

BREAKING NEWS



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Economic Trends in Commercial Insurance – What to Expect and Look Out for in 2012

With rate increases for commercial insurance on the horizon, businesses need to be proactive in managing rising costs

San Diego, CA, January 19, 2012 – As 2011 has come to an end, companies are looking to the oncoming economic trends to determine how to protect their businesses. In regards to risks and trends in commercial insurance, the top two areas of concern for companies are property protection and workers' compensation claims and costs.

Changes in Property Insurance

Businesses have been enjoying declining premiums for years now. Rates are now where they were in 1999, and we started to see them creep back up in the last quarter of 2011. One of the main reasons why is the prolific amount of weather-related disasters that have unfolded in recent years. 2011 alone brought massive flooding and tornados in the Midwestern United States, earthquakes in New Zealand and Japan and countless other tornados and hurricanes. Globally, the losses to cities and their respective businesses were \$100 billion and net income for the insurance industry dropped \$12.8 billion in 2011. This all has had a massive impact to the insurance industry, which has seen underwriting losses of \$30 billion this year alone.

As a result, the industry has implemented a new catastrophic risk modeling system (RMS v11) to assess property values in the event of a loss; this is intended to be a more accurate system for assessing how natural disasters may affect a property's value at the time of loss. The result is that employers have to buy more property insurance to comply with the new projections resulting from RMS v11.

Workers' Compensation Rates

Workers' compensation rates were radically impacted by the passage of Senate Bill 899 in 2004, which fundamentally changed the workers' compensation system in California. Since 2004, rates have gone down 60% for employers as a result of SB 899 reforms.

Recent court cases (Almaraz/Guzman) have spurred changes that have effectively eliminated the benefits of SB 899. Medical inflation continues to go up. And while the average cost of indemnity claims is flat, the frequency of indemnity claims is up. Combined, these will result in double digit rate increases for workers' compensation.

The result of all of this is reversing trends and causing steadily increasing rates for almost every line of commercial insurance.

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What You Can Do

Here are a few suggestions to help you weather the insurance changes of 2012:

- **Start your insurance renewals early.** This will allow time to gather necessary information and negotiate better rates.
- **Gather as much information as you can.** The more information you get to underwriters the better, including loss runs, claims information and business changes, so they can base your rates on your overall risk profile and not just recent claims activity.
- **Get options for different insurance carriers and program design.** The earlier you start and the more information you've provided, the better your options will be.
- **Expect the unexpected.** Some carriers are playing hard ball. Be prepared.
- **Aggressively manage your claims.** Especially with workers' compensation. By effectively managing these claims, you can help mitigate overall costs.

We're seeing a transitioning insurance market and rates headed north of 1999 levels. However, being mindful with your insurance purchasing decisions, program design and proactive claims management will help you through this time. Engage with a trusted insurance advisor to help you navigate your way.

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Barney & Barney LLC is a California based privately held risk management and insurance brokerage firm providing solutions, services and products in commercial property and casualty insurance, employee benefits, workers' compensation, executive personal lines, and surety for the past 100 years. The firm also offers value added services in alternative risk financing, business continuity and loss control.