

Warning: Hard Insurance Market Ahead

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The insurance market has been “soft” for some time. We’re now used to renewals with lower cost and perhaps better coverage (if your broker is paying attention!). Clients and RiskSmart Tips subscribers need to know this is not a forever thing.

What is Hard vs. Soft? ~

The insurance market, like most businesses, is driven by supply and demand. Pricing, or the way they calculate premiums, depends on many things including losses they may not know about for a long time. This means competition for your account usually remains fierce until the last second. Then all of a sudden, the lights go out, prices soar, and many coverages are no longer available. This can be painful if you don’t see it coming.

Insurance rates in most areas have been falling for several years. Loss ratios are now on the rise, and stock markets (where insurers make most of their profit) are quite volatile. It will only take one significant “event” – like another Katrina or an earthquake or a terrorist attack – to trigger a “correction.”

We have just experienced a similar phenomenon with the mortgage market. The sun was shining and few people saw the dark clouds on the horizon. Suddenly there was a thunderstorm and flash flood. The impact has been widespread – not just on the sub-prime market.

How can you prepare? ~

Most insiders agree there are some very effective tactics that you can implement now to help prepare for whatever happens ahead.

- First, make sure you have a pro-active, responsive broker and are getting practical, on-going advice. None of this will work without this key building block.
- Negotiate the lowest deductibles available, and be ready to increase in the future to minimize rate increases.
- Get the broadest coverage now, while it is willingly offered – increase policy enhancements or sub-limits, try to modify or eliminate exclusions, and consider adding new coverages. These often don’t “go away” when rates increase.
- Increase your liability limits while they are inexpensive, and make sure you have accurate insurance-to-value for buildings, contents and equipment.
- Consider multi-year renewals to lock in lower rates.
- Make sure you have high quality, stable insurance companies able to weather a storm – you don’t need the hassle of a bankrupt insurer when you have a loss.
- Use current premium savings to invest in safety, quality and loss prevention – this can make you a much more desirable account (see *Manage Your Risk Profile*).
- Use hold harmless or indemnity clauses to transfer risks to others whenever possible. This reduces your risk and puts you in a better position if you need to pare down limits or coverage in the future because they’re too expensive.