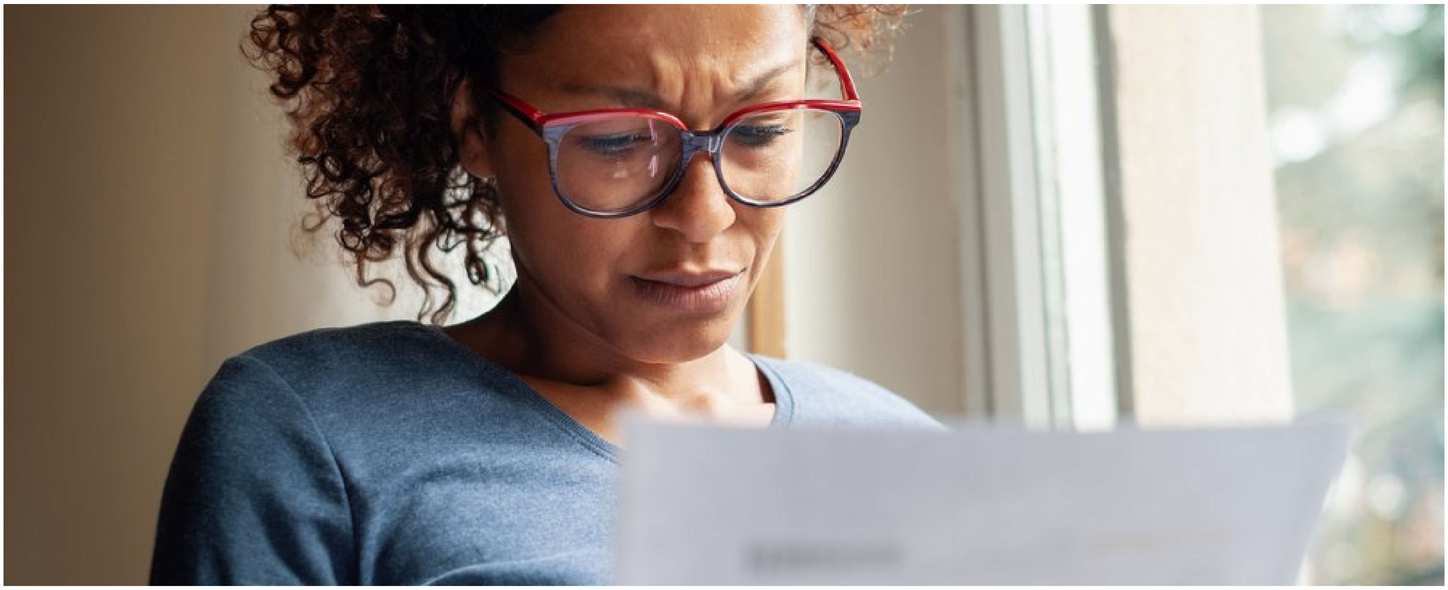
Insurance Premiums Are Rising — Here's What You Need To Know



Businesses are reopening across the nation and a sense of normalcy is cause for celebration. But you might want to hit the brakes on the festivities when your insurance renewal arrives.

Sticker shock: The new normal is far from business as usual.

While businesses waited for supply to catch up to demand, other calamities didn't wait — instead, they kept coming. Extreme weather events, riots, travel restrictions, variant spikes, international port delays, manufacturing and driver shortages, and even holidays added to the strain. Like the classic "I Love Lucy" scene where Lucy crams candies into her mouth in response to the increasing speed of the conveyor belt, insurance has been trying to keep up with the frantic pace of catastrophic events.

The result is what's known as a hard market. What does that mean for you and your business?

A “hard market” means competition and high prices

Insurance is in a hard market, which means rates are rising and insurance companies are becoming more selective about what client liability they’ll accept. In the wake of the pandemic, the industry is experiencing an unusually high number of claims, from property damage to liability lawsuits. Insurance companies are also fielding lawsuits on all sides, either defending their clients or protecting themselves from clients suing them. While the courts are busy interpreting the meaning of insurance policies in these extraordinary times, the insurance companies are refining their policy language and exclusions to limit the risk they’re forced to absorb.

For you as a business owner, insurance probably feels overwhelming already, even without the unusually high price tags you're currently facing. Now is an ideal time to get professional guidance and seasoned advice on choosing commercial insurance that’s going to respond when you need it. As the pandemic has taught us all, the difference between a good safety net and a bad one can be the determining factor between a strong, resilient business and bankruptcy.

Social inflation and the hardening market

Social inflation is on the lips of many agents (and lawyers) because it’s been a driving factor in increased insurance costs. Social inflation is an industry term that refers to the rising cost of litigation, a widening lens on liability and jury verdicts resulting in higher awards. Some lawsuits, for example, have fetched jury verdicts of over $10 million (known as “nuclear verdicts”), which have only exacerbated the hardening market.

With that kind of money at stake, more plaintiffs are taking their chances at trial or countering rather than accepting initial insurance settlement offers. Paying it forward, in the case of insurance, means passing higher costs to the consumer.

