

# Getting to the CORE of Insurance Pricing and How You can Reduce Your Insurance Rates

NTI – KC May 6, 2015



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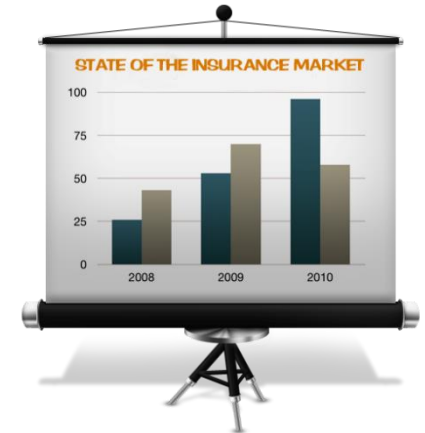
# Presentation Agenda



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- State of the Insurance Market
- Market Characteristics
  - Characteristics of a Soft Market
    - Purchasing Trends
  - Characteristics of a Hard Market
    - Purchasing Trends
- Breaking Down Premium Costs
- Reinsurance and Its Role in Pricing Coverage
- Pricing Strategies – Blanket Coverage, Layering, and Retentions
- Selling Your Company To The Insurance Marketplace
- Strategies To Become and Remain “Best in Class”
- Conclusion, Q & A and Next Steps





## Today

- Poor carrier investment returns since 2008.
- Negative Premium Growth from 2007 – 2011. Signs of growth starting in 2<sup>nd</sup> half of 2012.
- CAT losses continue to increase in severity and in some cases, frequency.



# What Drives Premium Rate Changes?



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- Market Conditions
- Loss Experience
- Your Exposures
  - Have they increased or decreased
  - Are you considered a good risk or risky risk?

# Factors that Affect Market Conditions



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- Combined Ratio – Measures the carrier's internal profitability
- The Economy- Carriers' ability to have a return on investment income
- Supply and Demand– How Much Capacity Is There In The Market?
- Reinsurance



## Combined Ratio

$$\frac{\text{Carrier Losses} + \text{Carrier Operating Expenses}}{\text{Premiums collected by Carrier}}$$

