

**T**he perfect combination of events promises to make the procurement of business insurance for restoration contractors more difficult and expensive in the near future.

Two large insurance companies that have specialized in insuring restoration contractors for years are refusing to renew their current customers in 2011. We are already seeing quotes in some states with 100% premium increases on restoration firms with no losses.

In a particularly onerous sign for the restoration industry, this market constriction is going on at a time when the overall insurance marketplace has a record glut of capacity and rates are still falling in other business sectors. In fact, we still see rates falling as new entrants to the restoration insurance market naively cut prices, seek-

ing market penetration. Their prices are clearly unsustainable. When the overall insurance industry hardens, restoration contractors will be in for a particularly wild ride on insurance availability and cost.

Some well-planned defensive actions in your insurance program now will save you a lot of time and money in the future. The inability to procure liability insurance will put a contractor out of business a lot faster than a claim will. The inability to find affordable insurance is definitely in the cards for some firms who are unprepared for the coming changes.

What you need to do now to avoid being caught in the storm:

1. Make sure your insurance is specifically designed for a restoration contractor.
2. Place your business insurance with a strong insurance company committed

ages threshold.

- The economy was bad, so more people needed to find alternative sources of cash; a settlement from a contractor for alleged harm was and is a good way to get cash.
- The number of insurance companies offering liability policies to restoration contractors doubled over the past four years, setting off a “gas war” pricing mentality on premiums.
- Premium increases for liability insurance of between 30% and 50% are needed to reach premium/loss equilibrium, and naive competition in the insurance markets prevents that from occurring.
- Master Service Agreements with insurance companies who write mostly homeowners insurance exposed the contractors to more liability (claims)

## A Perfect Insurance Storm is Brewing: Brace for a Wild Ride



By David J. Dybdahl



to insuring restoration contractors.

3. Carefully evaluate your potential insurance vendors for their ability to weather the storm and guide you through it.

If you have a separate General Liability insurance policy that is not connected to a CPL policy, or if you do not have a CPL policy, you are probably in trouble. If you do not know what a CPL policy is, you are in *real* trouble.

### Where Is This Coming From?

After a six-year run of good results, 2010 was an extremely bad year for some of the leading insurance companies specializing in insuring restoration contractors. What changed? Among other things:

- Plaintiff's lawyers started working on cases with a \$50,000 damage threshold; in past years lawyers would look for cases above the \$100,000 minimum dam-

due to the expanded indemnity provisions in these contracts.

Recently, two long-term market leaders in restoration contractor insurance products have decided not to offer renewals to current customers. Non-renewal of policies is a seldom-used strategy that insurance companies use to purge unprofitable business when it is perceived by the professional risk takers that premium increases alone will not solve fundamental problems with risks to be insured.

The bottom line is the experienced market leaders are getting out of the sector and that can only mean trouble for the restoration business. **R•R**

**Editor's Note:** To hear more of what Dave has to say about the pending “perfect storm”, go to Dave's article on page 28 of *R&R LIVE*, *R&R's* digital edition, and click on the audio icon to “Listen Now!”

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