

Warning – Hard Insurance Market Ahead

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The insurance market has been “soft” for a long time. Renewals with lower costs now seem normal, and you may have gotten better coverage too, if your broker was paying attention. Clients and RiskSmart Tips subscribers know this is not a forever thing. Inside information and preparation can save you a lot of hassle – and money.

What is Hard vs. Soft? ~

The insurance market, like most businesses, is driven by supply and demand. Insurers raise premiums when their losses get “too high” and reduce prices when their loss experience is better than expected. This means competition for your account can be fierce – until all of a sudden it’s not. Often market pricing changes suddenly, and many coverages may no longer be available. This can be painful if you don’t see it coming.

Insurance rates for most coverages have been falling for years. But recent catastrophe losses have soared, and the frequency of normal losses – like Worker’s Comp injuries – is increasing. It only takes one significant “event” – like another Katrina, earthquake, tsunami or terrorist attack – to trigger a “correction” and premiums could increase dramatically.

We are still experiencing a similar phenomenon with the mortgage market. The sun was shining and few people saw the dark clouds on the horizon. Suddenly the “weather” changed and the impact on individuals, companies and whole industries has been deep and widespread. If you didn’t see it coming, the change was shocking.

Seven secrets for how you can prepare ~

Most insiders agree there are some very effective tactics 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.

1. Negotiate the lowest deductibles available, and be ready to increase them in the future to minimize rate increases.
2. 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.
3. Increase your liability limits while they are inexpensive and make sure you have accurate insurance-to-value for buildings, contents and equipment. Underinsurance is short sighted and can kill your business.
4. Consider multi-year renewals to lock in lower rates.
5. 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.
6. Invest in safety, quality and loss prevention – this can make you a much more desirable account (see next month’s Tip, *Manage Your Risk Profile*).
7. 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.