Ross & Yerger Insurance, Inc.

Ross & Yerger
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Cost Reduction in a Hard Insurnace Market: MSA Risk Management

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The "Hard" Insurance Market

In the last few issues we discussed the coming "hard" insurance market and the separation of insurance costs that will exist between Oilfield Service Companies that, through their insurance agents, aggressively manage MSA risk and those that don't. Now that the January 1st renewal cycle is upon us, we can honestly say the hard market is no longer "coming"; it's here!!

To those of us who follow the insurance industry, the hard market, while never welcome, comes as no surprise. The insurance market is currently priced at about 90% of its break-even level. In other words, it costs the insurance market $1.00 for every $.90 in premium it takes in. It is not possible for the insurance market to remain solvent over the long term and lose money at the same time.

Therefore, prices must increase if carriers are to remain financially strong in the future (ie, the "hard market"). But who will bear the brunt of the price increases? The answer is simple; those insureds that pose the greater risk for insurance companies. The challenge, then, for Oilfield Service Companies is to differentiate themselves from poorer performers in the industry.

Underwriters use past performance as an indication of future performance (meaning loss histories) when pricing accounts. In addition, they use industry trends and probabilities to justify rate increases for companies with solid loss track records. One way to "rob" underwriters of their ability to justify price increases is to demand your insurance agent aggressively review and negotiate the indemnification provisions of your MSAs.

Success Story

We have a client that is increasing its offshore and international presence. The increased exposure prompted us to seek specialty coverage from the insurance market to cover the increased exposure properly. We are thrilled to report that we were able to obtain pricing on the Property & Equipment lines of coverage that was 1/3rd the rates typically charged by this particular insurance company. The reason? Simple. Ross & Yerger has been negotiating this client's MSAs for years. As the result of the drastically reduced risk that we were able to demonstrate to the underwriters via altered MSAs, the underwriters became so impressed they slashed their rates.

The logic is simple – if your agent reduces risk contractually, underwriters can't justify the same level of premium cost.

No Cost Service

You already pay a tremendous amount of money for your commercial insurance. Your agent generally receives between 10% and 12% of that premium in the form of commissions. That is a large commission!!

Our view is that you already pay for MSA Management Services (among others), but the problem is you probably are not receiving them. Ross & Yerger provides this service to its Oilfield Service Company clients at ***no additional cost***. You pay too much already and now your cost will increase again. Demand more from your agent.

No-Obligation Review

Please contact us for a no-obligation review of your risk management program. We'll review your MSAs and insurance coverage and make cost-saving recommendations accordingly. As we enter the current hard market cycle, we challenge you to expect more from your insurance agent.

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