

Comp rates falling again, but customer bills probably won't

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A new round of rate cuts is being proposed for California workers' comp coverage. But the savings — if any — for many employers could be far smaller because insurers will be using new formulas for incorporating previous industry-specific losses into their quotes.

"Employers are now being held to a higher standard," said Darren Cartwright, workers comp services manager at San Francisco's Woodruff-Sawyer & Co. insurance brokerage.

Led by State Compensation Insurance Fund's proposed 9 percent Jan. 1 rate reduction, many of the state's workers' compensation insurers are expected to lower their basic rates by 6 percent to 9 percent by year-end. Some will clock in with smaller cuts, however.

And many see these reductions as

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VITARELLI: Rates surprise.

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COMP: Customers may not like the value placed on 'experience'

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the last round of significant cuts in comp rates for some time, as the California workers' comp industry braces for a near-term future in which rates either flatten or start moving upward for the first time since reforms kicked in during the last days of the Gray Davis administration.

State Fund, which accounts for about 30 percent of California's comp market, down from more than half of the market three years ago, has filed for its seventh consecutive rate reduction, to take effect in January. Cumulatively, State Fund's rates have dropped 49 percent since 2003, but the market has also been healthy for its private competitors.

Bill Mudge, president and CEO of San Francisco-based CompWest Insurance Co., expects most companies to file with the California Department of Insurance for rate reductions between the 6.3 percent cut recommended by the Workers' Compensation Insurance Rating Bureau, an industry advisory group, and the 9.5 percent reduction requested by outgoing

Insurance Commissioner John Garamendi, California's Lieutenant Governor-elect.

Mudge's company filed for a 9.5 percent cut to take effect Dec. 15 in an effort to grab business from early-bird customers.

"You'll see people in that range," said Mudge, whose company has seen premium revenue jump from about \$60 million in 2005 to more than \$110 million so far this year. "I don't think anybody wants to take any aggressive leaps at this point."

Industry sources say a number of players have aggressively sought new California business recently, including CompWest, Zenith National Insurance Corp., a parcel of companies controlled by Warren Buffett's Berkshire Hathaway Inc., Liberty Mutual Group and Employers Direct Insurance Co. They and others are grabbing business from State Fund, which as recently as 2003 held 58 percent of the statewide comp market.

"The one to really watch is Zenith. They're a trend setter," said Scott Hauge, president of CAL Insurance, a San Francisco insurance brokerage specializing in small businesses. Zenith filed for a 5 percent rate cut in July, and said Nov. 28 it's proposed a 4.4 percent rate reduction in January — the most conservative filing reported so far by a major player.

Explaining that number, Zenith Chairman and President Stanley Zax said

rate filings are a judgment call, "and I'm trying to run my business conservatively, with judgment."

"I was here during the price wars of the 1990s, and I'm still here," Zax added, saying he considers his track record better than that of either the insurance commissioner's or the rating bureau's in adjusting to changing market dynamics. Zenith announced healthy third-quarter profits Oct. 23, but noted that its California comp premium revenue dipped 21 percent over 2006's first nine months, due to rate decreases and reduced customer payrolls "due to increased competition."

Experience counts

And countering the upcoming rate reductions, some insiders say, many employers may receive "experience modification" increases, possibly in the 10 percent to 30 percent range, cutting into expected savings.

In many cases, his customers will be seeing significant increases in experience modification costs due to a new formula used by the comp rating bureau, according to Mark Stokes, a Petaluma-based senior

vice president for Redwood City's ABD Insurance and Financial Services.

"We're seeing experience modifications for Jan. 1 go up a minimum of 10 percent and as high as 25 or 30 percent," Stokes said, primarily due to changes in the ratio used to compare actual losses to industry-specific expected losses. "Everybody's affected — it's all across the board."

Amy Vitarelli, a San Francisco-based vice president with Walnut Creek's Heffernan Insurance Brokers, said her firm's clients are seeing experience modification increases in the 10 percent to 15 percent range, even when they have no claims against them, due to the formula change. "Employers are just learning about it," she said. "It just happened this month."

Jack Hannan, a WCIRB spokesman, predicted the impact on individual employers, for the most part, will be far smaller than the double-digit jumps brokerage sources are citing. "We're not talking about 10 percent or 20 percent swings."

Employers clearly shouldn't expect to see repeats of the double-digit rate decreases many have enjoyed in recent years. "With the rate reductions we've seen" since 2003, said CompWest's Mudge, "we've just about run the air out of that balloon."

Chris Rauber covers insurance and health care for the San Francisco Business Times. ■

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Mudge