

THE TEAM WITH THE BEST PLAYERS

WINS..... Jack Welch

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*Independent Captive Associates, LLC, 6900 Jericho Turnpike, Syosset, NY 11791
www.independentcaptiveassociates E-mail address promano@independentcaptiveassociates.com
Offices located in Boca Raton, Florida; Richmond, North Carolina; Simsbury, Connecticut; Syosset, New York*

Hard or Soft.....

By William York, VP of Marketing

“As premium renewal rates are climbing month over month, we see the market continuing to harden,” said Brian Wood, Vice President of Data Products Group, IVANS Insurance Services.

IVANS Index, released monthly, is a data-driven report on conditions and trends for premium rate renewal changes of the most placed commercial lines of business in the insurance industry. Based on the analysis of more than 120 million data transactions, the *IVANS Index* on premium renewal rate change measures the premium difference year over year for a single consistent policy. It includes more than 32,000 agencies and 400 insurers and Managing General Agents, and it reflects premium rate change trends experienced by all agencies and insurers across the US insurance market. *IVANS Index* is available to agencies and insurers as part of IVANS' "Market Insights."

This data supports the position we have been seeing in the retail insurance sector. The retail insurance marketplace is hardening.

As demand is changing, businesses are seeking alternative solutions to protect themselves.

It is estimated that 50% of the insurance risk today is being handled by using alternative solutions... principally Captive Insurance Companies. This shift is also affecting on the retail marketplace pricing.

Businesses have evolved! Today businesses are confronting their third largest expense directly head to head! To increase their competitive positions. Businesses are now viewing the integration of their risk management programs with their CIT, CFO and HR functions. This essential integration is boosting profits.

Captive Insurance Companies are filling gaps in cyber security coverage, strengthening balance sheets and providing medical and other insurance needs of the employee benefit market.

As the insurance marketplace continues to harden, we expect to see a rise in both the formation of additional captive insurance companies as well as an expansion of the coverage being offered. There is instability in many businesses today as the method of retail selling has shifted to the internet, as globalization has given way to nationalism and the methods of working have changed, as new products are causing the traditional marketplace to readjust and re-price coverage.

What makes a soft insurance market?

The characteristics of a **soft market** in the insurance industry include:

- **Lower insurance premiums** – There is almost no line of business where clients are seeing this trend. Credit insurance has disappeared from the apparel industry, employee medical insurance rates are experiencing double digit increases and demand for coverage, where pricing histories exist, are fading.
- **Broader coverage** – Coverage is being limited as claims are increasing. Natural disasters are increasing. Business operations are moving online, and employees are working from home. Regulations are also strangling growth.
- **Relaxed underwriting criteria** - Because of the changing economic landscape, underwriting is more difficult. Each situation demands great scrutiny.
- **Increased capacity** – Insurance carriers are not writing more policies but are adjusting to the rapid changes they are experiencing. Business owners are having problems finding the applicable coverage at reasonable rates.
- **Increased competition** – Re-insurance carriers are tightening their requirements or existing selective markets as insurance carriers are disappearing.

It is common sense, that the rate reductions associated with a soft market are affecting the retail insurance carriers' bottom line. Insurers rely on a combination of insurance premiums and investment income to make a profit.

The characteristics of a hard market include:

- Higher insurance premiums
- More stringent underwriting criteria, which means underwriting is more difficult
- Reduced capacity, which means insurance carriers write less insurance policies
- Less competition among insurance carriers.

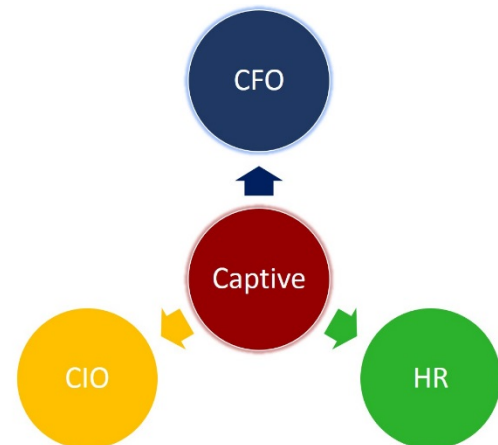
Captive Insurance Companies were created to provide insurance coverage where it was not possible to obtain the selective coverage a business demanded. This was a long time ago, when steel mills and their captive mines formed the nucleus of a business arrangements. Times have changed.

Captive insurance companies have evolved.

Today, Captive Insurance Companies represent not only an insurance alternative but also a financial opportunity to recapture premium dollars. Businesses understand their threats better than anyone else as it affects their business. By playing a greater role in creating and operating a more intelligent internal risk management function they can affect pricing. Captive Insurance Companies can assist in creating controls in the insurance marketplace. This author believes they can flatten the highs and lows of the insurance cycles more effectively than the retail insurance.

The main change, we believe, in insurance pricing requires a business owner to place his Captive at the center of all business functions. Only when this is done can a business create the insurance stability it requires to maximize efficiency.

Look at the model created below and think of the possibilities:



Putting a Captive at the Core of a Risk Management Program Offers Agility in Funding Risks & Support for Business Operations!

- Captives create third party profit centers for the business' CFO
- Captives support program control with HR Departments
- Captives enhance cyber liability and security for CIOs

Call Independent Captive Associates, LLC to learn how to get started.

Pamela Romano

Ph: 516-629-9045

Email: promano@independentcaptiveassociates.com

Independent Captive Associates, LLC

6900 Jericho Turnpike, Suite 300

Syosset, NY 11791

www.independentcaptiveassociates.com



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