



## Workers' Compensation

# Dept. of Insurance Orders Benchmark Rate Hike

CALIFORNIA INSURANCE Commissioner Ricardo Lara has ordered an 8.7% average advisory pure premium rate hike for policies incepting on or after Sept. 1, 2025.

The rate follows a substantial uptick in claims and claims adjustment costs over the past four years, resulting in a \$1.3 billion underwriting loss for the industry in 2024, the first since 2014. However the market is still competitive and carriers may price their policies as they see fit.

The 8.7% increase is an average across nearly 500 class codes, and according to the Workers' Compensation Insurance Rating Bureau (WCIRB), employers in several industries may see premiums begin to rise after hitting a 10-year low last year.

The pure premium rate is a benchmark insurers use to price policies. It only accounts for the cost of claims and adjusting those claims, not expenses such as office operations, personnel costs outside of claims representatives, marketing or other overhead.

### What's driving costs

The main drivers of the rate increase, according to the California Department of Insurance and the WCIRB – which had recommended an 11.2% hike – include:

**Rising medical costs.** The average medical cost per claim has been steadily climbing since 2016 (see chart below).

**Rising costs for medical-legal reports.** These are prepared by a qualified physician to assess an injured worker's condition and its relationship to their workplace injury. This report is crucial for determining eligibility for benefits. As medical costs have increased, there has been a corresponding increase in requests for these reports, which adds to the cost of a claim.

**Growing effects of cumulative trauma claims.** These are injuries that develop over time, typically from repetitive motions. The WCIRB now estimates that over one-fifth of indemnity claims involve cumulative trauma.

**Rising claims adjusting costs.** The average cost of adjusting claims rose to \$12,600 in 2024 from \$9,800 in 2021. The Rating Bureau projects it will reach \$14,300 in 2027.

