



Protecting Manufacturing Businesses Amidst Insurance Market Instability

The world has been unstable since COVID-19 hit. We are experiencing a low supply of products, increased debt, massive inflation, sky-high interest rates, multiple wars, and heightened global security threats. Throw into the mix climate change perpetuating annually with warmer seas, the most expensive natural disasters of all time (Hurricane Ian and the Dixie and August Complex fires), and a besieged cyber market where attacks grow in sophistication and scale weekly, and we have a rock-hard insurance market globally.

A hard market is a volatile time when premiums increase due to insurers paying catastrophic claims in prior years and needing to make up for their losses. With less money to insure, carriers become much more selective in which companies they choose to write policies for. Because insurance is a national and international risk pool, businesses in Minnesota and Utah's premiums rise due to unrelated businesses' claims in California and Florida.

According to the *Insurance Journal*, the first quarter of 2023 marked the 22nd consecutive quarter of overall premium increases, and hard market conditions are surely expected to continue well into the future.

Manufacturers must proactively implement and maintain risk management strategies that help them ease the need for insurance and save money. In this article, we will explore some property risks that will be important to protect your manufacturing business against in today's hard market. We will also discuss tangible strategies to combat risk, gain favorable rates, and foster resilience in an ever-changing market landscape.

Sprinkler Systems

From a property standpoint, robust sprinkler systems are a very important consideration for manufacturing businesses. A building's sprinkler system should be designed based on what is manufactured and stored on the premises. For example, a facility manufacturing, assembling, storing, and shipping out a product made from metal has a relatively low risk of fire. However, a facility working with plastics that melt and burn in a way that is very difficult to extinguish and quickly spreads requires an expensive, robust, and heavy-duty sprinkler system.

It is prudent to test your sprinkler system, ensure it is up to code, and have professionals survey it to ensure it will suffice for your business operations. Professionally surveying all of your buildings' mechanical systems ahead of the winter, including your boiler, refrigeration, and heat pump systems, is a best practice. Being proactive about these risks will improve your business's overall risk profile and likely lead to more favorable rates from insurers.



Water Damage

Any business is at risk for water damage, especially in the winter, when snowstorms frequently occur and temperatures plunge. 15% of all small business property and liability claims result from water and freezing damage, as reported by The Hartford. Water damage can also cause mold or bacteria to develop in your facility, thus contaminating products and putting your employees' health at risk.

In order to protect against the risk of water damage, having a water response plan to minimize damage to the building is crucial. Working with an experienced risk control manager on water damage prevention methods and having a professional assess your building's pipes, walls, and water heaters is also essential. Whether the water comes from overflowing downspouts from the roof, a flood, or frozen pipes that burst, having regular maintenance practices in place can help mitigate water-borne claims. Hiring a qualified contractor to repair cracks or holes in your building's exterior, keeping the temperature inside your building consistent, preventing pressure buildup in pipes when cold temperatures are predicted, obtaining backup power in case of a power outage caused by a winter storm, and ensuring your roof can survive a winter storm are all great ways to protect your business against water damage and improve your risk in the eyes of insurers.



Conclusion

Property insurance rates are increasing quickly, affecting businesses in every arena. A business with no claims could see a 9% to 20% uptick, while we've been seeing well over 20% increases at renewal for accounts with claims history. A business will be looking at much smaller increases if insurers can easily determine that a business has excellent controls in place.

Here are some general strategies to keep in mind to help your business continue to navigate this hard market:

- + Expand your risk management strategies far beyond purchasing insurance policies; plan ahead, strategize, and implement safety measures, which in turn will show the carriers you are a responsible risk, earning you the lowest premiums available.
- + Hire a dedicated risk manager to ensure your business is best equipped to weather any storms and has the infrastructure, intuitiveness, and nimbleness to continue to evolve and stay ahead of the curve. Also, make sure your business income and extra expense is at an appropriate limit.
- + A business may not be able to make every change today. Plan for what you can do this year, and budget time and resources for larger projects that may require you to shut down operations and build-out.

The intricacies of the current marketplace require the highest level of brokering expertise to unlock capacity. Insurance, in a sense, is a mirror to the world. When things are well, such as the economy, stock market, international relations, environment, and inflation levels, then insurance rates are lower; insurance companies have more money (or capacity) and are willing to write cheaper policies and riskier policies to compete with other carriers, which is what we call a soft market. We hope to get back there someday soon.

Contact an experienced insurance broker for more information on how your business can continue to navigate today's property market.



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