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The Advantage for the Waste Industry

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Expanded Recycling/Trans Stations/Landfill Section! Pag

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The Hard Market is Here

Nathan Brainard

There is no question we are going to see a change in how easy insurance is to obtain for the industry. THE BURDEN IS ON EACH COMPANY OWNER AND THEIR RESPECTIVE SAFETY OR RISK MANAGER TO GET THEIR HOUSE IN ORDER.

THROUGHOUT THE COURSE OF THIS YEAR, I HAVE had several articles in *Waste Advantage Magazine* which talked about the forth coming insurance market change from "soft" to "hard" and ways companies should be preparing. It is my sincere hope that you as the readers have taken heed to this message. In recent industry communiqués such as A.M. Best Company's e-mail review and *Business Insurance Daily News*, there have been documented conversations with insurance executives around the country, and the message is the same. We are starting to see the change from a soft to hard marketplace. Further, the most recent issue of *National Underwriter*, a publication for the insurance industry, included an article that talked about the oncoming hard market and that there is already a trend occurring for companies with property-related policies. While the property portion of your insurance portfolio might not rival that of Donald Trump, it is a strong indication that the hard market is quickly approaching.

Global Factors

Oftentimes, the indicator of a change in market conditions starts with a single line of coverage that has exposures that can be considered "elevated". When we say 'property' we are talking about physical structures such as your office building, garage/mechanic building etc. Depending on where your company is located, you could have just a few perils to be concerned with such as fire or flood; in addition to these two, you may also face tornados, hurricanes, earthquakes, sink holes, blizzards etc.

Shortly after the start of 2011, we saw news reports about earthquakes in Japan and New Zealand. Then, as the year progressed we saw the damage tornados delivered in Joplin, MS and Tuscaloosa, AL, as well as severe flooding in the midwest. Most recently was the October snowstorm that hit the Northeast just before Halloween. Each of these events and many others around the globe are the driving factors in the market change from soft to hard.

Start of the Hard Market

In an earlier article this year we discussed how insurance carriers purchase insurance just like your company does in an effort to pass some of their risk on. This is called reinsurance, and there are only a handful of providers for the entire world. As we near the end of 2011, many of the carriers are in negations right now regarding the renewal of their reinsurance policies. Because the reinsurers have been hit with some pretty substantial claims this year, specifically as it relates to property, rates have already begun to level themselves out, and in many cases, there has been a small uptick in premiums. This is the start of the hard market, and it is not going to stop at property coverage. Many states are seeing their worker's compensation rates increase after several years of rate decreases. For example, Florida just announced an average rate increase of 8.9 percent for the 2012 year. Notice the word average. Some classifications could increase even more than this depending on how that specific class code has performed over the past few years.

Insurance Programs

There are a number of carriers out there who have programs for companies engaged in the waste and recycling industry. These programs are designed in most cases for both MSW as well as C&D type collections. Some are specific to only waste while others will allow for recycling, MRF, landfill and transfer station operations to be covered. You are probably asking why this is important.

At the beginning of 2011 there were roughly 10 to 12 programs specific to waste and recycling. As of this article, four of those programs are either no longer available or are in the process of being phased out. Many of them have decided to withdraw from this specific industry due to adverse loss exposure. To my knowledge, several of these programs are going away for good while a few others are currently looking for a new carrier to administer this program. As this can be confusing let me take a moment to describe how these programs are set up.

Most programs run through what is known as an MGA or Broker. These MGAs will approach a carrier with the concept of putting a program together with specific types of coverage and parameters for the industry they are targeting. For example, in the waste industry it would be prudent to have some type of endorsement available on the auto policy to cover for pollution in the event of a loss of load, etc. In addition to coverage terms that they would like to offer, the

MGA must also come up with an estimated amount of premium that they feel they can generate in the first year and in subsequent years thereafter, as well as an estimated loss ratio for the program.

If the carrier reviews all of this information and feels that they can be profitable, the program is formed and administered via the MGA or Broker. In some cases these entities will have "the pen", meaning they do the underwriting in-house with their staff while others will require the MGA to send all of the completed data to the actual carrier for pricing.

Contraction of Insurance Markets

Here is why all of this is important. A majority of the programs we saw at the beginning of 2011 are changing or quickly drying up. Some companies have recently changed their backing carriers (to be fair, I am not sure if they did this for better terms, or because the carriers they had previously wanted out of the industry, but the end result was the same—a new carrier for an established industry program). The good news for these companies is that they were able to secure a new relationship. Not all of these companies currently in limbo will achieve the same result. Some MGAs are stable with their carrier relationship while others will have to find a new relationship or disappear from the waste and recycling industry and focus on other industries and related programs.

Because there is all of this upheaval within in the industry, we can anticipate the carriers to become more selective of companies that they offer terms to while increasing the premiums on policies offered. As the contraction of available insurance markets continues, those companies who have sustained losses, disregarded or abandoned safety protocols, been hit with OSHA, DOT or other related penalties are going to find their ability to secure competitive insurance terms and premiums

difficult. On the other hand, those companies who have remained accident free and have stayed on top of safety, training and other key factors will be in much better shape than those who have not, but they still need to anticipate an increase in their premiums, and potentially a reduction in their coverage.

Prepare Yourself

This article is not meant to scare you, but to shed light on what we have been discussing throughout the year. Here is what you can do to prepare yourself for your next renewal. First, have a very candid conversation with your agent. Ask them what they are seeing in the marketplace and, based off of your company's loss experience, what you should expect to see. They are going to be your best source as they have the necessary information at their fingertips, and are ultimately your advocate to the underwriters.

Second, ask them if your specific state or region still has viable markets for your business. Many of the programs discussed earlier are national in scope, though some do have specific restrictions in certain states. If your agent cannot give you an answer on the spot, you should be alarmed. You are in a high hazard, specialty industry, and if your agent cannot tell you who is still a viable option for your renewal, odds are they are not a specialist in your industry. This could come back to haunt you at your renewal. The worst thing you could hear a few days before your actual renewal is that they have no options for you to consider, and then you have to scramble to find coverage.

Third, ask them how they are presenting your account to the underwriters. Good agents will have an effective game plan in place. If they are simply putting together the applications, loss runs and supplementals and sending them in without any explanation or narrative of recent losses or preventative measures you as a company have taken to eliminate the possibility of a repeat claim, you should again be alarmed. Providing a narrative and preventive measures document is the minimal amount of information that they should be doing on your behalf. True industry specialists have risk management techniques and measures that they can provide to your company and show the underwriters and carriers what you are doing to protect not only your company, but also the insurance carrier as well. While you might not necessarily feel this way, your relationship with your carrier is a partnership and one that should be taken seriously, especially with the oncoming hard market. Those companies who stuck with their carrier are going to fare far better than those companies who have shopped their insurance annually and jumped from one carrier to the next to save a few dollars. The loyalty you showed will, in most cases, be returned in the very near future.

Moving Forward

There is no question that we are going to see a change in how easy insurance is to obtain for the industry. The burden is on each company owner and their respective safety or risk manager to get their house in order. Those who feel this article is nothing more than an insurance professional blowing smoke are going to be in for a very abrupt wakeup call.

If your agent is not equipped with the necessary knowledge and risk management resources to help you move forward you need to find one who is. You must remember that while your reputation as a hauler is important, so too is the reputation of your agent to the underwriters. If they are not well respected in the industry, it will be a negative for your company even if your reputation is stellar. | **WA**

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