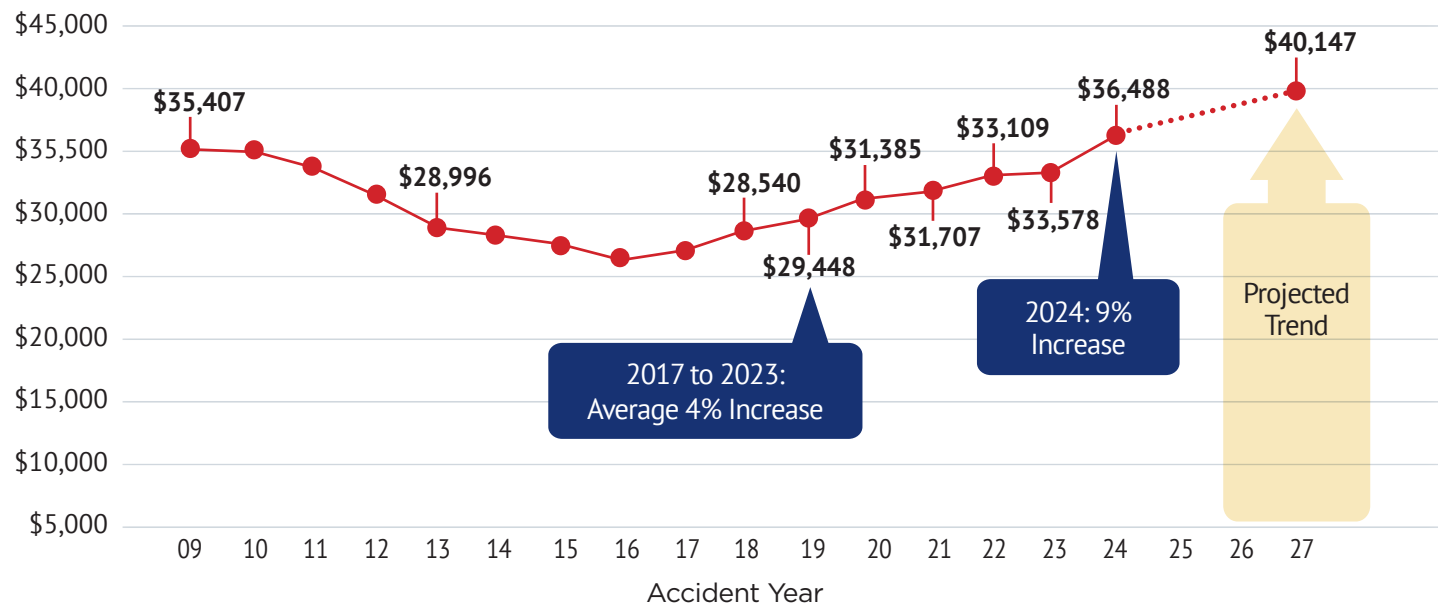
### The effects

The premium an employer pays depends on their claims experience.

According to WCIRB, more than 280 classes are projected to face a higher-than-average pure premium increase next year. Conversely, some sectors will see lower pure premium hikes, while others may see decreases.

But thanks to a robust workers' comp market, employers with strong safety records and low X-Mods are likely to continue receiving favorable pricing.

## AVERAGE MEDICAL COST PER INDEMNITY CLAIM .....



# How Fleet Managers Can Combat Distracted Driving

FOR COMPANIES that manage fleets of vehicles, distracted driving is a risk that can pose an existential threat to the company.

Collisions resulting from inattentive driving can lead to serious injuries, costly vehicle damage and insurance rate hikes or cancellations. Most fleets are comprised of vehicles that are significantly larger than most passenger vehicles, and when they are in accidents, they can cause significant property damage and injuries, which translates into greater liability for your organization.

## The scope and types of distractions

Fleet drivers face unique risks as they often spend long hours on the road, operate under tight schedules and interact with in-cab technology.

While mobile phone use is often the most cited culprit, distractions come in many forms and are typically categorized into three types:

**Manual distractions** – Activities that take a driver's hands off the wheel, such as eating, adjusting controls or reaching for objects.

**Visual distractions** – Taking one's eyes off the road, such as checking a GPS screen or looking at a phone.

**Cognitive distractions** – Anything that pulls mental focus away from driving, including fatigue, conversations or emotional stress.

## Insurance and liability risks

A single distracted driving incident can carry far-reaching implications:

- Higher premiums after claims are filed.
- Increased scrutiny or loss of coverage from insurers.
- Legal liability, including lawsuits and settlements.
- Downtime and repair costs for vehicles.

## What fleet managers can do

To reduce the risk of distraction-related incidents, fleet operators should implement a layered approach that combines technology, training and culture. Here are some key strategies:

**Establish and enforce a distracted driving policy** – Every fleet should have a clear, written policy that prohibits manual phone use and limits other in-cab distractions. Detail acceptable behaviors, consequences for violations and the procedures for reporting incidents.

**Educate drivers regularly** – Schedule regular safety refreshers, include real-world case studies and highlight new technology or trends contributing to distraction. Emphasize the consequences of distracted driving, both personally and professionally.

**Invest in telematics and monitoring** – Telematics systems allow fleet managers to monitor driver behavior by flagging actions such as hard braking, erratic lane changes or extended screen time. Some systems offer in-cab alerts to help drivers self-correct in real time.

**Use hands-free tools wisely** – Voice-activated controls and Bluetooth devices can reduce the need for physical interaction, but they don't eliminate risk. Even hands-free calls can be distracting. Encourage drivers to keep communication brief and avoid making calls while driving.

