Insurance Marketplace Newsletters
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THE IMPACT OF 9/11 ON THE INSURANCE MARKET

As consultants practicing for almost 30 years, we have been criticized by brokers, insurance underwriters, lenders and our own consulting clients for being too demanding, too nit-picking and unreasonable in our specs on behalf of those we serve.

Some examples taken from our experiences follow:

- The owners of a high-profile office tower vigorously objected to our contention that their insurable value was too low by a large margin. "After all", they said, "the entire building is not going to be destroyed by fire or any other peril."

- Underwriters questioned our absolute requirement that the so-called Law and Ordinance endorsement provide for full (not minimum) compliance with laws regulating rebuilding in force at time of reconstruction, not time of loss. (Read Homestead, Florida and Northridge, California enacting much stricter codes following Hurricane Andrew and the Northridge earthquake.) Let us see what transpires now vis-à-vis high rise construction or reconstruction in New York and probably every major city.

- When urging reporting of <u>full</u> building values, we have been chastened for increasing premium costs. Underwriters and brokers called us too demanding when seeking blanket limits or at least loss limits at a multiple of the largest value for a single location.

- Although Rental Income will indemnify for such losses during reconstruction (with the exercise of due diligence and dispatch), we often required a valued form in the event replacement was not going to occur. We urged the purchase of long Extended Period of Indemnity coverage during the lease-up once the property was restored.

- Ingress and Egress – requests for expanded coverage were mostly ignored on the grounds this was too obscure to worry about.

- War Exclusion – similar response to our request to weaken this provision to apply only to declared war by a sovereign nation, and not to terrorism.

- Several other areas ranging from the inclusion of improvements and betterments to be "deemed the property of the insured, any lease or contract to the contrary notwithstanding" to the critical valuation clause, as well as off-premises interruption of utility services.

- We were pooh-poohed for our insistence on strong insurer ratings and even ignoring ratings we felt were too high. Specific examples include Ambassador, Home and Reliance whose failure we predicted and so we had <u>no</u> clients insured with these companies for the two-three years preceding their demise; and we still have some questions concerning several Lloyds syndicates.

Our risk management suggestions relating to off-site duplicate storage practices, data and programming back-ups as well as the establishment of “hot sites” were frequently shifted to the back burner. Records retention guidelines weren’t followed.

Now, how will this disaster impact the insurance industry and those utilizing it?

- Coverages – as purists, we first seek the broadest possible enhancements available at the time. We expect these to shrink dramatically:
    - Insurable values will be subjected to intense scrutiny.
    - Blanket limits and high loss limits will virtually disappear.
    - Most of the expanded coverages will be drastically diluted.

    The Insurance Services Office (never an organization known to offer liberal coverages in its boilerplate policy forms) will, at the insistence of its members, promulgate “standard” policies which sophisticated buyers will quickly recognize as sub-standard at best.

- Failures – there will be a spike in reported failures over the trend in “normal” years; other insurers will be dead but will not acknowledge it by under-reserving for expected losses.

- Pricing – we will see immediate price jumps, as well as the imposition of higher deductibles (a practice to which we subscribe). Beyond the immediate, there is general concurrence already that the recoupment mechanism will prolong the current hard market at least into 2003.

Further, like most other aspects of life in the new millennium, the insurance marketplace will never be the same again.