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Cover Story

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Unique Coverages, A Hard Market Look at How Programs Are Meeting Needs of Challenging Risks

By Bill Roof

Underwriting tough risks can be particularly troublesome in a hardening market. Where do you turn when rates skyrocket, exclusions multiply or worse, when carriers begin to shut their doors to classes that no longer promise profitability?

One option to explore may lie in the nebulous field of insurance programs, those hard-to-define coverages that often have a strong appeal because they provide a single source for multiple protection and because of the expertise of those who manage the coverages.

Programs, as a form of coverage, almost defies definition. Little consensus apparently exists, although a working definition could be "a group of coverages designed specifically for a given type of risk."

Mary Jefferson, vice president of corporate marketing at Victor O. Shinnerer & Co., would add "and a given type of industry" to that definition. And Ginny Kloepping at Relmark Program Managers suggests "a niche within a given class of business," as a definition.

Despite the lack of a widely accepted and precise definition, a program generally combines traditional coverages with specially tailored protection to meet the unique needs of a select class or industry. A good example of what a program is can be found in that offered architects and engineers by Shinnerer. Shinnerer has firmly established a national reputation as program administrator for architects and engineers, among a host of other programs it offers. It has been managing A&E programs for nearly 45 years and is one of the first companies to offer programs. In fact the A&E program may be the oldest still offered in the country.

Shinnerer's DesignOne Program provides property, casualty and professional liability coverage for architects, engineers, surveyors, landscape architects and other specialty consultants in the design profession. Among the enticements of programs is a feature found in the DesignOne program where customers are entitled to share in any professional liability underwriting profits over 3 percent. Furthermore, a safety dividend program, which is available, is based on results of design professionals only and not a wide range of businesses which could skew the results.

Coverage typically includes property, commercial general liability, umbrella, commercial automobile, workers compensation, project management protective liability (PMPL), professional liability and employment practices liability. The annual minimum premium for most states is $500 for property and casualty; $260 for umbrella and $1,250 for professional.

Where programs begin to reach real efficiencies of precision is in their specially tailored features. For instance DesignOne offers coverage for exposures unique to the design industry. Examples are design-based computer equipment, valuable papers and other media, accounts receivable, blanket additional insured, etc. The tailoring also leads to the complexities of programs.

Programs Are Complex

While most players in the distribution channel welcome the convenience and efficiency of single source protection, there is another side where the business of programs becomes much more complex and demanding. Program managers must be in a position to offer the insured a superior level of expertise in the insured's field. This requires not only a clear depth of knowledge and experience, but also a carefully and thoroughly designed supplemental application created for a specific class or class niche. Underwriters must have access to the full range of information which allows them to profile proposed insureds.

Relmark Program Managers, for instance, recognizes that as a leading administrator of programs for fire sprinkler contractors, it must require very specific information about the risks and exposures of such contractors and have the expertise to understand the nuances of the field. The program was created to cover typical operations including design, fabrication, installation, service, repair, testing and inspection of water-based systems.

In addition to traditional application procedures, submissions commonly will include a supplemental application plus ACORD applications and typically a loss run extending back four years with detailed losses over a certain limit explained.

Relmark's program offers such coverage as property—real and personal, business income coverages, crime, inland marine, general liability, auto—liability and physical damage, excess, and workers compensation in some states.

It has no minimum premium for the program but does require certain minimum deductibles. Limits can range from $5 million for excess liability to $5,000 for medical expenses.

Relmark's Kloepping believes the program is successful in part because the company gets right into the trenches along with the potential insured to evaluate just what the situation is and what the exposures to risk are.

"It allows us to fine tune a coverage and to respond to a client's needs or an industry's needs in a more precise, specific manner," said Kloepping. "The alternative is general commercial coverage which is often not priced for the exposure or offered with inadequate coverage."

As is frequently the case elsewhere, the program administrator at Relmark often has full underwriting authority or can at least perform preliminary underwriting. She said that carriers often rely on agents that have developed expertise with certain classes of business to help develop underwriting guidelines. "Those agents in turn rely on their partner company's expertise in sound underwriting guidelines and loss control and cost containment."

Programs continue to be successful vehicles for handling risk even though they tend to get hit first in a hardening market, Kloepping and Jefferson agree. Marie Solomon, managing director of Industry and Specialty Programs at Shinnerer, agrees also, but offers a caution. "Programs are sensitive to market cycles but they tend to be slow to firm up and we're not sure why."

Where Programs Are Heading

While programs have been around since the mid-Fifties if not earlier, the current trend suggests that programs are seeing some consolidation. Solomon believes several programs are not generating the profit carriers want to see. "We see that carriers are shying away from programs generally," she indicated.

Kloepping reports that some carriers have gotten out of the program business, "but we don't know why." She said it may be that programs usually cater to tough classes. CNA has stepped away from some programs as has Fireman's Fund.

Relmark's sprinkler program was with The Hartford but is now moving to ACE. "The Hartford closed several programs and offered to move others into new divisions. For instance they wanted to move the sprinkler program to a construction division and we did not feel this would result in the best fit," explained Kloepping. "The result is that we are moving to ACE." Relmark's childcare program is also now with ACE.

With right pricing, programs make sense for most carriers, believes Kloepping. "The agent or broker helps the underwriter understand the specifics of the risk and that commonly leads to correct pricing." Relmark does most of the underwriting for its programs, she indicted.

Solomon and Jefferson feel that programs are in no danger of disappearing anytime soon. "They will continue because specific classes of business and specific industries will need the careful management that programs offer," said Jefferson. And they agree that sometimes tough classes don't have a lot of options.

All agreed that there is only slight pressure to develop new programs. For one thing most programs require up to a year or more to develop. Solomon said some programs come together in as little as three months, "but that is the exception." And often those who are making the proposal do not have the required expertise to evaluate the risk properly.

A good idea for a program is just the beginning. Once a class or niche has been identified, there is a long period of research that begins. Jefferson said Shinnerer would need to examine market size, need, potential clients, special coverages that may be required, forms, terms, rates and the entire issue of filings. "And that's just the start."

Relmark's Kloepping said the review process at her company normally takes about a year just to get to the approval stage. "And then there is the whole review process at the approval stage, so it is no easy task to get a new program implemented."

The two main requirements for introducing a new program idea is one, there has to be a real need that is not being met by standard or non-standard markets, and two, the class or niche has to be big enough. If there are no economies of scale, there will likely be no new program.

Kloepping adds that a proposal for a new program must also include a sound analysis of loss experience for the class. Most carriers are looking for an existing book in the $5 to 10 million range before they will even consider undertaking a new program. "These involve tough classes and no carrier is willing to underwrite where there is no promise of profit," she said.

Both Relmark and Shinnerer are asked to consider a number of programs proposed by agents and brokers and each welcomes the requests, yet cautions that the requirements can be strenuous.