

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.

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 renewing your insurance policy. Here are some pointers.

WHY ARE YOUR INSURANCE PREMIUMS INCREASING?

For several years, claim payouts have exceeded what insurers have earned. This is due to a combination of factors:

- A steady increase in extreme weather events
- Lawsuits
- Inflation
- Poor returns on insurers' investments

Insurance companies are losing appetite for risk,

including how they spend and invest their capital. Businesses that they insure are a part of their investment capital strategy. As finances get tighter, insurance companies begin offloading the businesses they think are at risk for catastrophic payouts.

At the least, they respond with higher premiums to compensate for higher pricing. At the worst, they exit markets completely.

Property and commercial auto insurance, two essential coverages, have been hit particularly hard due to the rising cost of repairs. Insurers have raised their policy premiums to have enough money to pay current and future claims.

In fact, premiums are generally up across most major commercial lines of business, according to the Ivans Index Q1 2024.

Ivans spotlighted premium renewal rates in the first quarter of 2024 across several standard commercial lines:

- Commercial auto increased by an average of 9.09%.
- Business owners policy premiums were up an average of 9.30%.
- General liability premiums hovered around 5.89%.
- Commercial property premiums rose to an average of 10.52%.
- Umbrella rates were up slightly, at 6.81%.

Cyber liability insurance stands out as an area with particularly volatile rates. According to Fitch Ratings, stand-alone cyber liability policy premiums increased 62% in 2022 but began leveling off in the second quarter of 2023.

HOW HAVE BUSINESS INSURANCE POLICY TERMS CHANGED?

Insurers can do more than raise their rates to control their losses. In the case of cyber insurance, they're excluding certain kinds of cyber attacks 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 policy limits to offset how much they'll cover in case of a total loss, which might be less than an event actually costs
- Establishing sublimits, which are lower levels of coverage than the overall policy limit for specific losses

Here are some coverage changes to 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 often minimal, making it more difficult for businesses to find coverage 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. More insurance carriers are limiting their exposure to these claims, which tend to be high cost. In addition to coverage changes, businesses must determine if they need to upgrade their commercial insurance to protect against liabilities arising from new laws and regulations.

Pay attention to clauses that limit who is covered. For example, general liability and business owner policies don't cover you if an employee sues you for discrimination, harassment or other employment violations. You'll need to add employment practices liability insurance for that.

COMMERCIAL AUTO

Inflation, high-tech vehicles 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. And if you have electric vehicles or connected fleets, you

could be at risk for a cyberattack, which isn't covered by auto policies. You'll need to add cyber liability coverage.

UNDERSTAND YOUR COVERAGE

The first and most important thing is to read every part of your commercial insurance agreements. Look for what's covered and excluded, and scrutinize sections that contain terms such as:

- Arbitration
- Sublimit
- Requirement
- Responsibility
- Exclusion or excluded
- Limitations
- Coinsurance
- Payment threshold
- Conditions
- Not covered



These terms will help you understand when your insurer will pay, how much they will pay, what you must do to qualify for payments, and how coverage disputes will be handled.

Read the definitions of your policy, too. Most people skip them, but they are the guardrails of your insurance contract. You might have some wiggle room to argue something not mentioned in your policy, but if it's explicitly excluded, that'll be a swift denial.

STRATEGIZE YOUR INSURANCE PLAN

Enter the process with your budget in mind. You might be able to take on more financial risk yourself in some areas. This technique can free up money to shift into larger policy limits or enhance coverage in higher-risk areas.

Play up your strengths so your business is attractive to insurance companies. Insurers typically give lower premiums to organizations that demonstrate good risk management and have fewer claims. Your broker can help your cause by showing an underwriter your qualifications. They can often negotiate better terms by getting to know your business and then selling your story.

Tap your broker's knowledge. Your broker might visit your business to evaluate the risks of your property and operations. They'll suggest improvements to place you in the most favorable light. When they market your company with the insurance carriers, they'll highlight your pro points to show you're a worthy risk using things like:

- Claims statistics
- Property inspections
- Corrective actions and improvements
- Employee safety training records

- Risk management programs
- Cyber response programs

Expand on your standard coverage using endorsements or riders. Endorsements sometimes allow you to include coverage excluded from a standard business policy. They cost extra, but it's worth getting a quote comparison to weigh the costs against the benefits.

Use multiple insurance companies. An alternative to an endorsement is going with a different insurer specializing in your industry or risk area. For example, consider a tree-felling company that uses heavy machinery and tools, and frequently travels. It may want to use three insurance companies, each one specializing in a specific risk area, to get the best coverage options.

An independent agency has relationships with many insurance companies to help you compare the policies. Pricing, coverage options, claims processing, customer service and value-adds (like free risk audits) should play equal parts in your coverage comparison. Independent brokers can get quotes from several insurance companies, not just one, to help you narrow the field.

USE YOUR BROKER'S EXPERTISE

Call your broker for a business coverage review. They specialize in insurance and how insurance companies evaluate risk candidates. Take advantage of their knowledge and networks. Ask about changes to your policy to reveal any new costs, conditions or requirements. They'll give advice and match you with the best insurance for your business.

If you have questions specific to your business, or would like additional information, please reach out to your HK Henderson Advisor.

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