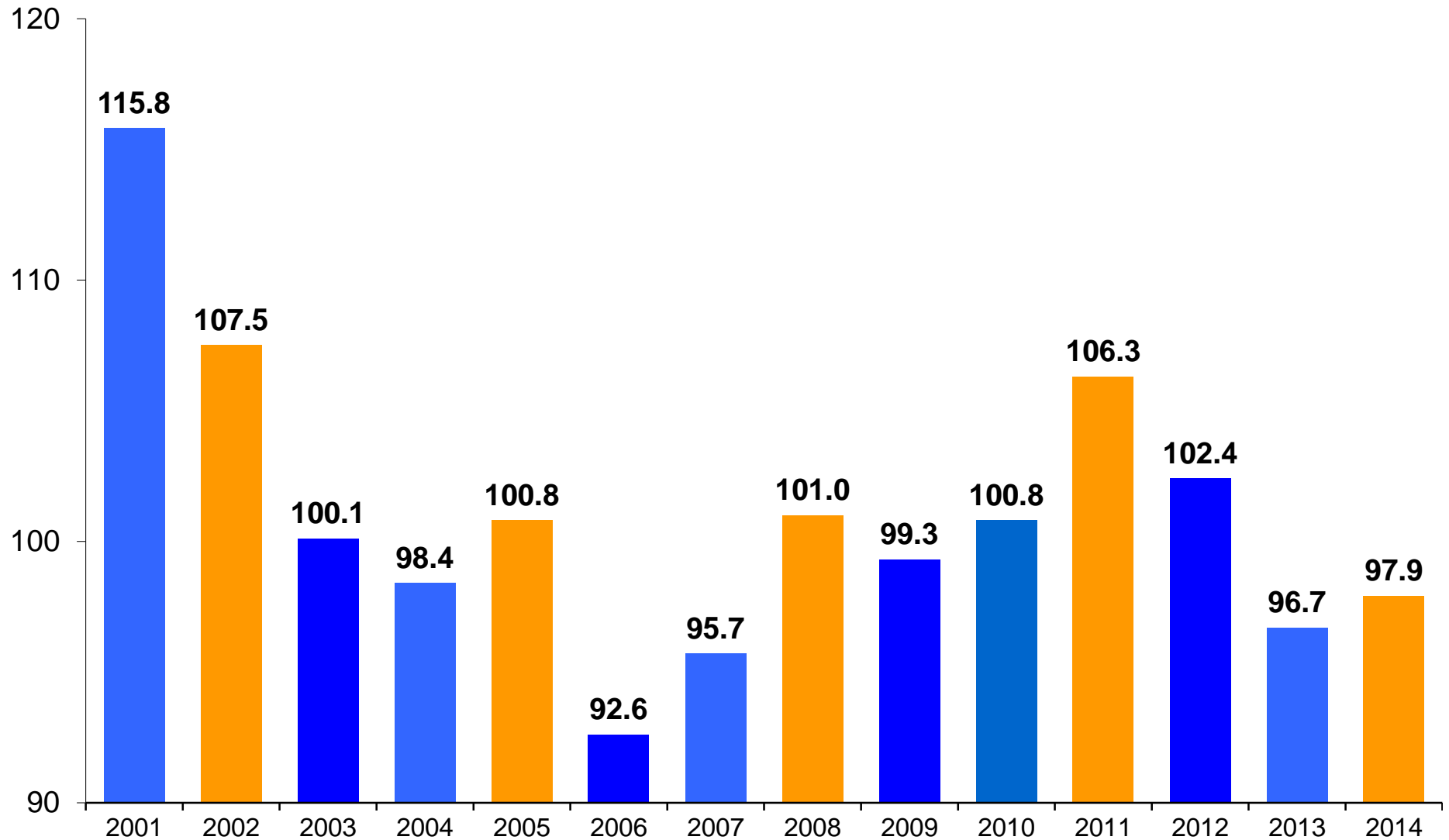
Measures a carrier's profitability

Ranks carrier vs. carrier

# P&C Combined Ratios (2001 – 2014)



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Sources: A.M. Best, ISO.



# 2014 Global Disaster Map

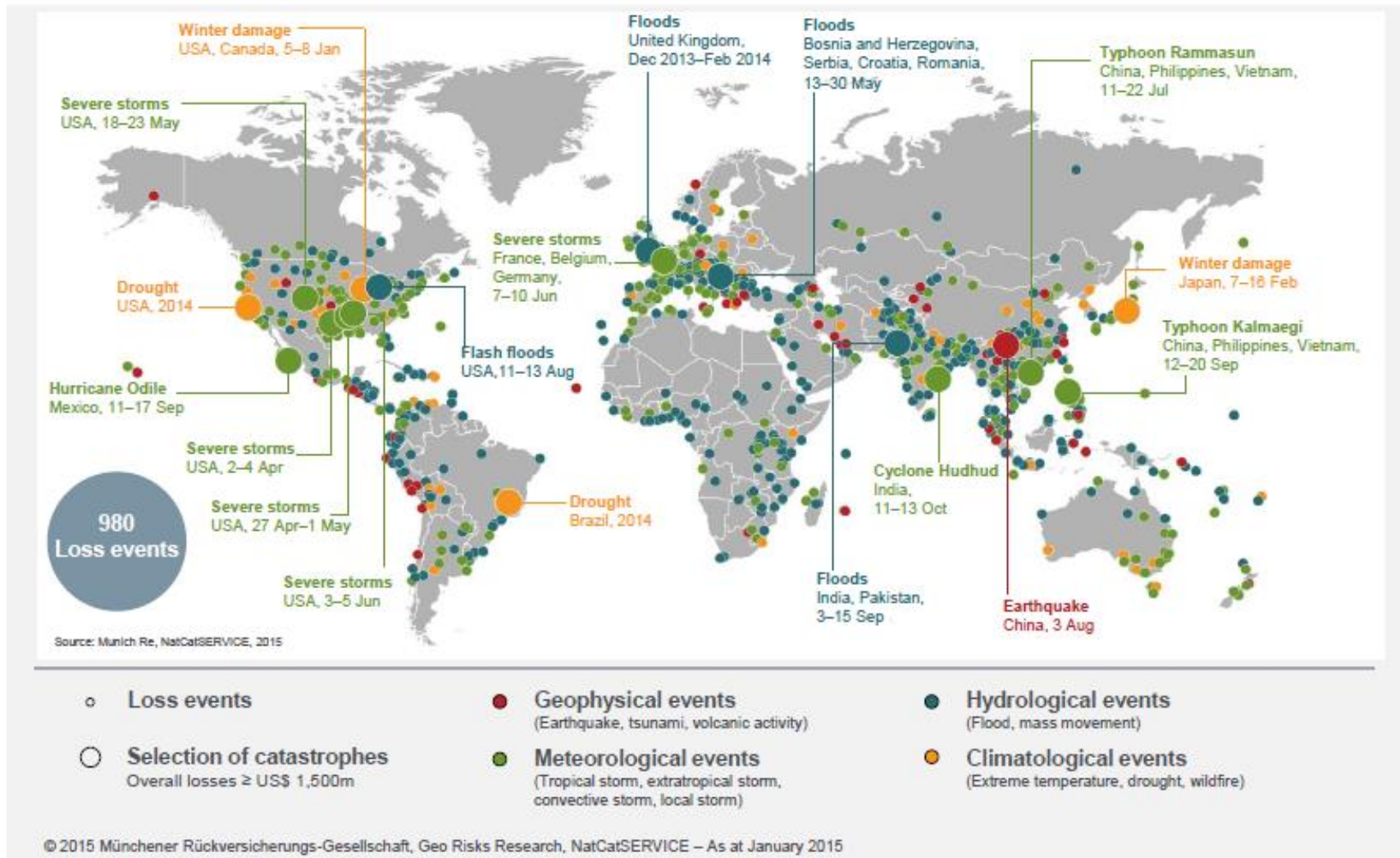


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## Loss events worldwide 2014 Geographical overview





