Softening the Effects of a Hardening Insurance Market

By Tim Northrop, VP Chief Insurance Officer of Adventist Risk Management, Inc.

In the September 3 issue of "Solutions," Bob Kyte, President of Adventist Risk Management, wrote an article titled, "The Insurance Market – Where is it Headed?". In the article, President Kyte noted the cost of insurance is going up even for accounts without many claims.

The insurance market goes through cycles of softening or hardening; a softening market refers to prices going down or staying at a minimum for most customers, while prices rising is referred to as a hardening market. The market remained soft from the mid-2000s until recently. Due to the availability of lower premiums for consumers, we often transferred more of the risk to the insurance company, as it was relatively cheap in that market.
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WEBINAR
FOR CHURCH SAFETY OFFICERS
October 8th  2:30 pm ET

Winterizing Your Church
By John Dougan, ARM, ALCM, ARM
Sr. Risk Control Specialist at Adventist Risk Management®, Inc.

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Title: Winterizing Your Church
Date: **Tuesday, October 8, 2013**
**Time:** 2:30 PM - 3:30 PM EDT
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Now that the market is in a hardening cycle, it is a great time to review your organization’s insurance, risk management and building maintenance plans. Understanding how your organization is using insurance will help you weigh the cost to your organization of transferring risk and the effectiveness of your current loss-prevention strategies.
Rethinking Your Deductible

So what do I mean when I talk about transfer of risk? Let’s use property insurance as an example: if your organization purchases insurance on a $1 million building with a deductible of $1,500, in effect, $998,500 is being transferred to the insurance company. Organizations will often choose to transfer more risk (resulting in a smaller deductible) in a softened market. The current hardening market trend makes this an important time to evaluate potential savings on your insurance premium should your organization increase deductibles. While it is easy to become comfortable at a low deductible, this decision may be costing much more than you realize. It’s also important to consider what is referred to as a “trading premium.” The insurance company will cover a small loss when your organization has a very low deductible. However, the net effect on the renewal premium may be greater than the small loss, as the insurance company must cover their expenses.

Auto Insurance

It is also important to review your auto fleet and the vehicles for which you are purchasing comprehensive and collision (physical damage) coverage. The rule of thumb is, once a vehicle is 8-10 years old, it is probably not worth purchasing physical damage coverage. This coverage is paid out on an Actual Cash Value (ACV) basis, minus the deductible. ACV is calculated by subtracting depreciation from the replacement cost. To calculate depreciation, companies estimate the useful life of the item and determine what percentage of that life remains. For example, an eight-year-old car with 100,000 miles, after estimating its depreciated value, and applying the deductible vs. the premium you are paying, may not be worth the purchase of physical damage coverage. It might be a better use of money if your organization saved the premium and used it if the vehicle was ever damaged.

Have a Risk Management Plan

A strong risk management plan is also vitally important to controlling insurance cost. Risk management prevents losses, and while it can be hard to quantify losses before they occur, I believe strongly that a well-thought-out plan is an important component to savings. It also shows the insurance company that your organization wants to keep cost down. Risk management plans must be more than an idea; as leaders, you must make safety a priority in your organization. ARM has put together many resources on our website, www.adventistrisk.org, to assist with implementation of plans and training of safety officers, as well as other risk management resources.

Maintenance

Maintenance of buildings and automobiles also factors into savings on insurance premiums. Our church, school and other buildings are constantly getting older; as a building ages, it will require
more and more maintenance. While insurance is not designed to cover maintenance issues, a poorly-maintained building is prone to issues such as wind damage or fires caused by old wiring. We also see a rise in liability claims from slips, trips and falls when a building is not maintained. Keeping your building in working order and establishing a realistic maintenance budget must be considered a vital part of your ministry.

**Now is the Time**

There is no better time than now to review and plan for the hardening market. Don’t wait until your organization has a loss, or the insurance policy is up for renewal. Choosing a higher deductible to counteract the hardening market, is one thing, but choosing to buy inferior coverage to save premium could have unforeseen consequences in the future. Please feel free to contact either your Adventist Risk Management Account Executive or me, so we can assist you with a review of your organization’s insurance and risk management plan. Our ministry is to protect your ministry.

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*By Tim Northrop, VP Chief Insurance Officer at Adventist Risk Management® Inc.*

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