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Helping Your Clients In a Rapidly Changing Insurance Market Part 2—Checklist to Share with Clients

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In the first part of this discussion (See *SBQ* Web Exclusive Article Helping Your Clients in a Rapidly Changing Insurance Market), we took a look at what's happening with commercial insurance rates and at prior market cycles. We made some educated estimates about where the insurance market appears to be heading, as uncertain as that might be. In all of those, the huge unknown factor is the impact of COVID-19, but at this writing, the impacts appear to be significant, yet manageable.

In this article, we'll offer some down-to-earth tips that you can use as you think best with your clients. These tips and techniques are based on more than 32 years of hands-on risk management in the construction sector. Not all will work for every company, and it's up to you and your clients to determine which might be of benefit. Even with implementing one or more of these methods, however, please bear in mind that rates will rise, and even implementing all or most of the tips may not help in every situation. Nothing as generic as an article of this nature can replace the hands-on knowledge and expertise you, and your clients, use every day in conducting business.

The most important step in helping your clients meet the challenges of a changing world and a hardening insurance market is to begin with a plan, a strategy of what you will recommend for them and how you will be of help in their implementation of those steps they deem appropriate. Be blunt in your self-assessment of your own capabilities and resources, and help your clients be equally frank and candid in theirs. If you find flaws in your approach, fix them and be persistent in continuing improvement as you learn and as the situation changes. This kind of approach is aided by focusing on the solutions being considered, not on the flaws or challenges themselves.

The steps discussed in the following comments are generally likely to helpful even if the impact of the hardening markets is less than what you feared. Little damage is ever caused by improving business practices or managerial efficiencies, and thus these steps are quite likely to be beneficial even if the markets experience a series of mild bumps as opposed to steep increases in cost coupled with sharp tightening of underwriting criteria. As mentioned above, there simply is no magic bullet to fix rate increases. These ideas are offered as methods that can be applied to help mitigate or lessen the impact of a hard market, not to solve longs-standing issues or problems.

TIP 1 – Know and sell your clients to the underwriters

Commercial insurance underwriters are often bombarded with submissions in hardening markets. Your client needs to stand out, to be quickly seen as 'better than average', and as a risk well worth that underwriter's limited time and attention. Help your clients prepare materials that showcase their stature, that help them stand out as being better performing than their competitors, and as accounts more likely to help with underwriting profitability (now a central goal of most insurers).

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TIP 2 – Work Collaboratively

While some (mostly smaller) businesses may use a single broker to provide both surety and commercial insurance, many more use two (or more) brokers to meet their needs. Difficult times like those ahead make a collaborative approach far more important to your client. Now is the time to reach across the aisle (or the street, or even across town) to build bridges with the other members of your client's service team. If you are seen as a partner, as a collaboration builder, your reputation is likely to be enhanced with your clients, and the team can create a better service profile together than you can create alone. This is counter-intuitive in a competitive environment, and I am not recommending that you give up all protections for your trade secrets, or that you give away the store in building bridges, but leading a team that helps your client meet their needs is rarely a bad thing, either for you or for your clients. The key here is to maintain a proactive balance that serves both your needs. The "how-to" of that will vary from situation to situation, but the objective of a collaborative approach is extremely important in building success.

TIP 3 – Adopt a long-term view

This isn't the first hard market and it won't be the last. Insurance carriers like stable, long-term relationships. In this, they are not unlike banking or surety providers. Clients who shop around every year or two are not seen by underwriters as preferred risks. They are seen, rather, as price-sensitive, and relationship averse. Underwriters will often quote those accounts but are far less likely to effectively negotiate on terms, conditions or costs than they will on accounts with stable relationships. Businesses rarely "shop around" for bankers or attorneys, preferring stable and longer-term relationships in those activities, and commercial insurance or surety should be no different. Help your clients who shop their insurance frequently see the wisdom of the long-term view.

