.
   c. The 34 - 36% "mid-term" cancellation rates experienced in the past will continue into 2009.
   d. Certain classes, such as small aviation exposures, charitable organizations, and other exotic exposures that are "unattractive" to reinsurers of voluntary market carriers will continue to be placed in the FWCJUA.
   e. The book of business is and will continue to resemble that of 1994 – 1996 and 2003 - 2005 in policy composition as well as types of claims. The one exception is accident year 2004 which certainly was an aberration as a result of Subplan "D". As such, the reinsurers should be far more confident in their ability to predict future performance than they have been for the most recent years.

4. The 2003 SB 50A claim reforms, the 2004 HB 1251 rating plan adjustments, and more enticing keep-out/take-out programs will continue to have a positive impact on the FWCJUA in 2009. Both the voluntary and residual markets will continue to receive the savings produced by the 2003 claim reforms resulting from the reductions in litigation activity, partitions filed and alternative medical evaluations requested. The legislation addressed additional conditions that are of particular relevance to the FWCJUA such as those sections dealing with illegal alien activity, prior injury contributions and those that produced improved claim handling efficiencies. A significant benefit of the reforms – restrictions on the claimant attorney's fees – is being tested in the courts and has "stood up" to the first two levels of appeal and anticipate a Supreme Court ruling sometime this year. However, increasing medical costs remain a concern in both markets making the FWCJUA's mandatory, well established managed care arrangement and catastrophic claim management programs even more significant.
5. The surcharges on Tier 1, Tier 2 and Tier 3 are actuarially sound. The voluntary market may experience a slight rate increase for 2009, due to a soft economic market, which will ultimately affect the FWCJUA's basic rates (without surcharges).
6. The current keep-out/take-out program that allows the insurer who writes an FWCJUA applicant or policyholder to charge the FWCJUA rate for three (3) years is projected to place more employers in the voluntary market in 2009 as the "MAP Partnership Program" is completely implemented. This program provides the producers direct access to multiple voluntary markets that they may not otherwise have contractually available to them prior to submitting the application to the FWCJUA.
7. The subplan rating programs were terminated on June 30, 2004 with policies and claims now in run-off. Of the 378 Subplan "D" claims with a total incurred of $12,402,656, only 11 remain open for $5,494,579.
8. Travelers will continue to be the policy administration/manged care service provider through 2011.
9. The 2008 and 2009 premium assumptions/projections will be revised each quarter and the Broker will be advised of any changes.
10. The FWCJUA will conduct a rate review in conjunction with the NCCI in the fall and respond appropriately.
11. The FWCJUA has **reduced reserves** for the eleventh consecutive year.

Some of the factors working against reductions in excess reinsurance pricing would include:

1. The depopulation of the FWCJUA, for several reasons:
   a. Lower premium volumes create greater volatility within the remaining business.
   b. When a residual market shrinks, it is presumed to keep that portion of its book which would be least attractive to voluntary market insurers.
   c. Decreasing economies of scale require a greater percentage of reinsurance premium to address reinsurers fixed costs.
2. If there is a proposed Florida rate decrease which is generally seen as a reason for reinsurers to raise rates against premium. However, the FWCJUA is able to set surcharges to reach rates which will be actuarially sound.
3. Increases made to incurred values of several large claims in the last two years.

SPECIAL REQUIREMENTS

There are certain "realities" that need to be considered in developing the 2009 program:

1. Effective communication with the FWCJUA, the Reinsurance Committee, and the Board of Governors is essential to the efficient development and on time implementation of a successful 2009 program.
2. Given the Board of Governor's fiduciary responsibilities and the potential for assessments, the balance between coverage and price as well as the reinsurer's financial strength must be managed to the FWCJUA's benefit.

