Supporting clients in a changing market

How you can deliver value to clients in a changing market environment.

Overall, the global insurance market is hardening, with global commercial insurance prices rising on average 19% in the second quarter of 2020.[1] Rate increases are now seen across most lines of business and in most geographies around the world.

As a result of these market changes, the renewal process is likely to be more challenging. Carriers may be more assertive in denying policy term extensions, paring back cover and limits, applying exclusions, and scrutinising claims more stringently.

Although each situation is unique, consider adopting the following steps with clients:

1 Manage expectations.

Approach clients early in the renewal and negotiation process, and anticipate that more detailed underwriting information may be required. Communication is vital — inform your clients of emerging market trends that could impact their placement. Clients may view additional information requests as time-consuming and unnecessary. Don't be afraid to push back on carrier requests that are unreasonable, but work with your clients to help them understand the nature of the requests. Don't wait for the normal renewal cycle or strategy meetings to update your client — regularly communicate to keep them informed.

2 Understand your client's issues, needs, and priorities.

Knowledge of your client's culture, mission, business, and industry segment is vital. Take steps to understand what has happened with the client previously — for example, trends for the past quarters' renewals and stipulations made by insurance providers including risk controls. Work with your client to understand their priorities. It is essential to understand the areas your client cannot give up and where they can be more flexible.

[1] "Global Insurance Prices Rise for Eleventh Consecutive Quarter," Marsh Insights (August 2020), online: https://www.marsh.com/us/insights/research/global-insurance-market-index-q2-2020.html

3 Deliver messages accurately and with confidence.

Provide frequent insurance market intelligence, using credible data sources. During a hardening market, benchmarking can often lag. Contact your underwriter to discuss up-to-date market information that can help explain nuances and demonstrate their expertise. It is critical you provide clients with fact-based information.

4 Do not oversell negative developments.

Provide measured and accurate guidance on positive, alternative solutions in addition to challenges, including: alternative program structures and/or reducing limits purchased, increased use of deductibles, improved risk management, etc. Ensure you do not only focus on price but also provide clients with a full explanation of sublimits, exclusionary language, etc. Be transparent with clients to seek out carriers with a clear hardening market strategy.

5 Give balanced advice, be wary of providing premature assurances, and inform clients of changes in conditions.

Only give clients definitive statements that cover (or terms) can be obtained once a firm quote is acquired. Beware of indicative terms offered by carriers including subjectivities, as these cannot be relied on. Inform your clients of any clauses and exclusions applied to their cover.

6 Involve clients to advance their interests in the market.

Personalise the process. Organising meetings between a client's senior management and key insurer executives can help to differentiate clients. This will also help clients understand concerns and provide carriers the opportunity to explain why their combined ratio means they cannot offer the same limits or how predictive modeling changes may affect premiums and capacity.

7 It is important to review claims.

Claims provide lessons learned. It is important to describe to insurance providers the lessons that have been learned from these claims and how clients have changed their operation and processes to deal with the particular issue that took place and prevent reoccurrence.

8 Discuss and evaluate marketing differentiators with clients.

Discuss and evaluate risk control, operations, supply chain management— and other salient features of your client's business. Also emphasize the strong relationship developed between your client and a carrier over the years, including your client's continued support of carrier participation on longstanding insurance programs.

Frequently asked questions from policyholders

Q: What is a hard market and what can I expect?

A: A hard market is characterised by higher prices for insurance driven by decreased access to capital for insurance companies and stricter guidelines for insurance policies.

Due to lower investment returns, frequent or more severe losses, and other economic influences, investors may see insurance as a less desirable investment, making less capital available in the insurance market. This makes pricing increase as the cost of capital rises.

In hard market conditions, insurance companies often adhere to stricter standards. As a result:

- insurance rates and premium often rise
- the amount of capital investors are willing to provide decreases
- the number of insurance providers in the market decreases (less supply)
- cover restrictions or exclusions are more likely
- insurance companies may non-renew policies that are less favorable
- the insurer may require more information for your policy.

Q: What causes a hard market?

A: A string of natural disasters and the residual effects of the economic downturn have been the main causes for changes in the insurance cycle from soft to hard market conditions. Commons causes include:

Catastrophic losses: Floods, hurricanes, wildfires and similar disasters are increasingly common and devastating. Years of costly disasters like these have compounded losses for insurers, driving up the cost of insurance.

Claims costs: Claims are increasing in both frequency and severity year over year. The increase in payouts, including adjustment expenses, significantly raises the cost of a claim, and drives up the cost of insurance premiums.

Underwriting standards: Insurers are struggling to overcome underwriting losses, which has made insurance companies and investors more cautious, and many are becoming more conservative in the risks they will insure.

Investment returns: Nearly every insurance provider uses the funds it receives from premiums to invest in other markets. However, reduced interest rates can negatively impact profitability, which pushes insurance companies to reduce their appetite for risk.

Reinsurance: Reinsurance is insurance cover for insurance companies. Insurance providers often buy reinsurance for risks they can't or don't wish to retain fully. However, reinsurance is becoming more expensive to obtain, which is causing insurance providers to increase their rates.

Specifically for 2020, headwinds of a hard market shift were well underway prior to COVID-19 and the economic volatility associated with it. Rising catastrophic claims and lower than normal rates started the trend towards a hard market in 2019.

Q: How long does a hard market last?

A: There is no magic calendar, however once insurance companies begin to see improved margins (due to higher premiums and/or lower losses), investment income improves and investors start seeing similar positive results; therefore, insurance once again starts looking like a stronger investment, which attracts more capital. As the capital supply starts to catch up with the demand, pricing and restrictions loosen.

Q: Why is my premium going up when I have had no claims?

A: The primary reason is that insurance carriers are incurring more claims and expenses on an overall basis, and perhaps more than they are earning from premiums. An increase in losses and claims drive the need for increased pricing across the board for insurance providers.

Q: If my costs are going up, should I buy less insurance?

A: Some clients have taken that option, but you may need to check on other requirements, such as bank financing covenants, contractual requirements with clients and suppliers, and local regulations on what insurance protection is required for you and your business. While reducing insurance cover may be an alternative, you should evaluate that against what losses you can absorb without creating financial hardship for yourself/your business.

Q: My primary concern is my costs/budget. How can I mitigate rising rates?

A: Although budgets may well be challenged by increasing premiums, it is important not to lose sight of the big picture: saving a relatively modest amount now by reducing cover may negatively affect your business far more should a loss occur. Continue assessing your risk profile and link the purchase of insurance to it. Also, review your policies for the sums insured, and for cover limits, to ensure your business or property is appropriately protected should a claim event occur.

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