# Major US Disasters (1980 – 2014)



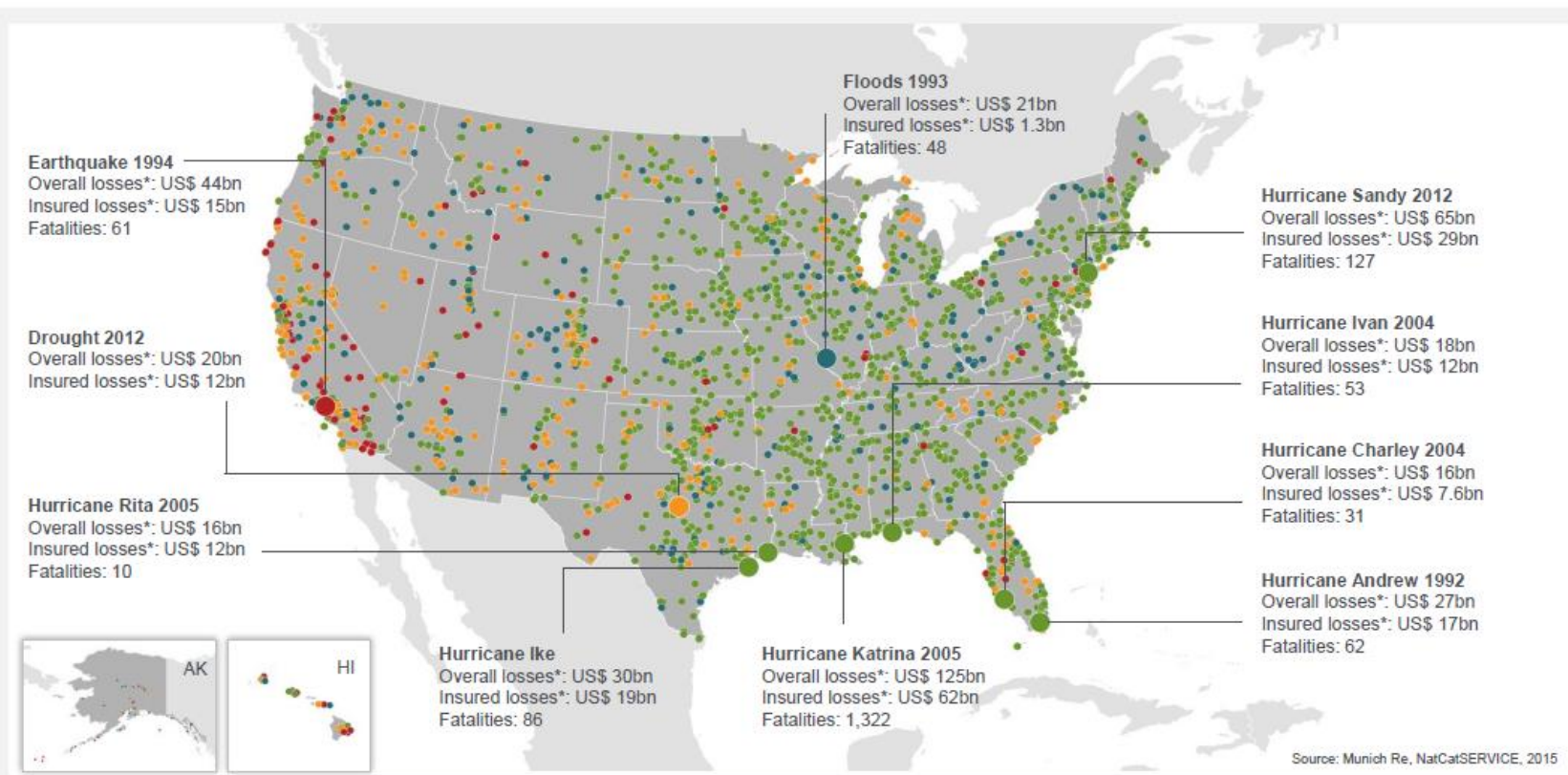
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## Loss events in the U.S. 1980 – 2014

### Geographical overview



○ Loss events

○ Selection of catastrophes

\*Losses in original values

● Geophysical events  
(Earthquake, tsunami, volcanic activity)

● Meteorological events  
(Tropical storm, extratropical storm,  
convective storm, local storm)

● Hydrological events  
(Flood, mass movement)

● Climatological events  
(Extreme temperature, drought, wildfire)

