DUDE, WHERE'S MY COMPETITIVE DBA RATE?

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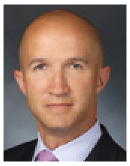

Almost as quickly as Defense Base Act (DBA) arrived on the commercial insurance scene following the outset of the Iraqi conflict in 2003, a once nascent market became rife with uncertainty as insurers and insureds struggle with deteriorating claims, worsening lag time reporting and increasing renewal rates. Adding more uncertainty to the equation, the ongoing struggle to hammer out a Bilateral Security Agreement (BSA) between the United States and Afghanistan could result in an immediate and complete drawdown of U.S. and NATO troops in the country.

What's Going on Out There?

Across the market, DBA claims appear to be on an upward trend. As recently as 2011, many Government Contractors with employees deployed as part of Overseas Contingency Operations (OCO) enjoyed relatively good loss experience. Many of the more severe claims were associated with direct hostilities under which War Hazard Compensation Act (WHCA) reimbursement from the U.S. Government was eventually forthcoming. However, a quick glance at many defense contractors' loss runs will show that injuries more commonly associated with traditional Workers Compensation (e.g., back and neck strain, repetitive motion, slips, trips and falls, etc.) are driving both frequency and severity to near record levels. A case could be made that repeated and multiple tours of duty in war zones are now starting to manifest in more cumulative trauma than was seen during the early days of DBA in theater.

Following repeated deployments, employees are coming home to the States with nagging back, neck, shoulder, and other muscle strain issues. Instead of addressing these injuries in country, where medical care is often sparse and reserved for emergency treatment, employees are now waiting until they are back within the safe confines of western medicine. As a result, lag times well in excess of what companies see for domestic Workers' Compensation are becoming more the norm rather than the exception.

The deteriorating claims experience (claim numbers + total incurred dollars) mixed with worsening lag times have forced DBA underwriters to reevaluate their DBA book of business. As it is, there are very limited markets that write DBA in austere and hazardous environments. That limited landscape is being squeezed for many reasons:

1. The recent elimination of the State Department (DOS) and U.S. Army Corps of Engineers (USACE) sole-sourced DBA programs was both good and bad for underwriters. The positive impact could be seen in more premiums flowing into the open market. However, included in those programs were companies whose bad loss experience was masked by a program-mandated low rate that applied to all who participated in the program.
2. Over these last ten years, underwriters have seen many of the heavy loss drivers for DBA appear on their desks multiple times. The better risks are being retained by incumbent carriers as a means of offsetting the potential bad actors driving up costs. In other words, not enough of the very good DBA risks are moving to new carriers for a variety of reasons.
3. At least the past three years of claims experience (not including the current year) is beginning to show signs of negative development. Indemnity claims are driving a good portion of this trend in that U.S. hires can be locked into deployment pay for purposes of lost-time claims.
4. Still floating out in the DBA orbit is the potential for the U.S. Government to "in-source" DBA and remove the coverage from the commercial marketplace. While nothing substantive has happened to date, Congress continues to fire warning shots across the bows of U.S. insurers that the well of premium dollars available to pay for DBA claims may dry up very soon.

The pending drawdown and outright withdrawal of U.S. and NATO troops in Afghanistan also means that employees are facing what is akin to a large plant closing. While employment may be awaiting these deployed individuals, additional pay that came along with working in frontier environments will be but a memory. Insureds need to be aware that the potential breakdown of the BSA with Afghanistan could potentially mean that plans to transition deployed employees into the domestic workforce need to be expedited.

As a result of all of the above factors, more DBA underwriters are loss-rating the larger DBA accounts, increasing minimum and deposit premiums and taking a pass on those smaller risks with potential severity exposure that dwarfs whatever premium is calculated. Therefore, DBA insureds are generally seeing increases in rates for their 2014 renewals.

What Insureds Should Do:

- Conduct robust and thorough employee physicals, including pre-deployment, to establish a baseline, in theater for continual monitoring and post-deployment as a means to measure against pre-deployment baseline. We also recommend including Post-Traumatic Stress Disorder (PTSD) evaluations as part of employee physicals.
- Consider pre-deployment training for employees (e.g., "What to Expect When You're Deployed").
- Work with outside counsel to tighten up employment agreements to avoid potential "failure to warn" lawsuits.
- Continually monitor claims for adverse development.
- Emphasize timely reporting of claims and incidents (especially anything that resulted in a Memorandum for Record or MFR) to country managers.
- Evaluate how international medical and disability programs integrate with DBA benefits.
- Engage your DBA broker EARLY in the renewal process to strategize based upon claims activity and carrier servicing feedback.
- Communicate regularly with capture managers, business development, contracting officers, and other stakeholders to stress the changing DBA environment and the need to reevaluate DBA rates for bid purposes on a real-time basis.