BASIC FWCJUA ONGOING ISSUES

Regardless of the ultimate size or structure of the 2009 residual market, the following basic, long standing FWCJUA issues should be considered in developing the 2009 reinsurance program:

1. *Program Risk v Cost*. The FWCJUA now has a consistent history of rate adequacy and annual reductions in reserves due primarily to a consistent conservative loss development posture but also to aggressive claims management. It is important to note that since inception, the FWCJUA has experienced only 275 claims of $100,000 or greater total incurred and of those only 24 ($30.7M) exceed $500,000 and 9 ($20.9M) exceed $1,000,000. There have been no claims above $4,946,747.
2. *Reinsurer Financial Condition.* The financial condition of current and potential reinsurers remains a concern and will require consideration and evaluation again this year. Given the industry's property problems, special attention should be paid to those with significant property books.
3. *Minimum Premiums.* As premium stabilizes or even decreases with depopulation and/or a possible decrease in voluntary market rates, managing the reinsurance rate becomes very important. The program should compensate for premium volume by exploring alternative rating structures such as indexing rate to premium. Minimums should not be forgotten nor should the possibility of utilizing alternative premium subject bases such as collected premium.
4. *Assumption of Risk.* Coverages were reduced, altered or modified in the past for many good reasons – not required, too expensive or not available – and with depopulation and the excellent experience, they must again be reviewed: 1) evaluate/determine all attachment points; 2) evaluate the use of AAD's and if the "trade-off" is not sufficient, consider retaining the layer; and 3) determine the appropriate MAOL coverage.
5. *Terrorism Exposure.* Given the size of the FWCJUA TRIA deductible, the Board may wish to consider the purchase of a commercial product that would cover the "NCBR" perils currently excluded from reinsurance coverage.
6. *"Exotic" Exposures.* The inclusion of the "exotic" exposures (such as cumulative trauma, asbestosis, aviation, strip mining, and mold if not universally excluded, etc.) is important even though we currently have little or no known exposures. The availability of those coverages was the primary reason the Board elected to purchase the more expensive casualty-based program. The Board felt that as the Florida residual market, the FWCJUA could not exclude those coverages should the employer meet all other eligibility criteria.

UNDERWRITING FACTORS - EXPOSURE

Two 2008 studies are available upon request that present complete data (applications bound, policies in-force and claim activity) "sliced" in such ways to provide a thorough analysis of the Book of Business. The first is the 2007 Travelers/FWCJUA Operations Review completed in April 2008. The second study is the 2008 Cause of Loss & Safety Program Analysis also completed in April of this year.

The following specific underwriting factors should be considered when pursuing the 2009 renewal. Further, it should be noted that the below data is taken from applications bound as this represents the accounts that the FWCJUA is putting on the books thus, an accurate point-in-time "snapshot" of the Florida residual market.

Distribution – Premium (Tier Rating Plan)

The 2009 projections are based upon Tier Rating Plan distribution of applications bound from 07/01/04 through 06/30/2008 and applied to 1,700 polices and $12,000,000 in premium.

2009 Tier Distribution Projections Based Upon 1,700 Policies and $12M Premium*			
Element	**Tier 1**	**Tier 2**	**Tier 3**
# @ 1,700	791	612	297
$ @ $12,000,000	3,900,000	3,600,000	4,500.000
% of #	46.5%	36.0%	17.5%
% of $	32.5%	30.0%	37.5%

*Based upon applications bound.

The 2006 - 2008 Tier distribution displayed below and is anticipated to be similar 2009:

Applications Bound 01/01/2006 Through 06/30/2008 – By Tier									
	2006			2007			2008		
Apps	**Tier 1**	**Tier 2**	**Tier 3**	**Tier 1**	**Tier 2**	**Tier 3**	**Tier 1**	**Tier 2**	**Tier 3**
# Bound	89	1,063	334	95	535	270	32	133	68
$ Bound	841,393	7,327,619	8,466,931	581,917	3,194,037	4,414,322	275,714	965,754	1,078,225
% of #	6.0	71.5	22.5	10.6	59.4	30.0	13.8	57.0	29.2
% of $	5.0	44.0	51.0	7.0	39.0	54.0	12.0	41.6	46.4

*Based upon applications bound.

Distribution – Exposure (Industry Group)

The 2006 – 2008 Industry Group & Minimum Premium distribution displayed below is anticipated to be similar in 2009:

Distribution of Tier Applications & Minimum Premium Applications By Industry Group - 01/01/2006 to 06/30/2008									
01/01/2006 – 12/31/2006									
Element	**Mfg**	**Contract**	**Clerical**	**Goods & Services**	**Misc**	**USL&H**	**Maritime**	**Other**	**Total**
Premium	410,541	7,114,831	2,938,693	3,678,319	2,290,719	0	143,416	59,424	16,635,943
Number	28	768	204	292	179	0	4	11	1,486
% Total #	1.9	51.68	14.0	19.65	12.0	0.0	0.3	0.74	
% Total $	2.5	42.82	17.6	22.0	13.76	0.0	0.86	0.36	
Min Prem	8	338	21	80	63	0	0	5	515
% Total	0.54	22.7	1.4	5.4	4.2	0.0	0.0	0..34	
% Group	28.57	44.01	10.2	27.4	35.2	0.0	0.0	45.45	
0 Payroll	5	199	3	20	31	0	0	0	262
% Total	0.34	13.39	0.20	1.35	2.0	0.0	0.0	0.0	
% Group	17.86	25.91	1.47	6.85	17.32	0.0	0.0	0.0	

*Based upon applications bound.

Distribution of Tier Applications & Minimum Premium Applications By Industry Group - 01/01/2006 to 06/30/2008									
01/01/2007 – 12/31/2007									
Element	**Mfg**	**Contract**	**Clerical**	**Goods & Services**	**Misc.**	**USL&H**	**Maritime**	**Other**	**Total**
Premium	133,548	3,301,219	1,862,394	1,559,512	1,147,808	0	99,920	85,875	8,190,276
Number	14	423	170	186	93	0	3	11	900
% Total #	1.6	47.0	18.89	20.67	10.33	0.0	0.33	1.22	
% Total $	1.63	40.31	22.74	19.04	14.01	0.0	1.22	1.05	
Min Prem	3	206	11	34	23	0	1	1	279
% Total	0.33	22.89	1.22	3.78	2.56	0.0	0.11	0.11	
% Group	21.43	48.70	6.47	18.28	24.73	0.0	33.33	9.09	
0 Payroll	1	113	2	15	13	0	0	0	145
% Total	0.11	12.56	0.22	1.67	1.44	0.0	0.0	0.0	
% Group	7.14	26.71	1.18	8.06	13.98	0.0	0.0	0.0	

*Based upon applications bound.

Distribution of Tier Applications & Minimum Premium Applications By Industry Group - 01/01/2006 to 06/30/2008									
01/01/2008 – 6/30/2008									
Element	**Mfg**	**Contract**	**Clerical**	**Goods & Services**	**Misc.**	**USL&H**	**Maritime**	**Other**	**Total**
Premium	32,624	635,339	511,955	698,130	370,630	0	0	71,015	2,319,693
Number	3	91	42	64	25	0	0	8	233
% Total #	1.29	39.06	18.03	27.47	10.73	0.0	0.0	3.43	
% Total $	1.41	27.39	22.07	30.10	15.98	0.0	0.0	3.06	
Min Prem	0	44	5	7	9	0	0	3	68
% Total	0.0	18.88	2.15	3.0	3.86	0.0	0.0	1.29	
% Group	0.0	48.35	11.90	10.94	36.0	0.0	0.0	37.50	
0 Payroll	0	30	0	4	3	0	0	0	39
% Total	0.0	12.88	0.0	1.72	1.29	0.0	0.0	0.0	
% Group	0.0	32.97	0.0	6.25	12.0	0.0	0.0	0.0	

*Based upon applications bound.

EXPOSURE – SERIOUS INJURIES

Distribution – Serious Injuries

A Serious Injury/Special Interest Claim is defined as any claim involving: 1) a fatality, amputation, spinal cord damage, brain damage, blindness, extensive burns, or multiple fractures; or 2) multiple claimants for a single occurrence; or 3) there are significant coverage issues or major SIU involvement; or 4) the total incurred exceeds $100,000. Below is a chart reflecting the distribution of large claim activity ($100,000 or greater

Total Incurred) by accident year and status from 01/01/1994 to 06/30/2008. Additional detail is available in the 2008 Cause of Loss & Safety Analysis.

