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Risk Monitor

NOVEMBER 2012

A NEWSLETTER FOR CLIENTS AND FRIENDS OF FIRST INSURANCE AGENCY INC.

Why Insurance Premiums are Increasing

Insurance premiums are a function of these factors: The perception of future risks, recent catastrophic claims and the return available on investment. Huge fires and other disasters factor in, such as the Colorado Springs blazes earlier this year and other natural disasters have also forced large payouts. Even the devastating Japanese earthquake and tsunami from 2010 affects insurance premiums in the United States, since insurance companies routinely purchase re-insurance coverage from very large companies. And these reinsurance companies, such as General Re, have been increasing their rates. In addition, jury awards and settlement costs in a variety of commercial fields have put pressure on insurance company reserve funds.

Yes, insurance companies are just like you: They assess the risks they can cover, and then buy insurance themselves to protect themselves against very large but unlikely events that would overwhelm their reserves.

We saw a similar tightening of the property and casualty insurance world across the board, in 2001, following the 9/11 attacks on the World Trade Center. The direct costs themselves were significant, but reinsurance companies also increased their rates then, in order to cover their own risks and ensure clients were protected in case of acts of war, nuclear strikes, chemical strikes, etc.

Fortunately, their worst fears weren't realized, but prudent insurers are in business to cover the worst case scenario, and so they had to plan and set premiums accordingly.

Fast forward to today, though, and we have a different phenomenon at work.

Reinsurers had just started to climb out of the substantial capital shocks of 2008 and 2009 when they got hit with the Japan tsunami, which put pressure on capital pools. But as they work to replenish their reserves, all insurers, all over the world, have been forced to reckon with a new reality: Low interest rates.

Insurance companies make money in two ways: Bringing in premiums, and investing the "float." Normally, insurers break even or even run a slight loss on premiums. This keeps premiums affordable, but is only possible because they can invest their accumulated reserves at a profit.

Ten years ago, an insurance company could get 5 or 6 percent on a portfolio of Treasuries. Now that same insurer struggles to get 2 or 3 percent on a AA-rated bond portfolio, and U.S. Treasuries - the traditional mainstay of conservatively-run insurance companies, may well be generating a negative real return after inflation.

Something has to give.

That's what we're seeing now: Actuaries have no choice but to increase premiums to cover anticipated payouts in light of the new lower interest rate environment. To do otherwise risks insolvency, which does no service to the insured at all, and even defeats the purpose of insurance.

The tightening of the reinsurance market, combined with adjustments to account for the lower returns on assets, is now making its presence felt on Main Street: Aggregate commercial insurance ratios increased for the

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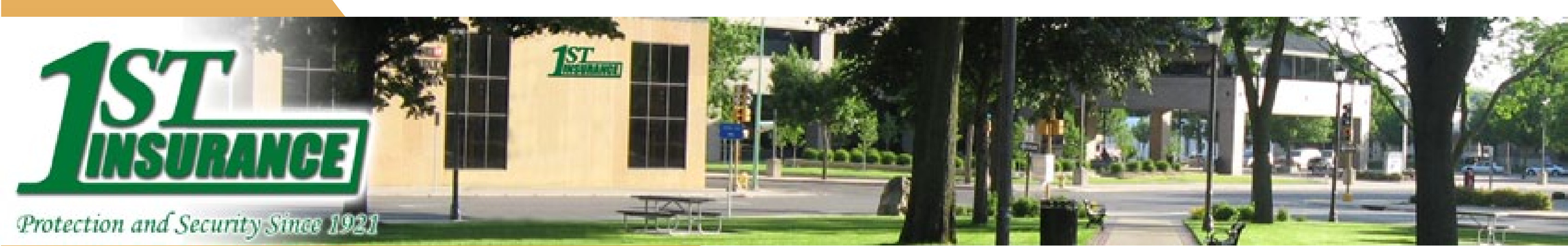

Protect Your Business by Giving Employees Rules for Social Media

Business use of social media tools (also known as "social networking tools") has taken off in recent years. Organizations of all types and sizes are reaching out to customers with blogs, podcasts, networking Web sites like Facebook and LinkedIn, and micro-blogging services like Twitter. These technologies are new and exciting, and present vast new opportunities for publicizing a brand. However, a business using any new technology assumes certain risks. Employees using them may let confidential information slip. They may post text, pictures or videos that embarrass the organization. Individuals outside the organization may make negative comments on the organization's blog or Facebook page. To minimize these risks, every business using these technologies should develop social media use policies.