# ARE DISASTERS HAPPENING MORE?



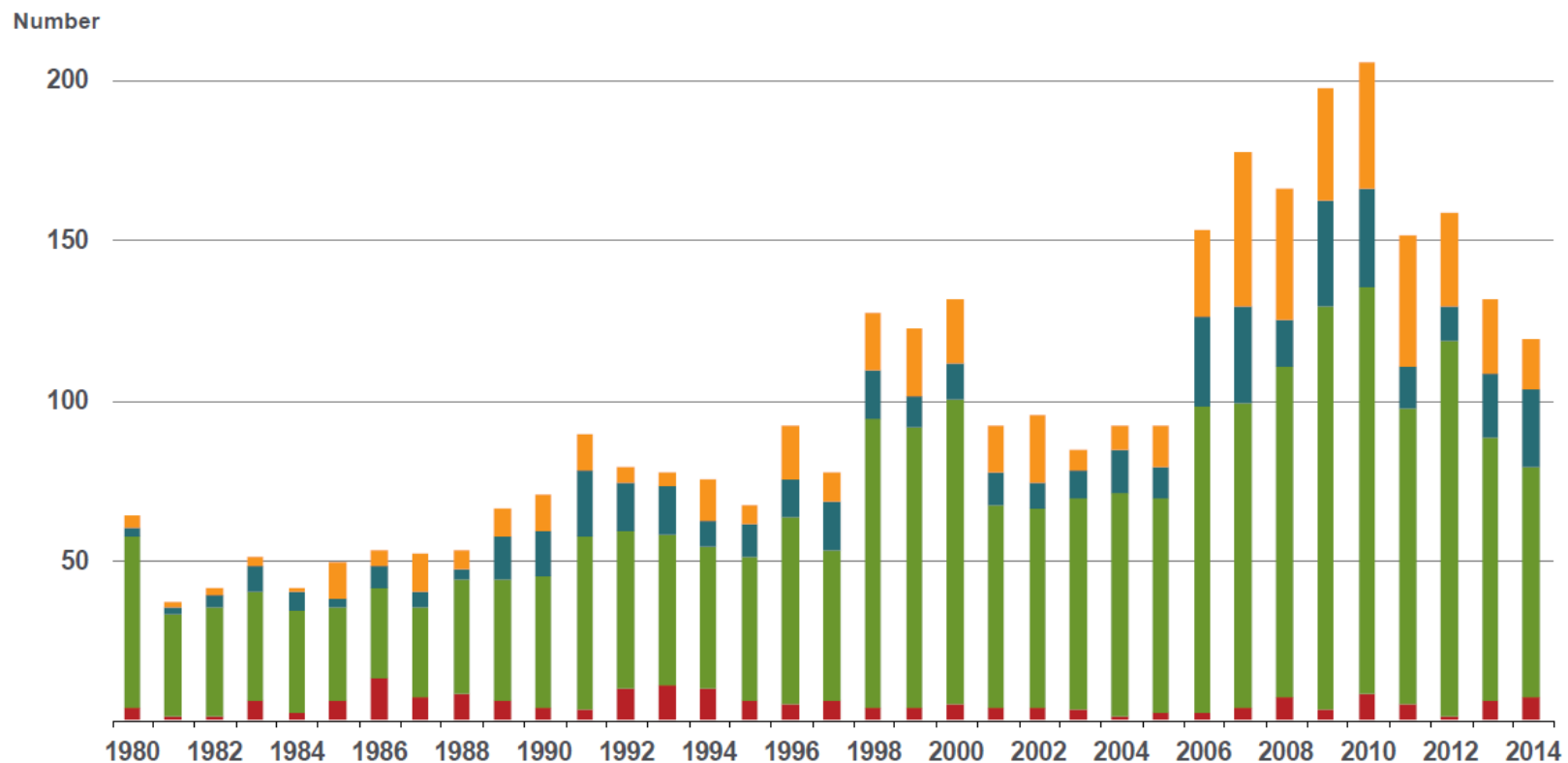
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## Loss events in the U.S. 1980 – 2014

Number of events



**Geophysical events**  
(Earthquake, tsunami,  
volcanic activity)

**Meteorological events**  
(Tropical storm, extratropical  
storm, convective storm,  
local storm)

**Hydrological events**  
(Flood, mass  
movement)

**Climatological events**  
(Extreme temperature,  
drought, forest fire)



## Today

- *Poor carrier investment returns since 2008.*
- *Negative Premium Growth from 2007 – 2011. Carrier returns started improving in 2012 and continue to grow, although very slowly.*
- *Exposures within CAT areas (wind, flood, earthquake) continue to prove challenging. Markets will use their capacity within these areas if they can get their price for it.*



# Market Characteristics



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## ***Soft Market***

Many carriers willing to quote  
Declining Deductibles  
Increased Limits  
Broader Coverage  
Easing of underwriting standards  
Recommendations not as important  
Buyer's Market

## ***Hard Market***

Few carriers willing to quote  
Increased Deductibles  
Reduced Limits  
Coverage More Restrictive  
Tougher Underwriting Standards  
Stricter compliance requirements on recommendations  
Seller's Market



# Carrier Matrix



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# Rating Matrix



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## Sample NRMC Property Pricing Matrix

