

How to Talk to Clients about a Hard Market

You already know that talking about insurance is not a client's favorite thing to do. Most clients do not understand insurance policy language and, in particular, don't understand why their premiums are increasing when they haven't had any claims. The depth of today's adverse conditions that create this hard market may not be clear to your insureds.

The term "hard market" doesn't mean much to policyholders. So, explain in simple terms why premiums continue to rise and what steps you can take to secure adequate coverage for their exposures.

The Insurance Information Institute offers an easy-to-understand description of insurance market cycles.

“The property/casualty insurance industry cycle is characterized by periods of soft market conditions, in which premium rates are stable or falling and insurance is readily available, and by periods of hard market conditions, where rates rise, [and] coverage may be more difficult to find...”



In your client newsletters and other communications, you might share this description and the factors that led to a hard market, including those below:

- Insurers experience more frequent claims and higher claims payouts, which hurts their bottom line. Insurers attribute much of this to supply chain issues, which means it takes longer to repair or replace damaged property at much higher costs; larger catastrophic weather events, which increase claims payments; and what's termed as "social inflation," which is the willingness of jurors to award largely unexpected sums of money at trial, forcing insurers to settle claims they may have traditionally taken to trial.
- With less capital available, insurers reduce their underwriting appetite. This includes the amount of coverage they will write for certain classes and in what areas they will provide coverage. For example, property coverage may be harder to find in catastrophe-prone areas, or certain lines of coverage may not be readily available, such as commercial auto for transportation firms. Insurers who specialize in a niche, for example, excess liability, may reduce their footprint or leave that coverage area entirely.
- With less insurer competition, available coverage becomes more costly.

Economic challenges and inflation will affect how long a hard market lasts. As premiums increase, more capital will begin to flow back into the insurance market. Our job is to continue to operate effectively in this challenging market, which your insured may not understand.

IMPORTANT:

It is critical to communicate early and often with clients so they are aware of what is happening in the insurance market. This will help prepare them for any coverage or price changes before their renewal.



Advise customers on what they can do to tackle these challenges. Consider asking them to do the following.

- Employ proper risk management practices to reduce exposures.
- Stay in regular communication with you, their trusted business partner, particularly on issues or organizational changes that could impact their policy.
- Properly document and if needed report anything that may be relevant to claims or policy disputes.
- Plan with you prior to renewal time or when seeking new coverage. In today's market, it can take much longer to secure the right coverage than in a softer market.
- Recommend your insured think hard before they switch carriers. In a hard market, insurers may decline to bid on customers who "carrier hop."
- Look for opportunities to save on costs in other ways if premium savings are not an option, such as taking a higher deductible or with more sophisticated clients, taking a self-insured retention.

WHAT NOT TO SAY TO CLIENTS DURING A HARD MARKET:

- ⊗ The relationship between agent and client is all about trust. So, while you recommend steps your clients can take to reduce exposure and potentially save on premiums, don't make promises you can't keep.
- ⊗ Similarly, avoid predictions about what will happen with new or renewing coverage before talking to an underwriter. Don't set unrealistic expectations with the insured.
- ⊗ Be aware that agency E&O claims tend to increase during a hard market thanks to coverage reductions, lower limits and higher deductibles. **Document coverage recommendation declinations, all phone and text conversations, and leave yourself enough lead time to work with underwriters on challenging risks.**
- ⊗ Don't wait until the last minute to alert your clients to significant changes in their coverage. Proper client communication, documentation and consistency in your workflows are key to avoiding an agency E&O claim.