The first thing managers must decide is how they feel about social media -- do they favor it for business use, consider it a personal pastime for employees to use only on their own time, or are they ambivalent about it? Management's attitude toward these sites will shape the resulting policy. With that decided, there are several other issues managers must consider for the policy.

- What exactly does the business mean by the terms "social media" or "social networking"? Is it just Facebook, LinkedIn and Twitter? Is it other blogging sites, such as Live Journal? Does it include blogs on newspaper and business news Web sites? What about business-related podcasts, including video podcasts? Before managers can set rules for using social media, they must decide what social media is.

- Should the organization permit employees to identify themselves as employees on these sites? Anything employees say or do will reflect on the organization. If they conduct themselves professionally, they will bring credit to the organization, but the reverse will happen if they post inappropriate material or get into arguments that amount to little more than trading insults. Even on personal blogs and Facebook pages, employees who identify their employers can reflect on them. Employers should consider asking employees to post disclaimers stating that their posts do not represent the company's opinion.

- Should the organization permit employees to recommend other individuals? LinkedIn and other sites let members post recommendations of other members. If a member recommends a person, a company accepts that recommendation and has a bad experience, and the company interprets the member's recommendation as coming from that member's employer, the company may try to hold the employer legally liable. Employers must decide whether the risk is so great that they should prohibit employees from doing this.

- Protecting the names of the innocent. Employees may write about customers, partners and associates on company-approved blogs. Not everyone wants their name, problems, or purchases displayed on a blog for millions of people to see. The policy should require employees to leave other organizations and individuals anonymous unless they have permission to do otherwise.

- Protecting confidential information. Most employees have enough common sense not to post company confidential information in public forums, but they might have a false sense of security about exchanging it in private messages with other authorized individuals. Social networking sites are computer networks, and networks are always vulnerable to hacking. The policy should require employees to use other, more secure methods of communication for confidential topics.

- Priorities. Social media sites are terrific networking and marketing tools, but they can also be horrendous time sinks. Employees can easily and unintentionally get caught up in blog-writing or checking Twitter, with the result that their productivity slips. The policy should emphasize that employees are still responsible for completing their regular work.

> **"The first thing managers must decide is how they feel about social media -- do they favor it for business use, consider it a personal pastime for employees to use only on their own time, or are they ambivalent about it?"**

- Consequences for violating the policy. To be fair, organizations must inform their employees of the rules and the consequences of breaking them. Setting and enforcing these consequences will show employees how serious the organization is about the policy.

Businesses can effectively use social media to reach new customers, communicate with old customers in new ways, and grow their brands. All organizations should seriously consider using some or all of these tools. With some common sense rules in place for employees, businesses can reap great rewards from these exciting new technologies.

Workers Compensation Changes and What it Means to You

Workers Compensation Experience Rating Change Could Have a Huge Adverse Impact on Your Insurance Premiums

Sometime between now and the end of the year you are likely to begin hearing about major changes to your workers compensation premium.

It is clear that tens of thousands of employers can expect potentially significant changes and increases in their workers compensation premiums based solely on a change the National Council on Compensation Insurance (NCCI) is making to its experience rating plan.