Sample NRMC Property Pricing Matrix										
COVERAGE	CARRIER	Layer %	RATES						Rate Basis	DESCRIPTION
			Frame	Joisted Masonry	Mas NonComb	Prop Loss Ratio		Prop Fire Stop %		
Prop BB	NRMC Prop Retention		0.07941	0.06594	0.02619	<10% -3%	A-100 % -2%	11-60 % 1.00	B-> 70% 0.00	TIV
						>60% +4%	C-< 70% +2%			
			Frame	Joisted Masonry	Mas NonComb	Tier I Wind-VA, NC		Tier I Wind- All Other		Flood Zone A
PRIM PROP Layer Total			0.11313	0.07688	0.06166	0.12800		0.12200		0.04847 Total Price for Primary Property Layer, adding all layer participants
\$10mm Liberty Surplus		28.3%	0.03198	0.02173	0.01743	0.03618		0.03448		0.01370 \$2.5mm p/o \$10mm
Layer Travelers		14.1%	0.01599	0.01087	0.00871	0.01809		0.01724		0.00685 \$7.5mm p/o \$10mm
Amlin		14.7%	0.01667	0.01133	0.00908	0.01886		0.01797		0.00714
Hiscox		42.9%	0.04850	0.03296	0.02643	0.05487		0.05230		0.02078
Boiler	Liberty Surplus		\$15.80							Boiler Inspec charge
		Exs Prop 1 Total Rate	0.01332	0.00905	0.00726	0.19200		0.18400		TIV
1st XS		17.9%	0.00238	0.00162	0.00130	0.03429		0.03286		\$2.475 m p/o \$15mm.
Property	Gemini Ins Co	25%	0.00332	0.00226	0.00181	0.04789		0.04590		\$3.150m p/o \$15mm
15M x 10 M	Axis Surplus	12.7%	0.00169	0.00115	0.00092	0.02430		0.02328		\$1.875m p/o \$15mm.
	Hannover	9.1%	0.00121	0.00082	0.00066	0.01749		0.01676		
	Ascot-Lead	35%	0.00472	0.00321	0.00257	0.06803		0.06520		\$7.5m p/o \$15mm
		Exs Prop 2 Total Rate	0.01537	0.01044	0.00838	0.04070		0.04002		TIV
2nd XS										
Property	Scottsdale	43%	0.00658	0.00447	0.00359	0.01742		0.01713		p/o \$50mm
\$50M x 25M	Hannover	8.5%	0.00131	0.00089	0.00072	0.00348		0.00342		p/o \$50mm
	Amlin	48.6%	0.00748	0.00508	0.00408	0.01980		0.01947		
3rd XS Property										
\$425M x \$75M	Landmark American Ins Co		0.01899	0.01290	0.01035	0.01974		0.01977		\$425mm xs \$75mm
TRIA	Lloyds Syndicates	100%	0.00250							TIV all Constr
										\$100mm



Consider your exposure base and new exposures:

- Have you added/reduced units/buildings?
- Are assets insured to value? Inflation?
- Have your liability exposures increased or decreased? Additional services, i.e. playground, daycare, in-house maintenance.
- More employees? Less?
- What about vehicles?



# Breaking Down Premium Costs



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## Breaking Down Premium Costs



