Hard Commercial Insurance Market on the Way

How solid risk management will help your clients survive the coming storm.

Sponsored by Signature Risk Partners Inc.

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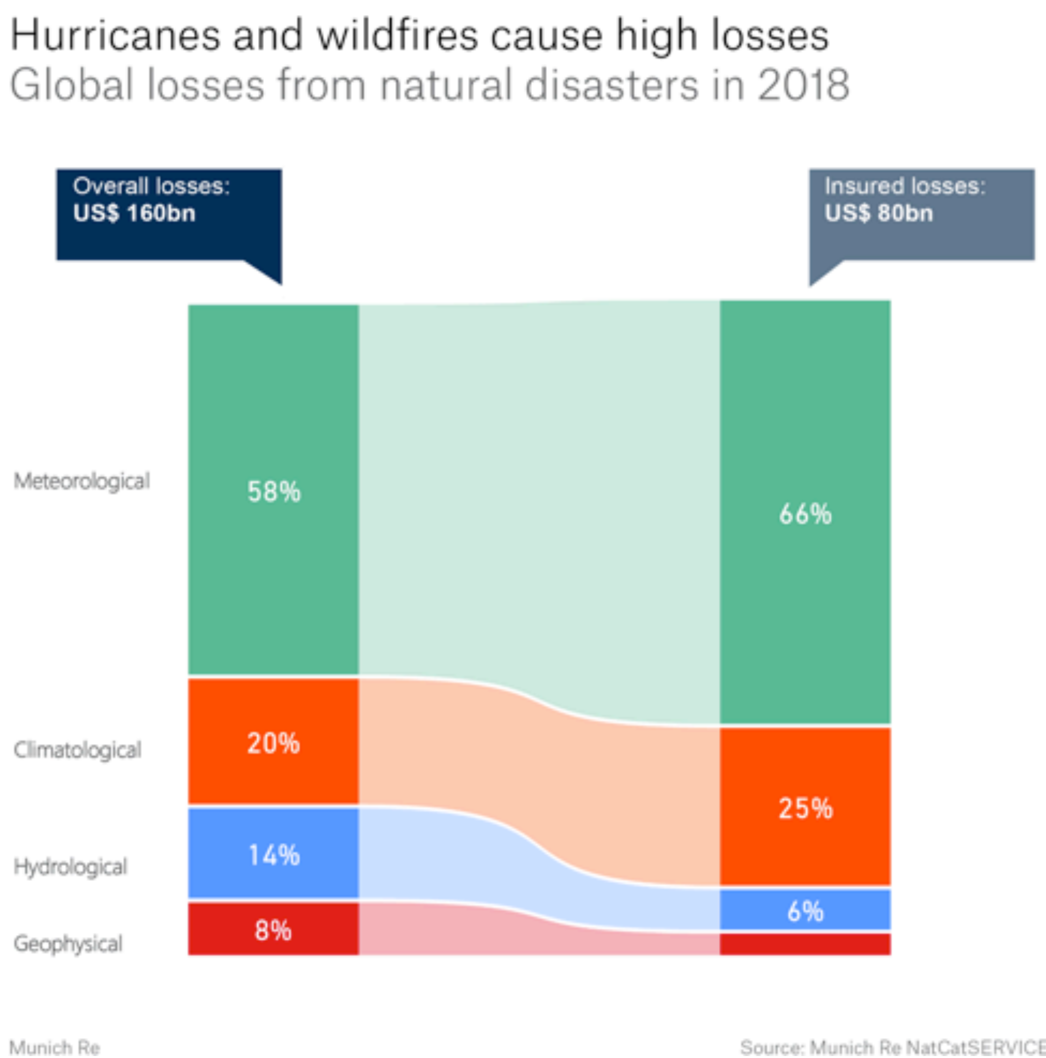
The last several years have created a perfect storm, which has led to a hardening market for commercial insurance.

Global catastrophe losses hit $US160 billion in 2018, finds a report by Munich RE. Of those, US$80 billion were insured losses.



The total insured loss is much higher than average notes Ashley Chinner, Senior Vice President & Director of Golf at Signature Risk Partners Inc. "Approximately 50% of the global losses were insured, compared to the long-term historical average of only 28%."

These additional claims have hit the insurance market, which has to take in the losses.

“The reality is the frequency of severe weather has definitely increased over the last 15 years,” says James Grant, President & CEO at Signature Risk Partners Inc. “Even if a global insurer diversified its property exposure around the globe, it still got hit everywhere. It takes time for those events to get absorbed through the marketplace, but eventually it gets passed down to the policyholder in the form of higher premiums.”

Meanwhile, insurers have been aggressively expanding and seeking growth opportunities through M&A and CapEx. But due to the strong global economy, which has led to rising interest rates in many regions, operating expenses have gone up and now the cost of capital is also putting pressure on insurer earnings.

“Carrying the debt for past acquisitions while running an office in a big centre like the U.K. or Toronto means that expenses are up everywhere, and that’s a major factor that goes into rate calculation,” says Grant.

