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Insurance marketplace review - First half 2019 - Hard market emerges - by Spencer Macalaster

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The storm clouds are gathering across most lines in the current insurance marketplace, with rate and premium increases being proposed and achieved by all carriers. In 2017 and 2018, the marketplace suffered significant catastrophic loss experience. In the summer of 2018, Lloyd's of London advised all Syndicates that they must enact business plans that would return them to profitability or face closing of their Syndicates. As a result, some Syndicates stopped doing business in multiple lines including Cargo, Hull, Professional Liability and Property. Making matters worse, AIG and FM (two of the largest domestic property carriers) reduced their capacity, sent non-renewal notices or demanded double digit premium rate increases. Through the first quarter of the reinsurance renewal season all carriers experienced larger than anticipated rate increases. All of these factors has led to a significant hardening of the insurance marketplace with premium rate increases between 5% and 25%.

While it is important to understand the economics of the insurance industry and how this can affect your business, there is little you can do about how the insurance market changes globally. The market is the market. What you can control is how your company manages risk. Risk Management is "market agnostic." It needs to be front and center all the time. In the long run, the only way to reduce your insurance premiums is to reduce the frequency and severity of claims that drive the cost. An effective risk management program coupled with a proactive risk management oriented insurance brokerage and the right insurance company is the key to lowering your total cost of insurance. Investment in risk management will produce great returns and directly impact your bottom line.

Commercial property coverage has led the hard market through 2019. Property insurance renewals continue to see double digit increases through the first half of 2019; with risks in wind and/or flood prone areas being the most challenging. Key markets for coastal perils have cut back capacity and are carefully analyzing this book of business. Companies should complete capital improvements that will enhance the risk in the eyes of the carriers. With appropriate loss prevention, insured's could

see lower rate increases through the remainder of 2019.

Primary Casualty insurance (general liability) capacity remained healthy; insured's should expect renewals at the rate of inflation 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 than the primary markets and capacity is harder to negotiate and more expensive at renewal.

Ironically changes and volatility in the workers' compensation marketplace are not as prevalent. The vagaries of individual state laws and regulatory oversight dictate the insurance markets response to availability and pricing. NCCI changes in methodology of the Experience Modification calculation have had an upward trending effect on every insured's "mod". Middle market programs (guaranteed cost under \$250,000 in premium) have been the most challenging, with concentration of risk impacting the underwriting authority. Strong loss prevention and corporate safety are imperative to the long term success of a workers' compensation placement.

Executive Management Liability insurance continues to show changes in underwriting with most renewals increasing 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 are a prudent option.

We believe the pressure on increased rates will continue through the remainder of 2019. It will be extremely important for corporate management to build strong relationships with their underwriters. Strong loss prevention measures combined with claims management and strong contractual protection present the best possible risk to the underwriters. Building strong risk management relationships with your broker and underwriters will allow for the negotiation of the most competitive program the markets will offer.

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