



Workers' Compensation

## Bureau Recommends Benchmark Rate Hike

CALIFORNIA'S WORKERS' compensation rate-making agency has recommended that average benchmark pure premium rates increase by 10.4% for policies incepting on or after Sept. 1, 2026.

In supporting its recommendation, the Workers' Compensation Insurance Rating Bureau cited an increase in cumulative trauma claims and rising medical and administrative costs. The filing, if approved by the California Department of Insurance, would be the second consecutive year that the benchmark rate insurers use to price their policies has increased. Last year the DOI approved an 8.1% hike after WCIRB had recommended an 11.2% increase.

The pure premium rate increase has not resulted in employers with few or no workers' compensation claims paying higher premiums since insurers only use the pure premium rate as a guidepost

when pricing their policies. The pure premium rate remains at historical lows and the market is quite competitive.

The 10.4% recommended increase is an average across all the state's workers' compensation class codes, and each class will see a different change.

Here's a look at the cost drivers.

### Cumulative trauma claims

Cumulative trauma injuries develop over time through repetitive motions and can result in issues like carpal tunnel syndrome, tendonitis, worn rotator cuffs and knee problems. Additionally, three out of every five CT claims are filed after an employee is terminated, according to WCIRB. Nearly all CT claims are litigated.

### Medical costs

According to WCIRB, average medical costs per claim increased 1.7% between

2021 and 2023, but excluding CT claims, that number rises to 3%.

Associated medical-legal costs are up 14% per claim in 2025, while medical equipment and other medical services costs jumped 7% in the same period.

### Claims adjusting costs

The high litigation rates for CT claims are seeping into the cost of adjusting claims, according to WCIRB.

### The takeaway

The Department of Insurance will hold a public hearing in the coming months, after which the insurance commissioner will either accept the recommendation or order a different rate.

Please note that your rates will depend on your claims history, industry and location, among other factors.

## Main Cost-Drivers in California Workers' Compensation.....

### Cumulative trauma claims



WCIRB estimates that 26.4% of all workers' comp claims filed in the state in 2025 are for cumulative trauma injuries, compared to 15% in 2021.

### Medical costs



The medical loss ratio jumped 5% between 2023 and 2025.

### Claims adjusting costs



The average cost of claims adjusting jumped from \$12,636 per claim in 2024 to \$14,235 in 2025 and is expected to rise 5.5% annually 2026-2028.

# When Outside Individuals Harass Staff

EMPLOYERS GENERALLY understand their obligations when harassment comes from supervisors or co-workers. The risk becomes less clear when the offender is a customer, vendor or other outsider, but the legal exposure does not disappear.

While federal statutes like Title VII of the Civil Rights Act do not explicitly address third-party harassment, the Equal Employment Opportunity Commission and most federal courts apply a negligence-based framework.

That means the focus is on what the employer knew and how it responded. Once an employee reports harassment, an employer's defense weakens considerably if it fails to act.

Courts have largely settled on a practical standard that if an employer knew or should have known about third-party harassment and failed to take prompt, appropriate action, it can be held liable for allowing a hostile work environment to persist. If the employer takes retaliatory action, they could be liable for retaliation as well.

## What third-party harassment looks like

Third-party harassment is akin to harassment by a supervisor or coworker and must typically be tied to a protected characteristic such as race, sex, age, disability or religion to constitute a legal liability.

Common examples include:

- Derogatory jokes, slurs or offensive comments,
- Pressure for dates or sexual favors,
- Verbal abuse, ridicule or name-calling,
- Threats, intimidation or aggressive behavior,
- Display of offensive images or materials, or
- Physical harassment or unwanted contact.



In some cases, the harassment is tied to business leverage. For example, a client may imply that they won't sign a contract unless an employee tolerates inappropriate behavior.

## Why employer response is critical

The key legal trigger is notice. If harassment is obvious or reported and the employer does nothing or takes weak, ineffective action, it may be viewed as tolerating the conduct.

Courts and regulators expect employers to take "reasonably calculated" steps to stop the harassment. That does not mean every incident creates liability, but inaction often does.

Employers also face added risk if they appear to prioritize business relationships over employee safety, such as excusing misconduct from a high-revenue client.

## Steps you can take in advance

- Extend anti-harassment policies to explicitly cover third parties.
- Train managers to recognize and escalate third-party misconduct.
- Provide employees with clear means of reporting harassment.
- Encourage prompt reporting without fear of retaliation.
- Investigate all complaints quickly and document findings.
- Include anti-harassment provisions in vendor and client contracts.

## What to do when a complaint is made

When an employee reports third-party harassment, employers should act immediately:

- Acknowledge the complaint and ensure the employee feels safe.
- Conduct a prompt, impartial investigation.
- Limit or end employee contact with the offending individual.
- Reassign accounts or adjust job duties where appropriate.
- Follow up to confirm the behavior has stopped.
- Document every step taken.

Depending on severity, appropriate action may range from asking a customer to stop to terminating a business relationship or involving security or law enforcement.

**The bottom line:** Employers cannot control every outsider's behavior, but they are expected to control how their organization responds. Ignoring the problem is often what creates liability.

## EPLI insurance

Finally, your organization should consider purchasing employment practices liability insurance, which may cover legal fees, settlement and judgment costs in harassment cases. Give us a call to learn more about this important insurance.