# Breaking Down Premium Costs



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Losses  
55-65%

# Breaking Down Premium Costs



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Losses  
55-65%

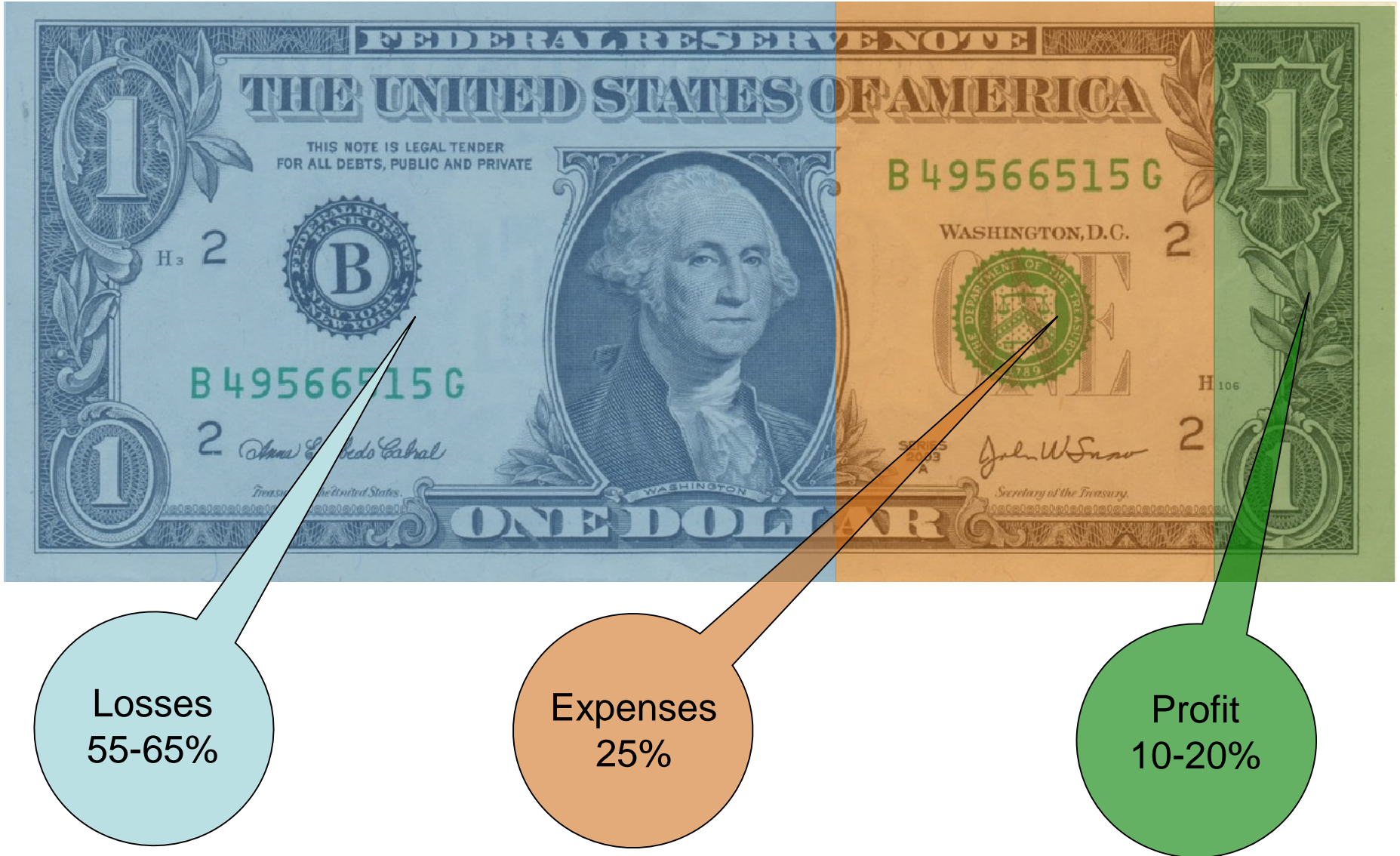
Expenses  
25%



# Breaking Down Premium Costs



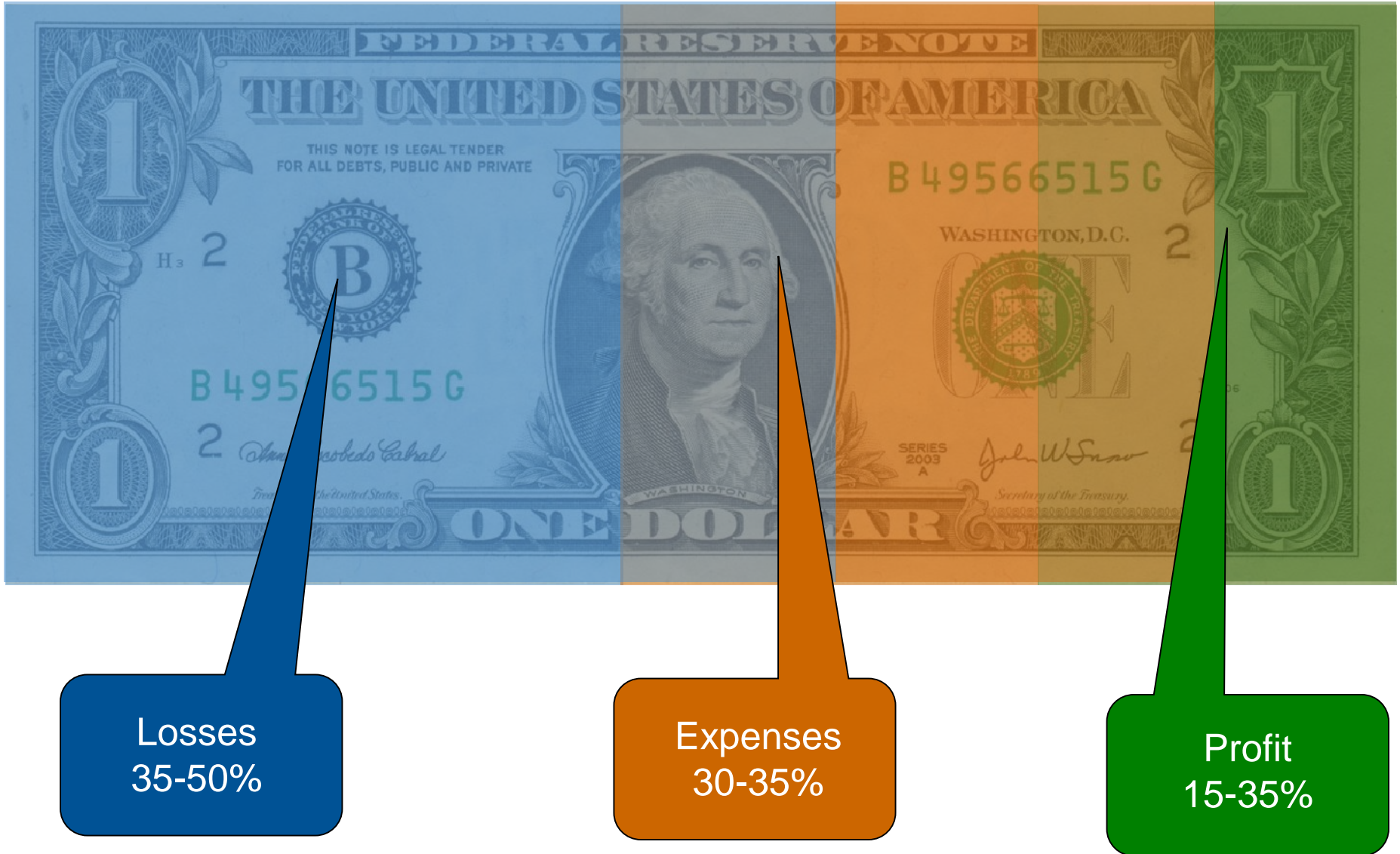
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# Breaking Down Premium Costs



