

## Workers Compensation: Are Headwinds Coming?

By: James P. Greenwald, CPCU, AIC, WCLS

With a decade of extended profitability under its belt, the U.S. workers compensation insurance market has long been a bright spot for casualty insurers.

The industry combined ratio in 2023 was 84.9%, according to S&P Global Market Intelligence analysis, and the market is on course to continue its run of underwriting profitability in 2024. This is thanks partly to systemic improvements in workplace safety and risk controls, which have helped to reduce the frequency and severity of workers compensation claims.

It's important not to grow complacent when facing such positive results and favorable market characteristics because in workers comp insurance, the only constant is change. Potential headwinds and new risks emerge all the time, keeping carriers on their toes. These challenges, combined with evolving workplace dynamics, could signal an inflection point for the workers comp landscape in the next few years.

### Game-changing Trends Shaping the Market

There are many trends currently shaping the workers comp industry, both broadly and specifically within carriers.

For instance, the safety gains that have helped to reduce the frequency of workplace injuries in recent years have the potential to plateau in today's largely hybrid or remote workforce — that is, unless employers keep workers engaged and aligned with a strong safety culture and risk-controlled workplace practices.

Economic forces such as inflation or recession are important metrics to track, as are the national employment trends, released monthly by the U.S. Bureau of Labor Statistics (BLS), which can impact the experience level of hired workers and the potential risk of injuries in the workplace.

In the post-pandemic inflationary period, more than 40% of states reported increases in workers compensation costs, according to a recent Workers Compensation Research Institute (WCRI) report — with medical expenses rising between 2% and 10%, primarily driven by hospital costs, provider consolidation, medical labor shortages and increased post-COVID utilization. Medical inflation is particularly prevalent in states like Alabama, Delaware, Illinois and Oregon, where they base their fee schedules on general inflation rather than Medicare rates.

One positive trend shaping the market is the advancement in technologies that can transform claims management, enhance efficiency and improve claim outcomes. Generative artificial intelligence (AI) is a good example of this. For the past decade, some carriers have experimented with how generative AI can digest, interpret and summarize large volumes of information almost instantaneously.

When a workers comp claim is filed, this technology can quickly establish a severity score (from critical to minor) to triage claims and assign them to the appropriate adjusters and care providers for the next steps. Using technology to eliminate the intense manual labor (and potential human error) involved with sifting through claims allows adjusters and health-care providers to focus more intently on the injured workers and get them the help they need to recover as quickly as possible.

### The Impact of Hybrid or Remote Work

A recent report published by job-seeking site Zippia found that 74% of U.S. companies are currently using or plan to implement a permanent hybrid work model. This covers almost all industries, including insurance. Although this set-

up can help companies lower overhead costs, attract and retain talent — and possibly even improve productivity among staff (due to fewer workplace distractions and no commute) — it does also pose some unique challenges.

Workers comp insurers using this model need to consider how collaboration might suffer and how fewer interactions at the water cooler may diminish spontaneous problem-solving and information-sharing. High-performing companies need to be intentional about keeping collaboration high. One carrier, for example, has instituted specific collaboration meetings with cross-functional teams to discuss the nuances of different states' workers compensation systems, claims trends and any other relevant regulatory updates.

Remote work is also changing the risks carriers are underwriting. For instance, employees working from home may not prioritize ergonomic setups or safety to the same extent that they would when working in an office or on a job site. This could lead to more repetitive motion injuries in the near future, such as carpal tunnel from typing or strains and sprains from not working with appropriate posture.

Remote work — and the blurred working hours and lack of oversight connected with it — can also add some ambiguity into potential course and scope of work issues. For example, an employee may suffer an injury at home while working late. The lack of onsite supervision, HR and witnesses can raise questions on the course and scope of employment that may not have existed in an office setting.

To manage these risks, companies should continue to prioritize ergonomic assessments for remote workers, maintain

open lines of communication, provide ongoing employee education, and encourage a culture of safety, even outside the traditional office environment.

## A Rising Focus on Mental Health

Mental health is a huge focus for both employers and workers comp insurers today and is an evolving area in workers comp claims. One in five U.S. adults experiences some form of mental illness each year, with lifestyle influences like a stressful job making some people more susceptible, according to the National Alliance on Mental Illness.

An Atticus study in 2023, which analyzed workplace injury data from the Occupational Safety and Health Administration, revealed that mental health issues such as stress and anxiety made up 52% of workplace injury cases last year. It also reported that work-related mental health issues are 10 times more common than chemical exposure and eight times more common than head injuries.

A mental health issue would classify as a comorbidity in the same way that diabetes, obesity, heart conditions, past drug history and more can impact the duration of disability and the medical recovery relating to a workplace injury.

Against such high stakes, it is imperative for employers to foster a supportive culture, where employees are encouraged to access mental health support and make use of resources and education that can have a positive impact during their time of need. Programs that promote mental and emotional well-being, coupled with strong communication during the post-injury and return-to-work processes can also enhance recovery

outcomes.

## Improving Claim Outcomes and Return-to-Work

Experience shows that the longer injured workers are away from the job, the less likely they are to return to work. BLS data indicates that if an injured worker is out for a year, the chances of returning to work drop to 25%. In many cases, timely return-to-work can lead to better recoveries on the medical front, resulting in benefits on both the indemnity and medical costs of a claim.

An effective return-to-work program starts from day one of an injury or claim by using all tools and personnel available to promote the best medical outcomes. Some carriers offer a free 24/7 nurse triage program to ensure injured workers have access to the right care solutions and specialists throughout all stages of their recovery. They may even advise self-care instead of expensive emergency room visits. This acute level of attention can lead to better and faster recoveries, resulting in less lost time and wages paid as well as lower medical costs over the long-term.

Improving claim outcomes is the ultimate goal for injured workers, their employers and workers comp insurers. To achieve that, it is imperative that insurers have their finger on the pulse of the market and the impact of trends like hybrid work, new technologies and the growing prevalence of mental health in the workplace. ■

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