The rising tide of rates

How to navigate the hardening insurance market

INTERVIEWED BY ROGER VOZAR

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Business insurance costs and coverage terms have become unstable, but there are steps that businesses can take to minimize risk and keep costs under control.

"Health insurance rates increase almost every year — there's never good news. With respect to property and casualty insurance, premiums have been decreasing or flat for a number of years. Because rates have been stable, business owners are often unwilling to spend time and resources on loss control and risk management," says Peter Bern, CEO of Leverity Insurance Group. "This reduction in pricing is deceptive, setting businesses up for a shock when the insurance market takes a turn, so it's important to proactively address risks and losses now before insurance prices begin to climb. Those that simply ride the market without working to reduce risk will have a harder time placing coverage and won't be offered rates that are as competitive and coverage that's as comprehensive as they had seen in the past."

Smart Business spoke with Bern about the causes of the hardening insurance market and what companies can do to address the situation.

What does a hardening market mean?

It's not just an increase in premium rates; rather, insurance companies and their underwriters are also taking a closer look at the risks and determining whether they want to change the coverage terms by requiring higher deductibles or are unwilling to provide as much, or any, coverage for specific exposures. Basically, it's a challenged marketplace and it's more complicated to get competitive and comprehensive coverage from insurance companies.

Why is this happening?

Over the last several years, insurance companies have been hammered by unprecedented losses from natural disasters, corporate fraud and dealing with continued flat investment returns, which can be attributed to the weak economy. Worldwide, insured catastrophe losses have hit and exceeded historical records, and, as a result, insurance companies are paying out more in claims than they're taking in through premiums. As 2013 begins, there is no doubt that Hurricane Sandy will have a large impact on the insurance marketplace. The scary part is that the losses are still being added up. Bottom line, for insurance companies to make money and stay financially viable, they need to increase pricing and exercise greater discipline in underwriting risks.

What potential rate increases do companies face if they don't take action?

As a business owner, a 10 to 15 percent increase in cost will still be unpleasant, but a 40 percent or more increase in addition to a reduction in coverage could affect the viability of your company. Over the past year, premium rate increases of approximately 5 to 7 percent are being seen throughout the insurance marketplace. However, certain segments and businesses have experienced larger increases in premiums because of loss frequency and severity, as well as diminished capacity in the marketplace.

What can businesses do to take charge, control losses and mitigate the effects of the hardening market?

It starts with proper risk management practices to prepare in the event of a loss. By partnering with a trusted adviser, businesses can:

- Pinpoint exposures and cost drivers.
- Identify loss control solutions tailored to unique risks of the business.
- Create a contingency plan to account for disaster and unpredictable risks.
- Build a company focused on safety.
- Manage claims efficiently to control costs.
- Determine the most competitive and comprehensive way to transfer risk.

Even if the insurance marketplace doesn't harden to a point that it affects your company's well-being in the short or long term, a business with effective loss control and risk management initiatives will always pay less to secure and protect its assets and exposures in any market conditions. ●