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Similar to other businesses, the real estate industry has been hit hard by soaring insurance premiums. The combined effects of the stock-market free-fall and a weak economy, plus payouts on natural disasters, terrorist attacks and the litigation surrounding corporate scandals, have shaken the insurance industry to its core. After years of relatively stable insurance rates, carriers have increased premiums across the board to try to recoup their losses. Some have dropped lines that pose the greatest risk, and others have retreated from the California marketplace altogether.

So how does the insurance landscape look for 2003, and what can you do to better manage insurance costs going forward?

Terrorism

Many real estate deals have been delayed or killed because of the inability to get terrorism insurance at a reasonable cost. Congress has finally passed the terrorism insurance bill, but now there is much confusion about how it is to be interpreted. What is clear, however, is that insurers now are obligated to offer terrorism coverage to their clients and present contracts and quotes by February 24. Because each carrier's general counsel must interpret the law in order to establish the rate structure for terrorism coverage, one might expect the rates to vary considerably. It is important, therefore, to have a broker who can get quotes from a number of insurers so that you have several choices. Real estate owners and businesses have 30 days from receipt of the quotes to accept or reject the coverage in writing. If they decline, the carrier's obligation is voided.

Important Tips

Review Insurance Claims

Prior to renewal, review insurance claims paid over the past year. An accurate claims record helps in negotiating the best rates.

Analyze Risk-Reward Ratio

Assess the current deductibles to determine if assuming more risk to lower premiums makes sense.

Implement Employee Safety Programs

Lower Workmen's Compensation premiums by implementing safety training and "no claims" incentives for employees to reduce claims.

Mold

While insurers were forced to provide coverage in California prior to November 1, 2002, they now are allowed to write mold exclusions or sub-limits into their contracts. Most carriers no longer insure against this liability, but some offer "sub-limits" (caps of \$25,000 to \$50,000).

Review Insurance Claims

While premiums are based on a company's claims record, insurers often use "set-asides" to determine rates. These are monies reserved for claims, as opposed to funds that have actually been paid out. To ensure an accurate basis is used to determine your premium, complete a thorough internal review of insurance claims paid over the past year in all coverage areas at least 30 to 90 days prior to renewal. This will provide ammunition needed to negotiate the best possible rates based on an accurate claims record.

Analyze Risk-Reward Ratio

Assess the deductibles in your current insurance contracts to determine if assuming more risk to lower premiums makes sense. Remember: at some point the savings realized in lower rates are not worth shouldering a greater risk.

Workers' Compensation

There has been a crisis in workers' compensation in recent years with five carriers that previously provided coverage in California becoming insolvent.

Premiums usually are based on a company's claims history, industry classification and payroll, so make sure that your insurance broker has relationships with carriers that specialize in companies of your size and type. Take steps to improve your record and get better rates, such as providing safety programs aimed at reducing claims, implementing "no claims" incentives for employees who alert management to potential problems and paying smaller claims internally to avoid higher premiums.

Building Ordinance Insurance

Owners of facilities built prior to 1990 should consider Building Ordinance Insurance. This covers the cost of bringing properties up to current codes following a disaster, rather than simply restoring it to its former state. ■

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