I've Had No Claims, So Why Is My Insurance Premium Increasing?

INSURANCE INSIGHTS

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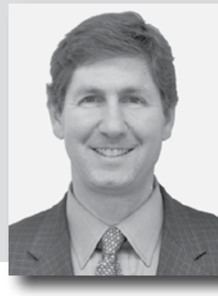

YONKERS-—I've had no claims, so why is my insurance premium increasing? If I had a dollar for every time I've been asked that question, well, I'd no longer need to sell insurance.

It is an interesting question to consider at this point in time, since, for more than two years now, every segment of the membership of The Building and Realty Institute (BRI)—construction contractors and suppliers of all kinds, condominiums, cooperative apartments, rental apartments, managing agents and even homeowners, unit-owners/shareholders and renters—has experienced insurance premium increases.

Before exploring the more complex reasons for insurance premium increases, let's examine the obvious ones, over which you likely have (some) control:

- Exposure Increases—Insurance Premiums are usually a function of two components: a "rate", multiplied by an "exposure" amount. Even if the rate stays the same, if the Exposure increases, your premium will increase. Some types of insurance policies, and corresponding exposures, relevant to BRI members, are included in the chart on this page.
- Rate Increases — If the type of exposure in the renewal policy year is different, and more risky than the expiring term, the rate could increase, increasing the premium, even if the Exposure stays the same. Examples:
  General Liability—Exposure change from Masonry (lower exposure) to Waterproofing (higher exposure).
  Workers Compensation—Exposure change from Carpentry (lower exposure) to Roofing (higher exposure).
  Property—Inventory storage location change from a concrete/steel building (lower exposure) to wood-frame building (higher exposure).
- Claims—OK, the title of this article inquires about insurance premium increases absent of claims. But, for the record, if you have poor claims experience, even if the claims were in years prior to the most recent policy year, your insurance premiums could increase, since underwriters re-evaluate up to five (5) years of claims, when pricing renewal premiums.

Also, even if you've had no claims in the past year, if your Claim Reserves (the dollar amount for which the insurance carrier estimates a claim will be settled) and/or Claim Expenses (the dollar amount the insurance carriers has spent on claims for attorneys, investigators, administration, etc.) have increased, your premium may increase, even absent of Exposure increases and/or Rate increases.

Now, even if you've experienced none of the above, no Exposure increases, no Rate increases, and of course, no claims in the past five (5) years, your renewal premiums could still be increasing. Why? Well, insurance is a financial market, and like the stock market, it is influenced by a variety of factors, which can result in increased premiums, even in absence of any of the above reasons. These factors include:

- Extreme Weather Events—Claim costs associated with extreme weather can cause Rate increases, even if the weather occurs in a different part of the country from where your property is located.
- High Claims Frequency—If your business segment has experienced high claims frequency, your Rates could increase, even if your business has not had any claims.
- Increasing Claim Costs—If claim settlement costs for claims related to your business segment are on the rise (due to new laws, recent judgments, etc.), your Rates could increase, even if your business has not had any claims.
- Loss Expenses vs. Premium Collected—If the insurance industry has paid-out more in insurance claims and claim-related expenses than it has collected in premiums, increased Rates can result.
- Low Bond Interest Rates—Insurance companies rely on secure, conservative investments, such as bonds, for a significant portion of their income, especially when loss expenses are high. By any measure, bond interest rates have been historically low, resulting in historically low investment returns for insurance carriers, leaving carriers few options besides increasing Rates to offset poor investment performance and pacify investors.

The bad news is that your insurance premiums have increased, and will likely continue to do so in the near future (albeit less severely in most cases), even if you have not had claims.

The good news is that it's not your fault (unless you've had claims.) Almost every company and individual has experienced premium increases during the past two (2) years, even with no claims (OK, maybe it's not "good news," but perhaps it will make you feel a little bit better that you're not the only one).

To understand more about what impacts your insurance premiums specifically, contact your insurance broker, or call Levitt-Fuirst Associates at (914) 376-2500.

Editor's Note: Levitt-Fuirst Associates is the Insurance Manager for The Builders Institute (BI)/Building and Realty Institute (BRI) of Westchester and The Mid-Hudson Region. The company is based in Yonkers.

Type Of Insurance	Common Exposure Examples	Example of Exposure Increase, which will increase premium, even if Rate stays the same
Property Insurance (If your property includes…)	Buildings	Estimated replacement cost of your building increases from $150/sq. ft. to $175/sq. ft.
	Contents/Inventory/Tools/Equipment	Stock or Furniture/Equipment replacement cost increases from $200,000 to $400,000
	Business Income Amount	Condo. common charges increase by 5%
Liability Insurance (Your insurance may be based on…)	Payroll	Payroll increases from $250,000 to $400,000
	Sales Revenue/Receipts	Sales increases from $800,000 to $1,000,000
	Square Footage	Retail space increase from 5,000 to 9,000 sq. ft.
	# of Units	# of apartment units increases from 80 to 100
Umbrella Liability	General Liability Premium	GL premium increases from 10,000 to $20,000
	# of Units	# of apartment units increases from 80 to 100
Workers Comp.	Payroll	Payroll increases from $250,000 to $400,000

Construction Compensation Insurance Group Reports a 30 Percent Dividend, Real Estate Group Announces a 20 Percent Dividend

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Officials added that the group has now had 61 consecutive years of dividends.

Group 458 was formed in 1951. More than 800 construction industry members participate in the program. Contractors, Sub-Contractors, Suppliers and Renovation/Remodeling companies are eligible for the group, spokesmen said.

Group 530 Announces Its Dividend

New York State Workers Compensation Group 530, the compensation insurance group for The Cooperative and Condominium Advisory Council (CCAC), The Apartment Owners Advisory Council (AOAC) and The Advisory Council of Managing Agents (ACMA) of The Building and Realty Institute (BRI), recently announced a 20 percent dividend for the policy year ending June 1, 2013.

Group spokesmen said that the dividend is in addition to the maximum 20 percent upfront discount.

The announcement was made at the group's Annual Meeting on May 21 at the offices of Group Manager Levitt-Fuirst Associates in Yonkers. More than 500 cooperatives, condominiums, apartment buildings and office buildings participate in the program, spokesmen said. Group 530 was formed in 1990.

"The Insurance Certificate is Not Enough—Understanding What is Really Required to Properly Transfer Risk to Your Contractor" was the topic of the June 3 Membership Meeting of The Cooperative and Condominium Advisory Council (CCAC). More than 45 CCAC and Building and Realty Institute (BRI) members attended the seminar at the Crowne Plaza Hotel in White Plains. Pictured during the program are, from left to right, Jason Schiciano (speaker), Levitt-Fuirst Associates, insurance manager for the CCAC/BRI, and Peter Andersen (speaker), director, Risk Reduction Services. The CCAC represents more than 300 co-ops and condos. It is an affiliate organization of the BRI. —*Photo by Jeff Hanley*