

# BEST'S REVIEW® ISSUES & ANSWERS: WORKERS' COMP AND MEDICAL PROFESSIONAL LIABILITY INSURANCE

Industry professionals discuss the role of actuaries in the workers' comp line and how technology is impacting medical professional liability writers.



## Interviewed Inside:



**Tim Mosler**  
*Pinnacle Actuarial Resources*

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## Commitment Beyond Numbers.

The operative word is 'commitment.'

$$E(c_{y+1}|c_{ij}) = f_j c_{ij} \quad \sqrt{E(d_{ij})} \quad \text{Var}(Y) = E(\text{Var}(Y^2|Z)) + E(E(Y|Z)^2) - (E(Y|Z))^2 \quad F_{ij} = \frac{c_{ij+1}}{c_{ij}} \quad E(c_{y+1}|c_{ij}) = f_j \quad \text{Var}(f_j) = \sigma_j^2 / \sum_i c_{ij}$$

**Pinnacle is committed** to our employees, to our profession, to our community, and most importantly, to you.

A full-service actuarial firm, Pinnacle's mission is simple: We're here to provide professional expertise and superior customer service. Through data-driven research backed by clear communication, we work hard to ensure that our work is of substantial value to your business. You can trust Pinnacle's commitment to work with you to look beyond today's numbers in planning for tomorrow.

### Commitment Beyond Numbers



- Alternative Markets
- Enterprise Risk Management
- Legislative Costing
- Litigation Support
- Loss Reserving
- Predictive Analytics
- Pricing and Product Management
- Reinsurance

# Actuaries in Time of COVID

Tim Mosler, Principal and Consulting Actuary with Pinnacle Actuarial Resources, said that if employers are met with increased workers' compensation rates due to COVID, they can shop around.

"There's still a lot of competition in the workers' comp market, which is perhaps counterintuitive in a time of crisis like this pandemic, but we're still seeing rate decreases," he said.

## What is the role of the actuary and workers' comp?

It's all related to estimating the cost of future events. That comes through in a variety of projects. The two most frequent ones are rate analyses and reserve analyses. In the rate analysis, we're projecting rates to charge for coverage in a future period. In a reserve analysis, we're estimating how much the insurer should hold at a particular point in time to settle all of the outstanding claims. That's particularly important in workers' compensation because claims can stay open for so long that frequently you see a situation where more of the claim is left to be paid than has been paid already.

## How is the COVID-19 pandemic changing that role?

It makes it tougher. There's always going to be some uncertainty in predicting future events. Most of the time, we feel confident within a certain range. COVID-19 creates the chance of much higher outcomes, through many more claims being added to the system. Because of that, there's a risk that we're off significantly to the low side, which is exactly where we don't want to be for our clients.

## What are the long-term implications for the workers' comp industry as a result of the pandemic?

The first is the risk of mass insolvencies, the idea that it's going to put insurers out of business, but that feels relatively low to me in this period of relatively high profitability. The bigger risk is compensability for a large set of COVID claims being decided by a judge or the executive branch leaving insurers ultimately responsible for claims they never considered when setting rates. If that happens, insurers could be hesitant to insure certain classes, like healthcare workers, going forward. That could result in an availability problem similar to that caused by terrorism for policies issued in 2002. That could lead to a federal backstop for pandemics as we move forward. There is one such proposal right now called the Pandemic Risk Insurance Act, or PRIA. If that were to come to pass, then there would be an optional federal backstop for those companies that wanted to buy into it.

## How can insurers and actuaries work better together?

The keys to that relationship are communication and data. In terms of the data, every insurer should know which claims in their



## Tim Mosler

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loss run are COVID claims. That gives the actuary an option to analyze those claims separately. If the amounts are small, they can be included in the analysis knowing they won't distort the results. At the very least, it lets the actuary get a handle on how much the data has been skewed by COVID claims. The same holds true with premium and payroll. With premium and payroll data, the real question is whether those are estimates or whether they've been adjusted to reflect the pandemic conditions. Actuaries would prefer the latter, but it's more work for the insurers. On the soft data side, insurers need to educate actuaries on the laws of their states so that we know about those presumptions and know what the risk is. The insurer may be in a state where COVID claims are generally not covered and then it's a minor issue in the actuary's work. Or, the insurer may be in a state where the judiciary is taking the stance that if there's any way COVID might have come from work, then it is a workers' comp claim. In that case, COVID claims need stronger consideration by the actuary.

