State of the Insurance Marketplace

5 Considerations for Keeping Your Costs Down*

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Wind direction is changing! Property Casualty (P&C) insurance rates are beginning to trend upward. This trend, known as a 'firming marketplace,' began in the fourth quarter of 2011, and it is expected to gain momentum in 2012. After seven years of a downward trend in rates, and diminishing returns for insurance companies, the industry has begun to take steps to improve its financial performance.

The P&C insurance industry makes money in two ways, investment income and underwriting profit. We have all felt the volatility in the financial markets lately, as returns on many investments have declined. Underwriting profit is also under pressure due to a catastrophic year in 2011, from natural disasters and severe weather damage. Insurance company profits have eroded, and they are now exercising more disciplined underwriting. Regardless of the improving near term trend in overall economic growth, P&C rates are likely to increase. Faced with increasing insurance costs, how do organizations budget and plan for this challenge? How can you position yourself for a "firming" insurance market, with increasing rates? Parker, Smith & Feek recommends the following best practices for you.

1. Choose Quality Partners- Gaps in broker/agent expertise are more likely to increase your cost during a hard market. Are you working with a broker or simply an agent? Do they have deep understanding of your industry? Knowledge is power and your insurance broker represents the interests of your organization. He or she should not only understand your business, they should also have solid relationships in the insurance community, to secure the best value for your firm in terms of coverage, retention, pricing, and limits. If you are in doubt about your partner's connection with your industry, ask if your partner is a contributor to the associations that matter to you.
2. Start Early…Have a Strategy…Demand More- Now more than ever, you can maximize your leverage by getting out in front of the insurance purchasing process. Develop clear, concise objectives, and a strategic plan to achieve them. Carefully evaluate the proposal from your insurance representative against your pre-determined objectives. As insurance costs are going up, expect your insurance professional to provide additional value to meet your needs. Keep in mind, the most comprehensive proposal which you can submit to underwriters will always generate the most value for your risk management dollar.
3. Invest in Loss Control & Safety - These investments by are sometimes the first to be jettisoned when expenses need to be trimmed. We offer an alternate point of view. Committed insurers can assist in this area with proven programs and new ideas. Loss Control and Safety are most effective when an organization commits to making them part of the culture. We strongly recommend that you take time to dedicate resources in this area, as it will help prevent claims and mitigate the severity of claims experience. In the long run, your investment in Loss Control and Safety will help protect your insurability, resulting in the best available rates for your firm.
4. Risk Transfer (contractual) – Transfer of risk to downstream parties, through contract, remains a viable strategy to pass risk along to the party which is best suited to manage it. Insurance carriers look favorably on firms that steward this risk transfer process. They will provide their most aggressive offering when they feel a firm is committed to the risk transfer practice. Only the best brokers in the industry invest in specialized skills to assist clients with this process. If you are not getting support or reliable advice on risk transfer from your insurance professional, it may be time to consider other resources.
5. Alternative Risk Financing Options- For organizations who are looking at accepting more risk to contain costs, Captives and large deductible programs are examples of alternatives to consider. Both of these options gain traction when insurance rates begin to firm. Collateral

will be required under both options, and firms need to fully explore all the implications of posting collateral. Under the group Captive concept, you become the insurance company and share risk with other members. The IRS requires Captives to have a risk sharing component among the members. Therefore, due-diligence of the other members is critical. Many variables need to be evaluated when considering Captives, and they can be a great tool to manage risk, while also establishing a potential source of profit [after multiple years of low claims experience].

Insurance costs are going up. The impact to of this hardening of the insurance marketplace will depend on claims experience, trends in payrolls/revenues, length of relationship with the current insurer, and risk tolerance. Implement best practices in your Risk Management program to position your firm for success, and lower your Total Cost of Risk.

* Sources:

Michael Buck, Senior Associate Editor; BestWeek; February 1, 2012

Risk Management & Insurance Commentary, Tips, and Tactics; IRMI Update; January 25, 2012