

What does this hard insurance market mean for your renewal?



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A changing marketplace is something of a science to insurance industry professionals. But 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, consumers see premiums reduced or remaining flat from renewal to renewal. Conversely, when the market moves from soft to hard, consumers see premiums increasing — sometimes steadily and slowly and other times quite sharply and suddenly. (A hard market also brings more strict underwriting practices.) This can be regardless of their particular company's favorable loss history. Frustration levels abound in this environment and suddenly the strong insurance relationship is replaced with questions about their agent's level of expertise and even sometimes a wandering eye to another agent with promises of lesser premiums.

Which environment — soft or hard — 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 market we've enjoyed for several years toward the hard market. So, let's take a closer look at what this means to the commercial

vehicle 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 increased premiums. Just as with any other market fluctuation (we've seen this example in gasoline prices), one carrier begins to increase premiums slightly. The other insurance carriers can compete in the short term because their prices are lower, but eventually, they also jump on the rate-increasing bandwagon because they see they're perhaps leaving rates on the table compared to their competitors. 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 their representative agents about prospective insureds. As opposed to a soft market where underwriting can be quite relaxed, a hard market underwriter will ask more questions about their potential risk.

This could include requiring details about the building structure and its protection (sprinkler capacity, etc.) to requiring copies of the financials or even resumé's of the principals.

This carries right into what kind 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 insurance companies.

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 precisely the opposite. In the hard market, what frequently drives consumers to the non-admitted firm is that company's appetite for risk. The non-admitted insurer typically has more willingness to entertain the riskier type of client. The downside is, although they may be willing to swoop in and write the risk their more conservative counterparts don't want, the non-admitted insurance company will likely 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. I know we've all heard this before — and it's even become a cliché sales pitch — but, in the hard market, it's paramount. You should develop a relationship with an agent you trust, has

expertise in your industry and with your risk in particular, and has access to many different insurance company avenues — both admitted and non-admitted. Finding an insurance company that's 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 of utmost importance. If you are properly represented by your agent, then your insurer will have a good feel for your operations, will experience losses alongside you and will be more apt to weather the storm with you through the changing marketplace.

As is most everything in the world of commerce, the insurance industry is cyclical. So, we know there will surely be a soft market once again at the end of this hard market cycle. We cannot yet predict when this will occur, but with the proper tools and preparation, we can all come out of this with less stress and frustration. The ultimate goal between agent and client is to make any transition, even a difficult one, as seamless as possible. If you feel as though your current agent relationship doesn't have the characteristics discussed here, this is the essential time to seek one who does.

JD Fulwiler & Co. Insurance developed the Work Truck Total Protect program to provide the industry with underwriting, risk assessment and loss prevention services. JD Fulwiler will shop among many top insurance carriers with which it does business to find a coverage solution that best meets your needs. Learn more at ntea.com/partnerships.