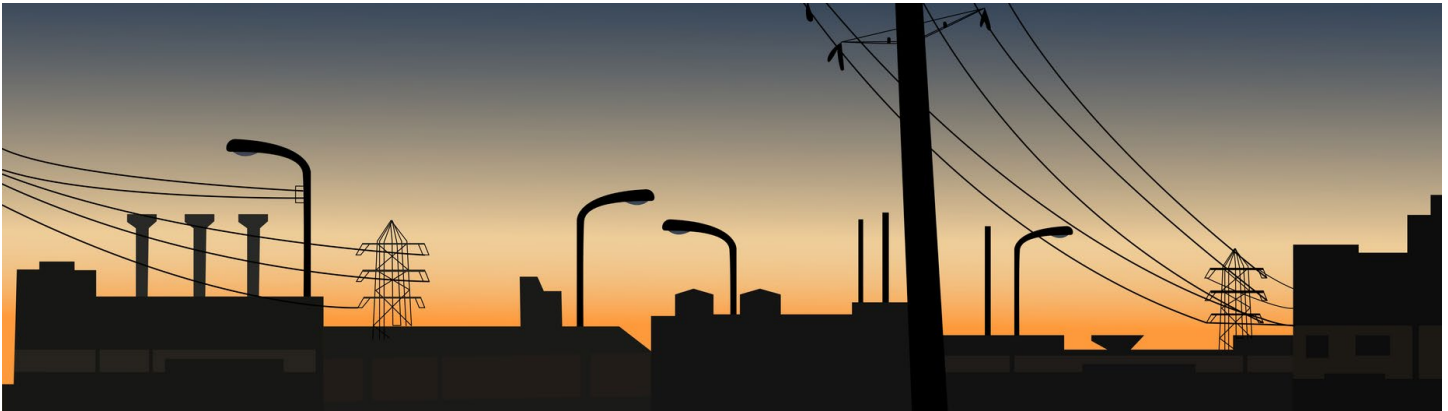
**Schedule wisely to reduce fatigue** – Make sure schedules allow for adequate rest, limit overtime driving and rotate assignments when possible. Encourage drivers to take breaks and report fatigue honestly.

**Incentivize safe behavior** – Recognize and reward drivers who demonstrate safe, distraction-free driving habits. Incentive programs can reinforce good behavior and build a safety culture.

**Measure success** – Look at metrics such as the frequency of risky events flagged by telematics, crash rates and insurance claims. Use that data to make adjustments, whether it's tweaking driver schedules, updating training materials or revisiting enforcement practices.



# How to Prepare for Rolling Blackouts



DURING WILDFIRE season, utilities with equipment in at-risk areas will often cut power during high-wind events to reduce the risk of ignition from downed power lines.

While the practice can prevent a fire from starting, it can put businesses in a bind by hampering operations and even putting perishable items at risk of spoiling if the outage lasts for an extended period.

With the specter of multiple-day power outages always looming during wildfire season, businesses need to be prepared to keep their operations going and prevent losses that may not be covered by insurance.

Fortunately, businesses can take steps to ensure resilience and the ability to function during power outages, especially if they last a few days. The following is good advice for any business, as blackouts can also occur during heavy storms and natural catastrophes.

## Identify processes that would be most affected

These processes will differ from business to business, but once you put them all down on paper, it will be easier to plan how to keep those functions going.

## Create a continuity plan

Once you've identified your key processes, brainstorm on how you can keep them going without your typically reliable power supply.

Write up an emergency response plan and share it with your staff so they know what to do in a power outage and the steps to take to protect equipment. Employees should also know where to exit the building if they need to evacuate.

Also, build an emergency kit and include first aid supplies, flashlights, batteries, water, safety gloves, a battery-powered radio and other items your business might need.

## Set up a backup power system

Consider investing in a backup generator that is right for your business needs. With a generator, you can continue to run critical aspects of a small business during a power outage. This

is especially important if you have perishable inventory, like a restaurant, food distributor or grocery store, to avoid spoilage.

## Cloud storage and Wi-Fi

If you have not done so, you should secure a means of paperless document and file storage in the cloud.

Also, prepare a system of battery-powered mobile wireless hotspots that connect via cell towers, so that even if the internet goes down, you can finish important tasks requiring web access, such as setting up an e-mail auto-response.