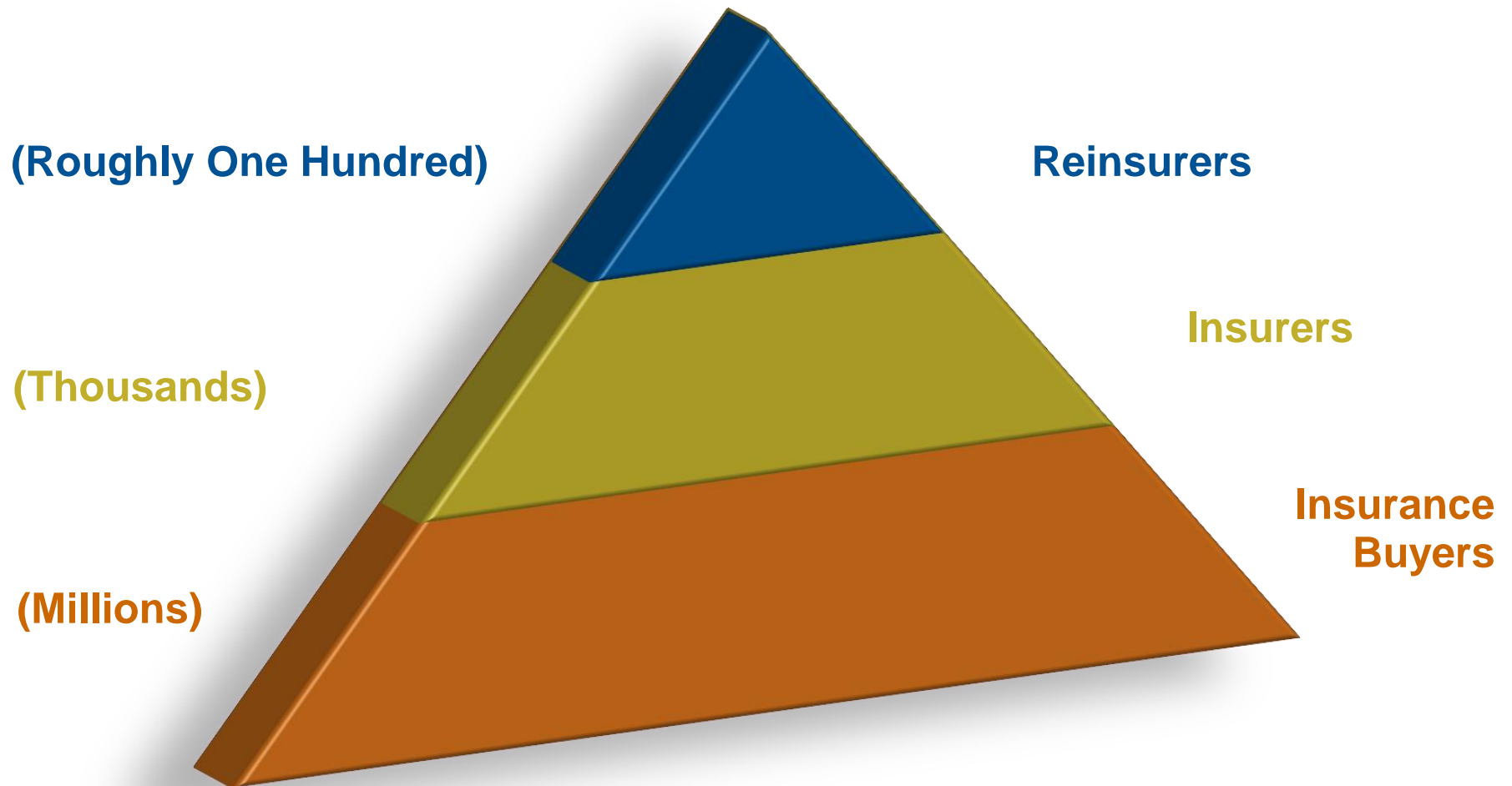
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# How Reinsurance Impacts Pricing



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## Loss Ratio

$$\frac{\text{Losses} + \text{LAE (Loss Adjustment Expenses)}}{\text{Premiums}}$$

Measures an insured's profitability to the carriers



# Experience Factors: Loss Ratio



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- Measured over a 5 year period.
- Target LR = 0.
- LR considered “good” = 40% - 60%.
- Frequency
- Severity



CORE = **Goes beyond the Loss Ratio measure**

Cost of Accidental Loss not reimbursed by insurance or outside sources

- + Insurance Premiums or expenses for non-insurance or other indemnity
- + Cost of risk control techniques to prevent or reduce the size of accidental losses
- + Cost of administering risk management activities.



