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## The Sky Does Not Have to Fall

It is clear as 2009 dawns that the elements of a hard insurance market are upon us. The economic recession, increasing securities class action litigation, mega-settlements, rising stakeholder and regulatory scrutiny and the uncertain financial position of many insurers may portend shrinking capacity and increasing premiums.

Yet, the sky has not fallen. The market is bifurcated and cannot be termed a “hard market” across the board. For entities that have been stung by the credit crisis, especially those in financial and real estate sectors, insurance program renewals have been tougher than most, with rising rates and careful terms and conditions. The spillover to the broader commercial market is more gradual, and though many predict contraction of capacity and increased rates in 2009, the impact is neither immediate nor draconian as of this writing (February 2009).

While pundits predict the future, we feel the more prudent measure is to look more practically at the present. The current fiscal crisis is unprecedented and therefore the lessons of hard markets past will be relevant—but not parallel—because potential losses from recent events may dwarf those of Enron, the IPO boom and bust, and other cataclysmic incidents of the past.

While newspapers and water coolers exude gloom, it is important to remember that despite the headlines, liability insurance for management risks remains available and relatively affordable. Paying close attention to insurance concerns during a challenging economy is prudent—in fact, the key to successfully navigating any market is to develop and execute a well informed strategy. Integro is, therefore, pleased to suggest the following “Top Nine in 2009” to help you plan in today’s insurance marketplace.

## Top Nine in 2009

### 1. Review Insurer Relationships

Ensuring that your insurance carrier will and can pay claims is the first order of business in every market, but it becomes especially important in a post-subprime economy where companies have limited cash or credit. It is imperative that your company partners with the right insurers—insurers who will stick with you through good times and bad. Review your existing relationships and re-examine their financial strength, claims paying ability/inclination, and service. Examine whether or not underwriters have been responsive to your questions and concerns and, in particular, how any past claims negotiations were handled.

### 2. Make it Personal

The importance of personal and consistent relationships with underwriters cannot be over-emphasized. A history of open and frequent communication will help during a difficult renewal or new placement. It is essential to pursue face to face meetings and ensure meaningful contact with appropriate decision makers. An underwriter

who sees his client only at a renewal meeting, or only in the event of bad news, will naturally have a more negative predisposition toward that client than one who has a personal, ongoing and positive relationship.

### **3. Explore Alternative Program Options**

In the present climate, the mandate to insurance purchasers may be to buy “*more*” for “*less*.” Considering alternative strategies will help you identify your priorities so that you may proceed with any necessary changes to your existing risk transfer strategy. As a cost saving measure, higher deductibles can reduce premium costs, but raising attachment points must be weighed against the impact of large cash spends in the event of loss. In an environment where federal bankruptcy filings have increased by 30%, securing additional Side “A” D&O coverage may be a financially sound risk management approach, but increased demand for the coverage, accompanied by more frequent insolvencies, may raise rates. Self-insurance alternatives, such as captives can be an attractive option for those unable to establish satisfactory risk transfer, but require specialized expertise.

The variety of risk strategies to be considered is significant. It is important to discuss the pros and cons of each potential alternative and evaluate it in terms of efficacy, cost-savings, and long-term strategy.

### **4. Use a Scientific Approach**

Doctors don’t dispense medication based on the symptoms of your peers; they should be considering *your* needs. Similarly, your insurance risk should be priced using actuarial, fact-based modeling relative to your company’s particular profile. Your pricing model should identify market inefficiencies and tell you what your company ought to be paying, not what the market has traditionally charged a company of your size and financial make-up. Ensuring that your premium accurately reflects your company’s individual and specific risk profile, instead of industry aggregates, may help create cost savings. Integro’s analytic suite of products, designed and executed by actuarial experts, will identify what you should be paying, and not just what the market offers. In a tumultuous market, the value of your broker’s ability to determine your pricing independently of underwriters is priceless.

### **5. Differentiate Your Risk**

An unfortunate byproduct of the subprime debacle is industry stereotyping by the underwriting community. The financial turmoil of the credit crisis makes many underwriters overly cautious, and even clean financial institutions may bear the burden of guilt by association. Companies tangentially exposed to credit risks are punished for the sins of highly profiled melt downs. Distinguishing your company and highlighting the positive aspects that differentiate your firm from organizations with lesser stature will help underwriters view your company in a better light.

### **6. Stay Vigilant**

If losses mount, underwriters may start to impose co-insurance and pre-set allocation, as well as, warranty requirements. These and other policy modifications may severely restrict coverage. It is imperative, therefore, that you review these to determine if negotiations are necessary to improve the wording. You cannot afford to lose any element vital to your risk strategy. Make sure your broker’s claims

advocates are an integral part of your placement process and have input into your policy wording before a claim arises.

### **7. Be Prepared**

If your company has experienced credit or financial issues, be prepared to answer tough questions from underwriters and to explain how the company is working to resolve those issues. Emphasizing a concrete strategy for the future will help allay underwriter concerns and improve contract and pricing negotiations.

### **8. Be an Early Bird**

Start the renewal process early and advocate for as many additional contract enhancements as possible, particularly in the first quarter. Though financial institutions in the credit maelstrom have taken the brunt of the changing market, insurers still may be willing to negotiate for those companies that do not exhibit "red flags" or claims.

### **9. Carefully Consider Your Allies**

It is important that your insurance broker has the sophistication to successfully navigate your company to great success. Integro has the expertise to take on your risk issues with creativity, passion and innovation. We are proactive, service-minded, and committed to client service.

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#### **About Integro**

Integro is an insurance brokerage and risk management firm dedicated to serving the insurance and risk management needs of complex institutional risks. Integro has offices across North America, as well as in Bermuda and London. Its headquarter office is located at 1 State Street Plaza, 9th Floor, New York, NY 10004. Call 877-688-8701 and visit [www.integrogroup.com](http://www.integrogroup.com).

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