Technology is also playing a bigger role, providing underwriters with more information on flood exposure and risk forecasting. This has resulted in better actuarial models, often leading to increased rates.

Jeff Kislasko, National Programs Underwriting Manager at Allianz Global Corporate & Specialty (AGCS), agrees. “Most insurance companies in Canada converted to an updated version of risk-modelling software late last year: RMS 17. So that’s driving significant increases to insurance companies’ Average Annual Loss (AAL) attributed to earthquakes, which is in turn increasing reinsurance costs for insurers.”

Each of these factors on its own might be manageable. With all of them combined, it means one thing for insureds: commercial rates are going to rise and the days of insureds being able to shop for better terms may be coming to an end.

“This is going to be the wake-up call,” says Grant. “They may not be able to get a lower price. They may not be able to get terms, period, which is really scary.”

Rising rates are already being felt throughout the industry. In third quarter 2018, the year-over-year aggregate commercial price change reported by carriers was up over 2%, according to a report by Willis Towers Watson. This latest increase comes on the heels of the first rise in three years during the second quarter of 2018.

With rising rates front and centre a solid risk management strategy is key. Companies that aren’t doing their due diligence will be hit with higher rates, or get turned away when it comes time to renew.

Companies with an active safety culture in place will likely have fewer incidents and claims, making them easier to insure notes Bill Godkin, Primary Consultant at CEsafety. “They need to create an environment where each employee buys into the concept of risk management, and that safety is a top priority. Doing so will lead to fewer costs, the ability to get the insurance coverage they need, and a working environment making it easier to keep valued employees."

Risk management tips

How can brokers help their clients upon renewal, and ensure they get the best rates? Grant says the first step is to reach out to insurers early to see if there are going to be any changes to the client's terms. Kislasko agrees, adding "In this market, insurers and brokers need to be proactive with their renewals and this process should start 60 to 90 days prior to expiring. This will allow enough time to review the account in detail and set expectations. With the extra lead time, there shouldn't be any last minute surprises and it will ensure a much smoother renewal process for all involved."

He suggests starting the process 60 to 90 days in advance. "The capacity is out there. It's just a matter of brokers getting ahead of it, and making sure they've got a detailed submission."

In fact, ensuring you have updated information on your clients is important, notes Grant. Ask questions about their Risk Management and Waiver programs.

Godkin suggests confirming that the insured has an active safety plan in place and can prove it to a Government Inspector. Also ask: Are Health & Safety training and programs reviewed and updated yearly? Is employee safety education done yearly? Is it documented so that management can prove that due diligence has been done?

Simple things like having a centrally monitored alarm system will help, notes Grant. "The difference between having a monitored alarm system and not is a 30% swing on their insurance premium. It's a 15% penalty if you don't have one, and a 15% credit if you do."

It's the details that matter. For instance, all public spaces must be safe, starting with level paving and pathways that are well-lit to reduce the risk of slip-and-fall accidents. Businesses that aren't active in the winter, like a golf course, need to protect vacant buildings by doing things like shutting down water pipes to protect against flooding.

"Water is the new fire," says Chinner. "People tend to forget about areas in a building that may not have the same insulation as other areas. And if there is water piping there, simple things like keeping doors open to keep warm air circulating so that pipes don't freeze and burst can help."

It's not only property that is at risk. Given the increasing litigious environment in Canada, it's not only high-risk businesses, like skiing or rock climbing that need signed Waiver Forms. These days, even low hazard activities, like golf, must implement a Waiver program and ensure that every customer reads, understands and signs the form. This will reduce the risk of frivolous claims, while reminding the participant that there are inherent risks in virtually any activity.

Investing in a third-party Health & Safety organization should be a priority. “You need a fresh set of eyes,” explains Grant. “You own the place, you have the same routine daily, so you don’t see it. But if you bring in a specialist once a year, they’ll notice all the stuff that you walk past.”

Frequency of claims in this hardening environment can also make or break whether an insured gets renewed. “Frequency is worse than a one-off big event,” says Grant.

Chinner agrees. “If you’re someone that’s had three water claims in the last four years, and your deductible was $2,500, then it became $5,000, then $10,000, chances are insurers are going to say, ‘No, thank you,’ unless you do something to stop the water damage.”

He adds that risk management practices should’ve been put in place before the first claim. In order to get renewed after several claims, insurers will likely place a warranty on the policy that might say, “If some heat isn’t left on, or the pipes aren’t disconnected, there’s no coverage.”

Overall, insurers will be looking for accounts with a renewed focus on safety for employees and customers, as well as better operations as a whole. “The clean accounts—the loss free ones—are going to get through this okay,” says Grant.

Chinner and Grant add that by spreading the message that risk management is of utmost importance, their goal is to help brokers and insureds. “Insurers are going to be cherry picking,” notes Chinner. “It’s not an easy message to deliver, but it’s the new reality.”

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