- Understanding C.O.P.E. and Carrier Appetite
  - **C**onstruction
  - **O**ccupancy
  - **P**rotection
  - **E**xternal Exposures



- Buildings in Class 1 consist of ceilings, floors and weight-bearing supports made from combustible materials, such as wood. A building's exterior, whether wood, masonry or metal, has no impact on the "Frame" classification since these materials do not support the structure in any way. Class 1 structures present the highest risk of loss during a fire.

# Joisted Masonry- ISO 2



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- Class 2 buildings consist of combustible floors and ceilings; however, the load-bearing exterior walls are constructed of noncombustible materials, such as concrete, hollow masonry blocks, stone, brick, heavy timber or any other material with a one hour or higher fire-resistance rating. While safer than Class 1 structures, joisted masonry construction is still at high risk of collapse and damage.



- Buildings in Class 3 utilize noncombustible materials, including gypsum and metal, in the ceiling, floors, load-bearing supports and exterior bearing walls. Noncombustible materials are not necessarily fire resistive, however. While the noncombustible elements may not catch fire, a building filled with combustible items can create enough heat to weaken the noncombustible structure.



- Class 4 structures have exterior, supporting and non-supporting walls of masonry, with a thickness of four inches or more and a one hour or higher fire-resistance rating. The roof and floors are comprised of noncombustible or slow-burning materials. This type of construction offers more protection against total collapse; however, the noncombustible floor and ceiling materials are still subject to heavy damage depending on the severity of the fire.





- Buildings with a Class 5 rating consist of load-bearing walls, roofs and floors made from fire-resistive materials with a one to two hour fire-resistance rating and a thickness of no less than four inches. Class 5 structures also include additional structural steel protection in the form of coatings, such as clay tile, concrete, gypsum or other noncombustible materials. While this type of construction provides a higher level of safety and a lower degree of risk, it is often much more costly than other construction methods.



- Class 6 is the highest rated construction type from a risk and safety standpoint. All walls consist of solid masonry with a thickness of four inches or more, hollow masonry 12 inches or more in thickness or 8- to 12-inch thick hollow masonry with a fire-resistance rating of two hours or more. Floors and roofs consist of reinforced concrete, no less than four inches thick with a two hour fire resistance rating. Fire-resistive structures must also include protected metal support structures with no less than a two hour fire resistance rating. While this is the safest type of construction class, it is also the most expensive to construct.



## Occupancy

- Ranking of combustibility and susceptibility to fire, smoke, and water damage
- Floor level and square footage
- Sprinkler and extinguisher credits
- Building hazards, such as flammable liquids, cooking equipment, and chemicals and gases



## Protections

- Automatic Sprinklers
- Extinguishers And Alarms
- Water Supply
- Rescessed Sprinkler Heads
- Sprinkler Grading
- Public Protection Classification (PPC™)



## External Exposures

- Adjacent buildings, including exposing walls, hazards, construction, and distance
- Concentration of Risk
- Adjacent commercial companies such as heavy industrial/mfg.

# What Are We Seeing Today?



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## Property

- Overall market rates softened throughout 2014, and continue to have downward pressure in early 2015
- However, affordable housing remains a difficult class of business, with increases expected for properties with adverse loss experience and flat to modest increases for properties with good loss experience
- Rates remain dependent on overall picture of the risk, i.e, CAT exposure, loss history, construction..."



# How Will This Affect Your Business?



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- Underwriting has gotten granular
- Coverage, sub limits will be scaled back  
– fewer “throw ins”
- Deductibles reviewed
- Insurance costs are tied directly to your  
experience and risk







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# What Can You Do?





## Prepare Now To Sell Your Business...



# What Can You Do?



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## To the Marketplace!!!





## Position Your Business as “BEST IN CLASS”



# What Can You Do?



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With the help of your broker, demonstrate to the marketplace why they should WANT your business...

- Financially stable
- Pro-active on safety to reduce potential for claims
- Pro-active on claims when they do occur
- Willingness to work with carrier on recommendations



## Conduct Your Own Risk Assessment

- Check if you have coverage and whether it is adequate
- Make informed decisions about your organization's capacity to absorb risk, especially on new projects.



# Strategies to Become and Remain Best in Class



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## Emphasize Risk Control

- If you have a great safety and risk control program, document it and track results to show the impact of the program
- If you don't have a great safety and risk control program, put one in place





# Strategies to Become and Remain Best in Class



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**Finally, document,  
document, document!**





# Summary



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Insurance market is firm. Capacity exists but being used with more discretion

Be proactive!

Assess your company's appetite for risk

Understand your claims and why they are occurring

Implement or enhance loss prevention programs

Use all of your broker's resources to accomplish the above

Ask to meet with underwriters to "sell" your company

Make your company Best in Class!





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**Thank You!**