Insurance Times: Eastern Casualty withdrawal shocks Mass. WC markets Insurer exits rather than suffer additional losses
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It was early on Sept. 4 when the rumors started coming in at Atlantic Charter Insurance Co. in Boston.

The jump in agent phone calls followed later that afternoon, with many seeking to place their Eastern Casualty books of business with Atlantic instead.

That's when Linda Sallop, head of Atlantic Charter, knew Eastern was really making good on its promise to leave the Massachusetts workers compensation market if regulators didn't approve the company's requested rate increase.

"Agents have large books of business with Eastern," Sallop said.

"Eastern is a huge carrier…. The books represent lots and lots of premium … There are millions of dollars right now on the street looking for a home."

Massachusetts' third largest writer of workers compensation insurance – decided to pull out of the Bay State market entirely two weeks ago rather than face future potential losses without the rate increase it aggressively sought.

"The company is financially healthy," said Jim Radley, Eastern Casualty's chairman and CEO, in an InsuranceTimes interview.

"But you don't stay (healthy) by continuing to incur losses on the basic product you're in business to sell."

Eastern Casualty of Marlborough is creating huge waves among companies and agencies with its decision to get out of workers compensation in Massachusetts after 22 years in business covering the line.

About 96 percent of Eastern Casualty's business is in workers compensation and the company has more than 16,000 Massachusetts policyholders, whose accounts are handled by more than 600 independent agents and brokers in the Bay State.

Last year Eastern Casualty wrote approximately $100 million in premium.

Non-renewals start on Oct. 1 and will continue through Sept. 2, which would likely start a scramble during prime renewal times such as Jan. 1 and July 1.

"We're losing one of the major players, and probably the major player in the workers compensation marketplace as it impacts independent insurance agents," said Frank Mancini, executive vice president of the Massachusetts Association of Independent Agents.

Mancini said the loss is a significant one "not only for the workers compensation marketplace in general but independent insurance agents in particular."

Mancini said hewas surpised Eastern Casualty chose to simply pull out of the state's workers compensation market.

"These is a very extreme move by the company to virtually go out of business," Mancini said.

Radley said the move doesn't affect Eastern's package coverage business or its workers compensation business in Vermont, New Hampshire, Connecticut and Rhode Island at the moment.

"But," he said, Eastern is evaluating "what our other alternatives are.

"We will make those decisions as we go along and look at other opportunities," he said.

"Whatever opportunities there may be in the future we will evaluate them."

Those decisions, he said, could including shifting to "other lines of coverage in other states, the opportunity to sell services, a whole number of things."

Eastern employs more than 230 people. Radley said 20 have already been laid off, though staff would likely remain over time to handle claims over time.

Eastern notified employees of its decision with a Sept. 4 memorandum that says the company's decision to pull out of the market "was not an easy one and comes after months of searching for a reasonable and practical alternative."

Radley's memo blames five workers compensation rate cuts since 1993 – leaving rates at less than 41 percent their 1993 levels — for creating a harsh climate for the line in Massachusetts.

At the same time, he said, costs continue to go up and reform legislation has stopped producing savings.

Eastern Casualty, he said, lost more than $22 million over the last two years and is losing more this year.

"No business can survive for long under these conditions," he wrote.

He also told employees that the company would "attempt to provide as much assistance as possible to those who need

help finding new jobs."
DOI Spokesman Christopher Goetcheus said it was "unfortunate when an insurer with a large percentage of market-share chooses this decision."
But, Goetcheus said, the marketplace "is in sound enough shape that other insurers will jump in and fill the void that Eastern (makes) when it leaves."
Atlantic Charter's Sallop wasn't so sure.
She said her company is doing "a battle plan" to handle the extra business and "figure out what to do in terms of this kind of growth."
But she said Eastern's departure is only a business opportunity "if you believe the business is adequately priced.
"But more of a losing item is never good. Eastern's whole point is they don't have adequate rates, and the 1-percent (WCRB-negotiated rate hike) still falls short of what the industry needs to have an adequate rate.
"A lot of people who are insured today voluntarily through Eastern Casualty may not be able to find a home in the voluntary market because of the rates.
"That's the what this story is really about."
The WCRB reports that the assigned risk pool as of May increased from 4 to 6 percent; more current statistics were unavailable.
Goetcheus points out that the pool level was much higher in the early 1990s at more than 50 percent of premium.
"A very ever-so-slight uptick in the residual market does not make for a warning sign in the overall condition of the marketplace."
Meanwhile, A.M. Best has placed Eastern's financial strength A rating under review because of the company's decision to leave the market.

