How Do Historically Low Reinsurance Rates Affect Historically Low Policyholder Satisfaction?

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An article published on March 12, 2015, in the Risk Management Monitor reported on a recent worldwide policyholder survey demonstrating that insurance customer satisfaction with claims management is at an all-time low. At the same time, reinsurance rates are also being reported as the lowest in many years, contributing to the continuing "soft" market. A "soft" market is typically good for policyholders who are buying or renewing insurance programs, so why the worldwide, pervasive dissatisfaction? When reinsurance rates are low due to the historically high capacity in London, Bermuda and elsewhere, the cost of doing a primary and excess insurance business remains much lower than average.

No major named hurricanes hit the U.S. in 2014. These factors contribute to the "softness" in the market and strong competition among insurers for customers' premium dollars. The cost of insurance is at an all-time low. So how do insurers make profits for their shareholders in this environment? There are essentially three ways for an insurance company to profit:

1. Investment earnings
2. Underwriting Gains
3. Denying claims

Of course, as to (1), insurers are strictly regulated regarding their investment portfolios, so they have not been able to enjoy as big a ride on the current stock market boom as others. (2) Achieving underwriting gains—profits made by insuring customers who don't have paid losses—is a difficult proposition for any underwriting/marketing department, having to "guess" which insureds won't have claims. Particularly in the current litigation environment. So that leaves one other option: (3) Deny claims, which we are seeing at an astounding rate in our practice. Legitimate claims are being nickel-and-dimed, or denied outright.

Recently, a major P&C insurer's underwriting witness testified (truthfully) that his CEO expects to return "double-digit investment results" for its shareholders, and this was his motivating factor. This puts the burden on the claims department to take increasingly aggressive coverage positions to keep premium dollars in the bank instead of paid to their insureds. So the historically low reinsurance rates (which are good for primary and excess insurers' cost of doing business) are making the policyholders' satisfaction ratings drop. Insureds are not getting what they bargained for, and are frequently turning to coverage counsel for advice and in many cases, litigation. Tough times lead to tough decisions, and the policyholder customers appear to be getting the short end of that stick, based upon the responses to the recent international survey.

An alternative approach insurers could take in this difficult environment would be to pay claims at or close to value, and to see the "coverage glass as half full" in favor of their policyholders when there are coverage questions. This

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would likely lead to greater policyholder satisfaction and resulting increased customer retention. Insurers could maintain a greater market share in the soft market, while awaiting the eventual hardening which will come in this highly cyclical business. Paying a little more now in defense/indemnity might reap greater rewards for insurers who could increase retention, grab greater market share, and make do with smaller underwriting/marketing budgets until the insurance market turns. Unfortunately, few insurers seem to take this path. In light of the pressure on insurers to turn the claims department into a source for balance sheet improvements by denying claims, insureds should think about their options to pursue the coverage that they purchased.

Whenever a policyholder receives a denial of coverage in this climate, we recommend that the insurer's decision should be reviewed by competent coverage counsel. Brokers are often not attuned to the nuances of the case law and potential arguments that counsel can make to either undo the denial or at least obtain some assistance with defense of liability claims. If the claim involves a first-party property type of loss, then outside policyholder-side property adjusters can help with a "second look" to determine whether the denial should stand. You paid for the coverage, and carriers play the odds that most insureds will simply "go away" in the face of a strongly worded denial. Having an experienced set of eyes reviewing the basis for denial can often lead to coverage and/or a defense.