



Corporate Exposure: A Hardened Insurance Market?

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How will your company respond to what is turning out to be a hardening insurance market? It is quite possible that many companies will either be forced to pay exorbitant premiums (thus being virtually held hostage by the insurance industry) or else forego coverage altogether.

Losses incurred during the riots in Los Angeles earlier this year will probably exceed \$1 billion (the figure is higher if we include related rioting losses in other cities). More than 4000 buildings were damaged in Los Angeles. The fire department was not able to respond to the vast number of emergencies and was consequently forced to let many buildings burn.

Some believe the final loss settlement will ultimately cause the insurance market to harden from its soft cycle of seven-plus years and drive prices up. But even though the Los Angeles catastrophe is ranked as the fifth most costly insured loss in history, this does not justify a hardening of the entire insurance market. This is not to say that some carriers will not try to reduce writing riot coverage and raise prices—but to think that one loss could raise prices across the board for all types of insurance coverage is not realistic. Your organization should realize, however, that the insurance industry will not continue to write business at a loss. Looking for every possible reason to raise prices and bring profitability back to the industry is certainly one of the insurers' prime objectives. In fairness, a traditional insurance product can be difficult to price and perhaps even more difficult to determine profitability quickly. Often, losses and claims will be submitted after the policy's expiration, and (depending on the provisions of the policy) they may or may not be covered. Those who have "occurrence" policies know that a loss is covered if it

occurred *during* the policy term. Perhaps this is one reason why many insurance companies today do not offer occurrence insurance and write most policies on a claim-made basis. The "claims made" policy means the claim must be presented to the insurance company during the term of the policy. Any loss not reported during the policy term would not be covered.

Alternative markets

Many risk managers believe that the only solution to the unstable insurance market is to seek alternative programs. They have chosen to self-insure, join a risk retention group, or join a captive program. It is estimated that fully one third of all insurance premiums can now be found in these alternative markets. Insurance professionals agree that this market segment will continue to grow at a phenomenal pace. In addition, of all those currently subscribing to these arrangements, it does not appear that any would ever return to a traditional insurance program.

Recognizing this growing segment, insurance companies have tried to reduce cost and premiums as much as possible. Automating antiquated processing, constant organizational restructuring, and cost reductions have probably bottomed out for many carriers. There are no other areas to cut costs and still provide a complete product. As a matter of fact, the long-term effects of this cost-consciousness may be hurting insurance companies far more than they realize. For example, some insurance companies have attempted to minimize in-house training programs in an attempt to control costs. The result is that even those companies who hire only seasoned professionals (at a higher dollar cost, by the way) find themselves stuck with their employees' bad habits brought from previous jobs. Customers end up getting poor service, particularly in the

areas of loss control, claims, and information services.

Before you consider abandoning the traditional insurance market, however, be certain that your organization has eliminated—or at least reduced—its exposure to loss, initiated a claims or loss control management program, and begun to monitor its performance through various information services.

Let us briefly review each of these components. Loss control (otherwise known as risk control) essentially means your company has identified and minimized its exposure to loss. The means used to accomplish this vary by industry, and we have repeatedly warned in this column never to waste time and money purchasing canned programs and expecting their advertised results.

Claims or loss control management programs require that everyone in the organization maintain knowledge about practices and procedures to be implemented after a loss or accident. The organization should have a medical response and a crisis communication procedure, and all administrative principles should be defined.

Information services are necessary to communicate all that is known to prevent and reduce exposures to loss. In addition, these services are necessary to keep everyone informed of the cost and the effect losses have on the organization.

All of these services are available through insurance companies, which have become more inclined to offer or sell these services to this alternate insurance market.

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