On Its Own
Eastern left the Workers Compensation Rating and Inspection Bureau last year to go on its own.
The WCRB and its members settled on a negotiated 1-percent rate increase, but Eastern Casualty plowed ahead with its own rate case, aggressively seeking an 11.6 percent rate hike. The company earlier in the summer announced it would stop writing new business pending resolution of its case.
The State Rating Bureau recommended a massive rate cut instead.
Commissioner Linda Ruthardt rejected Eastern's request, in part, because the company didn't use methodologies like loss development, trends, expenses and underwriting data to calculate its request.
Ruthardt invited Eastern to refile its request, but Radley, quickly ruled out that possibility.
"It would be nothing more than another dog and pony show like the one we went through," Radley said.
Radley said that the company followed the law in completing its filing and criticized the SRB and Ruthardt for saying "actuarial prognostications would have been preferred to actual financial results.
"Audited financial statements are standards that are relied upon for accurate presentation of financial results in any industry," he said.
Eastern also decided to not appeal the decision in court.
Radley said he regrets having to end Eastern Casualty's workers compensation business, and said he also ruled out selling it to a competitor.
"At this point and time there wouldn't be any buyers willing to pay a reasonable price for the business," he said.
"The business is worth more existing as it is without losing money on workers compensation than it would be to a current buyer…. There is absolutely no investment banking money that would go into the insurance industry right now."
Even with all that's happened, Radley said, he doesn't regret leaving the WCRB and attempting to establish a separate rate.
"We left the (WCRB) because we wanted to go our own way and find out if there was some way to turn the tide and start creeping back to profitability," he said.
"We tried," he said. "The other decision was to simply pull out of business prior to the (rate case) decision, simply for the losses. We plowed ahead because it was worth seeing if it would work."
What's more, Radley said, the decision shouldn't be a surprise because he testified during the rate case that Eastern Casualty would withdraw from the Massachusetts workers compensation market if it didn't get its rate increase.
Radley said adequate rates are simply long overdue.
"In 1977, the restaurant workers compensation rate was $2.05 per $100 of payroll," he said. "The current restaurant rate is $2.08 per $100 of payroll …. "
With the lack of rate changes, he said, "you don't have to go and do a Harvard business school study" to see that "there is a good chance you're not going to be profitable.

“That’s just pure logic.”
Radley said he could have stuck out the cyclical changes in the market but didn’t want to “lose another $20 to $30 million” until the market turns around.”
He also criticized the SRB for being “improperly constituted” for not having a certified public accountant or “mathematician” on staff.
Radley said Ruthardt, if she “intended to give us our fair evaluation” in the rate case, “would have hired a CPA to give us an evaluation rather than an actuary” contracted by the SRB.
SRB Director Robert MacNicholl defended the SRB and said that his department has had plenty of qualified actuaries under contract over the last few years. Department attorneys, he said, are well qualified and “combined have over 30 years litigation experience” handling rate cases.
Eastern’s pure loss ratio is 61.5 percent for 2000 and MacNicholl said the number is a good one.
Radley cites the company’s combined loss ratio of 110.7 percent as cause for alarm and says the number should be under 100.
MacNicholl agreed that a combined loss ratio “of 100 is not adverse,” but he said that Eastern included data in the number that it shouldn’t have, such as business from other states and lines.
Radley said Eastern has even stopped using the schedule credits of up to 25 percent since earlier this year and that many companies aren’t using their deviations and schedule credits filed with the DOI because of rate problems.
But MacNicholl said companies who qualify for the credits from their insurers are supposed to receive them. If they don’t he said, a decision to stop offering credits “could be a market conduct issue.”
Aside from all the disputes over adequate rates, loss ratios and data, Eastern appears to be sticking to its decision to leave the Massachusetts comp market.
And so companies like Atlantic Charter and others are gearing up to pick up some of the business as Eastern sheds it, like it or not.
Sallop promised that Atlantic, in its growth to accommodate former Eastern business, will still offer solid customer service and grow strategically to handle the load properly.
But she’s still disappointed that Eastern is leaving, and that it had to end this way.
“I was sure watching them with great interest, as everybody was,” she said.
“I give them an A for courage and originality …
“It’s too bad to lose a very strong domestic like Eastern,” she said. “They’ve played an important role in the marketplace. I think this whole thing is very sad.”