Hard market

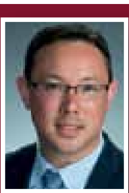
Jim Jinhong discusses choosing the right commercial insurance partner in a pressured market.

At NBIS, we know that insurance can be an increasingly complex and costly element of business. Insurance is essential for any business, but for companies in the crane and rigging, concrete pump and specialized transportation arenas, the importance of a reliable insurance partner can sometimes make or break your business. This is mostly due to the fact that such companies are dealing with complex and expensive equipment, exposures that fluctuate and change often from project to project or job to job, and intricate contracts.

According to experts at *Business Insurance* and brokerage industry leaders like USI, commercial insurance rates are expected to continue rising in 2021. At the end of 2020, *Business Insurance* reported that property/casualty insurance buyers, for example, would continue to see rate hikes in the double digits well into 2021. They pointed out, "A recent survey by brokerage Alera Group Inc., which included insurers, wholesalers and Alera's agent and broker affiliates, showed an average forecasted rate increase across all lines of 11.6 percent next year."

The global Covid-19 pandemic is contributing to rate pressure. "Continued uncertainty from potential Covid-19 related cases, higher than normal judgments, developing catastrophe losses and additional factors have insurers raising rates, lowering capacity, limiting or transferring risk, and taking a harder look at risk profile," USI said. "Even insureds with a lower risk profile are facing much closer underwriter scrutiny as well as higher rates and retentions."

THE AUTHOR



With more than 25 years of experience in underwriting and program development, **James Jinhong** is EVP of underwriting for NationsBuilders Insurance Services (NBIS).

Marketplace trends

We've written recently in *ACT* about the increasingly litigious environment our insured companies are operating in, and this continues to be a trend, with ripple effects impacting the entire industry. For example, the cost of excess limits is going up because the cost of claims is rising, both brought on by things like nuclear verdicts and exploited injuries.

These trends are impacting the market in ways that are crucial for buyers to understand. Firstly, a number of insurance providers are in essence "buying up" market share based on price alone. That means that insurance providers who are not well-versed in specialty markets undercut market rates and increase their market share by virtue of their low price.

"The result," NBIS Specialized Transportation Program Manager Bill Hebron said, "is that insurance providers enter the market and provide quotes under market value to build up their book of business. Insureds will see this as an opportunity to save money on premium." But those low prices come at a cost. Eventually the sacrifice the insurance provider made to offer the low cost has to be recouped. If you get a cut-rate price on premium, it is very likely the low price will rise sharply, and soon.

NBIS Business Development Manager Travis Carpenter said premium increases are often misunderstood or overlooked by the insured looking to buy or renew insurance. "Insureds are understandably concerned about the cost of insurance. When confronted with an increase they become confused as to why that happens, especially if their loss ratios are low. Premiums are calculated not only on the losses and exposures of a particular insured, but also on the profitability of the industry." This factor further underscores the importance of understanding what additional value-added services are included from the insurance provider.

Our last concerning trend is the use of tactics like misusing class codes and understating exposures. Coverages and terms and conditions are being improperly covered, which means a one-size-fits-all approach is being employed. In a competitive marketplace, this creates gaps in coverage – such as tandem lift exclusions, wear and tear exclusions and more. "These programs have exclusions hidden deep in policy coverage forms that are not easily found by insureds," Travis said. Don't let a low price sway you towards inadequate coverage.

Here are some tips for helping make sure insurance buyers in this industry make the best possible choice of insurance provider.

1 DO YOUR HOMEWORK

Work with your agent/broker to make a full and detailed review of the operations, mode of conveyance(s) and expansion plans. You're aiming to make no assumptions in coverage, as assumed coverage never pays claims. As the insured, try to make sure you fully understand the carrier your agent/broker is presenting. Perhaps most important: Can the insurance provider rise to your company's ever-changing operations, or will the policy limit your company's growth and expansion?

NBIS AVP of Underwriting Jason Baynard recommends understanding the market as much as you can. "Market conditions have such a profound effect on insurance pricing that you can't make an informed buying decision without at least a basic understanding of the nuance of the specific industry in which an insured operates in." Your agent/broker should be able to help you contextualize the prices, terms and conditions. Don't hesitate to ask for their help.

2 YOU GET WHAT YOU PAY FOR

NBIS Business Development Manager Carlos Garbiras points out that "when companies are small it's easy to fall for the allure of the low price, since operating margins are often so thin. Small construction contractors live and die by the low bid. However, bigger companies are less likely to think that way, because they've usually experienced dealing with loss and claims handling." The ramifications of choosing a provider based on price alone are far-reaching and not to

choices

be underestimated. Gaps in coverage and exclusions almost inevitably accompany super-low pricing, The bottom line? Price becomes immaterial when insureds are faced with an uncovered loss.

3 DON'T OVERLOOK THE UNDERWRITERS Find out if the insurance provider in question has the underwriting strength to determine the proper type of coverage for this class of business: primary and non-contributory or order of coverage? Are they aware of and prepared to react to any increased contractually required limits on General Liability, or job-based changes to your Riggers Liability or Motor Truck Cargo coverage? This impacts claims, so it's important to consider. Is there strength enough in the carrier's underwriting team to review the operation and the jurisdiction for specific exposure potential and rate accordingly, or are they flat-rating (and thus undercutting)?

4 LOOK FOR RISK MANAGEMENT AND SAFETY ASSISTANCE NBIS President Bill Tepe is quick to note that whoever insures you doesn't matter – until it does. Look beyond price. Not only should you have the full coverage your operations require, but your insurance partner should also be able to assist in the building and perpetuation of your safety culture and help you manage risk. Ask your agent/broker what risk management services the insurer provides. Can they help you navigate the compliance and regulatory environment and help you stay up-to-date with the safety trends?

5 INSURANCE PROVIDER OR PARTNER? There's one key question owners have to ask themselves: *Do I have an insurance provider or an insurance partner?* Evaluating providers to help ensure that your operation gets the most return on investment from your policy premium is crucial. We can't stress enough the importance of insurance providers offering your operation value-added services during the life of the policy. Before you choose a provider, evaluate the full range of services, support and guidance provided. This should extend to your commercial insurance agent as well. You want an insurer who works with you, provides value-added services and offers more than just a policy. The forecasts paint a picture of a hard market that is here to stay. It's critical that insurance buyers fully understand the factors that impact pricing and remember that the lowest-priced policy is not always the best. The NBIS team is here to help you navigate the market. Visit us at NBIS.com. ■