



CLIENT ADVISORY

Property - Casualty Insurance

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**Tough Times Call for Tougher Scrutiny:
*Insurance Buyers Need to Consider More Than Price***

Sometimes a bad economy brings great opportunities. Just ask anyone who is in the market for a car or real estate! On the other hand, difficult economic times can also generate opportunities which appear “*too good to be true*”, particularly when it comes to financial products like business insurance.

ACTION:

When investigating potential insurers, request financial strength, premium trends and claim service statistics.

As a result of the current economy, insurance companies are being forced to compete over a shrinking pool of premium dollars. Combine that with the need for some to raise cash to shore up balance sheets hit by losses in their asset portfolios and you have the perfect competitive storm. For insurance buyers, this creates an excellent opportunity to negotiate favorable terms on their insurance renewals. While saving thousands of dollars in the short term may be tempting, there are other considerations insurance buyers should investigate before accepting offers that can have long term repercussions.

Financial Strength

Financial strength ratings published by A.M. Best are one benchmark used for assessing the financial stability and claim paying ability of insurance companies. The first component of a financial rating is a letter which gives an idea of the quality of the insurer’s balance sheet. A financial rating of “A” or higher is preferred; anything less requires additional scrutiny. A.M. Best and other financial strength ratings are readily available on the internet.

The second component of the A.M. Best financial rating is a number that indicates the size of an insurance company. In theory, the larger the insurance company, the greater the likelihood it can withstand unexpected events or a prolonged economic downturn; however, the recent near collapse of several industry giants is proof that financial ratings are not the final word when choosing insurance partners.

Premium Trends

Knowing an insurance company’s premium trends for the past 12, 24 and 36 months can be a good indicator of the company’s motivation for entering a new market or industry

segment. If premiums have been trending downward you often find insurers venturing out of their traditional comfort zones. Once revenues stabilize, underwriters will be tasked with making sure new clients are profitable. This means insureds who took advantage of a “great opportunity” may find themselves replacing coverage if the insurance company decides their account or business segment is now undesirable.

Claim Service

When entering into an insurance contract, most business owners assume the insurer has adequate staffing and resources to respond in a timely manner. Unfortunately, that’s not always the case, particularly when an insurance company is expanding beyond its normal service areas in an effort to find new premium sources. When assessing new insurance proposals, request specific details regarding the company’s claim service. Factors to evaluate include location and number of claim offices; ratio of claims handled by in-house staff versus independent claim adjustors, the average number of lost time workers compensation claims handled by each adjustor, average number of days required to process claims; client satisfaction surveys; and claim dispute resolution procedures.

CONSIDERATION:

Lower premiums or better coverage terms from a less stable insurer may ultimately create a large uninsurable risk for policyholders.

Broker Responsibilities

Insurance brokers are approached every year by dozens of insurance companies seeking to write more business. Some are well known companies pitching new products or expanding into new regions while others are newly formed entities seeking to establish themselves in key markets or industry niches. Responsible insurance brokers conduct proper due diligence before presenting these insurers to clients for consideration and they are able to discuss all of these issues with you in detail.

Conclusion

During the upcoming year, many insurance buyers will be presented with new opportunities. Some will be true opportunities to safely reduce premium, improve coverage, or hopefully both. Some insurance companies, however, may turn out to be good in the short run but lead to long term financial problems for your company. It is important to work closely with your insurance broker to evaluate available options. In summary, accepting a lower premium or better coverage terms from a less stable insurer may ultimately create a large uninsurable risk for policyholders. Considering insurance company financial strength, claim service and broker knowledge will help insurance buyers make informed decisions.

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