## Protect your electronic equipment

Equipment that contains sensitive components and plugs into a wall outlet, like a computer, could benefit from a surge protector, which protect them from the powerful rush of electricity when the power comes back on.

## Buy an uninterruptible power supply unit

This is essentially a portable battery with power outlets, allowing you to plug in electronics and continue using them during an outage. They come in numerous sizes, and the more they cost, the more power they can store and deliver.

Some of these units can supply power to a small building, and you may be able to purchase a solar panel that can recharge the unit.

## Invest in the right insurance

If you've got business interruption insurance, you may be covered for losses related to the outage, but it all depends on the specific wording in your policy. The cause of the outage might matter, and your coverage might only kick in if the outage lasts for a certain duration.

However, if the loss is the result of a power outage due to the utility, you may not be able to get compensated for these losses by a business interruption policy. Also, while most commercial property policies include business interruption coverage, it only kicks in in the case of physical damage to the property.

That said, some policies cover power outages by default.

# How Trump's Trade Policies Affect Insurance Costs

PRESIDENT TRUMP'S sweeping return to tariff-heavy trade policies in 2025 is sending ripples across the economy, including the cost of property insurance claims.

The latest round of tariffs, which include steep duties on imported construction materials and auto parts, many of which are sourced from China, threatens to drive up claims costs particularly in property and vehicle insurance. The result is likely to be higher insurance rates to account for higher claims costs.

## Effect on auto insurance

Depending on where they come from, vehicle parts face tariffs as high as 50% (in the case of China), which is hitting both original equipment manufacturer and aftermarket parts. Since more than half of all U.S. vehicle parts are imported, the cost of repairs has increased sharply, even for minor collisions.

According to the American Property Casualty Insurance Association, this could raise auto insurance claims costs by \$7 billion to \$24 billion annually.

The website Insurify predicts that full-coverage auto insurance premiums could rise 19% by year's end on the back of higher repair costs and delays in parts availability, which also increase settlement times and costs.

For fleets, this dynamic is particularly problematic. Businesses may face longer vehicle downtimes after an accident, and higher deductibles or premiums to account for elevated risk.

## Commercial property insurance

With new tariffs in place, the cost to rebuild or repair damaged property has increased significantly (see graphic to the right).

The National Association of Home Builders estimates that tariffs have added \$7,500 to \$11,000 to the average cost of constructing a new home. Commercial building owners should expect similar cost increases.

## Supply chain risks

On-again-off-again tariffs have created uncertainty across supply chains, exposing businesses to downtime should needed parts or inventory not arrive on time.

Industries like electronics, automotive parts, construction materials, retailers and apparel are especially exposed.

Many of these businesses rely on components or raw materials from Asia, where even slight delays or cost increases can disrupt production and reduce profitability.

## What business owners can do

What makes the current situation difficult for insurers is the unpredictability of Trump's tariff policies, making it difficult to predict future claims costs.

In some cases, insurers may respond by tightening underwriting standards or increasing premiums in advance to safeguard against future cost surges.

Business owners are faced with several considerations:

- **Expect insurers to take volatility into account:** To refine their pricing and expected future claims costs, insurers may consider incorporating data like geopolitical risk scores and supply-chain exposure measures into their underwriting models.
- **Look for escalation clauses:** Due to the cost uncertainty brought on by tariffs, insurers may introduce escalation clauses into their policies. These clauses allow for increased coverage limits if costs increase more than expected.
- **Review replacement costs and policy limits:** Ensure the policy reflects current rebuilding costs, accounting for inflation from materials and labor. We can help you review your replacement cost.
- **Consider higher deductibles:** This can reduce the premium, but policyholders must pay more out of pocket for claims.
- **Plan for longer claims cycles:** Understand your carrier's average claim timelines and adjust your business continuity plans accordingly.
- **Find new vendors:** If you rely on products from a high-tariff country, you may want to explore sources in other countries.

## BUILDING MATERIAL TARIFFS .....



If you have any questions regarding any of these articles or have a coverage question, please contact your broker at:

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