


Hard Market is Coming

Hard Market is Coming. Brokers that understand the macro issues involved in the California WC system will be better prepared to educate their clients and retain more of them by being knowledgeable about what is happening, why it is happening and what can be done.

 **Callout: WCIRB is recommending an 11.2% increase in pure premium rates for 2025.**

Word on the street is that California employers should start expecting higher workers' compensation rates. When rates start going up for workers' compensation it is often referred to as a hard or hardening market. Whereas a soft market is defined as a period of time where rates have been going down. California employers have enjoyed a soft WC market for the last decade, but all indications are now pointing to the market entering a period of rates needing to go up to offset undesired financial results from carriers often in terms of increased expenses, medical inflation, deteriorating results and other factors noted below. The Workers Compensation Insurance Rating Bureau (WCIRB) analyzes state-wide results for the WC system and provides meaningful loss analysis for the benefit of many stakeholders including Carriers offering WC policies in the state. For many years the WCIRB has been recommending rate decreases as overall system results justified lower rates. This year the WCIRB is recommending a significant increase of 11.2%. This reflects new emerging cost increases within the system which carriers must reflect in the rates they charge to policyholders. Insurance, like many other industries, can be cyclical, meaning rates may go down for many years until the evidence emerges that rates being charged are no longer adequate for a carrier to meet their financial obligations. In this case rates may go up for several years. Agents that understand this and can explain this reality to their clients will see an increase in client retention and establish themselves as knowledgeable professionals in their industry.

Workers' compensation insurance rates in California are increasing due to a combination of higher medical costs, more expensive claims, and changes in legal or regulatory requirements. When it costs more to treat injured workers or settle claims, insurers raise rates to cover those expenses.

Key Reasons Explained (for Business Owners or Stakeholders):

Medical Inflation

Even with some medical cost containment measures, the overall cost of medical treatment (surgeries, physical therapy, prescriptions) continues to increase. For example, the average medical cost per indemnity claim shows an average annual change of 3.7% between 2017-2023, however, the rate is 7.7% between 2023-2024.

Longer Claim Durations

Injured workers are staying off work longer, which increases indemnity (wage replacement) costs for insurers.

Litigation & Legal Costs

California has a relatively high rate of litigated claims. More legal involvement drives up the cost of resolving claims.

Regulatory Changes or System Adjustments

The California workers' compensation system is complex and heavily regulated. Changes like new benefit rules or fee schedules can impact insurer costs.

Rising Frequency of Certain Claims

While total claim frequency may be down, there's been a rise in costly types of claims (e.g., cumulative trauma claims (CT), mental health claims), especially in certain industries. CT claims are at least 3% higher in California compared to all other states.

Fraud and Abuse

California has historically had issues with fraudulent or exaggerated claims, particularly in high-risk areas or professions.

Market Trends

Insurance companies set base rates on expected losses. If past years have experienced higher-than-expected claim costs, they may increase rates to ensure solvency and profitability going forward.

🚨 Callout: The projected 2024 combined ratio is 127%, meaning carriers are paying out significantly more than they earn in premiums.

Combined Ratio at Historic High

Driven by the factors noted above, the projected accident year combined ratio for 2024 is 127%. A simple way of looking at this number is that carriers are paying out \$1.27 for every dollar of collected premium. This is a zone of unprofitability for carriers and is not sustainable. The 2024 combined ratio of 127% is the highest in over 20 years. Combined ratios in California continue to be above those for the rest of the country.

Considerations for an Employer:

Strong and more conservatively managed carriers often are more responsible, charging adequate rates and thus are able to move rates up modestly as market conditions change. Other carriers find that they have been charging inadequate rates for too long and must more aggressively push rates up to resolve financial difficulties.

For example: A restaurant owner receives a renewal quote from their agent with a 15% renewal rate increase despite no or few losses. The client had been accustomed to renewal rate decreases from prior renewal terms. The agent that takes this call is caught off guard

and is not well equipped to explain why this is happening, which increases the risk of losing this client to a competing agent. Conversely, the agent that had proactively reached out to their client to prepare them for the changing business cycle will increase their chances of retaining their client as they will understand already why their renewal is going up when they get their renewal quote. By being proactive, an agent can avoid sticker shock and give their client advance time to prepare for an increase in operating expenses. Market availability shrinks as the renewal date gets closer.

What can a Broker do:

Get ahead of the macro reality. Proactively reach out to your clients to prepare them for what is occurring. Educate them. Draw parallels between other similar and recent insurance challenges like the availability and affordability of property insurance. Similar to WC, when property insurers started seeing claim costs rise, they responded by increasing rates and/or tightening up UW guidelines... generally meaning they become more restrictive in what they are willing to write. Waiting for an angry call from a client with a renewal rate increase may be too late.

