

“Consider the Alternatives”

Business Finance

- As the hard insurance market persists many CFO's are struggling with the rise in premiums as well as the coverage terms. In hard insurance markets, discussions concerning alternatives are always raised, however they usually aren't quick fixes and some aren't even optional.
- Many are disappointed that underwriters with whom many have built a relationship have at times seemed to disregard that relationship while delivering very large increases. Accounts that have had no loss experience are seeing increases that are consistent with the market. Many are asking what was the point of having a relationship with this underwriter and trying to work with them for the long term if there is no benefit when the market turns hard.
- Coping mechanisms is what companies employ to help soften the blow of rising costs and in some cases, decreasing coverage. Coping mechanisms include absorbing more risk, strengthening safety and engineering programs, expanding the use of captives, spending more time making a case in front of underwriters and switching insurers.
- Insurance companies are demanding increasing deductibles and many clients don't have a choice. The experts are encouraging the credit professional, the risk management professional, the CFO, the treasurer and controller to sit down with the insurer and talk about what their premiums should be and what the deductibles should be based upon the history and the tools that the company is employing.
- There is a rise of self-insuring or establishing self-insurance funds due to the hard market. By assuming more risk, insured clients reduce their premiums in exchange for paying more of their own claims. The process of self-insuring, or to self insure to a greater extent, can help risk managers and finance functions reach a more accurate understanding of the true cost of risk.
- This hard insurance market is different than the hard market that many experienced in the 80's, which was restricted primarily to a line or two of business. In this market, there's virtually no line of business that's not being subjected to major or significant cost increases.

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- The hard insurance market is subjecting all businesses to:
 - A rise in premiums
 - Reduced coverage
 - Higher deductibles

- Alternatives include:
 - Absorbing more risk and creating self-insurance funds
 - Strengthening safety and engineering programs
 - Expanding the use of captives
 - Spending more time making a case with underwriters
 - Switching insurers

- Experts suggest all key management personnel meet with the insurer to:
 - Discuss what their premiums should be
 - What the deductibles should be based upon the history
 - What tools the company is employing to reduce risk