benchmark commercial insurance services

Many of our clients are asking...

Why is my insurance so expensive?

We wanted to take this opportunity to provide insight into the seemingly ever-changing landscape in the insurance sector. You may have noticed strange behavior from insurers, whether you purchase coverage for your home, business or both.

Below you will find details on the forces exerting themselves on the insurance industry today, which has caused the insurance companies to push rates as well as exit certain geographic areas. We hope this information will provide clarity as well as recommendations on how to take control of insurance costs.

low bond rates

It is interesting to know that in a normal economic market, insurance companies use insurance premiums as a loss leader. The Premium loss ratio (total annual Gross Written Premiums valued against total Incurred Losses) typically run from 105%-108%. That means for every dollar collected, the insurance company expects to pay out over a dollar in claims. However, the insurance companies offset this loss with much higher returns in their investment income. A significant source of safe return has always resided in the Bond market. Since today's Bond market has much lower than normal yields, with no relief insight, the insurance companies are seeing much lower than normal investment returns.

unmodel-able losses

My apologies for the strange word. Insurance companies rely on accurate actuarial modeling to predict losses and help set proper rates based on predictable loss scenarios. However, for most of the last 10 years, the Global insurance industry (including the Re-insurance segment, more on that later..) has been hit with a regular stream of wildfires, earthquakes, mudslides, hurricanes, abnormal freezes to name just a few. These are classified in insurance speak as "unmodel-able losses". Actuarial models have not yet been perfected to incorporate these types of losses and when the industry is regularly hit with these casualties, profitability plummets. Insurance carriers are challenged to find rates that can accommodate the Unmodel-able.

reduced re-insurance capacity and increased cost

Insurance companies "lay-off" much of the value of their loss exposure on the "secondary" or re-insurance market. The re-insurance market is much more sensitive to how losses will affect their rates as Global reinsurers really are the backstop for the industry. As you may expect, re-insurance rates have spiked steadily over the past 5-7 years due to consistent catastrophic losses. In some cases, actual insurance writing capacity is depleted to the point that coverage is no longer available in certain industry segments. The reinsures response to claims severity and frequency is to raise the rates to your insurance company. The insurance carriers have been paying much higher rates for the cost of their insurance year over year.

remapping of "fire zones"

To a carrier, all insurance companies have become keenly aware of what they now consider fire zones, as well as the concentration of insured value that resides within these zones. Both Commercial and Residential insures have undergone varying degrees of re-evaluating what they now consider to be locations residing in, OR ADJACENT TO, a newly established fire zone. You may have had friends, or even neighbors, complain of non-renewal notices they received from their current insurer. Again, to a carrier, underwriters REFUSE to discuss any type of exception we may want to make regarding their "fire-zone" evaluation. Each carrier has determined, through their re-insurance treaty with their re-insurance carrier, what they are allowed, or not allowed, to write. They will not make any exception for any policyholder. This remapping for fire zones has forced many policyholders back in to the market due to the non-renewal of many policies. This is a market with limited supply.

what does this all mean to me?

The simple answer is to remember that insurance companies are for-profit enterprises.

Because of the fiduciary responsibility to its policyholders, the insurance companies must keep vigilant on profitability, as it is essential to any business's ability to survive. As we discussed above, the industry typically operates at a Premium loss ratio of over 100%. With all of the forces discussed above pressing down on the industry, the carriers have now focused their efforts on becoming profitable on written premium. So, how much do rates have to rise to take a carrier from a 5%-10% loss on each dollar collected to a profit of 10% or 15%? In order for the carrier to be profitable on collected premiums, rates have to rise 10%-20% on average (this contemplates loss-minimal and loss-free accounts). Policies with anything approaching, or exceeding a 50% loss ratio for the last 3 years combined can see premium increases from 50%-125%.

what power do i have to control my premiums?

Believe it or not, policyholders do have the ability to take control over their policy costs

However, as my wife regularly reminds me, you may have to spend money to save money. The insurance underwriters key in on two areas: property age and maintenance/upkeep. Any property approaching 20-25 years old or older, will require the underwriter to dig in to how well the property has been maintained. They will want to know about tenants (for Commercial properties) and updates, or placement, of the following building systems (home or business): Electrical, Plumbing, HVAC and Roof systems. If the age of your property is older, many underwriters are simply choosing not to provide quotes for buildings that have not had these systems updated in the past 10-15 years. Please create a budget to update these older systems. It will pay dividends for many years to come in the lowest premiums obtainable in the marketplace.

The most impactful measure used by underwriters to measure account quality is historical losses.

Underwriters typically look back 3-5 years depending on the account. Homeowners losses (both home AND auto) are aggregated to a central database used by all insurers. However, Commercial accounts are not tracked to a central database. The losses that causes the MOST heartburn to an underwriter are WATER LOSSES. Water has proven to perplex the most savvy of insurance actuaries. Policies with consistent water damage claims over time are prime for carrier non-renewal. The lowest hanging fruit for property owners is pro-active replacement of all interior plumbing fixtures. Angle stops, water hoses and toilet fixtures (float and flap) are the most guilty of causing very expensive water damage claims. Next up would be sewer/drain backups. Please snake all drain lines on a regular basis. Simple, cheap and effective!

Older properties require a bit more information as underwriters evaluate the quality of electrical, plumbing, heating/cooling and roof systems.

Please remember the insurance policy is not designed to be a “warranty” against less than regular maintenance and upkeep. Property owners can go a long way in stabilizing insurance cost over time by creating and implementing pro-active regular maintenance protocols. If you can create an efficient program you are doing all you can do to protect your insurance costs for the future.