

Insurance Budget Alert – 2009

November 2008

The goal of this Alert is to provide you with 1) some background on the current state of the insurance market, 2) rough estimates for your 2009 budgeting, and 3) a few general recommendations that may be useful. I will be brief, and apologize for the abbreviations and jargon – let me know if you want further details or have questions.

1. Insurance market trends that will impact rates ~

- Workers' Comp - California
 - Disability benefits are going up –
 - Maximum temporary total disability (TTD) payments are rising to \$958.01 on 1/1/09.
 - Permanent disability benefits were to increase on 1/1/09 – delayed to 7/1/09.
 - Rate increases of +16% were recommended by the WCIRB, and the CA Insurance Commissioner approved +5%; State Fund has filed for +8% to 10%.
 - Each company will file its own rate modifications.
- Insurers' loss ratios are going up – profits are down – in many areas.
 - Catastrophe losses have been larger this year – \$20 billion from hurricanes Gustav and Ike alone; total is \$22.1 billion.
 - In addition, the financial crisis is having two negative impacts:
 - Reduced investment returns (insurers make most of their money here): policyholder surplus is down \$150 billion this year alone!
 - \$10 billion in projected losses from the sub-prime mortgage and credit crisis on Directors & Officers and Errors & Omissions coverages.
 - Rates on most policies are expected to “stabilize” or increase in 2009 especially for “tough classes” like residential construction, transportation, warehousing, and financial.
 - Any number of additional straws could severely impact the camel's back!

2. Budgeting impacts on mid-size and smaller businesses

- If you are renewing before year-end 2008 you are very lucky!
- Brokers are telling me to expect 2009 increases in most coverages –
 - General property, liability & auto: + 0% to 5%
 - Workers' Compensation: + 0% to 5%
 - Note that this is with an unchanged experience mod. Ask your broker for an estimated mod and premium calculation as soon as it's available.
 - Director & Officers: + 0% to 10% for private firms (up to +25% for public)
 - Errors & Omissions: + 0% to 10% for smaller organizations

3. Recommendations

- If you renew before year-end make sure you are getting the best deals all around – this may be your last chance to squeeze out improved terms and conditions.
- Always be conservative in your estimates of revenues and payrolls.
- Be realistic for you buildings, contents, equipment, stock, etc. and make sure they are covered for current replacement values.
- Consolidate with one independent broker to get the best leverage for coverage, price and service, and to simplify your renewals at one date (download a PDF file of the recent RiskSmart Tip #20 [here](#)).
- Update your company's “Story” (why you are a safe insurance risk), especially if you've had losses – talk about improvements you've made.
- Focus on safety, prevention, contingency plans and crisis messages like the ones we brainstormed during the workshop – be ready for Murphy's Law!