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It is important for corporate management to build strong relationship with their underwriters

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As we gaze forward in an attempt to discern what type of marketplace 2013 will bring as it pertains to insurance costs we must first reflect on the events of 2012. Factors that affect the pricing, and capacity, of the insurance marketplace are historical loss experience, investment returns, projections on future catastrophic events and historical premium rate environments. Property and casualty markets tend to harden when underwriting losses reach their pinnacle (1984, 1992, 2001 and now 2011). Catastrophic losses reached a near record in 2011 (+/- $67 billion), due to floods in Australia, earthquakes in New Zealand, tsunami in Japan, tornados in the US, floods in Thailand and hurricanes in the northeastern U.S. As all of you know, the East Coast, particularly New York and New Jersey, recently experienced one of the most powerful storms in modern history. The initial insured loss estimate is between $10 billion-$20 billion, with economic damages of approximately $30 billion-$50 billion. The storm could impact up to .5% of the U.S. GDP for the 4th quarter. It could take the region years to fully recover.

Commercial property coverage led the soft market through 2010. The property insurance market has been firming throughout 2012; with renewals for risks throughout wind and flood prone areas being the most challenging. Key markets for coastal perils have cut back capacity and are carefully analyzing this book of business. Furthermore, RMS-11 (the latest catastrophic model) has significantly curtailed available capacity. Companies should complete capital improvements that will enhance the risk in the eyes of the carriers.

Primary Casualty insurance (general liability) capacity remained healthy; however insured's should expect renewal options to see rate of inflation rate growth at best. Favorable loss histories will dictate the outcome of the casualty renewal cycle. Investment in loss prevention along with claims management and contractual controls will enhance your risk in the eyes of the underwriting community. The umbrella marketplace has firmed more significantly than the primary markets and capacity is harder to negotiate and more expensive at renewal.

We have seen more dramatic change and greatest volatility in the workers' compensation marketplace. The vagaries of individual state laws and regulatory oversight dictate the insurance markets response to availability and pricing. Recently carriers have made moves to exit markets, curtail the size and scope of the program design or refuse to underwrite mono-line programs. Recently Liberty Mutual announced a significant reduction in appetite for mono-line Workers' Compensation placements. Middle market programs have been most challenging, with concentration of risk impacting the underwriting authority most.

Executive Management Liability insurance continues to show changes in underwriting with most renewals growing at 10% or more. Companies with global operations or expansion plans should consult with their broker regarding the evolution of corporate laws expanding the duties of D&O's in many foreign jurisdictions. Coverage voids may exist for foreign D&O's at subsidiaries of U.S. parent companies. Purchasing local D&O policies in countries that do not recognize non-admitted U.S. D&O policies might be a prudent option.

Our crystal ball is showing storm clouds on the horizon. Insured's will be faced with increased premium costs in 2013. Ongoing quarreling over the budget in Washington is causing anxiety in the insurance industryâ€”much more concern, it would seem, than the industry's ability to handle random weather events. A whopping 94% of executives surveyed at a conference by the Insurance Information Institute say the budget fight in Washington will affect the U.S. economy. It will be extremely important for corporate management to build strong relationships with their underwriters. Strong loss prevention measures combined with claims management and contractual standards are increasingly important, thereby presenting the best possible risk to the underwriters. In addition to building strong risk management relationships with your broker and underwriters early action will allow for the negotiation of the most competitive program the markets will offer.

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