Accident Year	Total #	Total $	# Open	$ Open	Avg. Claim	% of AY Tot # Open	% of AY Tot $ Open
1994							
100K or >	50	$11,604,013	1	$719,418	$232,080	0.92%	6.19%
All Claims	1595	$21,651,837	2	$799,471	$13,574	0.125%	3.69%
1995							
100K or >	68	$15,369,998	1	$1,042,836	$226,029	1.47%	6.78%
All Claims	2013	$27,256,700	4	$1,255,791	$13,540	0.19%	4.60%
1996							
100K or >	38	$11,669,472	1	$3,498,561	$307,091	2.63%	29.98%
All Claims	1033	$19,780,283	1	$3,498,561	$19,148	0.096%	17.68%
1997							
100K or >	13	$2,126,880	0	$0	$163,606	0.00%	0.00%
All Claims	467	$5,462,037	0	$0	$11,696	0.00%	0.00%
1998							
100K or >	15	$2,809,874	1	$589,631	$187,325	6.66%	20.98%
All Claims	259	$5,130,276	2	$671,078	$19,808	0.77%	13.08%
1999							
100K or >	4	$5,140,365	2	$4,708,127	$1,285,091	50.00%	91.59%
All Claims	76	$5,588,546	2	$4,708,127	$73,533	2.63%	84.24%
2000							
100K or >	6	$1,669,500	0	$0	$278,250	0.00%	0.00%
All Claims	73	$2,318,909	0	$0	$31,765	0.00%	0.00%
2001							
100K or >	3	$439,754	1	$170,409	$146,584	33.33%	38.75%
All Claims	87	$968,149	1	$170,409	$11,128	1.14%	17.60%
2002							
100K or >	1	$311,352	1	$311,352	$311,352	100.00%	100.00%
All Claims	175	$1,786,127	2	$387,813	$10,206	1.14%	21.71%
2003							
100K or >	15	$3,651,888	2	$1,477,996	$243,459	13.33%	40.47%
All Claims	487	$8,038,700	6	$1,707,195	$16,507	1.23%	21.63%
2004							
100K or >	27	$11,503,463	7	$5,694,246	$426,054	25.92%	49.50%
All Claims	782	$18,185,897	17	$6,145,199	$23,255	2.17%	33.79%
2005							
100K or >	19	$9,374,232	6	$5,720,056	$493,380	31.57%	61.01%
All Claims	538	$13,661,571	18	$6,292,261	$25,393	3.34%	46.05%
2006							
100K or >	11	$2,521,059	6	$1,512,774	$229,187	54.54%	60.00%
All Claims	412	$5,598,827	29	$2,210,758	$13,589	7.03%	39.48%
2007							
100K or >	5	$1,075,179	5	$1,075,179	$215,036	100.00%	100.00%
All Claims	198	$2,423,402	31	$1,813,304	$12,239	15.65%	74.82%
2008							
100K >	0	0	0	0	0	0.00%	0.00%
All Claims	61	$358,339	27	$308,435	$5,874	44.26	86.07%

Experience - Severity

For all accident years, the FWCJUA has experienced a severity problem rather than frequency issues and the 2006, 2007 and 2008 year to date accident years provide a more typical than unique profile of the FWCJUA's fourteen year history and the indications are that the same type of serious injuries will occur in 2009 and for the same reasons. There are many reasons for this situation but the most prevalent are:

1. Nature of the predominate business being written – small contractors and small businesses that have few employees and fewer claims per policy and rely heavily on:
    a. contract short term labor (many of the claimants were on the job less than three days (mandatory time required to report payroll);
    b. a percentage of uninsured sub-contractors;
    c. workers and subcontractors paid in cash;
    d. illegal and semi-legal workers; and
    e. misconceptions regarding employee and independent subcontractor statutes.
2. Nature of the labor force:
    a. certain percentage of the workforce unaware of effective risk management techniques;
    b. the existence of some language barriers;
    c. a lack of transferable skills;
    d. misconception regarding the employer – employee relationship; and
    e. a reliance on labor contractors to provide short term employees.
3. Late reported or un-reported claims (only 65% of FWCJUA claims are reported within the first seven days) that encourage reporting by attorneys and health care providers.
4. Lack of risk management and safety knowledge/equipment usage.
5. Lack of understanding of the workers' compensation "system" and its purpose and the impact of light duty program availability.
6. No claim "internal" investigations other than those conducted by FWCJUA/Travelers SIU, police, OSHA and/or Travelers Loss Control & Safety engineers.
7. Insureds that are less than honest in their reporting of payroll and claims; lax or no employment practices or records; and are unreliable at best and uncooperative at worst throughout the adjudication process.
8. Difficulty in finding the actual employer and non-cooperation throughout the adjudication process.
9. Partial involvement of PEO's and leasing organizations – i.e., three crews on the job, two insured via the PEO and the third paid directly by the employer usually in cash; Injured Worker therefore not reported to the PEO and is judged to be uninsured and a 'food chain" claim results with the general contractor having to pick up the claim when the GC was provided with a presumably valid Certificate of Insurance.