Supply chains are also hardening the market

Thanks to the pandemic, you’ll never be in the dark about supply chains again. In the early days of COVID, limited access to paper products and electronics cleared the path for supply chain discussions. Suddenly the interrelated economy became part of normal dinner table conversation. Can’t get a laptop for months? It’s the supply chain. Toilet paper shortage? Thank the supply chain.

Right now we're experiencing a bit of 2020 all over again. Supply chains are again the talk of the town, only this time the problem is even more significant. Shipping container shortages, gridlock at international ports and outrageous shipping charges have created ripples in the downstream supply chain, affecting insurance rates.

The supply chain and social inflation might even send certain types of insurance into a supply shortage of their own as insurance companies depart riskier markets. That means more competition with fewer insurance companies to absorb particular risks. It’s no longer a buyer’s market.

What types of insurance are affected?

The short answer is all types of insurance are being affected. But here are a few that might be harder to secure:

- **Directors and officers (D&O) insurance** premiums are rising, and policies are harder to secure. D&O policies are responding to an increasing number of discrimination lawsuits (including wrongful termination due to COVID-19, a story that keeps playing out). Expect insurance companies to scrutinize your business if you're in the market for D&O. They'll be looking for robust employee handbooks, training programs and sustainable risk management plans as part of their application processes.
- **Cyber liability insurance** premiums are rising, but don't overlook this important insurance. It's critical to any business that relies on the internet (pretty much everyone). The number of data breaches has risen every year, and so has the cost to recover from a hack. Cyber insurance still has a Wild West feel and lacks some of the standardized language you'd expect to see from other policies. An experienced agent can help you understand what's covered.
- **Employment practices liability insurance** is tightening the reigns on coverage. The #MeToo movement, followed by a pandemic that resulted in mass layoffs and other potential discrimination cases, created a tidal wave of lawsuits. Insurance companies are passing costs to clients.
- **Product liability insurance** helps out if a product you manufacture or sell causes damage to a property or person. But it doesn't cover the costs associated with recalling it from the supply chain. As you can imagine, product liability is a big target area for lawsuits, deep pockets and (you guessed it) steep insurance rates.
- **Product recall insurance** is a real asset if you're a manufacturer or part of any retail supply chain. If a product gets pulled from the market, product recall insurance helps with the cost to remove, remediate or dispose of the faulty product. It also helps out with public relations. But in a supply chain snafu, the cost of removing products from the stream is higher than usual.
- **Ocean marine insurance** is a must if your products are part of the supply chain. If your product ended up on one of the barges trapped in the Suez Canal blockage, you might have lost millions in business due to delays or spoilage. If you were waiting on stuck products, you might have lost business revenue, too.
- **Commercial trucker insurance** offers packaged coverage specifically for the trucking industry (like cargo, commercial auto and liability). Truck insurance is critical, as lawsuits involving truck crashes have risen significantly. According to a CNBC report, lawsuits resulting in a jury verdict of over $1 million have risen 1,000%, from $2.3 million in 2010 to $22.3 million in 2018. The pandemic truck driver shortage and commercial driver's license requirements (along with nuclear verdicts) have only stoked costs, as insurance companies shy away from inexperienced drivers.
- **Contingent business interruption (CBI) insurance** helps when the supply chain you depend on fails and results in a loss to your business. The semiconductor shortage, for example, has caused a big hiccup in the vehicle production industry. CBI coverage could help auto dealers manage their losses.
- **Business interruption (BI) insurance** is an essential part of doing business if you suffer a loss and have to close your business for a while. Coverage helps replace the income lost after physical damage to your place of business (such as a fire) and during the restoration period. But the exclusions on BI policies are tightening due to COVID-19 lawsuits. Ask your agent to talk you through the nuances of the wording on this coverage.

- **Excess insurance** adds extended coverage to a specific type of insurance that you name, such as commercial auto or liability. For example, truckers might use excess coverage for a particular shipment because of the transportation risks or the shipper requires it. Excess used to be a way to save over an umbrella policy (given the limitation to a specific policy), but alas, this coverage is also higher.
- **Umbrella insurance** also extends insurance limits (like excess does), with the notable difference being that it covers all the active policies you have, not just one. It's a smart move if you're looking to add higher limits across several lines, but the bad news is that umbrella policies have also entered a hard market. Even so, check with your agent — the cost might be higher, but it could offer broader coverage.

We're your secret weapon in a hard market

Independent agents serve their clients' best interests, not the insurance company's. Even in a hardening market, we will search for insurance that fits your needs and budget. We know which insurance companies are poised to take on your industry risk and which ones aren't worth trying.

It's important that we have enough time to shop around for you. If you've got a few dings on your record, you might need to pay more for coverage or go with a lower-rated carrier. We can help you market your business to make it appealing to insurance companies. For example, if you have a history of injury claims but have been proactive about employee safety training, we can help you present that info to an underwriter in the best possible light.

Going it alone or rolling the dice on an AI-recommended policy won't get you a personalized approach. Vying for the cheapest policy is tempting, but a cheaper policy can also mean more exclusions and less coverage. And those are the policies that tend to go radio silent when you need help handling a claim.

Call us for a coverage review

If you have concerns about an upcoming insurance renewal, be proactive and give us a call. We understand your frustrations about higher insurance prices and can help you get the coverage you need at an affordable price.

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