

Going Up



Property and casualty insurance rates remain low, but pressure is building for increases. Employers can benefit by taking a holistic approach to their insurance needs now.

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The numbers for the property and casualty industry in 2008 were bleak. Through the first nine months alone, catastrophe-related losses in the U.S. alone stood at \$21 billion, more than the previous two years combined. The industry's combined ratio, a measure of total expenses and incurred losses relative to earned premium, deteriorated. Add in the impact of the overall economic downturn, which accelerated greatly in the final quarter of 2008, and it's no surprise that the result was a considerable amount of red ink.

What is a surprise is that, on a composite basis, the rate for property and casualty insurance in the U.S. was still down seven percent through April 2009. Although there has been some tightening in particular sectors, such as public entity business, energy and habitation-al risks, the overall market is still soft.

But given the losses experienced by many

carriers in 2008 and the poor performance of insurance carriers' investment portfolios, it's inevitable that the market will harden, with increasing rates and tightened underwriting standards. Exactly when that happens is anyone's guess, but the growing number of economic reports suggesting that, at least in the U.S., the recession is beginning to wane augur for rates rising sooner rather than later. Other factors that continue to play a part in determining pricing, capacity and underwriting appetite in the 2009 property-casualty marketplace include:

Reinsurance. Initial reports are that reinsurers are negotiating price increases and increasing primary carrier retentions.

Investments. Not even large insurance companies are immune to the financial market's decline. Carriers that underwrite to higher

losses and count on investment returns to bolster earnings likely have issues.

Economic Activity. Even if the U.S. economy is starting to recover, worldwide the recession continues to hold depress demand for insurance through lower inventory values, sales, payrolls, numbers of vehicles, etc.

Price Competition. Seven years of intense price competition and declining rates have resulted in premiums that do not support claims' inflation.

Capital and Credit. In what is typically not a pervasive problem for the industry, the tightening of credit and lack of capital is creating problems, even for industry giants.

Another interesting factor is the increased scrutiny that the industry's rating agencies,

such as A.M. Best, are placing on carriers. Their equivalents, which monitor lending institutions and establish commercial credit ratings, have a black eye from the sub-prime mortgage crisis. Insurer rating agencies are trying to avoid this. Expect these rating agencies to be extremely vigilant going forward.

One bright spot for Indiana employers is that the landscape of worker's compensation is relatively favorable. Certainly from a cost-to-employer standpoint, it is favorable, as Indiana's worker's comp rates are in the bottom quartile nationally. Illinois, however, continues to be a challenge. Its rates are in the top quartile nationally, and its worker's compensation code and case law is not as pro-employer as Indiana's.

The unfortunate result in this economy is that some companies have chosen to reduce or eliminate worker's comp risk management strategies, such as safety and loss prevention personnel and safety training programs. A superior strategy is for a company to partner with providers--agents and carriers--who can deliver these programs in a cost effective manner. When the economy turns for the better, these programs need to be in place to avoid a rash of accidents from newly hired, untrained and inexperienced employees.

Coverage for directors and officers, employment practices, and fiduciary liability remains one of the best values in the commercial insurance marketplace. Claims from these areas are on the rise. One out of five companies has had some type of Employment Practices Liability incident lodged against them over the past five years, and the aver-

age cost of one of these incidents was \$63,114. Furthermore, the median jury award of compensatory damages in employment discrimination cases was \$250,000 in 2007, up from about \$175,000 in 2001, and the average award was \$890,000 in 2007, up from \$438,000 in 2001.

The directors and officers of organizations today are arguably more exposed than they have ever been. The fallout of the economic downturn is creating liabilities for directors and officers by way of bankruptcies, claims of misrepresentation or other corporate misconduct. Increasing regulatory control and monitoring of 401k and other pension benefit plans will create even more exposure to a fiduciary liability claim. Executive liability is an area often overlooked by private companies.

Next Steps. In the wake of an extremely soft market and incredibly competitive marketplace, now is an opportune time to review and make substantial overhauls to your risk management strategies and commercial insurance programs. Relative to changes in the cost of capital and other economic factors there are excellent values available in the commercial insurance marketplace today.

However, don't make this simply about quoting. Rather, make it an enterprise-wide approach by seeking the advice and counsel of a reputable insurance advisor who is (1) experienced in your industry, (2) capable of learning your goals and overhauling your insurance program to match your business objectives, and (3) has the resources to proactively manage risk with you through initiatives involving safety, compliance and employee training. IF



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