



Riding the insurance pricing cycle's wave

According to Sir Isaac Newton, what goes up must come down. While he used an apple to illustrate his point about the theory of gravity, the same observation holds true for the insurance pricing cycle. Learn more about what drives the cycle and how to best ride the market's ups and downs.

Property-casualty insurance cycle

The insurance industry pricing cycle alternates between periods of soft and hard market conditions. In a hard market, coverage is harder to place and premiums grow. A soft market indicates premiums are stable or falling and coverages may be more readily available.

What affects the insurance market cycle? A variety of factors, including economic downturns, catastrophe events, insurers' claim reserve dollars, and supply and demand (supply is tied to the amount of policyholder surplus in the industry and demand is the appetite of the insurance-buying community to transfer risk).

Pricing cycles can also vary between lines of coverage and geographic location, creating both hard and soft market conditions depending on what type of commercial insurance is involved and how exposures to loss have changed. For example, the pricing and underwriting approach for property coverage for businesses based in the

southeastern United States will be much different than for businesses located in the Midwest.

In recent years, the pricing cycle has become more difficult to predict. Until the early 1980s, pricing cycles were regular with three year periods each of hard and soft market conditions in almost all lines of property/casualty insurance. Since then, the cycles have been less regular and less frequent.

Risk management considerations

According to recent survey data from The Council of Insurance Agents & Brokers, for those not in coastal or catastrophe-prone areas, current composite rates for most lines of property and casualty coverage are expected to be soft for the short term.

For many commercial insurance buyers, a soft market is certainly good news. With stable premiums, it's a good time to optimize your risk transfer options. But as with all pricing cycles, market trends won't last.

So what's a buyer to do to ensure they are always getting the best price?

While premiums vary due to market pressure, your true cost of price is determined by your claims history. The key to controlling price is to control loss costs by preventing losses in the first place, managing claims efficiently when you have a loss, and employing cost containment strategies.

Results from the 2006 MyWave® P&C Insurance Coverages Survey indicate 80 percent of respondents are concerned to extremely concerned about cost containment in 2007. Increasing exposures (52 percent) and disaster planning (42 percent) ranked second and third respectively.

Our team of property-casualty experts can work with you to determine potential cost reduction strategies to limit exposures and reduce premiums through both risk transfer and non-risk transfer solutions. Our consultative risk management approach includes:

- Identifying your exposures to loss;
- Recommending loss control solutions;
- Implementing and monitoring the techniques we recommend;
- Improving your disaster response potential by helping you to create, implement or update a business contingency program;
- Assisting in building a culture of safety;
- Providing claims management to keep costs down;
- Seeking continuous improvement; and
- Reviewing and recommending coverages to ensure your protection.

Those who approach risk financing through sustained long-term cost control and claims management measures, not just to avoid a sudden upward turn in marketplace prices, are always in a better position to secure coverage at the best possible price.

The market may fluctuate, but we want to be your broker of choice. We are committed to helping you to meet underwriting criteria to secure the best possible price — whatever market conditions prevail — and uncover cost drivers to help you zero-in on long-term cost control and risk management initiatives. If you are interested in reviewing your coverages and risk management strategies, please contact us today at 800-966-6481.

Bouchard Insurance: Helping you to Address Today's Property and Casualty Issues

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