

Insurance Insanity

February 2009

Insurance company profits are showing alarming signs of reversal, and this means you must be very alert.

After several years of the best profits ever – convincing them they are geniuses – they now face:

- Rapidly rising loss ratios (105% projected vs. 92% last year),
- Significant catastrophe loss increases (\$45 billion – up 50%),
- Huge investment losses (\$2.5 trillion) and subprime losses (\$200 billion),
- And declining or uncertain financial ratings from A. M. Best and others – the recent announcements about The Hartford losing \$2.7 billion is just one example.

After 4-5 years of decreasing premiums (great for policyholders) it looks like the pendulum will be swinging the other way.

Danger Ahead ~

Unfortunately, while insurers are quick to be competitive with rate cuts when market rates are dropping, they aren't always so straight-forward when trouble looms. Rates could start going up at any time, but two things are happening right now: 1) cuts in staff and services by many insurers and some brokers, and 2) coverage restrictions – often in the fine print of endorsements or definitions.

And surprise! These coverage changes aren't in the advertisements! You can easily miss them, and the lack of clear notification hides behind the insurers' mantra, "Read Your Policy," in their CYA renewal letter. Can this drive you insane?

What can you do? ~

First, be aware these changes can happen at any time. Some of the disappearing services or coverages may be things you depend on and the reason you chose a particular policy or insurer in the first place.

Second, make sure you have a competent broker who can *and will* give you careful and complete advice about all changes. This can be very hard because they're under pressure to find new business and don't have time to fully service smaller accounts. Make sure your expectations here are clear and you get their advice in writing.

Finally, as Ronald Reagan used to say, "Trust but verify"- double check your broker's work, advice, and recommendations. This is always more important to you than to them. You can compare last year's 'Policy Forms and Endorsement' list (usually on a Declarations page) to this year's. Check for new forms or endorsements, read them, and ask questions. Never accept answers you don't fully understand.

A recent policy review uncovered a staggering gap in a client's earthquake policy – a key coverage for their operations and contingency plans. Oops.