# BUILDING A BETTER BOOK OF BUSINESS DURING RISKY TIMES

## PREVENTABLE, STRATEGIC AND EXTERNAL, RISK CHALLENGES DEMAND STRONGER RELATIONSHIPS TO UNLOCK SELLING OPPORTUNITIES

Lingering economic uncertainties, political issues, natural disasters and other catastrophic events present a challenging environment for businesses and risk managers in their ongoing efforts to protect the enterprise against loss. The need for strong relationships between insurers and clients therefore has never been greater.

As commercial insurance clients are becoming more cost conscious and focused on price and coverage limits more than long-term relationships, insurers must be more responsive and attentive than ever. Will businesses be willing to turn to external partners to finance their risk, or perhaps might they throw caution to the wind, downplay risk and buy less coverage?

The events on 9/11 twelve years ago forever changed the landscape. The unpredictability of external risks, like terror attacks and super storms, leads some risk managers to actually purchase less coverage. To be sure, preventable risks through operational breakdown—such as the BP Horizon catastrophe, cyber attack and simple human error—as well as often-positive strategic or entrepreneurial risk taking—such as building a fertilizer plant near a school because of a railway's proximity—are indeed more predictable and arguably require more attention.

Risk management concerns also abound in the public sector, as municipalities and other governing bodies are challenged to both educate and protect citizens from safety, environmental and other risks in a struggling economy.

"The fundamental question is, how much risk do we really want to take upon ourselves in this world of uncertainty," asks Bill Coffin, Group Editorial Director, PropertyCasualty360° "And how can we effectively manage realistic or unrealistic stakeholder, whether shareholder, employee or citizen, expectations against what they've become accustomed to?"

Nearly 60 percent of participants in "Time for a Second Helping…or More Than We Can Chew," a recent PropertyCasualty360° risk management webinar, cited sluggish economic conditions as the single greatest influence on clients' shifting risk tolerances. Just more than 26 percent identified catastrophic events like Super Storm Sandy with 14 percent pointing to an uncertain political landscape.

For these or other reasons, individual small independent brokers' business has fallen anywhere from 10 percent to 50 percent since 2009's economic meltdown. The weakest economic recovery since World War II doesn't auger well for operations looking to take on additional risk, whether strategic (by

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getting into new lines of business) or operational in nature.

There is also legislative unpredictability out of Washington, including questions over whether the National Flood Insurance Program (NFIP) will be renewed, a big concern for property and casualty insurers. As is the periodic renewal decision regarding the Terrorism Risk Insurance Act (TRIA), a Federal backstop for terrorism protection in an age where terrorism risks and events could inflict damage beyond what traditional insurance is able to cover.

Debate over various State regulations also abounds, with decisions potentially transforming how the insurance transaction itself fundamentally operates.

"Major losses can occur at anytime, anyplace," Coffin said. "Insurers should engage clients on the importance of adequate coverage. The West, Texas, fertilizer plant that exploded this past summer carried only $1 million liability coverage. That is a pretty amazing wake up call, showing that even with operations where you'd expect rock-solid risk management, the need to manage risk aggressively is huge."

Another insurer concern as it relates to risk managers' coverage appetites: continued rate increases. Recent Risk and Insurance Management Society survey figures for 2012 showed a 5 percent increase in the total cost of risk to $10.70 per $1,000 of revenue from $10.19 per $1,000 of revenue. These costs rose only 1.7 percent between 2010 and 2011.

Increased pressure for more profitable underwriting fuels higher rates, resulting in tighter limits. At the same time, persistent low interest rates force insurers to make money the old-fashioned way, ironically by writing and selling insurance. This poses challenges for cost conscious buyers and risk managers.

"These factors have spurred us to do what we can to work even harder to prevent losses or to consider no longer providing various services, which is difficult as we are here to serve our citizens," according to Sarah Perry, Risk Manager for the city of Columbia, Mo.

As a result, Perry and other commercial and public sector risk managers are considering, or actually leveraging, risk coverage alternatives such as pools and hedge funds providing specialty products for one-off, catastrophic or re-insurance, which in turn exerts pressure on the traditional markets.

Captive insurance, once available only in several small states, is now domiciled in more than half of the U.S., Coffin notes. It includes group captive participation, which National Underwriter estimates to account for $1.5 billion of annual premiums, increasing by $200 million in 2012 alone.

"This is becoming an increasingly attractive option for mid-market companies, which makes it more imperative for brokers and carriers to engage clients in deep conversation and also perhaps consider crafting non-traditional insurance solutions of their own," Coffin said.

Clients are willing to listen.

"Surprisingly, I've never had a broker or a carrier ask me about my risk tolerance," Perry said. "Today's environment presents a perfect opportunity to educate their clients on how to evaluate their risk tolerance and whether it makes sense to increase or decrease deductibles.

This is a win-win. Getting under the hood, so to speak, with clients to better understand their overall risk and risk tolerance makes it possible to craft better solutions, which in turn generates more business for insurers.

What it all boils down to is this: brokers and risk managers both need to ask the right questions, bearing in mind that brokers and agents also carry their own risks and must ensure that they're doing all of the right things in placing coverage with carriers and in programs that will be around for years to come.

"It is a balancing act," Perry explains. "We really do sometimes need something that might provide us with broader coverage, coverage at a reduced price, or some other considerations. But we also recognize that we, the customer and risk manager, must do our own homework to learn about the options. You can't expect your broker to know everything."

For its part, Columbia, Mo., about two years ago joined an alternative risk management pool for its packaged liability program as traditional insurance rates began to increase. The city has been able to get broader coverage at competitive prices.

"Being part of a pool also gives us the chance to bounce ideas off of other like-minded risk managers and learn from each others' mistakes," Perry said. "But this doesn't mean that we'll exclude commercial policies forever from consideration."

Clients and carriers in this market would also do well to get to know each other better, Coffin and Perry agreed. "Carriers often are unaccustomed to having a relationship with the client," said Perry. "Brokers are important, but you also must know the underwriters within the carrier's organization, especially during renewal."

Indeed, as in any economic market or political or legislative environment, insurer and client communication is key to enabling insurers to build a better book of business, regardless of clients' appetite for risk. Brokers, agents and risk managers each have their own sets of risks; they therefore all need to ask the right questions.

Only then will insurers be able to maximize revenues, especially during challenging times. And only then will the insured be assured of receiving adequate coverage that matches their continually evolving appetites for risk.

**View the archived webcast at www.propertycasualty360.com/RedefiningRisk**