TIP 4 – Work smarter, not harder

Pick your insurance markets carefully and remember that not every carrier needs to be approached by every client. Not every carrier wants to be approached by everyone and selecting those more likely to have a genuine interest in working with your client is far more likely to be of genuine benefit to you both in terms of time, effort, and price. The old adage of choosing your battles carefully applies here, as not every fight is worth engaging, or worth winning. Fewer still are worth losing and choosing between carriers is critical to targeting those where your chances of success rise.

TIP 5 – Emphasize standard practices

If your client uses industry standard procedures and practices in their operations or relies on standardized details and approved practices in installing products manufactured by others, you can improve the underwriter's view of your client's risk profile by highlighting those practices and the higher quality they are likely to create. Strengthening, documenting or implementing quality assurance steps is rarely seen as a negative by carriers, and showcasing your client's adherence to generally accepted quality improvement programs can provide a critical boost to their success in placing insurance. Don't be afraid to share your client's program with the underwriters. If your client works closely with supplier and manufacturer representatives and their technical staff, those efforts can form the underpinnings of a robust QA/QC process that also helps sell your client to the underwriters. Find a way to demonstrate how those steps improves results and prevent damages and claims

TIP 6 – Demonstrate that your client has a clear focus on their business

Work to increase visibility of your client's senior management—both internally and externally. Underwriters like to know that the senior executive and managerial staff of a potential insured has a clear focus on the running of the business. The more that your client can demonstrate the involvement and expertise of their executive and operational staff the more comfortable an underwriter is likely to be with the decisions those key personnel are making. One way of accomplishing that is to facilitate meetings between those underwriters and the senior executives or ownership at your client. Bluntly, nobody will tell your client's story quite as well as they do. Many professionals among insurance brokers or agents see themselves as firmly intermediate between the underwriter and the client and will actively resist any moves to put their clients directly in touch with the underwriter. While some underwriters share a similar bias, preferring to work only with the insurance professionals, the 'loss in translation' can be very high without direct contact between all three key parties to the transaction.

TIP 7 – Polish your client's image

If your client has had some problems with claims, sweeping the sins of the past under a rug rarely works for long. A far more effective approach is to demonstrate in very clear and pragmatic terms what your client has done to overcome and correct their claim-related or other underwriting issues. Setting out the specific steps a company has taken in response to accidents, incidents, or claims is rarely seen as a negative, while doing nothing in the face of rising claim or incident counts will never be considered proactive in its approach. Facing potential problems head on and taking firm and resolute steps to prevent subsequent repetitions of past errors is almost universally seen as a positive step.

TIP 8 – Encourage communication

As touched on in Tip 6 above, the risks of communication between your client and the underwriter are minimal and are often seen as highly beneficial by the carriers. Your role becomes one of coaching and preparing your client for those meetings, of helping them know what to say and how to say it, and of helping to guide the conversation and facilitate it. This also implies that you, in addition to your client, need to spend the time to meet with the underwriters, to help your client open their doors and show the carriers their true value as an insured. Consider, geography permitting, a program to bring the underwriter out for site tours & meetings with key personnel at the clients.

TIP 9 – Relationships are critical

Make sure the carriers know that you value relationships and that insurance is not viewed as a commodity. Price matters, of course, but to the extent that pricing is subordinated to value, relationships become of central importance in creating that value. The insurer and the insured share a responsibility to create value from that relationship, and the broker(s) have a key if not pivotal role in helping both parties achieve the very best that can come from the exchange of value. Creating value is a proactive process, while dealing with commoditized pricing spikes is, at best, reactive in nature. The former builds toward success, while the latter will always be less effective in the long run.

TIP 10 – Timing is critical

Insurance renewals are complex activities for all but the simplest of businesses. Starting the renewal process early gives both the carrier and the client time to do their jobs well. In hard markets, a rushed answer is not always a good one from the client's perspective. It's important to remember that when pressured, underwriters will often retreat to a safe answer, typically resulting in a declination to quote the account. Saying "No" is too often an answer of expedience for the underwriter who lacks the information needed to arrive at a better response for the client. Yes, underwriters are expected to maintain certain minimum volumes of business, and a lack of production will almost certainly hurt an underwriter's performance review. Too many accounts with high losses, however, will prove far worse for their career path, a reality that every successful underwriter knows well.

