

What does a hard insurance market mean for your renewal?



Guest editorial
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To insurance industry professionals, a changing marketplace is somewhat of a science. To insurance consumers, it can either be a pleasant experience or a time of uncertainty and stress. For example, when the market goes from hard to soft, consumer premiums are steadily reduced from renewal to renewal. When it's the other way around,

premiums increase — sometimes steadily and slowly, other times sharply and suddenly. This can happen regardless of a company's favorable loss history. Frustration abounds in this environment, and suddenly the strong insurance relationship is replaced with questions on the agent's level of expertise or even a wandering eye to another agent with promises of lesser premiums.

Which environment are we in at the moment? You guessed it...the latter. Analysts and insurance industry experts are warning of an impending move from the soft level we've enjoyed for several years toward a hard market. So, let's take a closer look at what this means for the work truck industry, especially since even in a soft market, finding necessary insurance products can be difficult.

A hard market has many characteristics you might expect, such as premium increases. As with any other market fluctuation (e.g., gasoline prices), one carrier begins raising premiums slightly. Other insurance carriers

can compete in the short term because their prices are lower, but eventually, they jump on the rate-increasing bandwagon. And that's where it begins — prices drive themselves up. There are many financial reasons for this to start, including insurance companies' investment profit versus underwriting profit. But at the end of the day, pricing is a mechanism that drives itself.

Another characteristic is underwriting criteria. In a hard market, underwriters demand more information from representative agents on prospective insureds. Just the opposite of a soft market where underwriting can be relaxed, a hard-market underwriter will ask many more questions about potential risk. This could be anywhere from requesting details on building structure and protection (sprinkler capacity, etc.) to requiring copies of financials or even resumés of principals.

This leads into what type of risk an insurance company wants to write in general — the diminishing appetite of insurance companies during

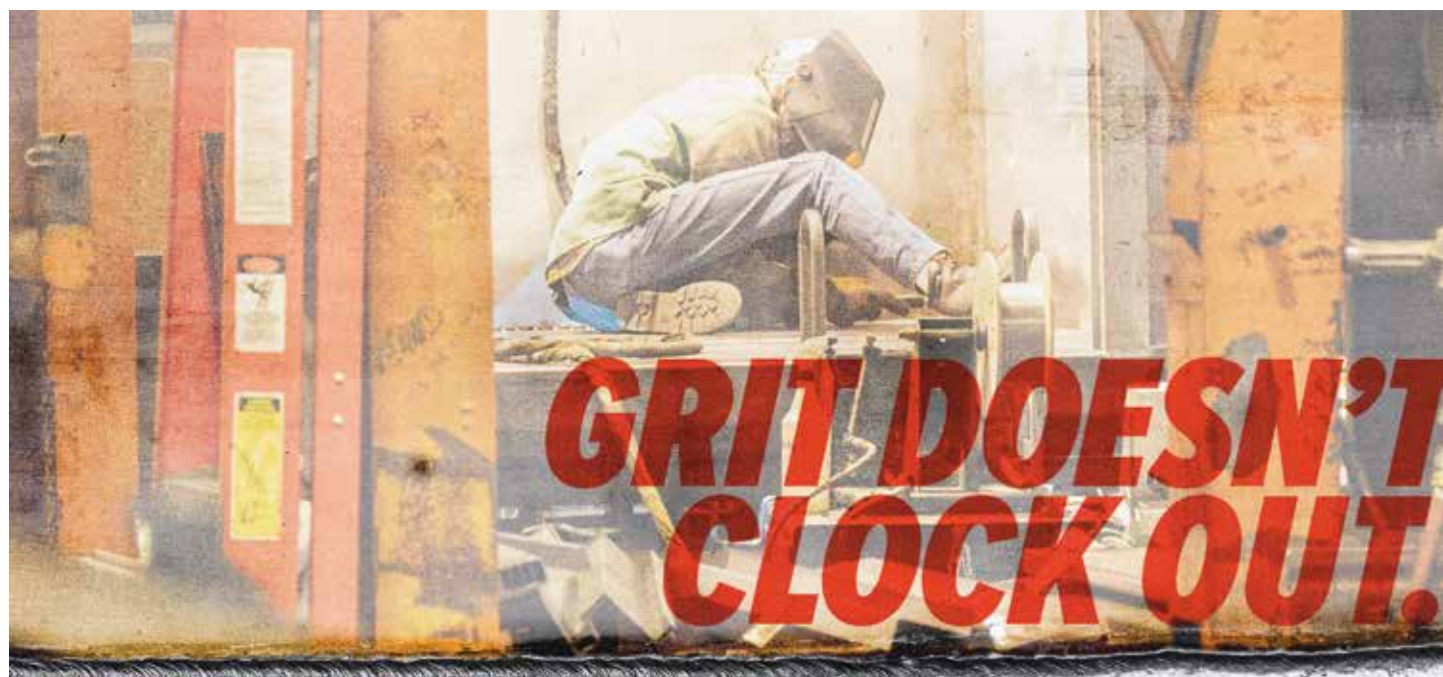
a hard market can drive consumers from admitted to non-admitted agencies. An admitted insurance company is licensed in your state, meaning they must file rates with your state's insurance regulatory body, are subject to your state's insurance code (law) and their insureds are protected by the state Insurance Guarantee Fund. A non-admitted company is the opposite. In a hard market, what frequently drives consumers to a non-admitted company is appetite for risk. A non-admitted insurer is typically more willing to entertain a riskier type of client. The downside is, although they may be willing to swoop in and write the risk their more conservative counterparts won't, a non-admitted insurance company will probably be priced much higher.

So, what does this mean for you as a consumer? What can you do as we move closer to a hardening insurance marketplace? Relationship, relationship, relationship. We've all heard this before, and it's

even become a cliché sales pitch. But, in a hard market, it's paramount.

Develop a relationship with an agent you trust; has expertise in your industry and with your risk in particular; and has access to different insurance company avenues — both admitted and non-admitted. Finding an insurance company stable enough to stand by you is just as important as your agent relationship. As we transition to the hard market, this partnership will be important. If you are properly represented by your agent, then your insurer will have a good feel for your operations, experience your losses alongside you and be more apt to weather the storm with you through the changing marketplace.

As with almost everything in the world of commerce, the insurance industry is cyclical. There will surely be a soft market once again at the end of this hard cycle. While timing can't be predicted, with the proper tools and preparation, you can come out of this with less stress and frustration. The ultimate goal between agent and client is to make any transition, no matter how difficult, as seamless as possible. If you feel your current agent relationship doesn't have the characteristics discussed here, it's an essential time to find one that does.



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