

By Tara Cummins and Louise Pennington

The Prolonged Soft Market Continues

The credit crisis of 2008 significantly impacted nearly every sector of the economy and served as a catalyst for a global recession. At its outset, the crisis led many to believe that insurance capacity might shrink, potentially hardening the market. However, the insurance community weathered the storm with limited disruption. The period was marked by "A Tale of Two Markets": Industries caught in the cross-hairs of subprime debt were subject to tough renewals while businesses outside certain of these sectors experienced gentler placements.

Three years later, insureds with sound risk profiles enjoy a buyer's market, evidenced by premium decreases and liberal policy offerings. As rates decline and coverage broadens, many wonder what impact such a prolonged "soft market" might bring.

A soft market stimulates competition, which is always beneficial for insureds. But the presence of good pricing and attractive terms and conditions should not distract a prudent insured from constant vigilance. Insurance strategy is best executed in a proactive, not reactive, fashion with long term goals in mind. Accordingly, we are pleased to present you with "Soft Market Strategies," a list of salient considerations for the continued soft market.

Soft Market Strategies

Negotiate Now, While You Have the Upper Hand

Insurance is by nature a cyclical discipline, with rates and policy terms driven by the fundamental laws of supply and demand. Making improvements during a hard market can be difficult and expensive. It is therefore prudent to use the prolonged soft market to position yourself advantageously for the eventual hard market return.

Using the soft market as a means of future planning is a practical strategy. If you anticipate business growth that will mandate increased limits, it is advisable to secure those limits now while capacity is readily available and prices are competitive. This will set a solid foundation from which to negotiate when a hard market arrives and situates a company in a proactive and protected stance.

Reinvesting premium savings into risk reduction is also an intelligent strategy. This helps avoid immediate loss while simultaneously supporting the upkeep of your risk profile. Similarly, taking the time and effort to improve data such as property appraisals, replacement cost values, business interruption estimates, or secondary construction characteristics will positively impact how your organization is evaluated by insurers when the market reverses.

Re-Examine a Changing Environment

Proactive risk assessment is equally important in a soft and hard market. However, risk analysis is even more compelling in a soft market, where the market is more likely to accommodate program changes.

Consider, for example:

- *The Changing Nature of the Workforce*
As a result of the credit crisis, many companies are opting for a smaller core of full-time employees supplemented by increased numbers of seasonal, part-time, or temporary workers. It is therefore imperative that your company examine risks associated with this new paradigm. For example, do your fidelity programs adequately address losses emanating from part-time or outsourced employees? Will your employment practices policy address claims by or against these workers? Are you outsourcing key benefits administration and does this increase your exposure to claims?
- *Financial Reform*
The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 codifies lessons learned from the Enron, Dot-Com, and Credit Crises. Not only does the Act create protocols regarding “say on pay” and compensation disclosure, but also it entices whistleblowers to report perceived fraud, and forbids retaliatory action for whistle-blowing activity. With potential rewards of up to 30 percent of collected funds for whistleblowers, it is no wonder that sources at the SEC estimate a new complaint each day since the passage of Dodd-Frank. While the passage of financial reform has not altered a soft insurance marketplace, it has most definitely altered the risk landscape, increasing executive liability risk.
- *Anti-Corruption Efforts*
Dodd-Frank is not the only means of increased corporate governance exposure. The once dormant Foreign Corrupt Practices Act of 1977 is enjoying resurgence and is now a prevalent tool in anti-corruption efforts. FCPA enforcement by the Department of Justice alone has increased exponentially, from two instances in 2004 to twenty-seven instances halfway through 2010. With a growth of anti-corruption efforts predicted globally, it is important to establish procedures to prevent and monitor improper payments or similar prohibited activities. Furthermore, an examination of how insurance will respond in the event of an investigation and potential follow-on litigation is wise.

- *Global Growth*

Recent years evidence significant overseas expansion, as companies address customers and suppliers beyond U.S. borders. Now is an excellent time to reexamine potential liabilities associated with off-shore locations and transactions, and to evaluate whether or not your insurance adequately addresses these exposures. Local regulations mean that traditional insurance placements may prove inadequate at the time of loss. Ensuring that your program addresses local admittance, tax, and other requirement is vital for any international exposure.

Furthermore, global commerce has led to a rise overseas of U.S.-styled litigation, regulation, and enforcement. Authorities continue to promote and pursue cross-border collaboration. Fines, penalties, and settlements, particularly with respect to anti-corruption measures, can destroy a company's balance sheet and reputation. As such, your organization must consider international issues and the risk they pose across all lines of coverage and risk programs.

Using the advantage of a soft market to reflect changing fundamentals can help augment your program so that you negotiate from a more beneficial standpoint when the underwriting environment turns more critical.

Consider Any Program Changes Carefully

As the recession continues, pressures to save on premium costs may lead to consideration of new strategies and structures. Higher deductibles, lower limits, self-insurance, captives, and multi-year programs are all elements that buyers may consider. But these and other important changes to an insurance program must be carefully examined beyond immediate cost savings. Obtaining the cheapest price in a rapidly softening market often entails severing relationships with long-term incumbents that may have "money in the bank." Disrupting relationships can sacrifice goodwill and premium history, and thus may destabilize long-term pricing dynamics. Any consideration of changes to your program must take into account an array of variables beyond the policy premium, without ignoring the subtle benefits of established relationships and previous claims experiences.

Re-Examine Your Program Limits – And Then Do It Again.

The traditional "Limits, Premium, Deductible" analysis of "peer benchmarking" is a starting point for your limit analysis, but this analysis should not exist in a vacuum. A broader viewpoint – one that reflects your company's specific risk(s) – will help identify market inefficiencies, ultimately driving more accurate pricing. Integro's analytic suite of products, designed and executed by actuarial experts, can help identify what you should be paying so that you are getting the most "bang for your buck."

Emphasize Your Relationships with Underwriters

Experienced insurance professionals understand that personal relationships make all the difference in a hard market. Face-to-face meetings with underwriters should not be undervalued and all efforts should be made to ensure that underwriters know the key players in your organization as well as the fundamental philosophy of your risk strategy. Familiarity with your best risk practices and a history of cooperation and responsiveness will help negotiations both now, and also in the future if capacity is limited and rates are challenging.

Partner With Experienced Professionals

It is imperative that your organization partners with a team of sophisticated risk and insurance specialists. At Integro, our cross-practice strategy is complemented by our commitment to creativity, innovation, and effective client service. We would be delighted to help you leverage the buying power offered by a continued soft market and provide the insight to help you execute effective risk strategy.

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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 One State Street, 9th Floor, New York, NY 10004. Call 877-688-8701 and visit www.integrogroup.com.

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