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DBA Insurance Rates Falling as Market Opens Up: Top [2013-04-29]

By David Dankwa, Senior Reporter

Since the U.S. State Department jettisoned its exclusive Defense Base Act contracting relationship with CNA Insurance and broker Rutherford in favor of an open market, government contractors looking to obtain workers' compensation coverage have seen DBA insurance rates decline.

Instead of having to shop their DBA exposure to only CNA, as was the case before July 2012, a select group of insurers now actively compete to write the coverage.

Sara Payne, a senior vice president at Lockton Affinity, said there is more business out in the marketplace and carriers are trying to be more competitive, albeit within reason. Payne formerly led the government contractor team at Rutherford, managing the State Department's DBA program from its inception.

"I think most carriers typically write around the same rate. I don't think anyone is more competitive than the other. One would write aviation, another will write security contractors and some won't. It all depends on what the exposure is," Payne said.

Prior to July 2012, the State Department was setting rates for various job classifications annually and applying them to all companies in the program, regardless of exposure or loss history. According to Lockton, this sole-source platform benefited smaller contractors who would have faced high minimum premiums in the open market and those larger companies with poor loss experience.

In addition, CNA didn't know what it was getting itself into when it bid for the contract in 2002, said Payne.

"We were not in a privatized war (but) that's what it became when we went into Iraq ... (CNA) inherited firms like Blackwater that had helicopter pilots and security guys. And they were getting paid at a \$3.87 rate. That program went the way it did because they weren't allowed to charge by contract what they really should have been charging," she said.

All that has changed with the open-market system. There are five carriers actively writing DBA coverage for State Department contractors, in addition to other U.S. agency contractors. New York based C.V. Star joined the market last April and Allied World is also one of the newer active players. Payne said Chubb is writing DBA coverage but has a conservative appetite. For some carriers, appetite levels tend to change with loss experience.

“Sometimes it depends on the season,” said John Croskey, president of Maryland-based Black Fox International, a specialty brokerage firm that has been serving defense contractors and brokering DBA insurance since the first Gulf War. “Did they have a big construction claim and now they don’t want to write construction risk, or were they hit by a big security claim so they are turned off from security for awhile?”

Some of the benefits are set by the Department of Labor, although Croskey said some carriers tend to include additional benefits. “Some, for instance, may try to offer higher limits on evacuation insurance,” he said.

Payne said obtaining coverage for linguists and security firms are the most challenging.

“The class of employees that has caused a lot of losses is the linguists because they have such tough jobs and it is even harder when they are embedded with the troops,” she said.

Of course, rates tend to be commensurate with risk. In fact, overall, for Middle East-based contractors, the DBA carriers generally demand higher minimum premiums because of the elements the employees are exposed to.

Also, Payne said the policies do not always offer 24-hour coverage, although there are situations where they tend to apply outside of working hours.

“If I’m a pilot in Iraq and I’m on the racquet ball court and I break my ankle, that’s a DBA claim because it is a condoned recreation activity. There’s no place else for me to go and nothing else for me to do. So it’s broader when you are in those areas, but it is not necessarily a 24-hour coverage as some people think.”

Outside of conflict zones, in countries such as Italy and Germany, the minimum premium requirements are lower and so are the rates.

“There’s typically a service rate, construction rate, aviation and a rate for security, which is a loss leader in DBA business,” said Payne.

In the coming years, Payne said she expects the DBA to continue to expand despite the withdrawal of troops from Iraq and the winding down of the war in Afghanistan.

“The DOD (Department of Defense) pulled out of Iraq, but the State Department moved in and took over nine bases. So we are really not out of Iraq,” she said.

Also, Payne believes the U.S. is going to be in Afghanistan longer than most people think.

“I think you’d see troops stay behind and see contractors replace what troops used to do. Sure, the premium volume would go down, but I still think we’ll continue to see a big volume.”

As conflicts move to different parts of the world, so would the DBA market. Ultimately, she adds, “DBA goes wherever contractors go.”