Changes Coming on How Your Experience Modification Rate (EMR) is Calculated:

What it Means to You & Your Bottom Line

The last time NCCI amended how the Experience Modification Rate (EMR) is calculated was in 1993. Currently, when an EMR is being calculated, NCCI breaks out a Workers Compensation claim between the primary layer (the first $5,000 of a claim) and an excess layer (the remaining claim dollars after $5,000). The primary layer puts more weight into the EMR calculation than the excess because of the old adage in the risk business, "frequency leads to severity losses" thus there is more emphasis in the primary layer. As the average claims cost rapidly rise, primarily due to increasing medical costs, a greater proportion of losses fall into the excess layer and over time has "watered" down the EMR's effectiveness.

The average cost of a claim has tripled since the last change. The new change effective 1/1/2013 will increase the experience mod calculation split point over a three year period from its current value of $5,000 to:

(see table)

Date	Split Point
2013	$10,000
2014	$13,500
2015	$15,000 + 2 years inflation to closest $500
Beyond	Inflation matched to previous year's level

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fifth consecutive quarter, and by 5 percent in the first quarter of 2012 alone. That's the biggest increase we've seen since 2004 (remember those summer hurricanes in Florida that year?)

The two lines responsible for the largest increases, according to a Towers Watson survey, were the two segments most vulnerable to jury award and medical cost increases (workers compensation), and increased reinsurance costs from megadisasters and lower interest rates (commercial property insurance), respectively.

Insurance markets tend to cycle along with other industries. As reinsurance pools of capital get replenished, or as interest rates rise, allowing carriers to generate more revenue from the "float" rather than rely so much on point-blank premium collection, rate increases tend to moderate, and new carriers spring up to compete for business.

So if you are seeing rates increase, it's more a matter of prudence in the face of risk and low returns on capital, which affect all carriers everywhere. As a result rates increase to make sure there are enough in reserves to cover future claims . No one is exempt, and it's a bigger issue than any single insurance agency, carrier, or insurance line.

"Sometime between now and the end of the year you are likely to begin hearing about major changes to your workers compensation premium."

While overall changes will be revenue neutral this new filing could cause the experience mods of many small and midsized businesses to increase by .10 points or more.

If you would like to determine how this rating change will impact your own experience modification rating and premium, contact us and we will be happy to advise you accordingly.

Never Cut Corners when it Comes to Safety in the Workplace

Some employees are happy to take chances when it comes to safety. They take needless risks in an effort to save time or cut their work load. In reality, all they're doing is subjecting themselves and others to hazards that could cause a serious injury.

Workers form bad habits when they repeatedly perform their jobs in an unsafe way and don't get injured. They become convinced that because of their skills they are incapable of being hurt. It's this attitude that usually ends up doing them in, because they take even more chances until eventually a serious accident does occur. Unfortunately, that one accident can turn out to be fatal.

Most of a chance-taker's careless acts can be broken down into one of the following categories:

- Failing to follow proper job procedure
- Cleaning, oiling, adjusting, or repairing equipment that is moving, electrically energized, or pressurized
- Failing to use available personal protective equipment such as gloves, goggles, and hard hats
- Failing to wear safe personal attire
- Failing to secure or warn about hazards
- Using equipment improperly
- Making safety devices inoperable
- Operating or working at unsafe speeds
- Taking an unsafe position or posture
- Placing, mixing, or combining tools and materials unsafely
- Using tools or equipment known to be unsafe
- Engaging in horseplay

Although OSHA does not cite employees for safety violations, each employee is obliged to comply with all applicable OSHA standards, rules, regulations, and orders. Employee responsibilities and rights in states with their own occupational safety and health programs are generally the same as for workers in states covered by Federal OSHA.

Employees should follow these guidelines:

- Read OSHA notices at the jobsite
- Comply with all applicable OSHA standards
- Follow all lawful employer health and safety rules and regulations, and wear or use prescribed protective equipment while working
- Report hazardous conditions to a supervisor
- Report any job-related injury or illness to the employer, and seek treatment promptly
- Exercise these rights in a responsible manner

If you are working with a risk-taker, ask him to stop and consider what jeopardy he is putting himself and others in. Then buddy up with him to find a safer way to perform the task. Remember, unsafe actions don't result in saving time if a worker gets injured in the process.

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