ECBM Insurance Brokers & Consultants

RiskWatch

Fall, 2011

How to Manage the Approaching Tightening of the Property & Liability Insurance Market

After more than 6 years of ever decreasing insurance premiums and broadly available coverage, all the signs indicate that commercial insurance premium rates have bottomed and are likely to be increasing next year. In addition, historically when insurance premiums begin to rise, coverage terms and conditions also are generally scaled back. Many of the broad coverage terms and conditions that have been readily available over the last few years may begin to become scarce.

Even before this recent firming of insurance prices, we have seen several early indications that a tighter market is already here — although less obvious to most insurance buyers.

Some examples:

- Many insurance companies have begun to slow down the adjusting of property insurance losses, particularly with respect to the business income portion of claims. Over the last 2 years, we have seen more and more of the use of a “delay and deny” strategy. Property claims that historically could be adjusted in 3 to 6 months are often taking more than a year to closeout. Property insurance companies also now routinely bring in forensic accounting firms to pick apart every line of business income and extra expense claims — often delaying the adjusting process by as much as an additional year.
- Insurance companies are routinely denying accepting coverage for additional insureds under the general liability policies of the named insureds they cover. As an example, we are seeing extensive delays in getting the acceptance of coverage for landlords as additional insureds for claims filed by customers injured at their tenants’ premises. This is also routinely occurring when general contractors ask for coverage for claims arising out of work by their subcontractors. Similarly property owners are often seeing extensive delays in obtaining coverage for claims filed against them arising from construction site injuries for work done by general contractors for them.
- We’ve also seen coverage restrictions being imposed by insurance companies over the last several years. As examples, insurance companies no longer will provide contractual liability coverage nor extend additional insured status to another party under the commercial general liability policies they write for contractors to extend coverage to building owners arising from broad form hold harmless agreements. They no longer want to pick up liability for claims allegedly due to the sole negligence of the owner.
- We’ve seen a push for much higher windstorm deductibles on property insurance coverage written for clients with properties not just on the Florida coast but even in areas as much as 10-15 miles from the coast including large parts of New Jersey, Southern Connecticut and Massachusetts. Deductibles of as much as 1%-2% of insured building values are being imposed for windstorm losses in these areas! Properties close to the coast in Florida and the Texas Gulf Coast counties are now routinely required to carry windstorm deductibles of as much as 3%-5% of insured building values compared to 1%-2% as recently as 2 years ago. Losses from Hurricane Irene and Tropical Storm Lee this summer are likely to motivate insurers to further increase these windstorm deductibles this year.

With these signs of change approaching, now is clearly the time for business owners to focus greater attention on their property and liability insurance programs and to begin to take steps to minimize the impact of these coming changes.

WHAT CAN YOU DO?

We recommend business owners take a number of proactive steps now to eliminate or mitigate the impact of these coming changes on their insurance programs.

1. Take control of adjusting any new property loss including setting strict timelines and strategies soon after the loss occurs. This includes setting specific roles for your broker and any claims adjuster retained to assist in the preparation, adjustment and negotiation of all property claims. The progress of the claim then should be strictly monitored from initial claim report until final closeout and payment.
2. Demand that your vendors, contractors and suppliers provide the additional insured coverage needed by you and get confirming renewal certificates of insurance. These certificates should be backed up by copies of appropriate endorsements on the supplier’s renewal insurance policies to verify that the additional insured protection is extended to you.
3. Push back aggressively on your contractors, suppliers and vendors to be sure the general liability insurance companies for those suppliers promptly accept the tender of any claims filed against the you.
4. Carefully evaluate the detailed terms and conditions of the renewal proposals for every insurance policy they purchase. In addition, carefully scrutinize the renewal coverages being provided to you by your vendors, contractors and tenants to be sure that renewal coverages they are providing to you are as broad as the prior coverage you relied upon.
5. Demand that your insurance brokers or agents present early warning of any likely changes in coverage terms and conditions or premium increases. Request detailed insurance renewal marketing strategies including getting alternative quotes to eliminate or mitigate these potential increases. Also request your renewal insurance proposals as early as possible including several optional quotes in the event of proposed restrictions by your current insurance company (companies).
6. Get renewal options including alternative higher deductibles on property coverages and also include optional deductible quotes on your general liability insurance renewals to help reduce renewal premium increases. Likewise, get quotes including higher automobile physical damage deductibles.
7. For larger businesses, consider renewal workers’ compensation quotes that include deductibles or retrospective (cost plus) rating options if your current policy is written on a guaranteed cost basis.
8. Obtain needed changes in your property and liability insurance policies now or as part of your next renewal negotiations. Don’t delay making these changes until later when they may be much more difficult to obtain and more expensive to complete in a tighter insurance marketplace. As examples:
   - increase your umbrella liability, directors and officers liability and other liability policy limits now if your current coverage limits are too low.
   - increase your insured property and business income values to adequate amounts now while you can still negotiate reasonable property insurance renewal premiums. Waiting is likely to result in your insurer forcing you to carry adequate insurance to value on your renewal policies at a time when rates could be much higher.
9. Attempt to lock in longer term renewal premiums and coverage conditions now. Many insurance companies are still willing to provide 15 month, 18 month or even 24 month policy terms and conditions for clients with good loss experience. Over the past several years, many insurance buyers didn’t pursue longer-term policies believing that they could obtain lower rates on renewals as the market continued to soften. With the expected change in the market, now is the time to lock in favorable pricing and terms and conditions for a longer period of time.
10. Finally, evaluate the responsiveness, scope of services and financial strength and staying power of the insurance companies and agents and brokers that you do business with. Now is a good time to be sure that the professionals and insurers you deal with will work with you to implement the strategies described above.

Philip K. Glick, CPCU, RPLU
Senior Vice President

ECBM

300 Conshohocken State Road
Suite 405
West Conshohocken, PA
19428

610-668-7100, ext. 1310
pglick@ecbm.com