

Business Insurance Renewals Often Mean Changes to Terms



Commercial insurance rates are increasing on nearly every line of coverage, thanks to a rise in the frequency and severity of claims. And business owners are noticing significant premium hikes at policy renewal time. What might not be as apparent are:

- Changes to policy requirements
- New coverage limits
- Policy exclusions that carriers are enacting to limit future liability

To protect your business interests, you need to know what questions to ask and what to look for when it's time to renew your insurance policy. Here are some pointers.

Why are your insurance premiums increasing?

For several years, claim payouts have exceeded what insurers have earned. A combination of costly natural catastrophes, rising inflation and poor returns on insurers' investments are forcing insurance companies to be much more careful about the inflow and outflow of capital. Property and commercial auto insurance, two coverages many businesses must have, have been particularly hard-hit.

To make sure they have enough money to pay current and future claims, insurers are raising policy premiums. In fact, premiums are generally up for all major commercial lines of business except workers' compensation, according to the Ivans Index for the fourth quarter and year-end of 2022.

Ivans spotlighted premium increases at renewal in the fourth quarter of 2022 across several standard commercial lines:

- Commercial auto increased by an average of 5.6%.
- Business owners policy premiums were up an average of 7%.
- General liability premiums increased 5.5%.
- Commercial property premiums rose an average of nearly 8%.
- Umbrella rates were up by 4.9%.

Cyber insurance stands out as an area of particularly escalating rates. In the first quarter of 2022, for example, cyber insurance premiums rose 28% over the fourth quarter of 2021, according to a report by CNBC.

How have business insurance policy terms changed?

Insurers can do more than just raise their rates to control their loss costs. In the case of cyber insurance, they're excluding certain kinds of cyberattacks and demanding that policyholders demonstrate good cybersecurity before issuing policies.

Across commercial lines, insurance companies are also:

- Requiring businesses to have higher deductibles (or retentions)
- Excluding high-loss perils
- Setting lower limits of insurance, meaning the amount of loss they will cover might be less than an event actually costs
- Establishing sublimits, which are lower levels of coverage for specific losses

Here are some coverage changes you should look out for:

- **Property insurance** — Insurers are requiring updated property valuations because the costs to rebuild are so high. They are also instituting policy sublimits (for mold and other water damage, for example). Coverage availability in high-risk areas is especially limited, making it more difficult for businesses to find coverage at all in some locations. Business interruption coverage for weather-related shutdowns is also becoming pricier and more restrictive. And policy terms are being changed on vacant property clauses, affecting the number of days a property can be vacant before it is no longer fully insured.
- **Liability** — Some policies are becoming more restrictive, particularly for environmental and pollution coverage, abuse and molestation, and assault and battery. Carriers are seeking to limit their exposure to these claims, which tend to be high-cost. In addition to insurer changes to coverage, businesses must determine if they need to upgrade their commercial insurance to protect against liabilities arising from new laws and regulations at the state and federal levels. Some insurance policies limit which agencies' actions are covered, so pay attention to those clauses in your renewal policy.
- **Commercial auto** — Inflation and an increase in the severity of accidents are making auto repairs more expensive. Bodily injury claims have also gone up substantially. Insurers are responding by increasing deductibles and giving preference to companies with good records and fleet management. Many insurers now require policyholders to work with preferred auto shops when handling claims, and some require telematics or other driver-behavior monitoring.

What you can do

The first and most important thing you can do is read every line of your commercial insurance agreements. Look for “what is covered,” “what is excluded,” and terms such as “arbitration,” “sublimit” and “require.” These terms will help you understand under what circumstances your insurer will pay, how much, what you must do to qualify for payments, and how disputes over coverage will be handled.

You should also enter the process with a budget in mind. This will help you determine the benefits of taking on more of the financial risk yourself. It may be wise to do that in some areas of risk, thereby freeing up money to pay for more or better coverage in another area.

The next thing is to play up your strengths so your business is attractive to insurance companies. Insurers typically give better deals to organizations that demonstrate good risk management and have fewer claims.

Your agent or broker can help your cause tremendously by showing an underwriter your qualifications. An insurance professional can often negotiate better terms by doing a site visit at your workplace or a risk evaluation of your property and operations, and then providing the insurer with statistics that show your company is better than the norm.

Endorsements or riders are another common way of adding to or enhancing your policy. These can include coverage that may have been removed from the standard policy. They usually cost extra, so you will want to weigh the cost versus the benefit. An alternative to an endorsement is going with a different insurer, maybe in the specialty market, to get a stand-alone policy that picks up what your standard insurer has excluded.

Your insurance adviser is a specialist at understanding insurance policies, so take advantage of that knowledge. Ask specifically about changes to your policy to reveal any new costs, conditions or requirements.

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