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SPECIAL REPORT
Business Insurance

Workers' comp rate hikes far below proposals

Brokers caution fundamentals point to coming increases

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NORTH BAY – Workers' compensation rate increases by California insurance carriers have remained far below the 22.8 percent increase recommended by the Workers Compensation Insurance Rating Bureau for new and renewed policies.

"The seeming lack of carrier support for major rate hikes is due in part to state Insurance Commissioner Steve Poizner's denial of an increase in the pure premium rate, citing the depressed economy as a rationale," according to Tom Griffith, CIC, vice president with Don Ramatici Insurance Inc. "He also elected not to include avoidable costs in approving such increases to this benchmark – a ruling that ran counter to recommendations from his staff – because carriers were not implementing his 17-point guidelines for cost reduction."

Commissioner Poizner previously rejected the bureau's request for an even higher 23.7 percent increase last July.

Despite these recommendations, a recent listing of 136 carrier filings, reported on Jan. 21 by "Workers' Comp Executive," showed that 21 carriers, 15 percent of the total, filed revised pure premium and rates that were lower than those previously reported (in a range of -0.2 percent to -13 percent), while 42 other carriers, 31 percent of those reporting, held the line with zero increases during the period.

Another 73 carriers increased rates from 0.2 percent to 16.5 percent, but these rate adjustments were still well under the bureau's proposed advisory level.

These figures indicate that nearly half of these carriers had disregarded the rating bureau's advisory. It should be noted that the prior rate levels of these carriers should also be taken into consideration.

"Carriers continue to offer relatively aggressive pricing as part of their strategy to retain and growthe most profitable sectors of their books of business," said David Weinstein, assistant vice president with Vantreo Insurance Brokers.

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– Elizabeth Bishop

"It's also likely that an extra degree of calculated pricing risk is being taken due to the economic challenges facing so many businesses. We're seeing this aggressive pricing while key factors, such as systemic cost increases, suggest that further rate hikes are needed. Should carrier losses grow, we're probably looking at more rate increases in the semi-nearfuture."

There are other possible reasons for smaller rate increases early in the year, according to Elizabeth Bishop, senior vice president with the Heffernan Group in the North Bay.

"While some segments of the market are up, a number of carriers are not willing to lose market share. It all boils down to how carriers are balancing their portfolios with Wall Street gains in some sectors in an attempt to keep workers' comp price points flat and avoid increases. It may also depend upon how much workers' comp business a carrier has in California, and how that portion has performed as medical costs and similar expenses have risen."

This view was echoed by Fireman's Fund spokeswoman Suzanne Meraz.

"Fireman's Fund recently filed for a 10 percent rate increase for workers' compensation in California, but overall, our pricing has been relatively stable relative to the market.

"The state's workers' comp rates continue to rise due to medical inflation and the efforts of claimant attorneys and medical supply chains to change workers' comp reforms. Additional legislative reforms are needed to protect California businesses from large price increases like those seen before the 2003 reforms," Ms. Meraz said.

In recent times, more than a few workers' comp carriers vacated the market, finding it too expensive to do business in the state, or were shaken out during past reforms.

That may be changing. Today more carriers are getting into the workers' comp business at competitive price levels designed to gain a foothold – or possibly because they have not experienced a history of high negative claims that would drive the need for higher rates.