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What direction is insurance market taking and will changes in tax laws impact my holdings? - by Spencer Macalaster

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As we near the end of the second quarter of 2017, our clients are asking what direction the insurance marketplace is taking and what impact changes in tax laws could have on their holdings. The markets for the most part have remained stable through the first quarter of 2017. The insurance renewals generally saw flat rates overall. Rate changes, if any, are primarily confined to inflationary levels, except for those risks in catastrophic loss locations, such as waterfront, wind prone and the like. Hurricane Mathew boosted U.S. catastrophic loss experience to levels not seen since Hurricane Sandy. In addition, overall industry underwriting results have deteriorated with combined loss ratios exceeding 100, making these results the worst in four years. Other areas of concern looking into 2018 are legislative. Republicans hold the majority in both the House and Senate, and for the first time since 1928 the Presidency as well. It seems fairly certain the tax laws will change over the next year. One area of change in the tax code is the affordable housing sector. As developers scramble to maintain valuations created by historical and low income tax credits, pressure will mount on insurance brokers and carriers to lower premiums.

As in the past few years, those nervous about changes in their property placements will fall into two distinct exposure categories. Those with little catastrophic exposure will see flat renewal options. Those with catastrophic exposure, especially to flood or wind perils, will see higher rate increases and higher deductibles. Our approach has been to evaluate options with higher deductibles, in conjunction with putting a maximum exposure through the negotiation of aggregate deductibles. Through this method, we have successfully reduced exposure to large rate increases, while creating an opportunity for significant savings if losses do not materialize.

Primary Casualty insurance (general liability and workers' compensation) capacity remained healthy; insured's should expect renewals of flat to rate of inflation increases. Favorable loss histories will dictate the outcome of the casualty renewal. Investment in loss prevention along with claims management and contractual controls will enhance your risk in the eyes of the underwriting community. Deviating from this stable market is the auto liability industry where litigation and significantly higher loss experience is causing rates to increase upward of 10% to 20%. The umbrella marketplace has firmed as well and capacity is harder to negotiate and will be more expensive at renewal.

Most insureds now realize Cyber Liability is a real and present danger. All companies—big or small—are vulnerable to a privacy breach or a network security incident. Cyber liability can be attributable to human error, hackers, digital espionage, data theft, denial-of-service attacks, electronic sabotage, improper employee or contractor access, computer viruses, or programming errors. Our clients have approached the exposure from both a prevention standpoint and insurance coverage standpoint. We recommend all companies evaluate cyber liability coverage during their next renewal cycle.

Executive Management Liability insurance continues to show signs of firming with most renewal rates increasing 10% or more, primarily driven by employment practices related claim exposure. Even companies with claim free exposures are experiencing rate increases. Companies with global operations should evaluate 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 is a prudent option.

Strong loss prevention measures combined with claims management and contractual standards are increasingly important, thereby presenting the best possible risk to the carriers. In addition to building strong risk management relationships with your broker and underwriters, approaching the marketplace early will allow for the negotiation of the most competitive program the markets will offer. We recommend you work closely with your insurance broker, prepare your submission early, and detail the precautions you have taken to protect your risk.

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