The Insurance Market - Where Is It Headed?

By Bob Kyte, President of Adventist Risk Management, Inc.
Most eSolutions readers probably don’t sit around thinking about the cost of insurance. It's kind of like a lot of things you pay for - you don’t consider the cost until you have to write the check. Then you forget about it, unless you need to use the service. Insurance is one of those things you buy, while at the same time hoping you don’t get your money’s worth because you don’t want to have an incident that triggers a claim.

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As president of Adventist Risk Management (ARM) I think about the cost of insurance a lot! As part of our ministry we are always looking for ways to assure our church clients that they are getting adequate coverage at optimum rates. Regularly I review claims sent to Gencon Insurance Company of Vermont, the church’s captive insurance company. We are seeing trends of claims increasing in value. Construction costs on property claims have been creeping up. The impact of catastrophic storms continues to rise across the United States, Canada, Inter-America and other territories we serve.

A recent article from an industry publication stated that the insurance claims of a single thunderstorm can now surpass $1 billion. Superstorm Sandy cost insurers about $25 billion. I watch with some degree of anxiousness as weather patterns and named storms occur. I know that each of these events has the potential to impact the church. The impact is really about mission. How can a church family focus on its mission, rather than on its present physical challenges, if it has a destroyed sanctuary or missing church roof?
Similar patterns have developed in cases of liability exposure for our church. This can result from an auto accident of a church-insured vehicle, a slip and fall on church property, or even worse, from the abuse to a child while taking part in a Sabbath school or Pathfinder activity. While legitimate victims of such accidents and misconduct should be cared for, the element of punishment has also come into play against church organizations, especially in cases of misconduct or intentional bad acts.

Claims being leveled against the church today run from low financial impact to multi-million dollar claims that range from serious physical injuries to death resulting from negligence, to the significant financial impact raised by abuse. While the church has faced certain consequences in terms of financial impact, the victims and their families have suffered too. This suffering includes the loss of enjoyment of life, death of a loved one, or other damages that can never be reversed. In addition, all of these claims result in increased cost of insurance for the church and the organizations that are involved.

Today’s economy is another interesting way that the insurance market is impacted. As the federal government backs away from bond buying, the predicted increases in the cost of interest will also impact the insurance industry across the board. Insurance companies now hold about $900 billion in bonds as investments. A hike of one percentage point will reduce seven percent from the capital investment in the bonds. ARM and our captive insurance companies will be impacted to some extent in the reserves we are required to hold. We also face the reality that reinsurance companies and companies we place policies with directly will be even more impacted and pass those investment losses along to us and other insurance clients.

What is happening in commercial insurance to address these realities of increased claims costs and negative investment impacts? The industry response is directed in a number of ways:

- Stronger underwriting practices to identify risks more closely and limit the exposures the companies will insure and those they will not.

- Decline to write policies. We recently had a review of our insurance property programs and the outside consultants’ advice was that our captive insurance company would be best to stop writing insurance for property in Florida, the Gulf Coast and the Eastern seaboard of the United States. Many companies have opted to do this. We have not. Our mission is to serve the church. If we are unwilling to provide this coverage in a market that is already pulling away from that coverage, the Church and its members will suffer.

- Increase prices. Predictions of increases run from five percent to 10 percent for “good” claims history. This will be higher if claims mandate it. While we cannot avoid this reality either, we do so looking carefully at the overall losses incurred and try to remain conservative in our pricing. One of the advantages for Gencon as a captive insurer is we only need to cover direct operating costs compared to the for-profit industry where costs include shareholder expectations for profits and dividends.
ARM is here to serve the varied needs of the Seventh-day Adventist Church. Our sole client is the church and ARM’s ministry is to protect your ministry.

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