The data further suggests that over the years and especially since the implementation of the claim reforms of 2003, the FWCJUA/Travelers Team has been quite successful in dealing with the severity issues. The most significant reasons are:

1. First and foremost is the FWCJUA philosophy of closing claims as soon as it is practical to obtain a settlement that is beneficial to the FWCJUA policyholders and fair to the claimant.
2. Of equal significance is the fact that the Travelers' adjusting team has been together essentially since 1995 with the large loss (serious injury) adjusters having over 20 years experience each. The Travelers Orlando claims management and Home Office large claims unit has been actively supervising the FWCJUA account since 1995. This stability coupled with the FWCJUA staff and the Litigation Manager being the same since 1995 and actively involved in the process has allowed the claim handling practices to remain consistent and for statutory changes to be implemented promptly.
3. The FWCJUA – Travelers Team immediately recognized the significance of the 2003 reforms and pursued their application aggressively.
4. The industry, especially the FWCJUA, continues to realize the impact of the reforms on yearly results. [The FWCJUA's favorable reserve development occurring in prior years has helped produce substantial positive reserve adjustments.]
5. The case by case application of the 2003 reforms has encouraged more effective claims handling which allows claims to be settled more quickly and reasonably; e.g.:
    a. Settlement/Closure of claims occurs faster due to less extraneous attorney activity on specific claims and claims in general, allowing adjusters and their supervisors to concentrate on adjudicating claims efficiently. (Actually there is not less representation for FWCJUA claims due to the reasons sited above but there is certainly less activity surrounding each represented claim and thus more incentive to settle).
    b. Statute revisions have strengthened the handling of illegal aliens and fraudulent claims, which produced more reasonable settlements concluded over shorter time frames.
6. The composition of the book of business has remained relatively consistent over the past several years which allows for a consistent approach to claims handling.

Loss Experience

The FWCJUA has ***excellent loss experience*** to date. Performance has been outstanding over the past few years:

1. Claim activity has been consistent with only nine (9) claims exceeding $1M, with six (6) open; and fifteen (15) claims between $500K and $1M of which eight (8) remain open; and fifty-one (51) claims from $250K to $499,999 of which four (4) are open.
2. Even though policy counts and applications received have declined, 2008 monthly claim activity remains below the fourteen year average and is considerably less than the same period in 2007 - the monthly average since 1994 is 49 claims while the 2007 monthly average is 17 claims and to date for 2008 it's only 5.
3. The ratio of Lost Time to Medical Only claims continues to be in the 60:40 range.

TIMETABLE

The following timetable is suggested:

July

1. Broker presents the general program concept and market approach.

August

1. Broker finalizes the Underwriting / Submission data requirements and delivery schedule and submits to the FWCJUA.
2. Broker advises FWCJUA of potential market's special underwriting / claim information requirements.
3. FWCJUA submits requested original data to broker (As of 06/30/2006 & all 2005 financial data that they do not already have).

September

1. FWCJUA and broker agree on the 2008 Reinsurance Renewal Program goals.
2. Broker designs the proposed program, meets with the Reinsurance Committee and takes the program to market.
3. FWCJUA provides updated premium and loss information.

October

1. Broker and staff present the FWCJUA "story" to reinsurers.

November

1. Broker provides the Reinsurance Committee with the consensus terms for each contract as provided by the reinsurers and a quote. Also, modeling of the various options.
2. Reinsurance Committee makes recommendations to the Board.

PMA COMMUTATION UPDATE

As the Committee may recall, the FWCJUA provided an initial offer to PMA in April, which was viewed by the reinsurer to be too high. Several discussions occurred between Benfield and PMA to try to close the gap, specifically addressing the individual open claims, discounting rates, and IBNR. Though at one point a counteroffer seemed forthcoming, over two months of discussion with PMA did not produce one. As the details of the sale of PMA Re to Armour Re were made public, it appeared that PMA may have been limited as to how much they could offer in a commutation to the FWCJUA. At that point, the FWCJUA pulled its commutation offer to PMA off the table. Commutation may be further explored after the sale to Armour Re is complete. Based on Benfield's records, as of this date, PMA is current on all of its obligations to the JUA.

No Committee action is required on this agenda item.