# Proactive Strategies for Navigating a Hard Insurance Market

In the insurance industry, the term **"hard market"** describes the market cycle, when premiums increase, coverage and capacity for many types of insurance decreases. A hard market can be caused by a number of factors, including

- falling investment returns for insurers,
- increases in frequency or severity of losses,
- and regulatory intervention deemed to be against the interests of insurers

**IRMI Research Analysts** have been tracking the ebbs and flows of the market cycle for more than 30 years. What are the trends?

We had an extremely hard market in the mid-1980s that moderated into an extended soft market in 1987 that lasted to 2000 and then turned to a full-fledged hard market following the terrorist attack in September 2001. Improved insurance results and  financial performance resulted in a return to a soft market in 2004 that bottomed out in 2013 and remained relatively stable through 2018. In 2019, we entered the current hard market, and it is the toughest market buyers have seen since the mid-1980s.

As you can see, for the past 3 decades, the industry has experienced extended soft markets lasting roughly 10 years followed by hard markets with durations of about 3 years. If this cycle holds true, the market should begin to soften sometime in 2022 or 2023. Only time will tell when it will actually occur.

In the September 2021 issue of ***The Risk Report***, we reported that, while brokers do see signs that price increases are beginning to level off for some lines of insurance and customer segments, the global market continues to harden for most lines and regions. Our message to risk managers is that 2022 will present another challenging renewal cycle and you should be investing in your risk management programs.

**IRMI** has compiled a checklist of 16 proactive strategies you can put into action to help mitigate the effects of a hard market. Implement these best practices at your company—or share them with your clients—to present your organization to insurers in the most favorable light possible, and anticipate and plan for possible setbacks in coverage terms, limits, deductibles, and pricing.

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# HARD MARKET CHECKLIST

- Provide underwriters with information about efforts to control the exposure to COVID-19 in the workplace.
- If you have an excellent safety and loss control program, document it succinctly and clearly for your underwriter. If you don't, get to work and consider investments in technologies that improve safety and limit claims! Not familiar with InsurTech? Give this podcast a listen, as it applies to many industries, not just construction.
- Review your claims information to assure that it is correct and current. Close claims that can be closed and reduce reserves on open claims that are justified. Pay particular attention to reserves on open claims—review any with adjusters that appear questionable. If there has been substantial development on open claims during the past 12 months, consider commissioning a claims audit. If there have been frequency or severity problems, take steps to address them (and document what you have done to prevent the reoccurrence of them).
- Create an update to share with underwriters of the loss control/safety programs, highlighting any new training protocols or equipment that has been purchased. This will demonstrate a meaningful commitment to safety.
- Analyze your risk concentrations by location, and be prepared to show underwriters' plans for dealing with COVID-19-related changes, catastrophic events, and rioting that can affect significant locations.
- Begin the renewal process early—many insurers have new applications, so request information at least 5 months before the anniversary date.
- Prepare a high-quality, thorough underwriting submission. Include a great deal of detail, using it to distinguish your account from others—be sure to document and highlight new risk training protocols or technology.
- Make sure to place your business with an insurer that seems committed to your industry and your account. Consider keeping certain lines together when it makes sense.
- Analyze your risk retention capability and prepare to assume higher deductibles; move into a loss-sensitive insurance program, or accept more risk. Higher retentions will mean higher collateral requirements from insurers—determine how to meet them.
- Explore the feasibility of using captive or parametric insurance to cover your exposures.
- Determine the absolute minimum limits of liability acceptable for your organization if a reduction of limits becomes necessary due to a lack of capacity or unacceptable pricing.
- Review property insurance values to ensure that they would be adequate even if the insurer insists on scheduled per-location limits.
- Meet with underwriters to review your company's risk management program, financial position, and business plans for the coming year. Make sure your Internet presence and marketing align with your stated exposures.
- Proactively demonstrate the reliability of your company's financial statements to underwriters, particularly D&O underwriters. Consider involving your CFO in these discussions.
- Carefully review the financial position of your insurers to assure that they will be around when you need them. At a minimum, review the 3-year trends in A.M. Best's and S&P's ratings.
- Prepare senior management for higher premiums and deductibles; they don't like surprises.

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