

Coverage Costs

Many Factors Drive Climbing Insurance Premiums

INFLATION IS not just affecting the cost of food and fuel. It's also spilled over to the price of almost every industrial item, as well as building materials and services.

Anybody running a business, particularly one that carries inventories or has to invest in machinery or electronics, has seen prices increase on top of wage inflation in a red-hot job market with strong economic expansion.

All of that inflation, however, is leading to higher insurance costs, largely due to the increasing cost of claims in almost all areas of coverage.

On top of that, jury awards for both third party injuries and employees filing discrimination, harassment or other employment-related lawsuits are also on the rise.

Additionally, even the cost of adjusting and managing claims has jumped nearly 20% in the last year, according to a recent American Property Casualty Insurance Association (APCIA) report.

A survey by The Council of Insurance Agents & Brokers found that in the second quarter of 2022, businesses were paying on average 6.1% more for their commercial insurance policies than they were in the same quarter of 2021.

But rates will vary between regions as well as business sectors. Companies in areas at high risk for natural disasters are seeing higher rate hikes than those in relatively calmer areas, for example. Additionally, some states have higher jury awards than others.

Insurance lines that are seeing the most noticeable increases in claims costs, and in turn insurance rates, include:

Commercial auto

Auto insurance is feeling pressure on two fronts: the cost to repair vehicles and liability costs in terms of rising jury awards and medical costs for injured third parties. The average rate hike for commercial auto policies was 7.2% in the second quarter of 2022, compared to the same period in 2021.

According to the APCIA report: "The frequency of attorney representation in commercial auto claims has been increasing, and the relative costs of resolving claims are significantly higher for claims with attorney representation, including taking considerably longer to resolve for consumers."

Repair costs have increased substantially, adding to the cost of claims.

General liability

General liability insurance is affected by many of the same lawsuit trends that affect commercial auto policies, including the number of large "nuclear" verdicts in lawsuits. These verdicts can be in the tens of millions of dollars, if not more. Settlement costs and legal fees continue to increase as well, adding to the cost of claims.

According to the APCIA, insurance industry incurred losses for commercial general liability have skyrocketed more than 57% since 2017. According to the agents' and brokers' council, rates increased an average of 4.7% in the second quarter of this year.

Commercial property

Construction costs have skyrocketed in the wake of unprecedented building material cost increases, a labor shortage in the construction



CATASTROPHES DRIVE PROPERTY RATES: *Commercial properties are not immune to the ravages of natural disasters, like this motel that was destroyed by a wildfire.*

industry and supply chain constraints, leaving contractors short of materials to complete jobs.

For example, between December 2019 and December 2021 the price of construction materials boomed 44%, with some lumber prices up 400% in the summer of 2021.

Rates in the second quarter increased 8.3% from the second quarter of 2021, and while that rate is high, it's compared to average rate increases of 10.3% in the fourth quarter last year.

Cyber

The cost of cyber insurance is climbing 25% a year, thanks to increasing cyber attacks, increasing costs of ransoms demanded by ransomware criminals and rising cyber-attack business interruption costs, according to the agents' and brokers' council.

Another factor affecting the cost of cyber coverage is capacity (not enough insurers in the market). Also, insurers are raising deductibles and offering more restrictive terms to reduce their overall exposure.

The takeaway

With rates continuing to increase, it's important that businesses take steps to manage their risks and reduce the chances of being sued, be that by third parties or their own employees.

It means having your internal policy procedures geared toward reducing the chances of discrimination (disability, race, sex, sexual orientation, etc.) or harassment lawsuits being filed by your staff.

It also means regular safety training for your workers to reduce the chances of customers, the general public or vendors that come onto your property being injured.

And it means taking steps to reduce the chances of your business being affected by a natural disaster. Mitigation steps will vary depending on the type of threat your business may face. ❖