Buyers wince as insurance rates roar

By Tim Richard
staff writer

Prices of property and casualty insurance are roaring upward — when insurance is available.

And the consensus among "risk managers" — the business office people who buy insurance for industry and government — is that growing numbers of customers will be unable to get insurance at any price. They quote figures of 91 percent availability this year and only 75 percent next year.

"It's a seller's market," said Paul Y. Kadish, who knows the subject from two angles — as president of Associated Group Underwriters in Livonia and as a trustee of Schoolcraft College.

WHAT HAPPENED? Business magazines and local risk managers boil it down to two reasons: interest rates and big awards from juries in damage cases.

And looming over the insurance industry is the biggest international disaster story of the decade — Bhopal, India, where a toxic fumes leak from a Union Carbide plant killed thousands last December.

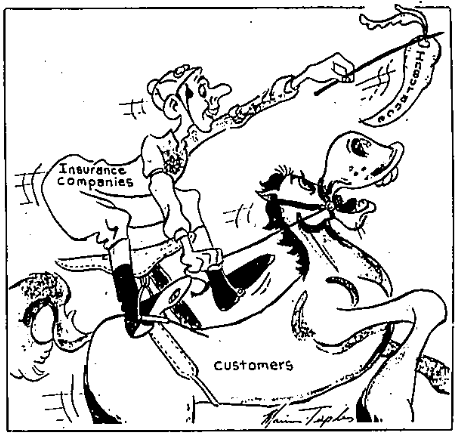
During the recession of 1979-83, interest rates were in double-digits. Insurance companies could earn comfortable profits on their investments. They didn't need to hike premiums to cover benefits, since those 18 or 20 percent interest rates brought in the revenue.

During that period, there was cutthroat competition to sell insurance — so much so that premiums sometimes failed to cover the cost of benefits. Writes Carol J. Loomis in the June 10 issue of Fortune Magazine:

"Originally, insurers cut prices to haul in premium dollars they could invest at the high interest rates that prevailed. Ultimately, they scrambled for premiums to cover the claims rolling in from the bad business they had underwritten. In that leg of the cycle, prices for commercial insurance fell in some cases by 50 percent or more."

In that context, Loomis said, a tripling of insurance premiums from such a low base isn't inflation: "The rise is no more than restorative."

WHY CAN'T insurance companies simply raise premiums to cover costs? Why are some customers being denied insurance at any price?



What they are saying about coverage

Bits and pieces of the liability insurance picture from Michigan media:

- "Citing its frustrated attempts to find an insurance firm willing to cover, this year's Floatable Boatable (contest on the Clinton River), Rochester Kiwanis Club Tuesday cancelled what had been a mainstay of the city's Memorial Weekend observance for 16 years."
  — *Rochester Eccentric, 5/23*
- Schoolcraft became first community college to join a statewide Risk Management Authority after seeing its package increase from the current $55,000 to $106,767 for less insurance.
  — *SC Comptroller A.H. Raby*
- "Large increases in the cost of insurance are forcing riding stables on Michigan state parkland to close and threatening the operation of other park concessions, officials say."
  — *Detroit Free Press, 6/23*
- "Skyrocketing insurance costs have dried up the bar and restaurants at the Park Place Hotel, one of Traverse City's oldest and most famous inns . . . after insurance costs jumped more than 200 percent."
  — *Associated Press, 7/16*
- "About 70 percent of the licensed liquor establishments in Michigan are without liquor liability insurance, according to the Michigan Licensed Beverage Association. . . . 'Premiums have increased at least 300 percent,' says Rod Brown, MLBA executive director."
  — *MLBA news release, 5/21*
- "Insurance premiums for property-damage and business-interruption insurance coverage for the Pontiac Silverdome . . . are now 15 to 18 times more expensive than they were before the March 4 roof collapse of the air-supported stadium roof."
  — *Oakland Press, 6/20*
- Half of obstetricians surveyed by a Michigan State University researcher say they will discontinue delivering babies because of high liability insurance costs.
  — *Radio news report*
- "The cost of malpractice premiums is the second highest in the (Henry Ford) hospital's budget. Only the payroll costs more. . . . 'Many people don't realize that skyrocketing malpractice insurance costs are more than just a problem for doctors and hospitals The consumer is directly affected when a large portion of their bill goes to pay out liability insurance.' "
  — *State Sen. Rudy Nichols, 7/19*

analysis

People in the business agree on the answer. State regulators generally require insurance companies to maintain a 3-1 ratio of premium revenue to reserves. Raising premiums can also raise a company's ratio to an unacceptabale 4-1 or 5-1 or 7-1.

"You reduce the business you do," explains Kadish. "It's not necessarily bad business."

One way of reducing business, Fortune reports, is to lower the limits of insurance: "High limits are also vanishing from the liability policies that cover such professionals as doctors, lawyers, accountants, engineers and architects — prime targets of litigants these days."

A blue-chip firm like Arthur Andersen & Co., biggest accounting firm in the U.S., has paid out $137 million in judgments and out-of-court settlements and faces many other suits, Fortune said.

HIGHER RISK enterprises seem likely to be cut out of insurance first.

That would explain why Michigan bar owners, liable under the Dram Shop Act for serving drinks to persons later involved in accidents, would be cut out.

Even lower-risk enterprises which hire gun-carrying security police are on the list.

And for companies which need protection against "sudden and accidental pollution" — remember Bhopal. Not only Union Carbide, but companies which haul toxic chemicals may find their coverage cut.

Also reducing the supply of insurance, according to Automotive News: "Many insurance companies have gone broke, leaving dozens of auto dealers unprotected. When Idea Mutual Insurance Co. was declared insolvent and ordered liquidated by the New York Insurance Department earlier this year, approximately 1,000 dealers were reportedly dumped onto the market."

WHAT CAN insurance buyers do?

- "Go bare." Do without insurance and cover losses from current revenues.
- *Raise deductibles*, so when you do have insurance, smaller losses are absorbed rather than passed on to the insurer.
- Quit the business — as the Park Place bar and horse stable concessionaires have done.
- Change the law. Sen. Rudy Nichols, R-Waterford, talks of changing laws on medical malpractice, the dram shop and governmental immunity. Road authorities, in particular, are asking limits on both the amount of liability and extent of their responsibility for off-road obstructions.
- Find alternative insurance devices. Townships have had their own risk management authority for several years, and community colleges have just started theirs. Banks are setting up "captive" insurance companies outside the continental U.S. to insure themselves.
- Try to cut losses. Insurance companies are waging educational campaigns against car theft and burglaries. Expect to see campaigns cautioning potential jurors against voting astronomical awards to people who file damage suits.

What happened? Business magazines and local risk managers boil it down to two reasons: interest rates and big awards from juries in damage cases.