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Surviving the hard market: Now is the time to review your insurance coverage - by Spencer Macalaster

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Historically the insurance marketplace was predictably cyclical. The markets went from hard to soft then back to hard again. Every 5 – 7 years the cycle repeated itself. Over the last 25 years however, there has been a dramatic change in this cyclical behavior. The soft market cycle has been around for over 8 years and recently the market has turned much harder. Rates are increasing across most property and casualty lines in high double digits. These harder market conditions create a much more difficult negotiating environment for all involved; carriers, brokers and insured's. The 2018 - 2019 catastrophic weather and fire events had significant impact, with major hurricanes hitting Texas, Florida and the Caribbean, major fires in California, an earthquake in Mexico, Florence hitting North Carolina and Michael devastating the Florida panhandle; worldwide catastrophes reached epic proportions. Although several lines of insurance coverage are relevant in these events, the potential for financial loss due to Property Loss, Business Interruption (BI) or Contingent Business Interruption (CBI) have impacted businesses and their brokers when structuring insurance coverage. Many younger players in the marketplace have yet to experience a hard market, with that in mind we offer the following tips to managing your insurance through these difficult conditions:

- Verify and critically analyze your loss reports. Make sure any open claim discrepancies are corrected. Conduct quarterly claim reviews with your adjusters and brokers. Complete a thorough analysis of claim causes and negative loss trends and dovetail your loss prevention and safety programs to address these root causes.
- Loss prevention and safety. Work closely with executive management to put safety and loss prevention at the top of your priorities and share these with your underwriters.
- Deductible analysis. Review with executive management your company's ability to retain a higher loss experience. Analyze the break-even point between historical loss experience, deductible levels and potential premium savings.

- **Renewal game plan.** Get an earlier than historical start on the renewal process. Collect the data, analyze the loss history, create a safety culture, and conduct underwriter meetings with your incumbent carriers. Share your company's commitment by executive management toward proactive risk management.

In addition, do not lose sight of the following critical exposures and develop plans to address those areas.

- **Flood coverage.** Most commercial and personal policies exclude flood, particularly if the property is in or near a flood zone. Loss of income coverage, BI and CBI, generally only kick in if preceded by a covered peril. If flood is excluded on a policy, it becomes a challenge to trigger other coverage. If a client is anywhere near a flood zone, include flood coverage and/or increase the nominal sub-limits offered on most package policies. And, remember the National Flood Insurance Plan (NFIP) is a low cost option for clients located in flood zones. Also, review the definition of flood in the policy as it varies from carrier to carrier.

- **Wind coverage.** Wind is covered on most policies but with potentially higher deductibles, particularly for named storms. Pay close attention to the policy language as it relates to storm surge and wind-driven rain. Correlating coverage between flood and wind is essential before the claim happens.

- **Business Income/Extra Expense.** Generally, there must be some level of physical damage that results in a loss of business income. This physical damage must be caused by a covered peril, e.g. fire, flood, wind, etc. Ensure limits are adequate and check sub-limits on package policies. Pay close attention to the number of days provided in the policy for Extended Business Income, coverage for the period of time to restore the business to its pre loss activity levels.

- **Contingent Business Interruption.** Loss of business income due to suspension of operations caused by a direct physical loss at the premises of a "dependent property" – customer, key supplier, etc. Many of our clients are suffering financial losses from Sandy even though they had no direct damage themselves. Talk to your clients about this exposure and ensure sub-limits are adequate.

- **Utility Services – Time Element.** Loss of income due to service interruption. Ensure that the service interruption definition includes, power, utilities, communications, etc. Check sub-limits and waiting period. Pay special attention to how coverage applies especially as it relates to transmission and distribution lines. A prolonged power outage can cause real financial loss because of no service. Risk Strategies's NYC office was closed for over week after Sandy due to lack of access, no power, no heat....

- **Debris Removal.** Debris removal coverage is usually included on property and package policies but the sub-limits are often low. The costs to clean up are generally more than anticipated after a major loss event.

Now is an opportune time to review your insurance coverage in the context of a catastrophic event

and the changing marketplace. Taking a fresh look at your insurance coverage as it relates to your risk profile is advisable.

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