Experience rating is the one thing a broker can help their clients manage. Focus on the services and support you can bring to them to help them with efforts needed to lower their X-Mod. Most carriers provide a wealth of information on how the X-Mod can be managed lower with the right focus. While carriers are expected to offer fewer credits than they have in the past the X-Mod continues to be a credit opportunity that can be achieved.

Safety programs focus. These efforts can also result in lowering clients' X-Mod. However, it goes beyond that. As many carriers tighten up their UW standards, they will focus more on writing clients that perform well and focus on the reduction of claims. Clients with sustained poor loss performance will find fewer placement options in a hardening market and the options that are available may be exceedingly more expensive. Agents should work with their clients on building a narrative around their safety management efforts as Carriers will view this as a positive risk attribute. Take advantage of carrier resources available to the policyholder to review and improve workplace safety.

Partner up with the right Wholesale Partner. Wholesalers become exceedingly important in a hard market as they generally have access to many placement options and are very in tune as to what the various markets are doing in response to a hardening market. They also have awareness of unique opportunities like program access that can provide additional rate reduction opportunities. Look for Wholesale partners that have a reputation of integrity and have established access to quality admitted carriers.

What an Employer Can Do:

⚠ Safety Tip: Non-slip shoes, protective gear and organized workspaces can drastically reduce workplace injuries.

Proactively administer hazard awareness. Don't forget that the safety of your employees is just as important as the safety of your customers. Having a clean and organized workplace can reduce tripping and fall injuries. Some environments such as restaurants or manufacturing facilities can result in frequent spills, which become a slip-and-fall hazard. Employers in environments like this could invest in non-slip shoes and mats for their employees. Be diligent in establishing and enforcing safety practices such as wearing protective gear and letting employees know that it is a high priority. Educate employees on the importance of eye and hearing protection, protective gloves for handling chemicals or sharp instruments like knives and box-cutters.

Hiring practices. The basics here include driving and criminal background checks, as well as pre-employment drug testing. But finding the best candidate to represent your company is important and this takes time. Employees who like their jobs are less likely to get injured, return to work faster and will be good stewards that help to set up a culture of safety and connection to their employer.

Maintain a good relationship with employees. Make sure that your employees feel valued. Remind them that you'll do everything possible to help them get back to work as soon as possible if they experience an injury. This includes being invested in the recovery process and calling to check in on their progress. Frequent involvement and contact with your injured employees can reduce the risk of them getting an attorney which invariably drives up the cost of the claim.

Assist in accident investigations and responsively partner with your Insurance Carrier Claims Representative. They are there to minimize your total claim cost outlay. Preservation of evidence is crucial. Take photos of the accident scene as soon as possible. Document witnesses and request hand-written statements. Ask supervisors to write a report on what happened while it's still fresh in their memory. If a product or piece of equipment is involved, do not alter or continue use of the equipment until it has been inspected. Request assistance from your Carrier's Loss Control staff to help remedy a situation that could cause additional injuries if not rectified. Carriers appreciate employers that work with them responsively when a claim occurs and might be more willing to renew them.

Prompt reporting. Evidence critical to your claim will diminish or be lost as time passes. Each state has compliance requirements to ensure decisions and payments are timely. In some jurisdictions, employers can be fined for late reporting if their actions cause benefits to be delayed. Contact with the injured worker during the first 24 hours builds trust and a positive relationship between the worker, employer and your insurance carrier

representative. Collaborative efforts such as these improve outcomes for the injured worker and, generally, lower costs for the employer.

Be creative and offer light duty work. Also known as Return-to-Work (RTW). Light duty work should still be meaningful where employees can feel valuable to the company's success. Is there a desk job or similar tasks available while they heal and are able to return to their originally assigned job? Employers who actively seek to find light duty work are rewarded with shorter periods of disability, less likely to involve attorneys, and a stronger relationship between management and employees.

In the face of a hardening workers' compensation market, knowledge is more than power, it's a competitive advantage. Brokers who proactively embrace the realities of the evolving California WC landscape will not only retain clients but build lasting trust and credibility. By staying informed, communicating effectively and proactively, and partnering strategically, brokers and employers alike can navigate these changes with confidence. This PDF document outlines specific steps an agent can take to accomplish this mission. **Now is the time to act.** Don't let yourself get caught unprepared in the sticker-shock renewal premium increase discussion. BindDesk is ready and willing to assist you in this effort.

About the Author

John Bennett is the Chief Underwriting Officer at BindDesk Insurance Services, a multi-line, multi-state wholesale and distribution technology P&C distributor. He has over 28 years of experience in underwriting, risk advisory, and insurance operations, including a long tenure at W.R. Berkley Corporation. A graduate of San Diego State University with an MBA emphasizing Finance, Marketing, and Information Decision Systems, John brings a deep understanding of insurance market dynamics, program development, and strategic distribution. He is a licensed Fire and Casualty Broker-Agent and a former Classification & Rating Committee Board Member at the WCIRB of California.