TIP 11 – Managing risks is critical

There is a huge difference between avoiding risks and managing them. Certainly, some risks should be avoided, but in business the vast majority of risk requires a more sophisticated approach. Clients, with the help of their key advisors, should clearly focus on managing their risks effectively. Increasing executive focus on risk management, investing in claim management if that is a problem, and (perhaps most importantly) emphasizing loss prevention and safety management are all critical activities for every business to undertake. All of those are risk management activities, and perhaps the best way of earning good status with underwriters is to demonstrate that your client recognizes the importance of risk management and has allocated an appropriate level of resources within the organization to properly and wisely undertake those tasks. Once that has been established, the core activity shifts to working alongside of the insurance carrier to impact the cost of managing those risks.

TIP 12 – Consider alternatives

Creative solutions require time and resources to implement, but there are a range of alternative approaches in the insurance realm that are worth considering. Among these, the easiest is most likely to consider risk retention levels through increasing deductibles or self-insured retentions. There are a lot of individual considerations involved in determining the ideal trade-off of risk retention versus insurance levels and costs, but at the simplest level, there should be some predictability to retained risks, and the level of retention and the control over that retention should ideally move in direct link to each other. Simply put, the more risk an insured assumes, the greater the level of control they ought to have over that risk. That analysis quickly leads to a discussion of deductibles versus self-insured retention, an analysis of which is key for each insured making those decisions. The highly individualized nature of that analysis prevents an in-depth discussion in this article, but the concepts and calculations involved should be well within the skill level of most insurance professionals and developing a cost-benefit evaluation of increased risk retention is well worth the effort. When performing that analysis, insured businesses should be sure they use reliable projections of likely future claim activity, and that the retentions being considered don't put excessive strain on cash flow if high levels of claim activity occur.

The use of captive insurance is growing, as is typical when standard insurance markets harden. While captives cannot be used at present for surety, and an in-depth discussion of captives is far beyond this article's reach, captives for P&C exposures are being created with increasing frequency in this hard market. Businesses that have a large enough premium volume to consider a captive should certainly assess their comfort with that type of risk financing and retention before proceeding, and be aware that participation in a captive typically requires a high minimum premium level (certainly above $250,000 to $500,000 per year, although some captives require premiums above $1 million or even $2 million annually).

Smaller businesses that might not otherwise qualify for participation in a captive can certainly consider removing some more predictable and easily capped risks of loss from insurance coverage (such as auto physical damage, small tools, or similar risks).

FINAL TIP – A Last Resort for Dire Circumstances

It may be tempting for some companies to consider a reduction in the amount of insurance they carry if the battle over insurance costs begins to threaten their financial health and viability. This is a highly risky approach to solving a complex and difficult problem and will almost certainly have highly negative consequences as time goes on. At a minimum, no business should ever reduce insurance below levels needed to protect the greater of either its net worth or of the likely ultimate value of a claim asserted against it. Any such reduction should be discussed *only if absolutely necessary to keep operations in place*.

In addition to the risks of underinsuring the value of a business, some regulatory or contractual obligations require a predetermined minimal level of insurance, and any reduction below those would breach either the agreement or potentially violate a regulation, statute, or ordinance. The key to this consideration is to understand the potential impact insurance reductions might have on upstream contracts or whether some ordinance or statute requires certain levels of coverage.

Summary

In a hard market, the sellers (insurers) have the upper hand in negotiating coverage and price. The key to effectively coping with those shifts is to know what those carriers want to see in their preferred accounts, and how to help your clients to meet those criteria. That is best done by building on relationships and adopting proactive and collaborative approaches to the problems. Carriers are looking at a company's claim history, risk management practices, executive depth and skill, key employee turnover, and at the firm's financial strength as part of their evaluation process. Knowing how to approach those challenges will largely determine success or failure over the next few years.

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