# Insurers Scour Driver MVRs Before Policy Binding

WHEN PRICING commercial auto policies, insurers want to know that employers, especially those with fleets, have drivers with clean driving records and don't pose a risk. The main tool they use is motor vehicle records, and if one of your drivers has a bad one, the insurer may require that they don't drive for you as a condition of binding the policy.

MVRs issued by state departments of motor vehicles detail driver's license status, violations and accident history, typically covering the previous three years. While insurers rely on these reports, they are just as important to employers to better manage their organization's risk.

The Department of Transportation and the Federal Motor Carrier Safety Administration also require employers to review MVRs before hiring and at least annually. But many firms are moving toward continuous monitoring to catch problems.

Insurers define "acceptable" drivers differently, but most adhere to these guidelines (obtained from MVRs):

- **Validity:** A valid driver's license from their state of residence.
- **Experience:** At least two to five years of licensed driving experience.
- **Violations and accidents:** No more than two moving violations or at-fault accidents combined within the last three years.
- **Serious offenses:** Zero major violations in the last three to five years, including DUI/DWI, reckless driving, driving with a suspended license or hit-and-run.

If you employ drivers, define clear thresholds for driver eligibility. While policies vary, best practices thresholds generally include:

- **Major violations (typically unacceptable within 1-5 years):** DUI/DWI, reckless driving, excessive speeding, fleeing law enforcement, driving with a suspended license or leaving the scene of an accident.

- **Minor violations (limited tolerance):** No more than two violations in the past 12 months and no more than three in 36 months.
- **Accidents:** One to two preventable accidents in three years may be acceptable, depending on severity.

## How insurers use MVRs

- **Underwriting and renewals:** Insurers check MVRs upon application and often during policy renewals to determine insurability and risk.
- **Preventing negligent entrustment:** Reviewing MVRs protects the company against accusations of knowingly allowing an incompetent driver to operate a company vehicle.
- **Cost management:** A clean driving record is crucial, as too many infractions can lead to more claims.

## How they benefit employers

- MVRs identify high-risk drivers before they are hired.
- They help prevent accidents tied to unsafe driving behavior.
- They help reduce exposure to lawsuits and insurance claims.
- They demonstrate compliance with DOT and federal safety rules.

## What employers can do

Employers should apply these standards to all driving staff:

- Screen all new drivers before hiring them.
- Conduct MVR reviews upon hiring and at least annually.
- Consider continuous monitoring for real-time updates.
- Establish policies outlining acceptable driving standards.
- Require drivers to acknowledge policies and consequences of breaking them.
- Investigate discrepancies between self-reported violations and MVR data.



# Lenders Crack Down on Insurance Requirements

LENDERS ARE tightening commercial insurance requirements for borrowers to ensure that they are adequately covered as property, liability and business interruption claims costs rise across the board.

That means commercial property buyers should start their insurance planning well before loan closing or refinancing discussions. Lenders want to know that the property is protected, not only for the sake of your investment but also to safeguard the money they are putting into the loan.

Besides demanding adequate coverage limits, lenders are strictly enforcing A-rated insurer requirements and requiring updated appraisals to ensure one claim doesn't wipe out a borrower's ability to repay the loan.

## Essential insurance for loans

When seeking a business loan, lenders may require borrowers to prove they have several types of insurance. Here's how lenders are scrutinizing three of the most commonly required policies:

**Property** – Lenders are concerned that property values may be understated in light of rampant rebuilding cost inflation. If a major loss occurs, inadequate coverage could create a funding gap that the policyholder would have to cover out of pocket.

**Business interruption** – Lenders prioritize business interruption coverage because it directly impacts a borrower's ability to make loan payments if disaster strikes. If a business is unable to operate due to a fire or supply chain disruption, it could severely affect its cash flow.

Business interruption may be included in the language of a commercial property policy, but it's important to ensure it is also suitable for lending purposes.

**General liability** – Lenders also want their borrowers to have a general liability policy in place that has adequate policy limits. They may require that the borrower carries additional umbrella insurance to cover the cost of large claims.

Liability insurance rates have been rising rapidly due to an explosion in large settlements, often in the tens of millions of dollars. Lenders are insisting that businesses taking out loans have policy limits that will ensure they can stay viable after a large verdict.

## Other considerations

As claims costs have risen, lenders are increasingly reviewing endorsements, limits and policy language more carefully to ensure compliance with loan agreements and confirm that insurance can cover most eventualities.

Lenders often request particular wording and endorsements that ensure their rights are protected. These may be found in certificates of insurance or within the policy, including:

**Mortgagee clause and lender loss payable wording** – This clause ensures the lender is paid if a covered loss occurs. It prioritizes the lender's interest in the event of a claim.

**Proof of insurance showing correct limits and dates** – The lender may request a certificate of insurance that lists policy limits, effective dates and contact information for the insurer. Any mistake can delay closing.

**Replacement cost valuation** – Lenders want the property insured at full replacement cost. This means the policy should reflect what it would take to rebuild the structure today, not what was originally paid for it.

**Acceptable deductible levels** – Some lenders limit how high the deductible can be. If the deductible is too high, they may require changes before approving the loan.

Some issues can delay closings on properties or cause problems after the loan is made, such as:

- Missing additional insured endorsements,
- Insufficient umbrella limits, or
- Inconsistent named insured listings.

Finally, if you are applying for a loan, reach out to us early as the market has changed drastically, particularly in high-risk areas.

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

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